



## Urban Agenda Platform

The global platform for sharing progress, action and knowledge on the implementation of the New Urban Agenda to achieve sustainable urban development.

# BANKABLE NATURE SOLUTIONS

Award Scheme

Themes

Sustainable Development Goals

Others

Waste Management

Goal 11 - Make cities and human settlements inclusive, safe, resilient and sustainable

## Summary

Bankable Nature Solutions are solutions for environmental challenges that at the same time generate an acceptable (risk-adjusted) return on the money invested. **TARGET USERS:** Businesses, Industry, Government **KEY CONSIDERATIONS:** Bankable Nature Solutions are intrinsically different from regular conservation projects as they are managed by the private sector with a design centered around revenue generating activities that help recover project costs and generate a return on investment.

## Background and Objective

Lack of waste management infrastructure in many cities and towns in developing economies is largely due to a lack of municipal financial resources and outside investment. Cities and development partners face the challenge of having to make the most effective use of available public finance instruments while disbursing scarce public funds in a way that leverages private sector co-investments.

## Actions and Implementation

Bankable Nature Solutions (BNS) are financially viable projects which support the development of more climate resilient and sustainable landscapes and economies. Their bankability enables projects to accelerate scaling and replication, realizing large-scale positive impact on nature and communities. The main characteristics of BNS are: Create positive environmental returns leading to positive biodiversity impacts of climate mitigation and/or adaptation and; Are acceptable to investors as they have (a combination of) characteristics such as: Cash flow generating activities; Sufficient collateral; A high probability of success; A clear exit strategy; An acceptable risk-adjusted rate of return; A clear proof of concept and proven track record. Thus, BNS are solutions for environmental challenges that at the same time generate an acceptable (risk-adjusted) return on the money invested. Bankable Nature Solutions are not just different from regular conservation projects because of their source of funding. They are intrinsically different as they are managed by the private sector and as their design is centered around revenue generating activities that help recover project costs and generate a return on investment. Bankable Nature Solutions can be found across different themes – such as climate-smart agriculture, environmental protection, forestry, water and sanitation, and renewable energy. Compared to conventional (grant-driven) environmental projects, there is not only money flowing into a project, but the project itself is also generating sufficient money to pay back investors and generate a positive return. The investment can be through debt, equity or a combination of both. Hence, a bankable project is not an extra influx of money that can be used in the same way as when receiving grants.[1] The major adjustment to this definition for BNS with regard to the plastic challenges facing cities, is that the climate and biodiversity impact are indirect results of most of the solutions, as plastic production, consumption and disposal is the main issue at hand. Another adjustment could be incubation investments, as there are many early stage initiatives and start-up ideas in the plastics and waste sectors, which do not have a proof of concept, but have viability potential.

## Outcomes and Impacts

**CASE STUDY EXAMPLES** Dutch Fund for Climate Change (DFCD) The Dutch Fund for Climate and Development (DFCD) enables private sector investment in projects aimed at climate adaptation and mitigation in developing countries. The Dutch Ministry of Foreign Affairs has made available €160 million to increase the resilience of communities and ecosystems most vulnerable to climate change. The DFCD is managed by a pioneering consortium of Climate Fund Managers (CFM), World Wide Fund for Nature Netherlands (WWF-NL) and SNV Netherlands Development Organisation, led by the Dutch Entrepreneurial Development Bank, FMO. The consortium adopts a 'landscape' strategy for deal origination and execution. This strategy allows consortium parties to actively source and develop private sector investment opportunities for other consortium parties in-and-around, in the vicinity of, as well as downstream from, their own investment activities. Managed by Climate Fund Managers, the Water Facility will target investments related to the development, construction and operational phases of water and sanitation infrastructure, as well as environmental protection. To achieve this, the Water Facility will provide development grants, equity for construction and operational debt. It will utilize the proven fund structure of Climate Investor One and will target a €50 million Development Fund, a €500 million Construction Equity Fund and a €500 million Refinancing Fund, known as Climate Investor Two. The Water Facility will also source opportunities from Climate Fund Managers' external networks and will provide post-construction phase



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community development and Technical Assistance. €75 million will be allocated to this window to be deployed in ~ 30 projects. Global Environment Facility (GEF) In the climate change mitigation space, the GEF and other International Financing Institutions have successfully used blended finance models to finance new technologies in renewable energy, energy efficiency, urban transport, and other related fields. As sustainable energy technologies began achieving significant cost reductions and countries put in place enabling policy environments (e.g., feed-in-tariffs, power purchase agreements), the opportunity for private sector investment expanded greatly. GEF's experience shows that Blended Finance is a potent instrument. With the risk assurances provided by blended finance, the private sector invested in projects at a much higher rate than "regular" projects. During 2013-2014, US\$175 million from the GEF for blended finance operations mobilized about US\$1.1 billion from the private sector. This leverage ratio of 6.3 was several times higher than from GEF's "regular" operations. The Coalition for Private Investment in Conservation (CPIC) Finance Initiative The GEF and the Rockefeller Foundation joined forces to initiate work on the CPIC Conservation Finance Initiative, which focuses on scaling-up and demonstrating the value of Blended Finance in conservation, using financial blueprints jointly developed by experienced investors and banking institutions alongside experts in on-the-ground project design in biodiversity and natural resources management. The Conservation Finance Initiative, to be managed by the International Union for Conservation of Nature (IUCN), combines a GEF investment of \$8 million non-grant with \$2 million of grant funding from the Rockefeller Foundation, and is expected to mobilize up to \$100 million of private sector investment. The aim is to overcome hurdles to private sector investment in natural resource management and improve the conservation and sustainable use of biodiversity by demonstrating innovative finance blending models. Circulate Capital Circulate Capital is an investment management firm dedicated to financing innovation, companies, and infrastructure that prevent the flow of plastic waste into the world's ocean while advancing the circular economy. See <https://plasticsmartcities.org/products/circulate-capital> for more information.

## Conclusion

**ALTERNATIVE SOLUTIONS** **Municipal Debt Swaps** Municipal debt swaps are a financial arrangement between a creditor and an indebted city or municipality to cancel debt in exchange for climate-smart investments. In the 1980s, debt swaps were extensively used, particularly at the national level. Such debt swaps could prove to also be a viable and attractive instrument for indebted cities and municipalities seeking to reduce their debt volumes, while local communities would benefit from the additional investments. **Results-Based Financing (RBF)** can be applied within a debt swap as an incentive for debtors to provide debtor relief and finance more projects. **Environmental Impact Bonds** Environmental impact bonds (EIBs) are an innovative finance technique to apply results based financing contracts to green infrastructure projects. EIBs are tax-exempt, pay-for-success instruments, allowing governments to limit their losses if projects turn out unsuccessful, thus encouraging them to try novel climate-smart infrastructure solutions. However, EIBs are not really bonds because they are not a fixed income borrowing instrument with a steady stream of repayments, nor can they be traded. Instead, EIBs are a form of Public-Private Partnership (PPP) with performance-based contracting. Impact Bonds have been widely used in the US and UK and several less-developed countries are now piloting the approach targeting social outcomes. EIBs can leverage the classic performance-based contracting approach in infrastructure development and allow municipal and city governments to partner with private sector investors. **Crowd-based Financing** Crowd-based financing sources capital from communities and individuals (crowd), and experiences from US cities indicate that could be an alternative finance source for climate-smart urban infrastructure investments. Crowd-based financing is a relatively new approach that has been predominantly used in the technology sector. Crowd-based financing mitigates several investment barriers that are inherent in traditional project finance in many cases by applying micro-finance practices but also brings additional considerations in project structuring, especially for communities with low income and low institutional capacity. Source: <http://documents1.worldbank.org/curated/en/917181563805476705/pdf/Innovative-Finance-Solutions-for-Climate-Smart-Infrastructure-New-Perspectives-on-Results-Based-Blended-Finance-for-Cities.pdf>