Session: Private finance sector progress to face the challenge of climate change

UN ECLAC project showcase

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UN Climate Change High-Level Champions

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Acción Andina

Acción Andina is a grassroots, community-based initiative working across South America to protect native high Andean forest ecosystems

Deal opportunity overview

- Acción Andina is a large-scale, long-term initiative to protect and restore one million hectares of high Andean, native forest ecosystems across the Andes (Argentina, Bolivia, Chile, Ecuador, Peru, Colombia (2023), Venezuela (2025))
- To reach its goal, Acción Andina needs to unlock US$100-200Mn of private, public and multilateral investment over 10 years, with 80% of funding coming from within the region for long-term financial sustainability

Owner: Acción Andina / Global Forest Generation

Investor Category: Impact investors, Climate funds

Funding required: US$100Mn USD over 5 years

Project details

Team

- **Project name** – Accion Andina: A joint venture of Global Forest Generation (GFG) and Asociación Ecosistemas Andinos (ECOAN)
- **Names of key project team members** - Florent Kaiser (CEO, Global Forest Generation); Constantino Aucca (President of Acción Andina and Asociación Ecosistemas Andinos)
- **Track record of project owners/sponsors** - ECOAN has 30 years conservation experience working with local and indigenous communities in the high Andes of Peru. Its proven, successful model is the inspiration for the Andes-wide Acción Andina initiative. Despite its young age, GFG has proven its project development model by successfully scaling, alongside ECOAN, Acción Andina to currently five countries. GFG is an active and recognized voice in the international ecosystem restoration community, partnering with major corporations and forums such as the World Economic Forum and the UN

Business Model

- Acción Andina is a mission-driven, non-profit initiative with long-term financial sustainability goals, blending international and regional philanthropic seed grants with private, public and multilateral investments in climate resilience and green infrastructure. Acción Andina aims to launch a regional Trust Fund capable of managing these investments

Milestones

- **Operational** - Design and launch Trust Fund in 2024 to access, blend, disburse and report on private and public investments
- **Financial** - Raise US $5Mn seed funding to launch Trust Fund. For Acción Andina project implementation across the Andes:
  - $10-15Mn per year within three years
  - $80-120Mn by 2030 from multiple sources (philanthropy, private investments, public funding, multilateral agencies)
- **Partnerships** - Strategic and/or funding partners include Salesforce, One Tree Planted, Milkywire, Klarna, Coca Cola, World Economic Forum, UN Decade on Ecosystem Restoration, UNEP, FAO

ACCIÓN ANDINA

Acción Andina aims to restore and protect high Andean forest ecosystems for long-term water and food security impacting multitudes across the continent

Impact

Social Impact Targets

Productivity (by 2030):
- 100,000 people will be actively involved in the initiative
- Over 50Mn native trees will have been grown and planted, with 50,000 hectares of reforested sites under restoration management
- 200,000 of existing high Andean forests under active conservation protection

Sustainability:
- Acción Andina restoration and conservation efforts directly contribute to climate change resilience and adaptation by enhancing water and food security, biodiversity conservation, and local livelihoods (preventing migration into urban centers and downslope into the Amazon)
- We are currently developing stronger monitoring protocols for impact assessment, especially in water impacts and biodiversity

Inclusivity:
- Acción Andina consists of a network of local conservation leaders and their grassroots organizations with decades of experience working with local and indigenous communities

Return expectations

Growth projections:
- Acción Andina project implementation will require US $100-200Mn over 10 years:
  - Project implementation budgets: 2023: US$4.7Mn ; 2024: US$7Mn; 2025: US$10Mn; 2026: US$15Mn
  - To reach scale, US$80-120Mn will need to be raised from other sources by the end of 2030

Risk and mitigation strategies

Risks and mitigation

	Risks	Mitigation Strategies
1 Environmental risks	Moderate risk involving indigenous and local community land rights and ownership	Signing agreements with local communities and relevant authorities; Initiating dialog early and often with embedded local conservation leaders who have established trust among communities
2 Executional risks	Delays in obtaining materials (e.g. tools, construction equipment) that disrupt seasonal reforestation activities	Working with reliable, trusted suppliers; building in potential delays into timeline to offset disruptions
3 Commercial risks	Disruptions to cash flow, preventing timely project executive and diminishing trust with local partners; high upfront costs associated with new projects in particular	Negotiating multi-year contracts with funding partners and appropriate payment schedules; maintaining transparency with local partners regarding cash flow status
4 Currency risks	Depreciation of local currencies, impacting costs, and currency instability (e.g. Argentina)	Using forward contracts when/if possible
5 Regulatory risk	Political instability and changing regulations at federal and state/provincial levels	Maintaining transparent dialogue with political authorities; connecting Acción Andina activities with national and international sustainability commitments made by federal governments
6 Tax risks	N/A	N/A

ACCIÓN ANDINA

Innovative Finance for the Amazon, Cerrado, and Chaco (IFACC)

IFACC has a goal mobilize US$10 billion by 2030 towards transitional finance in the production of beef, soy, and other agricultural products without further deforestation or conversion

Project overview

- The Innovative Finance for the Amazon, Cerrado, and Chaco (IFACC) was launched by The Nature Conservancy (TNC), Tropical Forest Alliance from The World Economic Forum, and The United Nations Environment Programme
- Its goal is to disburse US$1 billion by 2025 and mobilize US$10 billion by 2030 by bringing together leading companies, banks and investors who, together, work to meet the need for transitional finance in the production of beef, soy, and other agricultural products without further deforestation or conversion

Owner: The Nature Conservancy, Tropical Forest Alliance from The World Economic Forum, and The United Nations Environment Programme

Investor Category: MDBs, DFIs, banks, and private sector players

Disbursement goal: US$1 billion by 2025

Project details

Activities	• **Capital:** Combining farm loan products, low-cost crop finance loans, and farmland investment funds, capital market offerings such as securitized agriculture receivables, sustainability-linked loans, and carbon finance to accelerate the flow of capital to farmers to move to deforestation-free and conversion-free soy, cattle, agroforestry systems and non-timber forest products production • **Convening:** Stimulating transactions through organizing interactions and dialogues between lenders, investors, agribusinesses and farmer organizations with lessons learned from successful transactions, innovative ideas and insights for overcoming barriers, and connections to concessionary capital groups and other finance partners that can help manage risk • **Expertise:** Establishing standards and methods for measuring and reporting the impacts - including the climate benefits - of signatories' financial instruments and the agricultural practices they support • **Knowledge sharing**: Promoting dialogue, knowledge sharing and training on lessons learned from successful deals, innovations that help overcome barriers, and producer needs

INNOVATION in finance:

1. Development of **new financial solutions**
2. **Replicability** of succeed models to other sectors and regions
3. **Scaling-up** approaches to reach systemic changes

THE ROLE OF VALUE CHAIN ACTORS

Pilot Phase →	Ramp-Up Phase →	Established Investment Thesis
Supply Chain Companies • Traders, Slaughterhouses, Input companies	• Design, origination, possibly lender • Share risk • Off-takers (incl. enviro. services) • Collateral support	
Banks, Asset Managers	• Structure products with companies, catalytic capital providers	
Institutional Investors • Pension funds, Asset Managers	• Begin investing (e.g. pilot funds, real assets, investment grade bonds) • Influence banks and companies	• Expand asset allocations • Innovate on risk mgmt.
Catalytic Capital Providers • DFIs, BNDES • Philanthropy, Foundations • Family offices, Advisors	• Subordinated positions, first loss • Insurance /credit enhancement • Streamline process, requirements	• De-risk more challenging opportunities (e.g. smallholders)
Government / Regulators	• Legal compliance, e.g. CAR, PRADA • Financial product regulation • Export promotion	

Ecuador Debt for Nature Swap

Ecuador completed the 'Galapagos debt conversion for nature' – the world's largest debt-for-nature transaction…

Project overview

- In May 2023, Ecuador completed the world's largest debt conversion for nature, converting US$1.628Mn of more expensive international debt to the USD 656 million Galápagos Marine Loan, financed via issuance of the Aa2 rated US$656Mn Galápagos Marine Conservation-Linked Bond
- Debt savings are created via principal reduction and below-market financing—a portion of the savings is redirected into marine conservation
- This transaction generates a projected US$450Mn in new funding for marine conservation and nearly doubles the existing financial resources for Galápagos at US$15-20Mn per year

Creditor:	Government of Ecuador
Credit enhancement:	DFI & MDB
Investor categories:	Insurance Companies, Pension Funds, ESG Focused Investors
External debt eliminated:	US$1.1Bn over transaction lifetime
Conservation funding Generated:	US$450Mn

Project details (1/2)

Financing structure

- **Credit Suisse underwrote issuance** of the Marine Bond by a special purpose vehicle which allowed Ecuador to buy back existing debt at a 60% discount
- Credit Enhancement specified below allowed the Marine Bond to receive a Aa2 credit rating from Moody's (a 16 notch upgrade from Ecuador's Caa3) in order to pass below market rates to Ecuador:
  - **US International Development Finance Corp ("DFC") provided US$656Mn** political risk insurance (the entire value of the Marine Bond) to derisk the transaction
  - **Inter-American Development Bank ("IDB") provided a US$85Mn** unfunded liquidity guarantee to cover the debt service reserve account (<13% of total amount issued)
  - 11 private insurers including **AXA XL, Fidelis MGU, Chubb Global Markets, Sovereign Risk Insurance Ltd, Mosaic, Coface and others provided >50% reinsurance** to facilitate DFC's commitment

…creating US$1.1Bn savings for Ecuador in borrowing cost and securing $450M funding for Galapagos marine protection

Project details (2/2)

Value created

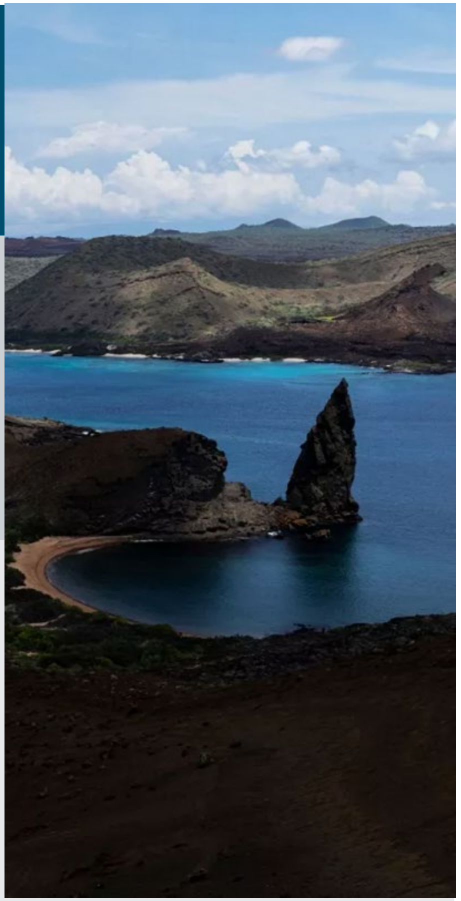
- **US$1.1Bn lifetime debt savings** for Ecuador
- **US$ 450M total funding for Galapagos marine protection**, split between US$223Mn disbursed towards conservation projects during the life of the transaction and a projected US$227Mn endowment by 2041 to fund a conservation trust in perpetuity

Lessons learnt for future transactions

- This transaction employed a first-of-its-kind **unfunded liquidity guarantee** from the IDB to significantly reduce the effective cost of financing, suggesting the usefulness of similar unfunded mechanisms going forward
- **Debt conversions for nature and climate** provide a path forward for an effective and mutually benefitting partnership between DFIs providing credit enhancement, private capital, and countries where these deals are implemented
- Scalability of these transactions **requires better availability of credit-enhancements and streamlined processes** in order to drive down transaction costs, increase benefits to sovereigns, and increase case impact for each conversion

Key parties & scalability considerations

- **Investors** can access high credit-quality investments and pursue joint commitments which help countries achieve the Sustainable Development Goals
- **NGOs** can provide invaluable local expertise and ensure funding addresses pressing local problems
- **MDBs/DFIs** can provide a credit enhancement to make transactions feasible. They should create better processes for enabling, streamlining, and simplifying obtaining the credit enhancement. Involvement from additional MDBs/DFIs is also necessary to scale impacts
- **Private financial institutions** can bring about innovation to ensure financial mechanisms are scaled to catalyze capital flow
- **Governments** should encourage MDBs (e.g., African Development Bank, World Bank) to provide significantly increased guarantees for debt conversions for nature and climate and find collaboration efficiencies among them to maximize benefit



1. International Finance Institutions, 2. Development Finance Institutions, 3. Multilateral Development Banks

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