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BLOG POST

UNLOCKING GREEN INVESTMENT IN EMERGING MARKETS THROUGH BLENDED FINANCE AND NATURE- BASED SOLUTIONS

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Emerging markets in Latin America and the Caribbean (LAC) offer vast potential for green investment, with the region holding 40% of global biodiversity, 50% of tropical forests, and over 30% of the planet's freshwater.^[1] These natural resources support critical ecosystems and provide essential services to communities and economies. However, LAC is facing growing threats, including an 89% decline in key species populations in recent decades and some of the highest rates of tropical deforestation globally.^[2] To address these challenges, innovative financial mechanisms, like blended finance and Nature-Based Solutions (NbS), are crucial for mobilizing funding, protecting biodiversity, and promoting sustainable development.

BLENDED FINANCE: A KEY ENABLER

Blended finance plays a critical role in emerging markets by merging public and private financial resources to attract investment in sectors that offer high social and environmental returns, such as renewable energy, sustainable agriculture, and biodiversity conservation.^[3] These markets often face barriers to private investment due to political instability, regulatory uncertainty, and underdeveloped infrastructure.^[5] Traditional investment models are typically deterred by these high risks and lower returns, which makes many projects financially unappealing.

Blended finance addresses these issues by combining public and private investments, often using concessional funds from donors or development agencies to de-risk projects.^[6] By combining grants, loans, and equity from diverse sources – such as development finance institutions, philanthropic funds, and commercial investors – blended finance makes previously unattractive projects viable.^[7] Unlike traditional financing models, blended finance uniquely seeks to expand the financing base for sustainable development by attracting non-development capital. The [OECD DAC Blended Finance Principles](#) emphasize the importance of aligning blended finance with development outcomes, ensuring that public or concessional resources mobilize, rather than replace, commercial capital.^[8]

For example, in May 2022, Brazilian Development bank BNDES adopted a blended finance approach to bolster forest bioeconomy, circular economy, and urban development in Brazil, targeting small cooperatives, waste recyclers, and projects in low-income areas. This model integrates a mix of financing tools—loans, guarantees, equity, and grants—to mobilize resources for projects with high socio-environmental impact that meet environmental, social, and governance (ESG) criteria. Each project must secure at least R\$3 in third-party funding for every R\$1 invested by BNDES, tripling the resource pool and multiplying BNDES's impact through a mix of commercial and philanthropic capitals. Selected projects will reduce waste, enhance urban infrastructure, and support sustainability in the rainforest, with results from the latest public call to be announced soon.[9]

NATURE-BASED SOLUTIONS (NbS): DRIVING SUSTAINABLE IMPACT

NbS involves actions that protect, manage, or restore natural ecosystems to address societal challenges while promoting biodiversity and human well-being.[10] These solutions are particularly relevant in emerging markets, where natural ecosystems are critical for both livelihoods and climate resilience. They can be applied in sectors like agriculture, forestry, water management, and disaster risk reduction.[11]

In agriculture, NbS can help farmers in emerging markets adapt to the changing climate by promoting sustainable farming practices that improve soil health, conserve water, and increase crop resilience.[12] For example, Costa Rica's Tropical Agricultural Research and Higher Education Center (CATIE) is an international organization dedicated to promoting sustainable development in Latin America and the Caribbean. With a focus on education, research, and outreach, CATIE supports the sustainable management of agriculture and the conservation of natural resources. In the context of Nature-Based Solutions (NbS), CATIE is pioneering climate-smart dairy farming by developing low-carbon-footprint livestock breeds and implementing silvopastoral systems that enhance soil fertility and improve resilience to climate change.[13]

Similarly, agroforestry systems in Central America, such as those implemented under the Central American Program for Integrated Coffee Rust Management (PROCAGICA), integrate coffee with fruit trees like bananas and citrus. These systems provide shade to coffee plants, enhancing their heat tolerance while supporting biodiversity and increasing food security for producers.[14]

In coastal areas prone to flooding, traditional infrastructure like seawalls can be costly and damaging. In contrast, mangrove restoration offers a natural barrier, reducing storm impacts and enhancing biodiversity. Properly implemented NbS can contribute up to 37% of the climate mitigation needed by 2030, making them essential for tackling climate change. [15]

BLENDED FINANCE AND NBS SYNERGIES

As shown in Figure 1, the intersection of blended finance and NbS offers significant potential for collaboration between the public and private sectors. In emerging markets, the combination of these two approaches can unlock the capital needed to fund large-scale environmental projects that would otherwise struggle to attract investment. Partnerships that bring together public funds, philanthropic resources, and private investors can support scalable projects that restore ecosystems, enhance biodiversity, and improve community resilience.

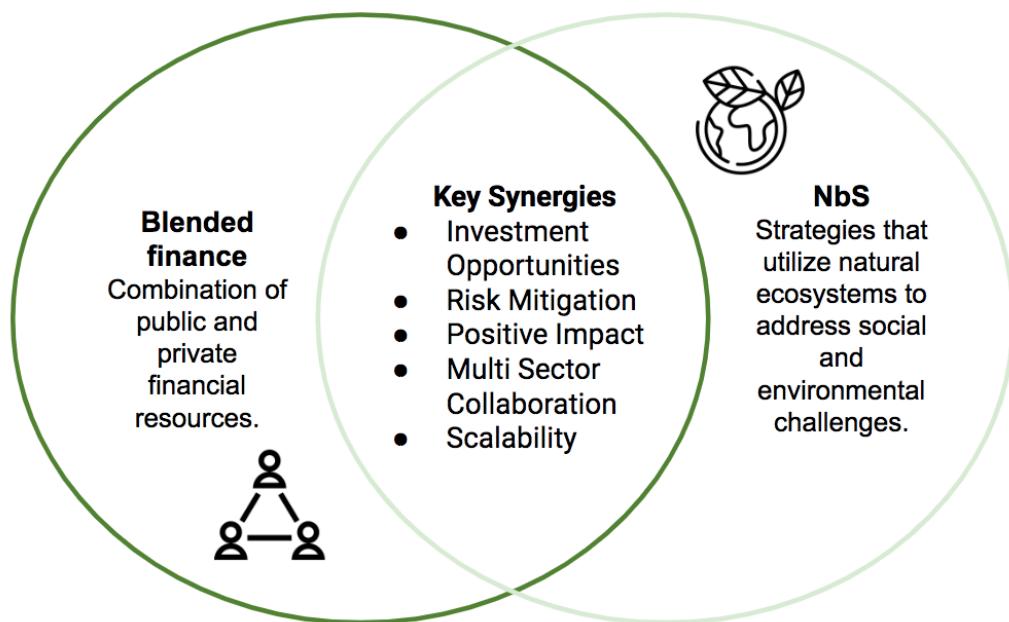


Figure 1. Key synergies between blended finance and NbS

Public-private partnerships (PPPs) also play a vital role in fostering collaboration between governments, development banks, and private investors. Involving stakeholders from multiple sectors ensures that projects meet both financial and environmental objectives. The Green Climate Fund (GCF) is an example of an entity that actively fosters such collaborations. It partners with various stakeholders, from development banks to local communities, to fund NbS initiatives that deliver both climate and biodiversity benefits.[16] This integrated approach ensures that financial resources are not only directed toward climate resilience but also protect critical ecosystems.

CONCLUSION

Emerging markets offer immense opportunities for sustainable investment, with the potential to transform economies while protecting the environment. Blended finance and NbS are vital tools for overcoming the unique challenges in these markets, from de-risking investments to leveraging natural ecosystems for climate resilience. Together, these approaches can unlock significant investment flows, catalyzing sustainable growth and contributing to global efforts to combat climate change. By fostering collaboration between public and private sectors, emerging markets can become key drivers in the global transition to a low-carbon, resilient future.

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