

Financing Nature

A call for financial solutions for biodiversity and climate adaptation

Deadline 31 August 2023



The Call in brief

- Through this Call for Expression of Interests (the Call), The Swedish International Development Cooperation Agency (“Sida”), a central government authority, seeks to unlock the potential of the private sector to engage in sustainable development and inclusive growth by mobilizing investments towards positive impact for biodiversity and increased climate adaptation through two windows; **(i)** one global and, **(ii)** one regional in Africa. The initiative is based on the premise that if Sida can share risk with investors, financial intermediaries will be able to raise additional capital and take on additional risks that otherwise would not be possible. This blended finance approach enables Sida to increase access to finance in an effort to deliver towards biodiversity protection and restoration and climate adaptation, and unlock further development impacts from the vast potential within productivity, value chains, local market systems and other opportunities that will help drive sustainable and inclusive economic growth and income generation.
- The objective of the Call is to identify and select implementing partners suitable for a Sida guarantee. The guarantee is a flexible risk mitigation instrument, designed to share risk with public and private actors in order to mobilize additional capital and reach development impact.
- The main target group for the Call consists of investment funds, banks and other financial intermediaries (including but not limited to guarantee funds) that will deliver impact results alongside financial results.
- Implementing partners will be selected based on “best fit” with Sida’s development objectives and partner capacity, under strict consideration of additionality.

Deadline	31 August 2023
Sida guarantee Q&A session	8 June 2023, register here
Contact	cfp_guarantees@sida.se
Website	Sida calls and announcements

This document provides an overview of the Call, including targeted areas, priority segments, geographic windows and eligible implementing partners. It also provides links to relevant information on Sida’s development perspectives, policies and limitations and provisions related to the Sida guarantee.

We look forward to receiving your application.

Definitions and interpretation

In this Call, terms and expressions have the meaning attributed to them below, unless otherwise defined.

Additionality	means the extent to which a Sida guarantee will enable implementing partners to raise additional capital and/or take on additional investment risks that otherwise would not be possible.
Applicant	means an entity applying to this Call as a potential, future implementing partner.
The Call	means “this Call for expression of interests”.
Implementing partner (target group)	means financial institution or financial intermediary that is selected through this Call to implement a Sida guarantee.
Financial institution	means a registered, legal entity providing lending and/or investment products to individuals, businesses or both, such as commercial banks, investment banks, development finance institutions and multilateral development banks.
Financial intermediary	means a registered, legal entity that acts as the middleman between capital providers and capital recipients, such as investment funds, asset managers, special-purpose vehicles, and guarantee funds.
Sida guarantee	means a guarantee instrument provided by The Swedish International Development Cooperation Agency (“Sida”).
Investee	means the underlying borrower or underlying investee company to the implementing partner.

Background

Climate change and loss of biodiversity present two increasingly important challenges for modern civilization and the two are also closely interlinked. Biologically diverse ecosystems are critical for livelihoods, health and well-being. Nature underpins a majority of economic activities, and ecosystem services are central in society's response to climate change, in building resilience and in adapting to its effects. Nature and its ecosystems are deteriorating at unprecedented levels and at increasing speed, and nature is being exploited at a far more rapid pace than it can restore and renew itself. IPBES, the United Nations intergovernmental Science-Policy Platform on Biodiversity and Ecosystems services, notes that on current course, up to one million known species could disappear by 2050¹. The World Economic Forum's 2020 Global Risks Report note biodiversity loss and ecosystem collapse as one of the top five threats humanity will face during the 2020s².

A tentative estimate note that half of the world's businesses depend on nature, close to around USD 44 trillion in economic value generation³. UNEP estimates the global biodiversity funding gap to be USD 598 – 824 billion in 2023⁴, and at current rates this is expected to grow to a USD 4.1 trillion financing gap by 2050⁵. There is an obvious and significant need for financing nature, but the current pace of capital growth is not enough to meet this need. In addition, it is clear that investments in adapting to the inevitable consequences of climate change are increasingly needed. Support for climate mitigation remains larger than support for climate adaptation, where climate adaptation accounts for only around 20 to 25 per cent⁶ of committed climate-related concessional finance, and only 7 per cent⁷ of climate-related investment. Investments in nature-based solutions today amount only to USD 133 billion, and they need to triple by 2030, and increase four-fold by 2050, if the financing gap is to be closed. In addition to this, around 86 per cent of these current investments come from public sources⁸. Unlocking private capital will be key for halting biodiversity loss, protecting ecosystems and accelerating transition to sustainable business models and practices. An economy that incorporates nature-based solutions has the potential to generate USD 10 trillion in business value, and generate 395 million jobs by 2030⁹, which means that increasing flow of private capital will not only benefit nature, it will also come with substantial effect on economic growth.

Capital needs to be realigned from harmful behaviours and towards outcomes, services and behaviours that benefit nature, and help transform how we produce, consume and construct, in order to achieve substantial poverty reduction, adapt to climate change and foster sustainable development.

Development objectives of Sida's guarantees

Sida strive to reduce world poverty by allocating resources and knowledge with the goal of making a difference for people around the world. Through cooperation with civil society, multilateral organisations, public agencies and the private sector, Sida works for sustainable development to improve conditions for people living in poverty and oppression. The purpose of Sida's guarantee instrument is to promote sustainable development, inclusive economic growth and poverty reduction by unlocking financial resources and facilitating access to finance. The instrument is designed to share risk with mainly private actors in order to de-risk investments, mobilize additional capital and bring in more partners to reach development impact.

¹ Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat

² World Economic Forum's 2020 Global Risks Report

³ WEF: New Nature Economy Report II: The Future of Nature and Business

⁴ The Time is Now to Invest in Nature-Based Solutions: The State of Finance for Nature 2021 Report

⁵ The Time is Now to Invest in Nature-Based Solutions: The State of Finance for Nature 2021 Report

⁶ Fourth Biennial Assessment and Overview of Climate Finance Flows

⁷ Global Landscape of Climate Finance 2021 - CPI (climatepolicyinitiative.org)

⁸ The Time is Now to Invest in Nature-Based Solutions: The State of Finance for Nature 2021 Report

⁹ New Nature Economy Report II: The Future Of Nature And Business

In line with the above, the Sida guarantee is based on the premise that if Sida can share risk with investors then implementing partners will be able to raise and deploy additional capital and take on additional risks. The focus of this Call is to share risk with investors, and support the undertaking of additional risk for investments in biodiversity and climate adaptation that otherwise would not be possible. This blended finance approach will advance Sida's efforts to increase access to finance, help halt biodiversity loss and increase conservation efforts, as well as unlock further development impacts from the vast potential within productivity, value chains, local market systems and other opportunities that will help drive sustainable and inclusive economic growth and income generation, both globally and regionally in Africa.

Targeted areas

Areas of interest for this Call are interventions that increase investments for biodiversity, while at the same time help society adapt to climate change. Sida welcomes applications from eligible implementing partners as per below with activities related to biodiversity restoration and/or protection and climate adaptation. In addition to actors working with these activities, as well as with sustainable agriculture and food systems, Sida encourages a particular focus on nature-based solutions as a tool for combating/decreasing deforestation and for sustainable wetland and marine use.

Priority segments

The point of departure for this Call is protecting or enhancing ecosystems and/or species, or remedying¹⁰ existing environmental damage, while creating better conditions for people to lift themselves out of poverty. This includes activities targeting the following objectives:

- Protection against degradation of ecosystems or biodiversity, often place bound
- Enhancement of ecosystems (i.e. a forest or a river), species or genetic resources through conservation action at a specific place or outside the natural environment
- Address/remedy, correct or improve an existing environmental problem that effects biodiversity
- Activities that can reduce the vulnerability of human or natural systems to impacts of climate change, through increased resilience and ability to adapt to climate change stresses, shocks and variability, and/or by helping reduce exposure to them¹¹

Sida has identified three priority segments for this Call. Specifically targeting the below specified three priority segments is not an eligibility criteria in this Call, however Sida will consider such targeting a strong advantage when evaluating applications:

1. Combating/decreasing deforestation

Deforestation is a major challenge across the world both for people and nature in terms of losing biodiversity and essential ecosystem services, such as carbon sequestration, stabilizing stream flows and water runoff – preventing land degradation and reducing the risks of natural disasters such as droughts, floods, and landslides. Forests also contribute to poverty eradication and economic development by providing food, fibre, timber, and other forest products for subsistence and income generation. Yet continuing forest loss worldwide negatively impacts the livelihoods of millions of people and poses major challenges to sustainable development.

¹⁰ Correct or improve an existing environmental problem that effects biodiversity

¹¹ In line with the Paris Agreement.

2. Sustainable wetland and marine use

Wetlands are ecosystems periodically or permanently saturated with water. Although only covering around 6 percent of Earth's surface they support 40 percent of global biodiversity. At the same time encompassing a varied range of habitats from lakes, rivers, fens, peatlands and deltas, to mangroves, coral reefs and seagrass meadows. In addition to their significance for biodiversity and climate adaptation, wetlands support the livelihoods of over one billion people globally. At the same time many of Earth's marine resources are under pressure threatening both biodiversity and livelihoods of coastal communities.

3. Nature-based solutions

In this Call, nature-based solutions (NbS) are defined as solutions/actions that protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services, resilience and biodiversity benefits¹². Well-designed NbS can be cost-effective and potentially more beneficial to local communities by creating job opportunities, reducing inequalities, and alleviating poverty, than for instance traditional infrastructure solutions alone. These solutions are often also suitable for adapting to a changing climate while at the same time being beneficial for biodiversity. Restoring watersheds can improve water quality and, at the same time, provide an increase of habitat for aquatic biodiversity, increasing tree cover in cities can reduce extreme urban heat island effects as well as being a habitat for birds and insects, and protecting mangroves and reefs can reduce coastal flood risk while being the nursery for many different species of fish and crustation. Recent research has estimated that NbS can meet up to eleven percent of total infrastructure investment needs globally and can provide 28 percent better value for money spent than grey infrastructure.

Geographic windows

For the **global window**, applicants shall cover activities on at least two continents. Targeted countries must be included in OECD/DAC list of ODA recipients¹³. Targeting the least developed countries (LDCs) is not an eligibility criteria, however Sida will consider such targeting an advantage when evaluating applications. Note that applicants may target other countries in addition to Sida's focus countries¹⁴.

For the **Africa regional window**, applicants must target one or more of Sida's focus countries regionally in Africa; these are listed below. Targeting the least developed countries (LDCs) is not an eligibility criteria, however Sida will consider such targeting an advantage when evaluating applications. Note that applicants may target other countries in addition to Sida's focus countries.



¹² [Information on reports and updates by the Technology and Economic Assessment Panel \(unep.org\)](#)

¹³ [\[DAC-List-of-ODA-Recipients-for-reporting-2022-23-flows.pdf \(oecd.org\)\]](#)

¹⁴ See [Countries and regions | Sida](#) for more information.

Integration of Sida's prioritised development perspectives

All of Sida's work is permeated by five fundamental perspectives:

- 1) Poor people's perspective
- 2) Human rights perspective
- 3) Conflict perspective
- 4) Gender equality perspective
- 5) Environment and climate perspective

Sida would like applicants to elaborate, where relevant, on how their investment strategy and the expected outcomes relate to the five perspectives. In this Call, it is expected that perspective one and five are of particular relevance and that all applicants elaborate in particular on these perspectives. The information provided will be part of assessing the applicants' fit with Sida's development objectives, which is a key part of the selection process.

For further information on Sida's development perspectives see [Sida development perspectives](#).

Eligible implementing partners

Eligible implementing partners are investment vehicles such as public or private investment funds, banks and financial intermediaries including loan (debt) funds or other funds that has a debt portfolio, as well as guarantee funds that:

- fulfil, but not limited to, the conditions and criteria set out in "How to apply", see below, and
- are planning to operate in the above outlined geographies (see *Geographic windows*) and
- in each case, are duly authorised to carry out investment activities according to the applicable legislation.

In the case of investment funds:

- have a target fund size of at least USD 30 million, and
- are currently in fundraising process or in the process of developing higher risk portfolios or investment windows within existing fund structures

In the case of guarantee funds:

- have a target portfolio size of at least USD 5 million

In the case of financial institutions:

- have a target portfolio size of at least USD 5 million

The Sida guarantee

The Sida guarantee is a triple-A rated, unfunded sovereign guarantee, backed by the Swedish government. The guarantee is a loss protection instrument that shields investors from a pre-defined amount of financial loss thus reducing the risk and improving the financial profile of an investment or an investment portfolio. Also note:

- Sida’s guarantee covers only credit risk. In the case which the applicant has a portfolio consisting of other types of investments (i.e. equity) Sida will consider a structure in which the guarantee coverage is only applied to the debt portion of the overall portfolio
- Sida’s risk coverage is always partial and can never be 100% of the underlying investment risk
- Sida does not typically cover interest payments and coverage is normally limited to principal amounts. The inclusion of interest payments under the guarantee coverage must be satisfactorily motivated

Types of guarantees available

The following table presents the types of guarantees available for applicants to apply for under this Call:

Type of Guarantee	Description
Loan portfolio guarantee	Covers part or all of a lender’s loan portfolio against default or non-payment on a loan-by-loan basis.
Fund structure guarantee	<ul style="list-style-type: none"> ▪ Covers an entire fund structure or specific risk-tier. ▪ Covers against default and non-payment risk at the end of fund term up to a certain amount of total fund size.
Bond guarantee	<ul style="list-style-type: none"> ▪ De-risks the borrowing entity by backing principal capital deployed. ▪ Applied to entire issuance or riskier tranche.
Counter-guarantee	De-risks underlying guarantees issued by the counterparty.

Requirements and limitations on market distortion and State aid prohibited by EU law

Sida must ensure that its guarantees do not result in negative market distortion. This includes assessing how the underlying loan conditions for the guaranteed loans are planned, including pricing, and comparing it with general conditions on the market for similar instruments.

Finally, the guarantee should be structured in such a way that it modifies the financial profile of the underlying portfolio until it meets the risk-return requirements of prospective investors. The guarantee may not be structured and/or implemented in such a way that it provides the implementing partner with an excess or above market rate return, since Sida must ensure that the financial benefit from the guarantee is fully transferred to the ultimate beneficiary.

There are further relevant requirements and limitations in relation to the Sida guarantee, see [Summary of general limitations and provisions in relation to Sida guarantees](#).

How to apply

Application process

The application shall be prepared in English, be specific and presented concisely, shall indicate the name of the applicant and be submitted before the deadline of 31 August 2023, however Sida may determine that the deadline will end on a later date, any changes will be announced officially on Sida’s website.

The application process consists of two steps:

Step 1: Email the following documents to cfp_guarantees@sida.se

1. Expression of interest letter duly signed (as per template in [Annex 1](#))
2. Pitch deck including business plan, in Power Point, Word or as a PDF (as per requirements in [Annex 2](#))

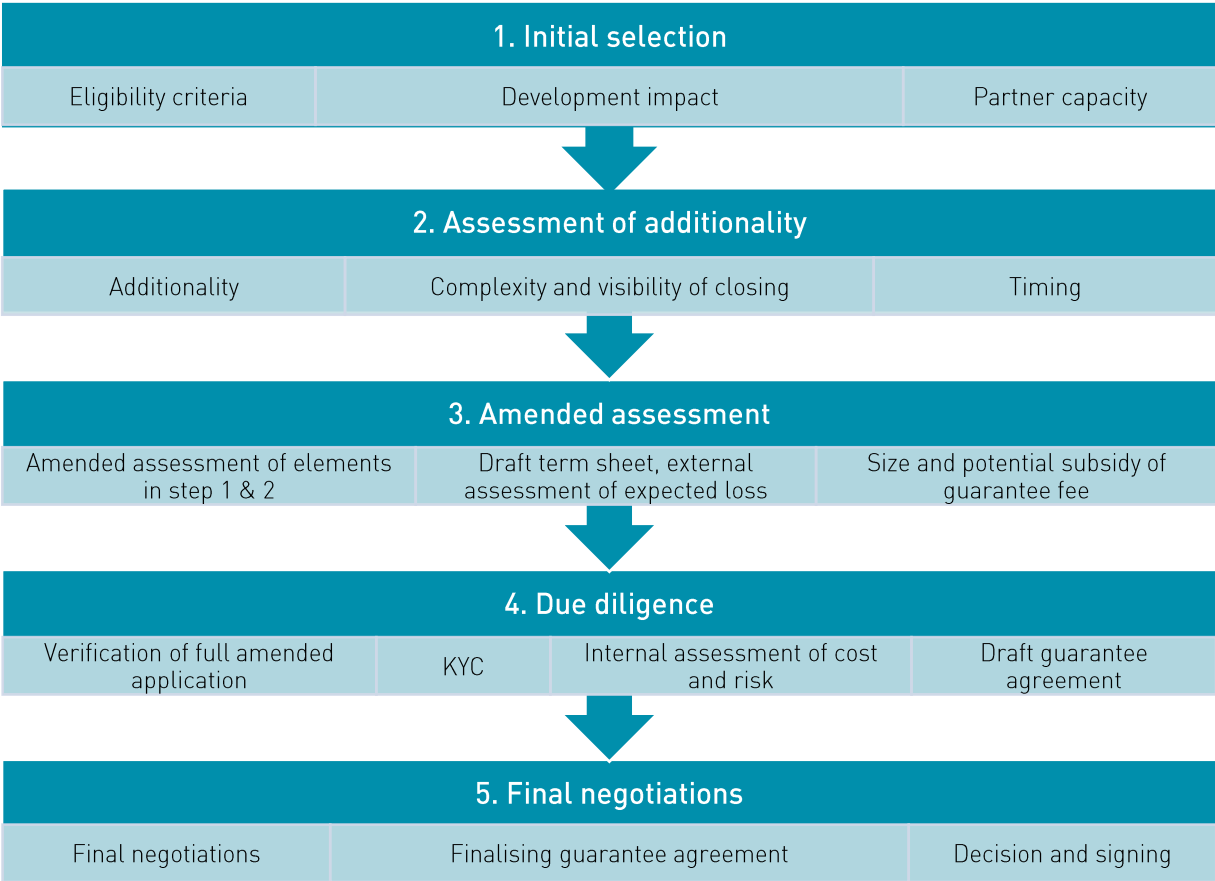
Step 2: Complete the basic information form through this link: [Netigate basic information form](#)

Application is not fully submitted until step 2 is completed.

Applicants may withdraw their expression of interest at any time during the selection process. Applicants may also send questions regarding the Call as well as participate anonymously in the Q&A webinar on 8 June 2023 (register [here](#)) to get further information on the Call and the Sida guarantee. Sida will analyse and respond to all incoming questions and may publish from time to time the resulting answers in the form of Frequently Asked Questions (“FAQ”) posted on Sida’s website, see [Sida calls and announcements](#). Applicants are not entitled to any compensation from Sida for expenses or costs incurred in drafting an expression of interest or participating in negotiations during the selection procedure.

Selection process

The selection process is outlined below, divided into five phases, where applicants meeting the requirements for one phase will move on to the next. Sida will assess each application according to the following steps. Further information on selection criteria can be found below.



After completing the assessment of each phase throughout the selection process Sida will provide applicants with feedback on their application status.

In any phase of the selection process until and prior to entering into a legally binding agreement with an applicant, Sida reserves the right and maintains its full discretion to consider applicants or not, and no applicant has any claim, or may expect, to be either considered, assessed or ultimately selected as implementation partner. Entering a due diligence process and/or negotiation of a term sheet or a guarantee agreement by no means entails any obligation for Sida to enter into a guarantee agreement or to agree on certain terms with an applicant. Please note that Sida’s decision to proceed or not with an application in the selection procedure cannot be contested or appealed.

1. Initial selection

During the initial selection phase Sida will assess applicants on the basis of the submitted expressions of interest, on a “first come, first served” basis.

Compliance with eligibility criteria

The first step of phase one contains an assessment of whether the application has been submitted in accordance with the provisions of this Call, including:

- that the application is in compliance with the eligibility criteria (including targeted countries and eligible implementing partner as set out above)
- that all the requested information has been provided as outlined in step one and two under the “Application process” above

Only applicants that meet all formal criteria may continue to the next step of the selection process.

Assessment of development impact

In the assessment of the application’s development impact Sida will assess its fit with Sida’s development objectives as described in the Call. The specification for this assessment is outlined below:

Assessment criteria	Specification
Development impact	<ol style="list-style-type: none">1. Ability to contribute to creating conditions for people living in poverty and oppression to improve their living conditions2. Impact for biodiversity and climate adaptation3. Strategic fit with targeted countries and priority segments4. Rationale and suitability of investment strategy and approach

Assessment of partner capacity

In the assessment of partner capacity Sida will assess the applicant’s capacity to implement the Sida guarantee and execute the proposed business plan. The specification for this assessment is outlined below:

Assessment criteria	Specification
Partner capacity	<p>Governance, management & investment team</p> <ol style="list-style-type: none"> 1. Fund manager’s general track record, and track record of successful investments in biodiversity and climate adaptation in relevant regions 2. Experience and capacity of management team, management structure and skills balance (including expertise in biodiversity and climate adaptation) <p>Strategic capacity</p> <ol style="list-style-type: none"> 3. Sector and market insight and awareness related to priority segments, including biodiversity and climate adaptation. 4. Deal sourcing and pipeline; Ability and timing to build the target portfolio <p>Operational capacity</p> <ol style="list-style-type: none"> 5. Engagement to improve portfolio companies’ capacity and performance related to climate adaptation and biodiversity 6. Ability to leverage local knowledge and partnerships to execute the business plan 7. Capacity for reporting and disclosure on biodiversity/climate adaptation related issues, including Key Performance Indicators (KPIs) for positive biodiversity/climate adaptation benefits and monitoring and traceability of use of proceeds in connection to KPIs 8. Alignment to relevant industry standards 9. Internal systems and procedures to integrate biodiversity/climate adaptation into investment analysis and decisions

Combining the assessment of partner capacity and development impact

In the final step of phase one the assessments of development impact and partner capacity will be combined and based on the assessment criteria for initial selection, Sida will compare and rank the applicants. The most competitive applications will pass the initial selection of potential implementing partners and go through to the next phase. Strong applications, that do not pass through to the next stage due to competitive reasons only, will be put on a reserve list. Sida maintains the right to fast track any applications with an exceptionally strong assessment or when circumstances otherwise demand. Sida may suspend or abandon the initial selection process at any time due to unforeseen circumstances and no applicant may claim any right to be initially selected or included on the reserve list as described above.

2. Assessment of additionality and risk for market distortion

In this phase the focus will be on assessing, and making a reasonable estimate of the expected additionality enabled by the Sida guarantee. Given the inherent complexity of the guarantee instrument and the need for customisation within the capital structure this phase will comprise a series of one-to-one meetings.

Sida must also in each guarantee collaboration evaluate the risk for the instrument to contribute to market distortion within the financial sector or the sector where the guaranteed party operates. This includes evaluating whether the guarantee creates unfair advantages to the beneficiary of the guarantee in relation to other actors in the same segment or local market. This also includes evaluating the underlying loan conditions and ensuring that they are in line with the market. Finally, the risk for state

aid is evaluated, i.e. ensuring that the guarantee does not result in state aid prohibited by EU law¹⁵. This assessment is given particular attention whenever subsidies are provided and if any of the key parties are located in the EU.

Process considerations

In the initial meeting with the applicant, Sida will explain the overall process going forward. It is important to understand that from this point and onwards the process will follow certain steps and phases but will largely be tailored towards the specific needs and fundraising situation of the applicant. Sida envisages that the guarantee will unlock new opportunities for implementing partners but at the same time appreciate that fundraising is a complex and iterative process with potential investors, and will do its best to accommodate this.

Clarification and indicative structuring of the guarantee

Applicants will, as part of the pitch deck, include an indicative guarantee proposal outlining the type of guarantee needed. This proposal will then be used as a point of departure in one-on-one meetings during which Sida will clarify in detail how the guarantee instrument can work, including mechanisms for risk mitigation and sharing, loss layers/tranches, triggers, required risk coverage etc. The final guarantee structure will therefore be explored jointly with the implementing partner, including assessing the additionality of the guarantee as well as the risk for market distortion.

Assessment criteria	Specification
Additionality	<p>The extent to which a Sida guarantee will enable the applicant to raise additional capital and take on additional risks that otherwise would not be possible. Particular focus will be put on the below targets and any changes made possible from the guarantee:</p> <ul style="list-style-type: none"> • Size and type of fund(s) to be raised • Capital structure of the fund(s) • Risk profile of the allocated fund(s) • Pricing and the financing provided • Allocation per financial instrument (if mixed funds) • Proportion of private capital to be raised • Envisaged Sida guarantee coverage and total risk coverage required
Risk of market distortion	<p>Sida must ensure that its guarantees do not result in negative local market distortion. This includes assessing how the underlying loan conditions for the guaranteed loans are planned, including pricing, and comparing it with general conditions on the market for similar instruments. Applicants are asked to describe how the proposal intends to avoid contributing to market distortion, in their pricing of underlying investments as well as in the selection process of investees.</p>

Sida’s main priority at this stage is to ensure that the guarantee will result in a significant level of additionality and all applications that meet this threshold will pass through to the next stage.

¹⁵ [State Aid Overview \(europa.eu\)](http://europa.eu)

3. Amended assessment

Based on all the information gathered up to this point in the process, Sida will perform a full amended assessment of the remaining applications, including:

1. Development impact
2. Partner capacity
3. Additionality and risk for market distortion
4. Feasibility, timeline and visibility of closing

Based on the assessment criteria for the amended assessment, Sida will compare and rank the applications. The most competitive applicants, likely to receive guarantees in this connection to this Call, will then be selected as pre-qualified for due diligence. Strong applications, that are not selected due to competitive reasons, will enter the reserve list. The timing of entering the due diligence process will depend, inter alia, on the applicant's fundraising progress and visibility of closing. If there are insufficient number of prequalified applicants, Sida will invite applicants from the reserve list to enter due diligence. Sida maintains the right to fast track any applications when circumstances demand.

Before entering due diligence a draft term sheet will be drawn up and applicants will go through an external assessment of expected loss conducted by the Swedish National Debt Office as basis for the pricing of the guarantee. This will then be followed by a negotiation with each pre-qualified applicant determining the size of any potential subsidy of the guarantee fee.

4. Due diligence and Know Your Client (KYC)

Applications will enter a due diligence process, carried out in accordance with Sida's internal rules and procedures, where operational matters relating to the implementation of the Sida guarantee will be covered. The due diligence and KYC process may include field visits. Focus areas include, but not limited to:

- Verification of development impact, partner capacity, additionality
- Risks, risk sharing, triggers, features, expected loss etc
- The applicant's internal processes of origination, risk management, collection recovery/workout and the applicant's ability to build up the envisaged portfolio and additional features
- Pricing and investment policy
- Transfer of financial benefit
- Anti-corruption, Anti-Money Laundering and Counter-Terrorist Financing systems
- Environment, Social and Governance systems and follow up mechanism

5. Final negotiations and decision to sign

Provided that no significant obstacles have been identified during the due diligence process and largely depending on the status of the applicant's fundraising process the next steps will include final negotiations of outstanding issues and finalisation of the guarantee agreement followed by a decision and signing.

Sida fully appreciates the challenges of a fundraising process, and will endeavour to keep the process transparent and, whenever required and to the largest extent possible, provide applicants with sufficient information for them to make an informed decision of whether to continue to commit resources to the process or withdraw their applications.

Relevant links

Documents

[Annex 1 Expression of interest](#)

[Annex 2 Pitch deck requirements](#)

[List of excluded sectors and activities](#)

[Sida development perspectives](#)

[Summary of general limitations and provisions in relation to Sida guarantees](#)

[Transparency Policy](#)

Other links

Register for Q&A webinar [here](#)

Access basic information form (step 2 of application process) [here](#)

[Sida calls and announcements](#)