Source: USAID ProRep project implemented by Chemonics International.

Blended Finance for Sustainable Landscapes

Introduction

This technical brief aims to provide development practitioners with an overview of how blended finance has been used in the sustainable landscapes sector, using one sub-sector – forestry – to focus the discussion[1]. The primary audience for this document is development practitioners who are leading sustainable landscapes proposal and design efforts. The document includes practical data points and discussion of (i) why blended finance can be useful in driving more sustainable forestry management and sector practices; (ii) how blended finance has been used in the sector, through the lens of several case studies; and (iii) key considerations during the design of blended finance solutions within sustainable forestry programs. While blended finance will be described below as a useful strategy, it is not a panacea. Any blended finance solution

1. Chemonics' work covers a range of themes within forestry including community-based forest enterprise, carbon sequestration, forest inventory and monitoring, forest management, biodiversity conservation, forest governance, forest stakeholder engagement, and cultural/spiritual forest functions

must carefully account for country and sector context, as well as specific market failures impeding private investment in a particular market. It should be considered a complement to existing development efforts. This document intends to provide an overview of the space and a starting point for proposal and program design efforts. Links to further recommended readings and other sectors case studies appears in the annex. Note that while the focus of this brief is sustainable forestry, some data sources and use cases below encompass broader sustainable landscapes.

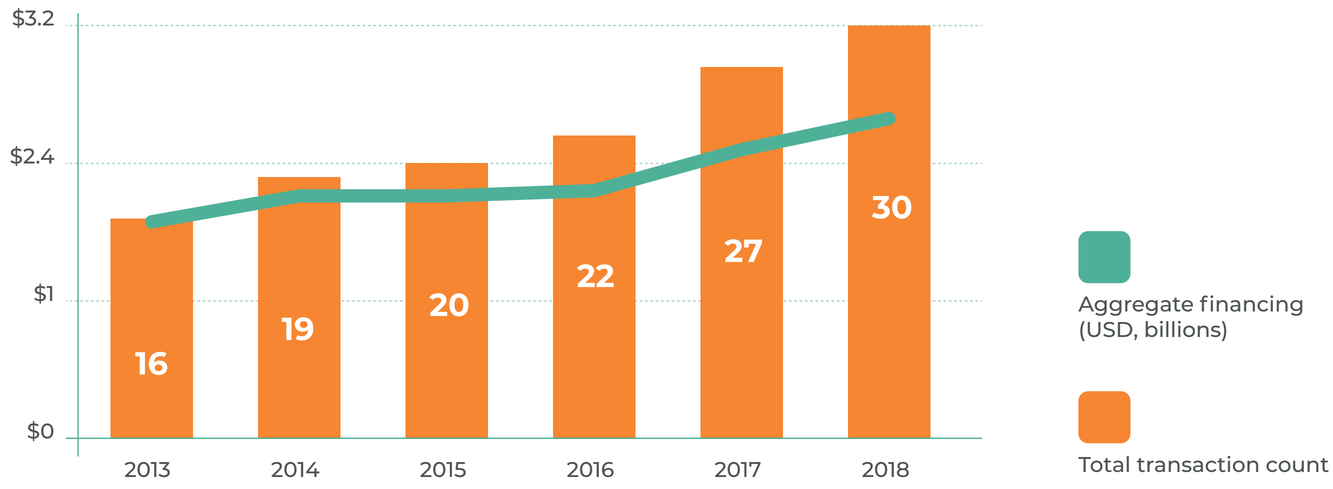
Overview: Why use blended finance in sustainable landscapes?

Private investment in sustainable forestry is not at the scale necessary to tackle the growing ecological and human toll of current land use patterns. Unattractive risk-return profiles, a lack of investable project opportunities with established business models, and the absence in many markets of strong regulatory frameworks for sustainable forest management deter investors from seeking opportunities and deploying capital. The unpredictability of natural systems, regulatory uncertainty, onerous and costly regulations, and local land rights issues further increase the risk profile of forestry investments. Finally, forestry investments require patience, as they are often bound to the biological lifecycles of flora, and forestry producers must generally wait at least seven years before harvesting timber from new forests, limiting cash flows in the short-term. Life cycles for non-timber products, such as resin, can be even longer. These factors all impede investment activity in sustainable forestry projects.

Blended finance has emerged as a promising approach to drive more investment in the sector while generating positive development impact — from supporting vital biodiversity to spurring green growth. Blended finance refers to the use of catalytic capital from public or philanthropic sources to increase private-sector investment in developing countries for sustainable development. To date, blended finance approaches have been deployed in a growing number of sustainable landscapes initiatives. As of 2018, the Convergence database reflected ~30 blended finance deals with a sustainable landscapes focus, of which 33% focused on sustainable forestry and 23% on land restoration. In total, sustainable landscapes transactions in the Convergence database represented ~$3.1B cumulatively from 2010-2018 with an average deal size of just over $100M. Along with increasing frequency in recent years, blended finance deals in sustainable landscapes are typically larger than those in other sectors: compared to other sectors tracked by Convergence, sustainable landscapes deals are twice as likely to be in the $100M-$250M range.

2 Financing Sustainable Landscape Use, KOIS, 2018
3 Private Sector Engagement Policy, USAID, 2019
4 Data Brief – Blending in Conservation Finance, Convergence, 2019
5 Data Brief – Blending in Conservation Finance, Convergence, 2019

Figure 1: Market size and growth of blended finance deals for sustainable landscapes (cumulative)



Blended finance has helped "crowd in" private capital primarily through pooled funds.[6] Across sustainable landscapes deals tracked by Convergence, pooled funds comprise 85% of transactions, and direct funding, in the form of project-level debt and equity, has been the leading investment approach used by these pooled funds. This trend holds in the forestry sub-sector as well. Pooled vehicles allow public and private funders to blend capital, while reducing risk for private investors and enabling deployment of capital into larger deals. Other blended finance instruments also play a role, including insurance and off-taker agreements: Insurance products can be useful in regions experiencing climate change-related variations in weather patterns, and off-taker agreements can be useful when introducing new forests products in a region.

Figure 2: Risk-return framework

CATEGORIES	DESCRIPTION	TYPICAL TOOLS USED	MAIN RISKS ADDRESSED
RISK MITIGATION TOOLS	Mechanisms to protect the capital or return profile of private investors from specific risks at the business, project and/or country level; or partial credit risk of a fund structure	Guarantees Insurance Securitization Derivatives	**Often address credit risk,** typically through partial credit guarantees and securitization Specific insurance and guarantee products **target specific risks** such as legal risks (e.g., local community land rights disputes), currency (e.g., fluctuating carbon prices), and natural disasters (e.g., fire or drought)

6 Definitions can be found in Chemonics Blended Finance Primer
7 Data Brief – Blending in Conservation Finance, Convergence 2019; Dalberg analysis

DIRECT FUNDING	Concessional direct investment into a company or project delivering conservation, biodiversity and other forms of environmental impact, through the provision of equity, debt and/or grants	Structured / long-term equity and debt capital (e.g., junior equity, subordinated debt) Grants (e.g., technical assistance, design grant) Other direct debt instruments (e.g., local currency, contingent liquidity)	**Typically combine a set of instruments in a pooled investment vehicle to address a broad set of risks** required to catalyze private sector finance (e.g., long lead times to develop resources, long payback periods, price and demand volatility) Seed / early stage & patient capital can specifically target **business model risk**
RESULTS-BASED FINANCING	Instruments that incentivize private investors or companies to invest in development-oriented sectors	Performance based contracts Development impact bonds Advance market commitments Challenges, prizes, and awards	**Usually focuses on business model risk** related to catalyzing sustained innovation post-intervention (e.g., off-taker agreements for long term harvest goals, buy-downs based on environmental goals reached)

Despite its potential, blended finance is not a panacea to mobilize capital and address challenges in the sector. From the private sector perspective, blended finance tends to include complex investment structures, which can be difficult to explain to investment committees. Additionally, private sector actors may prefer to invest alongside other similar investors. Foundations and donor agencies are driven more by social than financial outcomes, and this can lead to lengthy, resource heavy negotiations around concessions. On the other side, public sector and philanthropic actors may express caution when considering blended finance due to a lack of clarity around the exact risk being mitigated by their funds. This concern can be compounded by skepticism around providing funding for markets not mature enough to attract private capital at the end of the investment lifecycle — for example, geographies with highly volatile currency markets (e.g., Nigeria, Venezuela), as there is doubt that catalytic capital can address actual or perceived currency risk in the long term, reducing commercial feasibility of any investments.

Case Studies: How has blended finance been used in the sector?

Several thematic areas in sustainable forestry, outlined in the figure below, present varying degrees of relevance for private sector actors, and therefore, blended finance. These themes can be combined in the context of a single sustainable forestry investment — or a development funder's portfolio of investments — by layering different economic elements, incentives, or co-benefits. For example, forest investments can yield economic value for communities and income streams from sustainable timber and wood, non-timber forest products, and carbon sequestration. Such a "whole forest valuation" approach can both reduce risk and make an investment more financially viable. Other blended approaches can combine a broader range of strategies including community-based forest management and high value ecotourism, to create a dense mix of goods and services that create both economic and environmental value across a forest landscape.

Figure 3: Private sector role in forestry-related projects

High **Medium** **Low**

SUSTANIABLE FORESTRY THEMES	BLENDED FINANCE RELEVANCE	RELEVANCE FOR PRIVATE INVESTORS
SUSTAINABILITY CERTIFICATIONS		Opportunity to expand the **certification of sustainable forestry practices** in providing timber products to consumer-facing global markets such as furniture. *Ex: Large timber-buying corporation co-invests alongside a bilateral donor in market development efforts to adopt FSC certification standards in a market lacking the consistent application of FSC standards; corporation develops long-term off-take agreements.*
COMMUNITY-BASED FOREST ENTERPRISES		Opportunity for **capital investments** in sustainable forestry business backed by credit guarantees, or flow of **pre-determined supply of goods** via off-take agreements or advanced market commitments. *Ex: Advance commitments can be used to purchase perishable forest goods through a producer cooperative of community-owned forest lands, which may facilitate easier access to equity and loans for producers.*
CARBON SEQUESTRATION		Potential to capitalize on investments in forest lands or meet carbon mitigation requirements through sale or purchase of **carbon credits/carbon offsets.** *Ex: Private actors in supply chains that lead to forest degradation purchase offset credits supporting sustainable, carbon-neutral production activities.*
FOREST INVENTORY AND MONITORING		Potential to utilize pooled vehicles to invest in growing **demand for accurate forest monitoring.** *Ex: Investments in funds that focus on innovation and accessibility of technology that supports better forest monitoring (e.g., geographic information systems, remote sensing) create economic opportunities for forest lands.*
FOREST MANAGEMENT CONSERVATION AND RESTORATION		Potential for additional income streams including conservation payments from donors, **conservation concessions or easements, and lending based on sustainably grown forest assets** (e.g., timber, paper, resin). *Ex: Voluntary easement between landowner (e.g., government) and a private corporation that allows a private actor to utilize the land for profit generation activity (e.g., real estate) whitin certain conservation requirements (e.g., limitation on drilling, excavating).*
BIODIVERSITY CONSERVATION		Participation in investment such as development impact bonds (DIBs) or direct payments to encourage biological diversity may **protect against biodiversity risk exposure including reputation loss, production delays or supply chain disruptions.** *Ex: Purchase of a DIB note that funds social enterprises addressing unstainable forest behaviors may boost a corporation's future revenue (e.g., efforts to mitigate yield erosion due to soil damage may benefit a company that profits from timber products such as paper).*

FOREST GOVERNANCE		Technical assistance for governments centered on data collection, forest mediation, and stakeholder engagement can strengthen enabling environments, but may be better suited for the **public/philanthropic sectors.** *While a revenue generating role for the private sector may not be easily identified, private sectors actors can benefit from understanding the legislation and land-rights issues in any geography with investment potential.*
FOREST STAKEHOLDER ENGAGEMENT		Limited private sector return. However, opportunity exists to **set/implement policies** that respect land tenure, rights, and needs of forest-dependent people. *Ex: Corporations entering a new market develop relationships with NGOs and local leaders to understand the needs of the community to avoid future conflict.*
CULTURAL / SPIRITUAL FOREST FUNCTIONS		Limited private sector return. However, opportunity exists to **set/implement policies** that respect land tenure, rights, and needs of forest-dependent people. *Ex: Companies purchasing land in vulnerable forest areas maintain a portion of land for cultural or spiritual activities tied to the local community.*

A sample of case studies demonstrates the diversity of blended finance use cases within forestry and the broader sustainable landscapes sector. Three case studies are outlined below, with variety in geographic diversity, blended finance instruments used, type of participating investors, and type of impact created. For example, the Tropical Landscape Finance Facility (TLFF) provides a single regional focus with a range of blended finance tools, Althelia Climate Fund highlights the use of credit guarantees and USAID participation, and eco.business Fund focuses on biodiversity and local financial institutions.

TROPICAL LANDSCAPE FINANCE FACILITY (TLFF)

BACKGROUND:

Tropical Landscape Finance Facility (TLFF)

- **Region:** Asia (Indonesia)
- **Launch Size:** $95 million (pilot transaction described in detail below)

CONTEXT:

Deforestation and greenhouse gas (GHG) emissions have threatened Indonesia's economic and environmental sustainability. With over 17,000 islands, Indonesia is home to an abundance of natural resources that could support economic growth and work to alleviate poverty. However, the country suffered from a funding gap to support climate and development commitments.

KEY PARTNERS[8]:

- **Funder:** Convergence (design stage grant[9]), Michelin (commercial off-taker for least 75% of rubber production), PG Impact (undisclosed amount), the & Green Fund ($24 million in debt capital)
- **Guarantor:** USAID (up to $33 million in partial credit guarantee via Development Credit Authority (DCA)
- **Technical Advisor:** World Wildlife Fund (identifying high conservation value and high carbon stock forests)
- **Governance:** ADM Capital (lending facility manager), BNP (structuring advisors/arranges for Medium Term Note), United Nations Environmental Program – (UNEP)/World Agroforesty – ICRAF (grant fund manager, secretariat host)

BLENDED FINANCE INSTRUMENTS:

Advance market commitments, commercially priced, revolving debt facility backed by multi-tranche long-tenor debt capital from private investors, partial credit guarantee, design stage grant, technical assistance fund

8 This does not represent an exhaustive list of partners
9 Convergence awards grant to ADM Capital and ADM Capital Foundation for design of financing facility for renewable energy and smallholder livelihood projects in Indonesia Global Newswire, 2017

HOW IT WORKS:

The TLFF structure contains a bond with two main debt classes (A and B) issued to private investors. Class A notes are investment grade for institutional investors with an appetite for sustainable investments. Classes B1/B2 target investors with explicit impact mandates and greater appetites for risk. TLFF's lending function makes loans, and in the case of loss, investee RLU is responsible for first losses up to 5% ($3.5 million), and USAID can provide first-loss cover up to 50% of the transaction, fully covering Class A note holders.

EXAMPLE INVESTEE:

PT Royal Lestaru Utama (RLU) – a joint venture between Michelin and Indonesia's PT Barito Pacific. RLU uses the bulk of the proceeds from the $95 million bond to plant rubber trees in degraded concession areas, and ultimately produce rubber in a more sustainable fashion.

RESULTS TO DATE:

- 628,846 tons of CO2-equivalent GHG absorbed
- 10 million rubber trees planted across 20,970 hectares
- 1,200 trees planted for restoration activities
- 9,700 hectares wildlife conservation area protected

LESSONS LEARNED:

- The TLFF investment consortium recognized the complexity of the proposed deal as well as the lack of sector experience among institutional investors, **and included funding for partners, such as BNP, that had the capacity to invest significant time educating investors** about deal structure and Environmental, Social, and Governance (ESG) metrics.
- **TLFF focused on a single geography** for their first investment, facilitating greater community interaction. ICRAF, with UNEP support, was able to establish secretariat headquarters in Jakarta, **allowing for stronger partnership with government officials** (e.g., coordinating minister for economic affairs, minister of environment and forestry), and support RLU's **commitment to the indigenous Orang Rimba people. An investment in strong governance from the outset** was key to TLFF's success. This facility includes a large number of partners, and its variety of governance components (e.g., steering committee, lending and grant managers, secretariat) were critical to managing administrative challenges, as well as varying levels of capacity and differing motivations.
- **USAID's partial credit guarantee** was "critical" to raising commercial investment, and reportedly allowed BNP greater flexibility to structure the transaction and RLU to access additional investor pools. Credit guarantees have a mixed record in actually driving investment activity, but their catalytic effect can be important in the right circumstances.

ADDITIONAL RESEARCH LINKS:

- Design of financing facility for renewable energy and smallholder livelihood projects in Indonesia
- PG Impact Investments makes an investment in Indonesia's first blended finance facility which combines social and environmental impact: Tropical Landscapes Finance Facility I
- Tropical Landscapes Facility Fund website

ALTHELIA CLIMATE FUND (ACF, NOW MIROVA NATURAL CAPITAL)

BACKGROUND:

Althelia Climate Fund (ACF, now Mirova Natural Capital)

- **Region:** Africa, Southeast Asia, South America
- **Launch Size:** $112 million

CONTEXT:

Althelia Climate Fund focuses on climate mitigation efforts by investing in projects that deliver carbon emissions reductions. The fund invests in both sustainable agroforestry commodities production and in large-scale ecosystem services and conservation projects that reduce deforestation, mitigate climate change (e.g., carbon credits), and protect biodiversity while providing sustainable livelihoods. The fund also seeks to support livelihoods of local rural communities, indigenous groups, and smallholder farmers most affected by the consequences of climate change.

KEY PARTNERS[10]:

- **Equity Providers:** AXA (undisclosed amount, senior equity), Church of Sweden ($13 million, Senior equity), Credit Suisse (undisclosed amount, senior equity), David and Lucile Packard Foundation ($5 million Senior equity), European Investment Bank ($33 million, Senior equity), Finnfund (undisclosed senior equity), FMO ($19.5 million, Senior equity)
- **Grant providers:** Conservation International ($1 million, Design stage grant)
- **Guarantors:** USAID ($134 million, Partial guarantee)

BLENDED FINANCE INSTRUMENTS:

Design stage grant, partial loss guarantee, senior equity

HOW IT WORKS:

Conservation International provided technical assistance and funding to structure and launch the fund. This support crowded in investment from private and institutional actors and development finance institutions (DFIs), including Church of Sweden and EIB. The fund then secured a partial portfolio guarantee from USAID, which crowded in additional private investment from actors such as AXA and Credit Suisse.

EXAMPLE INVESTEE:

$7M investment in the Tambopata-Bahuaja REDD+ and Agroforestry Project, which focuses on long-term restoration of the buffer zone around the park by producing cacao. This led to 574 million hectares of protected land and 17 million hectares of forest indirectly conserved on indigenous lands.

RESULTS TO DATE:

- Avoided 101,300 hectares of deforestation
- Avoided 41.8 million tons of CO2-equivalent GHG emissions
- Protected 2 million hectares of critical habitat
- Investment in 10 projects (8 still active), ranging from $7 million to $13 million

LESSONS LEARNED:

- ACF emphasizes **local benefits and cooperation with local partners** who understand the on-the-ground context and challenges and who possess existing government relationships to ease bureaucratic roadblocks (e.g., Asociación para la Investigación y el Desarrollo Integral – (AIDER).

10 This does not represent a complete list of partners. For more information visit Convergence

- **ACF requires projects to comply with several industry benchmark standards** (e.g., Verified Carbon Standard – (VCS) and Climate Community and Biodiversity Standard – (CCB), and worked with NGO partners to create proprietary environmental, social and governance policy and management system to strengthen social impact of investments and attract private investors looking for impact.
- **Diversification of investments, especially real assets,** (e.g., certified agroforestry products and carbon) has proven critical to ACF's ability to attract private capital and serve as collateral for loans to partners; however, a mixed investment portfolio has required specialist managers and increased effort by the fund management team to balance impact objectives with financial return imperatives.

ADDITIONAL RESEARCH LINKS:

- Althelia Climate Fund 1
- Althelia Climate Fund Impact Report 2019
- Althelia Climate Fund Impact Report 2020
- Assessment of Investment Funds Supporting Tropical Forest Areas and Communities

ECO.BUSINESS FUND

BACKGROUND:

eco.business Fund

- **Region:** Latin America and The Caribbean (LAC), Sub-Saharan Africa (SSA)
- **Launch Size:** $373 million

CONTEXT:

eco.business Fund seeks to address the lack of financing for local sustainable businesses in developing regions that contribute to biodiversity conservation, the sustainable use of natural resources, and climate change mitigation and adaptation. The fund financing is channeled mainly to local financial institutions – who then lend to their clients – the ultimate target of the fund. It also make direct investments in businesses (e.g., commodity buyers). Investees must meet certain requirements for consideration, including holding an eligible sustainability standard, or implementing a sustainability practice from the fund's "Green List."

KEY PARTNERS[11]:

- **Debt Providers:** ASN Bank ($25 million, senior debt), BMZ ($35 million, subordinated debt), Calvert Impact Capital ($5 million, subordinate debt), Conservation International ($500,000, subordinate debt), DFC ($42 million, subordinate debt), Raiffeisen Bank International – (RBI) ($18 million, senior debt)
- **Equity Providers:** European Union Latin America Investment Facility – (EU LAIF) ($14 million, jr. equity), BMZ ($21 million, jr. equity), Finance in Motion (undisclosed amount), FMO ($35 million, senior equity)
- **Grant Providers:** BMZ ($3M, technical assistance grant), EU LAIF ($3 million, technical assistance grants)
- **Governance:** Finance in Motion (fund manager)

BLENDED FINANCE INSTRUMENTS:

A variety of instruments including equity (junior and senior), debt (junior and senior), and technical assistance grant

11 This does not represent a complete list of partners. For more information visit Convergence

HOW IT WORKS:
Bilaterals donors such as BMZ and the EU invested in concessional equity and debt, assuming the greatest risk of losses. DFIs such as FMO and Oesterreichische Entwicklungsbank AG (OeEB), as well as impact investors such as Calvert Impact Capital made less-risky debt and equity investments. These investments catalyzed private investment from commercial banks (e.g., RBI, ASN Bank) in the form of debt, which bore the least amount of risk.

EXAMPLE INVESTEE:
$25M loan to Banco del Pacifico to extend financing to forestry and agroforestry producers in Ecuador that are certified by the fund's sustainability labels (e.g., Aglomerados Cotopaxi).

RESULTS TO DATE:
- $373 million in available funding
- $872 million in cumulative sub-loans facilitated to customers
- 19 partner institutions invested in
- 61 technical assistance projects launched
- 250 partner institution staff members trained to date

LESSONS LEARNED:
- eco.business Fund engaged a wide range of partners, however, the **emphasis on technical assistance** supported via BMZ and EU LAIF funding, supported TA for **product development, capacity building, and awareness campaigns** via Finance in Motion and other partners.
- Success in scaling impact, efficiency, and revenue stemmed from Eco.Business Fund's focus on building **deep relationships with local financial institutions** (e.g., Banco Pacífico, Banco Pichincha) that helped identify and support partner organizations at scale.
- eco.business Fund **targeted highly biodiverse** regions vulnerable to climate change with a view to also identify opportunities for sustainable agroforestry activity. Serving both Latin America and Africa creates additional management cost and complexity to manage across diverse markets, both in surfacing investments subject to different regulatory regimes and managing portfolios effectively.

ADDITIONAL RESEARCH LINKS:
- eco.business Fund 2019 Impact Report: Sowing Impact
- eco.business Fund Development Facilities Pitchbook
- Calvert Impact Capital: eco.business Fund

These case studies demonstrate several important considerations for designing and using blended finance instruments in the sustainable forestry and land use sector.

- **Sensitivity to local context is key to ensure alignment with local regulations and priorities.** Strategic selection of investment location facilitates deeper engagement and addresses needs of stakeholders at all levels, including indigenous communities most affected by forestry activities.

- **Sustainable forestry investments can take a variety of investment strategies and themes.** From land restoration and reforestation to sustainable timber operations, conservation-oriented agricultural and livestock practices, carbon sequestration and beyond, there is a broad range of investment themes that investors and project developers pursue in this domain. Development funders with catalytic, concessional resources to deploy must carefully consider the problem they seek to address and match investment strategies to development problems.

- **Centering investments on the protection of livelihoods can be a powerful lever to generate local community buy-in for forestry related projects.** Blended finance in this space aims to catalyze support for a significant climate challenge, but, clear considerations of the financial well-being of affected communities should be evident in fund design and setup. For example, the Althelia Climate Fund anchored around the deducing emissions from deforestation and forest degradation (REDD+) financial mechanism, presenting landowners with assurance against the opportunity cost of degrading their land resources.

- **Designing blended finance tools taking into account the typically long investment windows for forestry investments is crucial.** Careful timing of inflows, such as through multi-tranche vehicle which allows return to cascade in a 'waterfall' from most risk averse to least, may minimize perceived lead time risk for private investors.

- **Tying investments to forward-looking requirements is critical for post-investment sustainability.** Requiring certain standards or certifications from potential investees can better equip them with tools needed to sustain investment gains, and technical assistance provisions help support investees to gain necessary capacities to reach those standards.

Conclusions: When and how should blended finance be considered in donor programs?

Global donors have supported sustainable forest management and conservation across the developing world for decades. Growing demand for food and energy, and the adverse impact of land use on climate change, are likely to increase attention and resourcing towards this sector in the coming years. For example, USAID has promoted sustainable forest use and management since the mid-1980s and is replicating approaches to its sustainable landscapes programming in different regions. The U.K. Foreign and Commonwealth Development Office (FCDO) has been less active in the sector, though programs such as its challenge fund under the Land Governance for Economic Development initiative — alongside the U.K.'s commitments in the climate space and to intermediaries such as the Green Climate Fund — show scope for further engagement.

Table 2: Recommendations for donor engagement and the role of development practitioners

Pathways for donor engagement	Roles for development practitioners
Support project design and setup for sustainable forestry-related investments. Blended finance transactions such as TLFF, typically involve multiple partners, which often creates a coordination challenge across legal, social, and financial needs of each actor. Upfront funding for the design and establishment of a pooled fund structure for sustainable forestry can provide a high-leverage way for a donor to catalyze new investment and shape the impact objectives and strategic focus of a new fund vehicle.	**Manage multi-stakeholder programs or partnerships, particularly in design phase**, to bring together public and private actors and facilitate identification of challenges and sustainable solutions. Development practitioners can run co-creation workshops and allocate catalytic grant funding from a donor program toward the design and influencing of pooled investment vehicles. **Create a playbook to aggregate best practices** in investment design and setup in the sustainable forestry and land use sectors, as well as disseminating it for use by a broader audience.
Leverage capabilities to build scale into potential investments. Blended finance transactions in sustainable forestry tend to be larger than in other sectors, but they carry high transaction costs — and smaller deals with higher impact and risk are likely under-invested. To address this gap, donors could support the establishment of a scaling partner or platform that helps prepare and aggregate smaller-scale, high-impact investments. This could be done in conjunction with one or more implementers where the donor(s) provide risk mitigation or guarantee financing and flexible project preparation funds to make more small sustainable forestry investments viable.	**Act as a catalytic funder** by incorporating a grants-under-contract (GUC) mechanism in innovative ways, for example by taking a first-loss position in a sustainable forestry investment or providing grant capital that converts into equity for a cooperative owned by small-scale forestry producers. **Serve as an advocacy partner or "Investors in Sustainable Forestry" community manager** to build shared understanding of opportunities and risks in the sector, create a two-way feedback channel with investors and developers to improve project preparation, and ultimately drive investment through a shared deal platform.
Build on work to deploy a learning agenda to assess additionality and efficacy in blended finance, tailored to the specific challenges and objectives of sustainable forestry. Several donors have begun funding efforts to build the evidence base in blended finance to assess what works and in what context. Increasingly, programming by USAID and FCDO includes robust objectives to test and evaluate new approaches that can be scaled. Donors can balance outcomes with process and program innovation in the sustainable forestry sector to generate evidence about what approaches are most effective.	**Facilitate innovation processes** to surface unusual or novel collaborations that lead to new ideas for business models or technology use cases in the sector, or other potential sector breakthroughs, to drive investment (e.g., recent BAA from USAID/Mexico focused on land management practices). **Introduce an explicit learning agenda** into blended finance programming to generate better evidence about what works in what contexts: for example, what types of financing instruments, partnerships, deal terms, business models, and capital leverage accelerate private investment in sustainable forestry. Align on key questions in advance and design pilot programs around information gaps to be filled.

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ADDITIONAL CASE STUDY REFERENCES

- **Arbaro Fund, Latin America, Caribbean, Sub-Saharan Africa, 2018.** The fund provides climate change mitigation and adaptation benefits through investing in sustainable plantation forestry projects in emerging forestry markets. Arbaro is supported by EIB, Finnish Fund for Industrial Cooperation, and various private investors including Vorsorgekasse, and Girteka Logistics. Resources for additional reading:
  - About the Arbaro Fund
  - Green Climate Fund FP128 Arbaro Fund – Sustainable Forestry Fund

- **&Green Fund, Global, 2017.** The fund provides credit or guarantees to finance agricultural commodity supply chain projects that protect and restore tropical forests and peatlands. &Green is funded via bilateral and multilateral donors, development finance institutions, multilateral development banks (MDBs), private sector actors and foundations. Key partners include Unilever, Global Environment Facility via (UNEP), and Norway's International Climate and Forest Initiative. Resources for additional reading:
  - &Green Investment Strategy
  - UNEP Newsletter - &Green Fund

- **New Forests Tropical Asia Forest Fund (TAFF), Southeast Asia, 2012.** TAFF aims to introduce best-in-class management systems and modern forestry practices to support sustainable forestry in Southeast Asia, through direct investments in forestry businesses. Partners include FMO, Finnfund, IFU, several European pension funds, and an American fund of funds. Resources for additional reading:
  - Partnerships for Forests – New Forests Fund
  - Tropical Asia Forest Fund 2

- **Forest Investment Program (FIP), Global, 2009.** The program works to support developing countries' REDD+ efforts and promotes sustainable forest management that leads to emission reductions, conservation of carbon reservoirs, and economic development. FIP uses "private set-asides" to catalyze private sector engagement. Financial contributors include DFIs and MBDs (e.g., IBRD, AfDB), trust funds (e.g., Climate Investment Funds), local communities, and indigenous peoples (design/lead the dedicated grant mechanism), and private sector actors (e.g., FINDECA, Sustainable Forest Investments BV). Resources for additional reading:
  - Forest Investment Program Update on Implementation
  - Climate Investment Funds Forest Investment Program

- **Forest Carbon Partnership Facility (FCPF), Global, 2008.** Developed by the World Bank and Nature Conservancy, FCPF aims to mobilize investment in REDD+ activities through its Readiness and Carbon Funds. FCPF supports the design of REDD+ strategies and delivers results-based payments. FCPF includes 47 developing nations, 17 financial sponsors (e.g., two private sector firms), observers including indigenous peoples, and implementers including the Inter-American Development Bank (IDB), and the United Nations Development Programme (UNDP). Resources for additional reading:
  - Overview of the FCPF Carbon Fund and the BioCF Initiative for Sustainable Forest Landscapes
  - Forest Carbon Partnership Facility – 10 Years