

How to fund the Trans-European Nature Network (TEN-N)

Blended Finance



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Blended Finance

Blended Finance is an instrument that involves the **use of public and/or philanthropic funds** to change the risk/return profile of investment projects with the **aim of attracting private investors**. Blended Finance applied to nature has the goal of providing a return on investment and delivering positive benefits for nature.

There are **four ways** public institutions or philanthropic foundations can **leverage private finance: design and preparation of funds**, to support the initial phase and development of the deals; **technical and assistance funds**, to gain technical capacity and train human resources on the ground; **guarantee and risk insurance**, to decrease investors' likelihood and size of losses; and **concessional finance**, to provide better or comparable terms to other market deals.

Blended Finance deals for nature have the potential to open up new investment markets and to shift investments from activities that destroy and exploit nature to activities that regenerate and sustainably use nature. It is a prime tool to engage the private sector to **close the biodiversity funding gap**.

Assessment of Blended Finance as a funding opportunity for connectivity measures

Who is this factsheet for?

- ✓ EU Member State representatives
- ✓ Local and central governments, and public sector agencies
- ✓ Pension funds, hedge funds, financial institutions, or asset holders
- ✓ Philanthropic foundations looking to leverage private investments in nature restoration

Blended Finance has the potential to turn uninvestable cases into opportunities, by sharing risk between public and/or philanthropic investors and private funds to scale up the available finance for nature and make investments more sustainable.

Blended Finance can be relevant for:

- ✓ Governments seeking to attract private investors to fund nature restoration actions.
- ✓ Pension funds, hedge funds, financial institutions or asset holders looking for high-quality, nature-positive investment opportunities.
- ✓ Philanthropic foundations aiming to unlock extra funds for nature.

Important considerations

- The goal of blended finance solutions for nature is to mobilise private capital that otherwise would not engage in nature restoration activities.
- It is key to identify positive monetary flows that arise from the restoration of nature and capture them in order to repay investors.
- It is important to review investment needs to determine the suitability of different funding types (e.g. grants, loans, equity or others).
- Involvement of NGOs or development banks can be key in designing and implementing the deal.

Strong points

Flexible mechanism: The funds and resources made available can be in several forms, for example technical assistance, reduction of investment risk or market incentives.

Medium to long-term tenors: The investment periods can be agreed for medium to long periods of time.

Ability to utilise private finance: This is a key difference when considering other mechanisms.

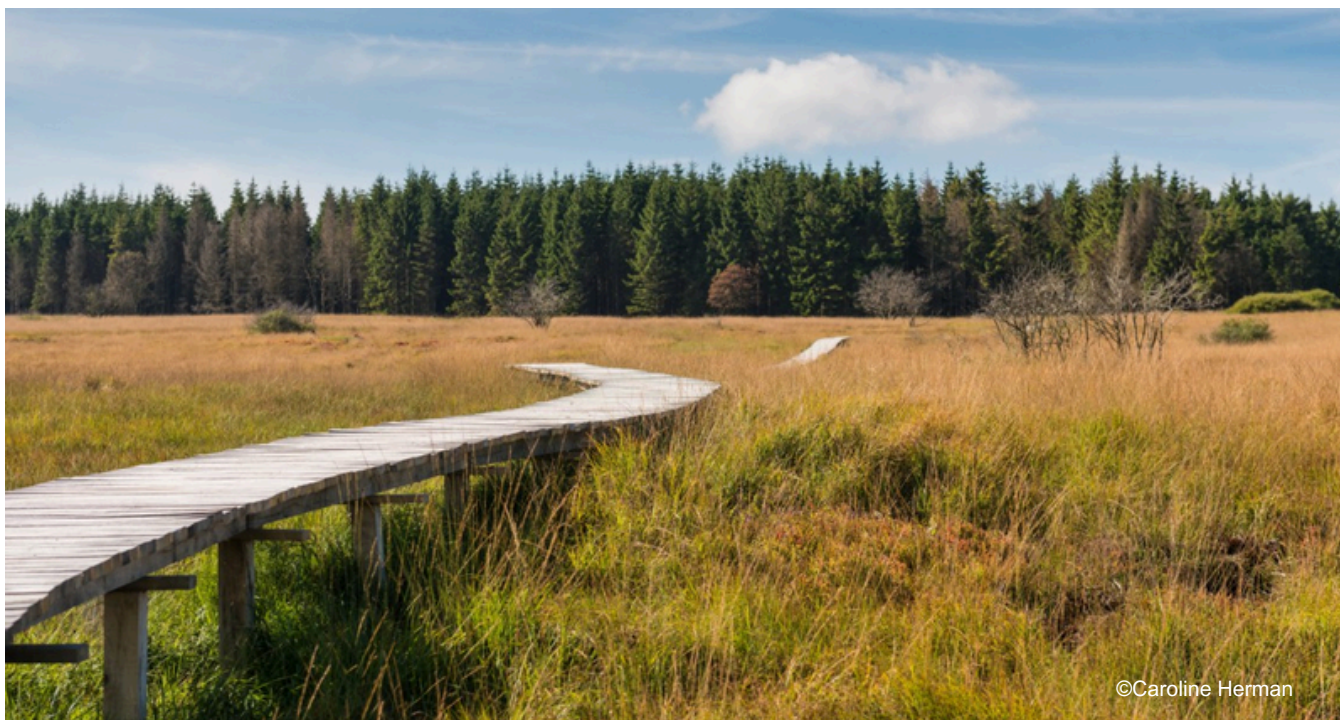
Proven structuring approach: It has already been used in many cases e.g. in development projects such as energy or transport.

Weak points

Lack of previous examples in nature restoration: Blended Finance has been used to scale up public investment in areas such as energy, transport or other infrastructures, yet cases for nature restoration examples are few.

Complexity: The structure of blended finance deals is highly complex and involves several parties.

Longer tenor required when deployed for nature and biodiversity restoration (investments in restoring nature and monetising nature require medium to long periods of time).



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What activities can Blended Finance fund?

Blended Finance can mobilise and catalyse significant amounts of money (several hundred million euros) to be used for a wide range of actions:

| Types of measures Blended Finance can be used for | | |
|---|--|---|
| Network planning costs | Administrative | ✓ |
| | Spatial planning | ✓ |
| | Biogeographical network planning | ✓ |
| | Monitoring and reporting of the protected area network | ✓ |
| Protected area establishment costs | Site/corridor designation and management planning | ✓ |
| | Administrative | ✓ |
| | Remaining knowledge gaps and research needs | ✓ |
| | One-off establishment actions | ✓ |
| | Compensation | ✓ |
| | Land purchase | ✓ |
| Management costs | Site (cluster) administration | ✓ |
| | Enforcement | ✓ |
| | Monitoring and reporting | ✓ |
| | Maintenance and restoration measures for species and habitats | ✓ |
| | Additional green infrastructure measures (outside protected areas) | ✓ |
| | Protected area infrastructure maintenance | ✓ |
| Communication and awareness raising costs | Natura 2000-related communication and awareness raising measures, education and visitor access | ✓ |
| | Best practice exchange | ✓ |

Examples of where Blended Finance could be used (n.b. these are dependent on the investment target):



Land purchase grants: For creating areas for conservation and loans for ecotourism development where the profits can be used to repay the loans.



Managing fisheries: Philanthropic funds or public money can be used to carry out initial studies about fish stocks and habitats and private funds can be used for greening fishing fleets (e.g. reducing the use of plastic, shifting from diesel to electrical boats) which can be repaid through an increase in fishing revenues.

Annex I: How to structure Blended Finance? List of steps

This series of steps guide the development and structuring of Blended Finance investment vehicles:

Reserach and planning

- Clearly define funding needs to create, expand, or improve protected areas and ecological corridors. Ideally at a landscape scale or for the total network, both marine and terrestrial.



Identify partners

- Outline several instruments that can be used to match the financing required.
- Identify possible partners that might contribute to filling in the financial gap.
- Structure or identify a positive revenue stream that can arise from the investments, with corresponding time scale estimates for returns.



Details of the deal (list of questions to consider)

- The size/value of the investment.
- Define clearly the end use of the funds, from the ones that require grants to the ones that can be facilitated through loans.



After issuing

- Ensure the funds are used to implement the plans proposed.
- Undertake continuous reporting and auditing to guarantee that the funds are invested where initially planned, ideally by an external partner (e.g. consultancy or university).
- Communicate the deal through local, national and international news media and with partners.

Annex II: Examples of Blended Finance

Global Fund for Coral Reefs

Aim: To protect and scale up the restoration of coral reefs worldwide.

Details: The Global Fund for Coral Reefs (GFCR) is an investment vehicle that aims to “support innovative business models that increase the resilience of coral reefs and the communities that depend on them” as stated by CFGR.

The Fund is divided into two parts, grant funding and an investment fund. The grant finance, supported by governmental and philanthropic money, is used mainly to develop new projects, to support building local capacity, technical assistance, gaining capacity, monitoring and evaluation. The investment fund, with finance from investment institutions, aims to scale up the projects incubated by grant funds.

Areas it looks to fund include the establishment of marine protected areas, restoration of mangroves along shorelines, blue carbon credits, sustainable fisheries, ecotourism, ecosystem restoration, wastewater management and renewable energy.

Organisations involved include the Conservation Finance Alliance (CFA), which develops the investment plan for the Fund as well as several philanthropies, some developed countries, investment partners and international institutions.

Funds made available: 10-year fund with 625 million US dollars.



Forest Resilience Bond (FRB)

Aim: To decrease forest fire risk and protect water resources in California, USA.

Details: Launched in November 2018, the Forest Resilience Bond (FRB) raised 4 million US dollars from private investors, to restore a forest area of around 6,000 hectares in order to prevent forest fires.

The work was carried out by the National Forest Foundation, a local entity, and the actions included the removal and control of invasive alien species, thinning of forest areas, prescribed burning and restoration of meadows.

The deal monetised the cost savings among several beneficiaries while providing returns to investors on a pay-for-success design model. The main beneficiaries were the US Forest Service and State of California, which avoided costs in fighting forest fires, and the Yuba Water Agency, which avoided extra costs in cleaning its water reservoirs from ashes. Given the innovative design and the risk associated with an unproven mechanism, there was also political risk insurance by two private foundations, to shield the deal in case the forest burned during the period of the bond.

This was an initial pilot that has already been replicated with a bigger scale bond valued at 25 million US dollars in the same region of the United States.

Funds made available: 4 million U.S dollars for management of a 6,000 hectare forest area.



Annex III: References and further recommended reading

Global Fund for Coral Reefs

<https://globalfundcoralreefs.org/>

https://static1.squarespace.com/static/57e1f17b37c58156a98f1ee4/t/60f150b944f13e0787b426d2/1626427585623/GFCR+Investment+Plan+2021_final.pdf

Forest Resilience Bond (FRB):

https://www.fs.usda.gov/Internet/FSE_DOCUMENTS/fseprd804413.pdf

<https://www.wri.org/insights/forest-resilience-bond-leveraging-innovative-finance-science-and-partnerships-fight>

Recommended reading

<https://ieg.worldbankgroup.org/blog/what-blended-finance-and-how-can-it-help-deliver-successful-high-impact-high-risk-projects>

<https://cpicfinance.com/wp-content/uploads/2021/12/ES-The-Blended-Finance-Playbook-for-Nature.pdf>

<https://www.greenclimate.fund/sites/default/files/document/making-blended-finance-work-nature-based-solutions.pdf>

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