



AFoCO's Blended Finance Report for Climate Action Plan 2025 - 2034



Foreword

This report presents AFoCO's initial framework for engaging private sector partners to scale forest-based climate solutions across Asia. It builds upon the outcomes of the **2025 Annual Thematic Dialogue**, held on 13 May 2025 during the 12th Session of the AFoCO Assembly, which brought together member countries, development partners, and private sector actors to explore innovative financing pathways.

The Dialogue reaffirmed a shared understanding: while public funding remains essential, it is not sufficient to meet the scale of investment required for sustainable forest management and climate action. **Blended finance**—strategically combining public and private resources—offers a pathway to unlock new financial flows, reduce risk, and accelerate implementation on the ground.

AFoCO is uniquely positioned to play this catalytic role. With its network of **17 Member Countries**, a decade-long track record of transparent project implementation, and deep government partnerships, AFoCO serves as a trusted platform to connect local priorities with **global finance**. Through its projects, AFoCO demonstrates measurable environmental and social impact while building capacity within member countries to sustain these outcomes.

To drive this agenda, the Secretariat has established a **Task Force on Private-Sector Engagement and Blended Finance**, bringing together three technical teams:

- **Capacity-Building and Evaluation Team**, leading efforts to identify best practices and design scalable models;
- **ODA Project Team**, transforming field-tested initiatives into investment-ready opportunities; and
- **Carbon Project Team**, developing compliance and voluntary market projects to meet the growing demand for high-quality forest carbon credits.

This cross-functional approach reflects AFoCO's commitment to bridging public-sector priorities with private-sector innovation. The synergy among these teams strengthens AFoCO's role as a **regional hub for climate-smart investment**, aligning policy, finance, and action at scale.

This document is a **living report**, capturing the Secretariat's initial thinking and operational recommendations for blended finance. It is intended to evolve over time, incorporating feedback from member countries, insights from partners, and lessons from implementation. Special thanks are extended to Mr. Kwang W. Kim, Senior Advisor on Private-Sector Engagement, whose expertise and vision helped shape this report.

We invite our stakeholders—governments, investors, and development partners—to join us in shaping the next phase of AFoCO's journey. Together, we can transform forests into resilient landscapes that deliver **climate benefits, biodiversity conservation, and sustainable livelihoods** for generations to come.

October 2025

Task Force on Private-Sector Engagement and Blended Finance
AFoCO Secretariat



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Abbreviations and Acronyms

| | |
|----------------|--|
| ACGF | ASEAN Catalytic Green Finance Facility |
| ADB | Asian Development Bank |
| AFoCO | Asian Forest Cooperation Organization |
| AI | Artificial Intelligence |
| AML/CFT | Anti-Money Laundering / Combating the Financing of Terrorism |
| ASEAN | Association of Southeast Asian Nations |
| AUM | Assets Under Management |
| CRU | Carbon Removal Unit |
| CAMP | Climate Action Matching Platform |
| CAP | Climate Action Plan |
| CAM | Climate Asset Management |
| CBD | Convention of Biological Diversity |
| CCT | Cross Cutting Themes |
| CSR | Corporate Social Responsibility |
| DFC | Development Finance Corporation |
| DFI | Development Finance Institution |
| EOM | Economics of Mutuality |
| ESG | Environmental, Social, and Governance |
| FAAF | Friends of Asia and Asian Forests |
| FATF | Financial Action Task Force |
| FFMA | Forest Fire Management in Asia |
| FLR | Forest Landscape Restoration |
| GCF | Green Climate Fund |
| GEF | Global Environment Facility |
| GFANZ | Glasgow Financial Alliance for Net Zero |
| GIIN | Global Infrastructure Investment Network |
| GIS | Geographic Information System |
| HSBC | Hongkong and Shanghai Banking Corporation |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| IoT | Internet of Things |
| IPCC | Inter-governmental Panel on Climate Change |
| IRIS+ | Impact Reporting and Investment Standards |

| | |
|----------------|---|
| KISTI | Korea Institute of Science and Technology Information |
| KPI | Key Performance Indicator |
| M&E | Monitoring and Evaluation |
| NbS | Nature based Solution |
| MbS | Market based Solution |
| MDB | Multilateral Development Bank |
| MIGA | Multilateral Investment Guarantee Agency (World Bank Group) |
| MYSC | Merry Year Social Company |
| MoU | Memorandum of Understanding |
| MRV | Measurement, Reporting, and Verification |
| MVL | Mutual Value Lab |
| NDC | Nationally Determined Contribution |
| NGO | Non-Governmental Organization |
| NTFP | Non-Timber Forest Product |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Cooperation and Development |
| PCN | Project Concept Note |
| PDD | Project Design Document |
| PES | Payments for Ecosystem Service |
| PPA | Program Priority Area |
| PPF | Project Preparation Facility |
| PPP | Public Private Partnership |
| REDD+ | Reducing Emissions from Deforestation and Forest Degradation Plus |
| RETC | Regional Education Training Center |
| ROI | Return On Investment |
| SDG | Sustainable Development Goal |
| ToC | Theory of Change |
| UNFCCC | United Nations Framework Convention for Climate Change |
| UNDP | United Nations Development Program |
| UNEP FI | United Nations Environment Program Finance Initiative |
| VCM | Voluntary Carbon Market |
| WEF | World Economic Forum |
| WRI | World Resource Institute |



01

Introduction: Shifting Global Climate Finance toward Public–Private Collaboration

Timing is critical. The next few years (2025–2030) will be a window in which both climate urgency and financial innovation will peak. On one hand, scientific reports (e.g., IPCC, UNEP) warn there is **“no credible pathway to 1.5°C”** without immediate action including nature-based solutions (IPCC, 2018; UNEP, 2022). On the other hand, we see unprecedented interest from private investors in sustainability and carbon markets, and new policy frameworks (such as Article 6 of the Paris Agreement for carbon trading, and the Kunming–Montreal Global Biodiversity Framework) that incentivize investment in forests. For example, the Global Biodiversity Framework, agreed to in 2022, calls for mobilizing at least \$200 billion per year for nature by 2030, **“leveraging private finance, promoting blended finance,”** and other innovative mechanisms (CBD, 2022). Private finance for nature is rapidly growing—increasing more than tenfold from \$9.4 billion to over \$102 billion in just four years (UNEP, FI 2024)—indicating a pool of capital that could be tapped for forest projects with the right structuring.

At the same time, **the global development finance landscape is undergoing a fundamental shift.** Traditional sources of official development assistance (ODA)—particularly from key bilateral donors—are increasingly under strain due to shifting political priorities, fiscal constraints, and geopolitical changes. For example, the decline in U.S. support to multilateral and UN agencies occurring today is significantly impacting global development and climate finance flows. In contrast, the United States and other governments are more or less maintaining or expanding the role of development finance institutions (DFIs), such as the U.S. International Development Finance Corporation (DFC), which has seen its portfolio grow by billions of dollars in recent years (DFC, 2024). This rebalancing reflects a broader trend: **the growing recognition that public resources alone cannot meet the scale of today’s climate and biodiversity challenges** (OECD, 2023). As such, blended finance and private-sector engagement are not merely strategic opportunities—they are becoming structural necessities in an increasingly uncertain and resource-constrained global context.

The urgency of the climate crisis has prompted a paradigm shift in **how climate and forest-related projects are financed.** It is widely recognized that public budgets and traditional ODA alone are insufficient to meet the scale of financing needed—running into trillions by 2030 to achieve global climate and biodiversity goals (UNFCCC, 2022). As such, governments and development institutions are actively seeking to mobilize private capital. Initiatives such as green investment hubs, the Glasgow Financial Alliance for Net Zero (GFANZ), and the Asian Development Bank’s Nature Solutions Finance Hub, aiming to channel at least USD 2 billion into Nature-based Solutions (NbS) through guarantees and impact-linked payments, reflect this shift (ADB, 2023). Climate funds like the Green Climate Fund (GCF) and the Global Environment Facility (GEF) now routinely use **blended finance structures to mobilize private co-financing,** underscoring that climate finance is increasingly a joint public-private endeavor.

Despite this momentum, the actual mobilization of private capital for nature-based solutions remains limited. Persistent barriers such as project fragmentation, regulatory uncertainty, and risk-return mismatches continue to hinder scale-up (OECD, 2020; UNDP, 2022). Nevertheless, successful cases demonstrate that well-structured blended finance models can catalyze private investment when early-stage risks are mitigated. These mixed outcomes underscore the need for context-sensitive strategies that balance ambition with realism.

Against this backdrop, AFoCO calls for the attention of the Member Countries. AFoCO Member Countries, many of whom are developing or emerging economies in Asia, have significant forest-based mitigation potential and adaptation needs. However, we often lack access to large-scale forest-based climate finance. **Traditional donor funding, while important, is not scaling fast enough, and many countries face challenges in attracting private investment due to capacity or policy gaps.** AFoCO's strategy in creating the **Friends of Asia and Asian Forests (FAAF)** platform reflects this recognition. As the private-sector engagement mechanism set in 2023, the FAAF forums explicitly seek to strengthen collaboration between government agencies and corporate leaders, focusing on innovative financing for forest carbon and resilience. By providing a space for dialogue and partnership, FAAF is helping to connect potential investors (e.g., companies with net-zero commitments, tech firms like Nokia interested in research collaboration) with policymakers and project proponents in member countries. Likewise, the **Climate Action Matching Platform (CAMP) under AFoCO's Climate Action Plan (CAP)** is expected to serve as a matchmaking hub to connect projects needing funding with appropriate sources. In essence, these platforms operationalize the idea that **blended finance is a team sport**: success comes from connecting diverse actors and aligning their interests around forest climate action.

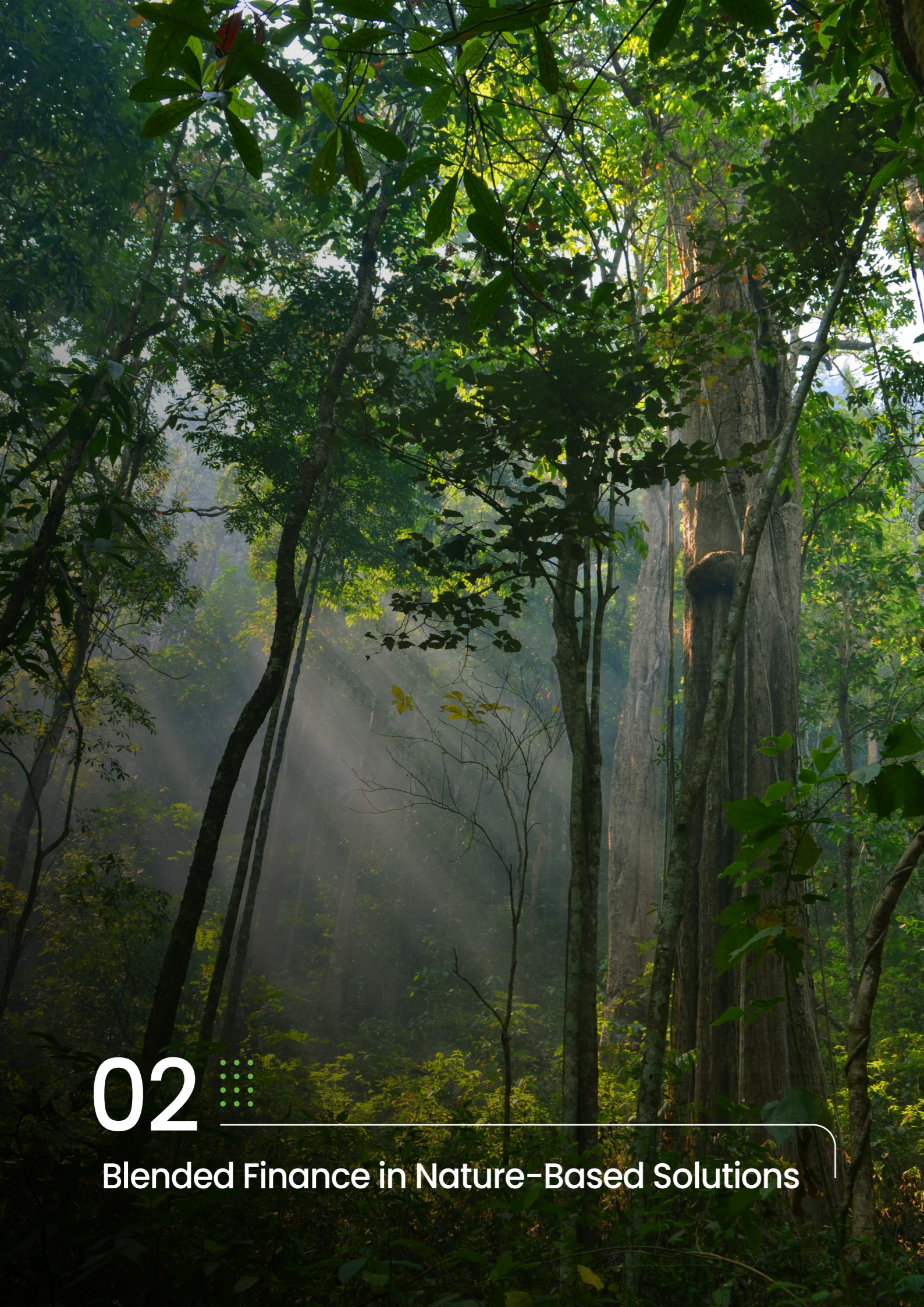
As a regional platform with deep roots in Asia's forest cooperation landscape, **AFoCO is uniquely positioned to help bridge the investment readiness gap**, linking policy frameworks with local action and investor interests. From a strategic standpoint for AFoCO, championing blended finance is not just about money; it's about partnership. By connecting actors through blended approaches, AFoCO can help ensure that forest-based climate solutions are designed holistically, with financial viability, social inclusion, and ecological integrity all in view. Importantly, the effectiveness of such approaches will depend on the extent to which Member Countries can identify and fulfill their respective roles within a blended finance ecosystem. This includes defining appropriate public functions—such as policy facilitation, co-financing, or institutional coordination—and aligning national systems to support private-sector engagement. Creating enabling conditions, reducing transaction bottlenecks, and ensuring inter-ministerial cooperation will be essential to improve project readiness and investor confidence. In this context, AFoCO's role extends beyond technical support or resource mobilization. It also involves assisting Member Countries in clarifying institutional responsibilities, building internal capacity, and engaging with financing partners in a coherent and strategic manner. These considerations form the foundation for the next section, which outlines the operational recommendations needed to translate blended finance strategies into practice.

This report outlines the rationale and strategic direction of blended finance under AFoCO's Climate Action Plan. It identifies pathways to enhance investment readiness, examines the roles of key actors, and proposes actionable recommendations to scale forest-based climate investment across member countries.

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02



Blended Finance in Nature-Based Solutions

2.1 Definition and global relevance of blended finance in NbS

Blended finance refers to the strategic use of concessional public or philanthropic funds to mobilize additional private capital for sustainable development objectives (OECD, 2020; Convergence, 2021). It is not simply a funding mechanism, but a structuring approach—one that aligns the differing risk appetites, return expectations, and investment mandates of public and private actors. In the context of climate and forest-related investments, **blended finance plays a critical role in bridging financing gaps by making projects more investable and scalable.** In particular, it has emerged as a critical mechanism to de-risk projects and “crowd-in” private investors who would otherwise remain on the sidelines (OECD, 2020).

The global relevance of blended finance has grown in recent years as funding needs for the Sustainable Development Goals (SDGs) and climate action have far outstripped public budgets. Blended finance is seen as a way to **tap the huge pools of private capital** (e.g., global savings, pension funds, etc.), directing a portion of it into high-impact areas like renewable energy, climate resilience, and forest conservation (World Economic Forum, 2023). This approach is being championed by the OECD, the G20, and development banks as a way to amplify the impact of scarce public climate finance (OECD, 2020). According to OECD estimates, blended finance approaches have mobilized billions in additional resources for sectors such as clean energy and infrastructure over the past decade, but their use in nature and forests is only just beginning (OECD, 2020; Convergence, 2021).

Despite growing recognition of their importance, nature-based solutions continue to face significant challenges in attracting investment. NbS projects—such as forest restoration, afforestation, mangrove rehabilitation, and sustainable agroforestry—are typically long-term in nature, with delayed or uncertain returns; decentralized and community-based, making aggregation and monitoring complex; and perceived as high-risk, especially in fragile policy or governance contexts (World Bank, 2022; UNDP, 2022). There are structural reasons for this underfunding:

- **Difficulty in monetizing benefits.**

Many of the benefits generated by NbS—such as carbon sequestration, biodiversity enhancement, and flood regulation—are public goods or positive externalities that are not easily monetized in traditional markets (UNEP, 2023; World Bank, 2022). Unlike a renewable energy project that produces and sells electricity, a forest restoration initiative often lacks a built-in revenue stream, especially when focused on conservation rather than production. While carbon markets provide one pathway to monetizing CO₂ absorption, these markets remain under development and subject to significant price volatility. In the absence of clear and predictable cash flows, private investors often perceive NbS projects as high-risk or philanthropic in nature, rather than as viable investment opportunities.

- **Small scale and fragmentation.**

NbS are often implemented at a small or decentralized scale—for example, community forestry across dispersed villages or patchwork mangrove restoration in coastal areas. While effective at the local level, such projects rarely meet the scale thresholds preferred by traditional financiers such as multilateral development banks (MDBs) or institutional investors, who typically seek large-ticket investments to justify due diligence and transaction costs. A single USD 1 million reforestation project in a remote area, for instance, may not attract attention from large financial institutions. According to the OECD, NbS projects are frequently perceived as “small-scale pilot projects adopted in ad hoc ways,” which limits their integration into national investment planning and reduces their appeal in mainstream finance (OECD, 2020). To overcome this barrier, aggregation strategies—such as bundling multiple projects into a portfolio or establishing dedicated funding platforms—are essential to achieving the scale and consistency needed to attract institutional capital.

- **Long timelines and outcome uncertainty.**

The benefits of NbS tend to materialize over extended periods. Forests, for instance, may require years to mature before delivering full carbon sequestration or watershed protection. This extended timeline contrasts with the shorter return cycles preferred by investors, who typically seek predictable and measurable outcomes. Furthermore,

the ecological performance of NbS is often affected by natural variables such as rainfall, soil quality, or survival rates of plantings, which increases the perceived risk (World Bank, 2022). Compared to infrastructure or agricultural investments, where outcomes are more immediate and controllable, NbS present a temporal and performance mismatch that discourages investment—particularly where future revenues (e.g., carbon credits) are uncertain or volatile (Convergence, 2021).

- **Bias in public spending and subsidies.**

Despite the growing recognition of NbS, global public finance systems continue to support nature-negative activities at a disproportionate scale. According to UNEP’s State of Finance for Nature 2023, environmentally harmful subsidies—including those for fossil fuels and unsustainable land use—amounted to approximately USD 1.7 trillion annually, vastly exceeding current investments in NbS (UNEP, 2023). Meanwhile, NbS funding stands at around USD 200 billion—only one-third of what is required by 2030 to meet climate and biodiversity goals. Without structural shifts in fiscal policy and the redirection of public subsidies, the funding gap for NbS is unlikely to close.

- **Institutional and capacity gaps.**

Designing and executing investment-ready NbS projects requires a unique combination of ecological, financial, and social expertise—including skills in carbon accounting, community engagement, and blended finance structuring. Many local governments and project developers lack this capacity, resulting in a limited supply of well-prepared project proposals. Even when financing is available from climate or development funds, proposals from the forestry sector often fall short of technical and fiduciary standards (WRI, 2022). This creates a feedback loop: few projects meet investment criteria, few get funded, and a lack of successful cases further weakens confidence and momentum in the sector.

These structural challenges help explain why private finance remains limited in the NbS space. As of 2022, only 17 percent of global NbS funding originated from private sources, with the majority coming from public finance and philanthropic contributions—sources that are insufficient to meet global climate and biodiversity targets (UNEP, 2023). Given that there is both strong rationale and ample room for growth, the mismatch between the characteristics of NbS and traditional private investment models—such as long payback periods, diffuse benefits, and high perceived risk—creates an ideal environment for blended finance to serve as catalytic capital. By leveraging public or concessional capital to absorb early-stage risks, extend project timelines, or bundle small-scale efforts, it can make NbS projects more investable. For instance, a blended finance vehicle could aggregate a portfolio of community forest projects, creating scale and diversification, while applying concessional funds to extend the investment horizon, thereby aligning more closely with the long-term benefits of nature-based interventions (Convergence, 2021; World Economic Forum, 2023).

While blended finance holds significant potential to scale investment in NbS, it is not without limitations. For example, if concessional finance is applied too generously or without clear exit strategies, it may crowd out commercial actors or create market distortions. Similarly, in scaling up blended structures, there is a risk of mainstreaming approaches that may prioritize financial viability over ecological or social integrity. In such cases, blended finance, if not carefully structured, may shift focus away from the environmental and community-oriented goals that require public support, favoring business interests at the expense of broader sustainability outcomes. It is therefore critical that blended finance interventions remain time-bound, catalytic, and tied to robust environmental and social safeguards.

Such structuring transforms the inherent complexities of NbS into a more balanced risk-return profile for private investors. In this context, the concept of market-based solutions (MbS) becomes increasingly relevant. Within AFoCO’s Climate Action Plan, MbS refers to project approaches that incorporate revenue-generating or cost-recovery mechanisms—such as carbon credit sales, ecotourism, or non-timber forest product value chains—into forest-based climate action. By embedding financial viability into nature-based interventions, MbS serve as a bridge between traditional grant-based programs and blended finance models, enabling scalable and investable solutions aligned with private capital interests.

2.2 Blended finance to enhance MDB accessibility for forest projects

Multilateral development banks play an important role in climate finance by offering large-scale financing, policy engagement, and technical support to governments across the region. They are particularly effective in financing national or sectoral programs that align with government development strategies, such as countrywide reforestation efforts or infrastructure investments (World Bank Group, 2022). These institutions typically engage when projects demonstrate a sufficient level of scale, financial structure, and institutional readiness (OECD, 2021).

However, certain types of forest-related initiatives—particularly those that are smaller in scale, decentralized, or community-driven—may not fully align with the typical investment criteria of MDBs. Project preparation activities such as feasibility assessments, reviews of safeguards, and financial structuring often entail significant time and cost, posing challenges for early-stage or grassroots proponents (Convergence, 2021). In addition, the complexity of MDB procedures and the limited availability of tailored de-risking instruments can constrain the extent to which private capital is mobilized through MDB financing (CPI, 2023). While MDBs are well-positioned to support policy-level coordination and sovereign programs, their direct involvement in locally implemented or community-led forest projects may be more limited (WRI, 2020).

To address these challenges, several MDBs have established blended finance facilities that aim to bridge early-stage financing gaps and facilitate broader investment. For example, the Asian Development Bank’s **ASEAN Catalytic Green Finance Facility (ACGF)** combines concessional capital, guarantees, and project preparation assistance to mobilize private cofinancing for green infrastructure, including nature-based solutions (ADB, 2023). The **Inter-American Development Bank’s Natural Capital Lab** pilots innovative instruments such as parametric insurance and carbon-backed revenue models (IDB, 2022). Similarly, the **World Bank’s PROGREEN initiative and the Global Environment Facility’s non-grant instruments (NGI)** provide blended mechanisms for forest landscape restoration and sustainable land use (GEF, 2021).

These examples illustrate the potential for blended finance to complement MDB efforts by supporting the incubation and maturation of smaller or less conventional forest initiatives. In this context, blended finance can serve as a flexible enabler—providing seed capital, piloting resources, or technical assistance—to develop proof-of-concept models such as community reforestation schemes, mangrove blue carbon projects, or public-private plantation ventures (OECD, 2021; GIIN, 2022). Once such models demonstrate operational viability and measurable outcomes, they may become well-positioned for MDB co-financing or integration into larger programs.

This layered approach allows blended finance and MDB financing to work in a complementary manner. While MDBs bring strength in scaling and long-term capital deployment, blended finance can operate earlier in the project lifecycle to enhance investment readiness (World Bank Group, 2022). This complementarity highlights the need for differentiated roles: while MDBs often lead on large-scale financing and policy alignment, AFoCO’s added value lies in providing context-specific pipelines, strengthening safeguards at the community level, and bridging project incubation with investor engagement—particularly in forestry contexts where MDBs have traditionally shown lower risk appetite.

2-3 The rise of impact investment and its alignment with NbS

Blended finance functions most effectively in sectors where commercial and developmental objectives can be aligned, and where capital providers are open to both financial and impact-oriented outcomes. In this context, the impact investment market presents a particularly conducive environment for blended finance approaches. By design, impact investors seek both measurable social or environmental returns and a level of financial viability—making them natural partners in financing initiatives like NbS, which generate multiple public goods but often face market and risk barriers (World Economic Forum, 2023). This alignment allows blended finance structures to channel private capital into sectors that would otherwise be considered too risky or unprofitable under conventional investment models.

Over the past decade, the global market for impact investment has shown steady expansion. A range of actors participate in this space, including dedicated impact funds, socially responsible investment firms, private arms of development finance institutions, high-net-worth individuals, and mainstream asset managers offering impact-focused products. This growth is reflected in both the increasing assets under management (AUM) in the sector and the proliferation of industry platforms, such as the Global Impact Investing Network (GIIN, 2022). Notably, major global banks are now establishing development finance and impact investment units. For example, J.P. Morgan launched its Development Finance Institution (DFI) in 2020 to mobilize private capital toward achieving the Sustainable Development Goals (SDGs) while delivering competitive financial returns.

This trend has particular relevance for nature-based solutions, which often align well with the objectives of impact investors. Several factors highlight this alignment:

- **Evolving investor focus on nature and climate outcomes.**

There is growing interest in investment themes related to climate mitigation, biodiversity, and sustainable land use. New vehicles such as natural capital funds have emerged to support conservation and regenerative agriculture, with returns generated through carbon credits, ecotourism, or value-added forest products. Between 2020 and 2024, private finance for nature grew from approximately USD 9.4 billion to over USD 100 billion, demonstrating a shift in investor recognition of nature as a viable asset class (UNEP, 2021; SMI, 2022).

- **Co-benefits offered by NbS.**

NbS projects often generate measurable environmental and social outcomes aligned with impact investment priorities—such as carbon emissions reduction, resilience building, livelihoods enhancement, and gender inclusion. In community forestry, for example, women's engagement in governance and enterprise has become a recognized area of impact (UNDP, 2022). While financial returns may be modest, many impact investors use a “total return” lens that values both impact and profitability (GIIN, 2020).

- **Adoption of flexible and outcome-oriented financing models.**

The impact investment community has developed innovative financial instruments that suit the characteristics of NbS. These include results-based finance, revenue-sharing models (e.g., carbon sales), and hybrid capital structures combining concessional and commercial funding (World Economic Forum, 2023). AFoCO's collaboration with the Merry Year Social Company (MYSC) to establish a Regenerative Solutions Fund exemplifies this blended approach—aimed at catalyzing private and philanthropic investment in NbS-oriented enterprises.

- **Advancements in technology and monitoring.**

Digital monitoring tools, remote sensing, and environmental data platforms—often backed by impact capital—are improving transparency and investment viability. Technologies such as AI, satellite imagery, and the “Internet of Things” (IoT) are increasingly used to verify project outcomes like forest regrowth or carbon capture. Companies such as Pachama, TerraMatch, and Nokia offer real-time forest monitoring solutions, enhancing investor confidence in the credibility and effectiveness of NbS (Pachama, 2024; TerraMatch 2025; Nokia, 2023).

- **Emerging case models with private capital participation.**

The Africell case in Angola, which raised USD 300 million in blended finance including IFC and private investors, illustrates how catalytic capital and clear development impact can attract commercial interest. The structure involved equity and concessional debt, backed by measurable social outcomes (WEF, 2025). While not forestry-specific, such examples provide valuable design lessons for structuring investable NbS projects.

These developments indicate that impact investment may serve as a complementary capital source for nature-based projects, particularly when structured in conjunction with public finance or concessional support. Continued alignment of investment models with environmental objectives—combined with improvements in monitoring and de-risking—may further expand the role of private capital in supporting sustainable forest management.

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03

Strategic Implications for AFoCO

3.1 Theory of change in framing AFoCO's role in the forest finance ecosystem

As AFoCO transitions from a traditional grant-based implementer to a more catalytic role in forest and climate finance, it must strategically reposition itself within the evolving landscape of blended finance and private-sector engagement. This requires a new institutional mindset—one that emphasizes enabling over delivering, system-building over project execution, and investment-readiness over stand-alone grants.

To guide this shift, AFoCO has developed a theory of change (ToC) for private-sector engagement. This model outlines a structured pathway from the entry points to be connected to strategic interventions—such as corporate engagement, partnerships, revenue diversification, sequencing, and institutional enablers (table 1). This model provides a structured pathway for scaling private-sector engagement across AFoCO's institutional operations. The ToC also highlights the sequencing of interventions and the importance of aligning efforts across stakeholders: public actors (policy and governance), private capital providers (investment and innovation), communities (implementation and stewardship), and intermediaries (technical support and aggregation).

Figure 1. Theory of change: a framework to operationalize AFoCO's private-sector engagement

| STAGE | CONTENT |
|-----------------------------------|--|
| <p>INPUTS</p> <p>↓</p> | <ul style="list-style-type: none"> • AFoCO's regional legitimacy • Donor funding and technical assistance • Private-sector networks |
| <p>ACTIVITIES</p> <p>↓</p> | <ul style="list-style-type: none"> • Partner with impact investors, companies, and MDBs • Embed PPP training in the RETC's regular programs • Pilot public-private partnerships (PPPs) and blended projects • Strengthen digital measurement, reporting, and verification (MRV) and transparency |
| <p>OUTPUTS</p> <p>↓</p> | <ul style="list-style-type: none"> • Operational platforms (FAAF, membership-based platform with EOM/MVL) • Policy reforms and capacity building • Project preparation facility aligning with the Climate-Forest Cooperation Framework • Market-based features in grant projects |
| <p>OUTCOMES</p> <p>↓</p> | <ul style="list-style-type: none"> • Enhanced investment readiness of Member Countries • Increased co-financing and PPPs in forestry • Integration of NbS into private capital markets |
| <p>GOAL (IMPACT)</p> | <ul style="list-style-type: none"> • Mobilize private and blended finance to support sustainable forest management and climate resilience in Asia, resulting in measurable impacts such as verified emission reductions, improved community livelihoods, expanded forest restoration efforts aligned with MRV standards, and increased value chain integration through traceable, deforestation-free, and climate-smart sourcing practices. |

(*EOM: Economics of Mutuality, MVL: Mutual Value Lab, RETC: Regional Education and Training Center)

The framework provides logic for AFoCO's growing suite of programs and partnerships and can help prioritize interventions that crowd-in finance while safeguarding environmental and social outcomes. Crucially, the ToC serves not only as a conceptual map but as a coordination tool—aligning the actions of Member Countries, donors, and private actors toward investable nature-based solutions. It reinforces the idea that AFoCO's comparative advantage lies in connecting diverse partners, strengthening enabling environments, and deploying regionally rooted platforms that build trust and reduce transaction complexity. As such, AFoCO's role is to facilitate blended approaches that de-risk investment, align incentives, and expand access to long-term forest finance across Asia.

3.2 Emerging needs from member countries for investment readiness

As AFoCO engages with its 17 Member Countries, certain common needs and requests have emerged in line with the push for blended finance and the goals of the Climate Action Plan 2025–2034. Member Countries vary in capacity and context, but many are asking AFoCO for support in areas that go beyond traditional forestry training—**specifically, support to engage with the private sector and carbon finance mechanisms.** Key needs include:

- **Public-private partnership (PPP) guidance and models.**

Engaging private partners in the forest sector can be complex, often involving sensitive issues such as land tenure, benefit-sharing, and the delineation of roles between government and business. Now, as governments explore new ways to involve private actors—such as plantation investments, conservation finance, or ecosystem service markets—there is growing demand for practical guidance on how to structure these partnerships fairly and effectively. Yet, many AFoCO member countries have limited experience with PPPs in forestry, as the sector has traditionally been state-led (see Box 1). **In the context of AFoCO's work, the term “public-private partnerships” in the forest and forestry sector can be more appropriately understood as referring primarily to nature-based solutions, sustainable forestry, community-based enterprise models with enhanced market-based solutions, and similar initiatives.** This differs from the conventional infrastructure-oriented PPPs typically referenced by multilateral development banks and development finance institutions. As such, there is a need to clarify and promote appropriate legal, institutional, and financial models that suit the unique characteristics of the forestry sector. AFoCO can play a role by sharing models and facilitating knowledge exchange—for example, learning from countries that have successfully implemented forest carbon PPPs or ecotourism concessions. **Under FAAF and other forums, AFoCO can document and disseminate forest-PPP best practices, acting as a knowledge hub** for PPP in the forestry sector.

- **Developing investment-ready projects.**

Countries have identified numerous project ideas for reforestation, restoration, and community forestry in their national plans or Nationally Determined Contributions (NDCs). However, turning these ideas into “bankable” proposals that can attract large-scale funding from GCF, ADB, private investors, and others is a challenge. Many forestry departments lack experience in preparing the kind of detailed financial models, risk assessments, and return-on-investment (ROI) projections that investors expect. **There is a need for capacity building in project preparation**—essentially packaging projects in a language and structure that financiers understand. This might involve feasibility studies, cost-benefit analyses including carbon revenue forecasts, and identifying the appropriate blend of revenue—e.g., agroforestry, carbon credits, non-timber forest products (NTFPs), payment for ecosystem services (PES), tourism, etc. **AFoCO is being looked to as a source of technical assistance for this “investment readiness.”** In response, **AFoCO could establish a project preparation facility in line with the AFoCO Climate-Forest Cooperation Framework**¹ or a roster of experts to help member countries design robust proposals.

- **Access to carbon finance and markets.**

With forests being crucial for carbon sequestration, many member countries are exploring carbon financing—through both the voluntary carbon market (VCM) and emerging compliance markets (like the Article 6 mechanisms under the Paris Agreement). However, accessing carbon finance requires technical capacity in measurement, reporting, and verification (MRV) of emissions, understanding standards (e.g., Verra VCS or Gold Standard), and navigating market channels. Members like Cambodia, for example, are working on transitioning voluntary Reducing Emissions from Deforestation and Forest Degradation Plus (REDD+) projects to the Article 6 compliance framework. **Countries are asking AFoCO for support to navigate carbon markets**—from developing baseline data and carbon project documentation, to connecting with carbon-credit buyers or intermediaries. In response, AFoCO has been organizing workshops (e.g., carbon MRV) and partnering with entities like Rabobank's Acorn, which provides a platform for smallholder agroforestry carbon credits. The Rabobank-AFoCO initiative is directly aimed at helping farmers in member countries generate and sell verified carbon removal units. Going forward, AFoCO may need to professionalize the current “Carbon Desk” to closely assist countries in project identification and to liaise with carbon market platforms.

- **Policy and regulatory support.**

To enable blended finance, countries often need to adjust policies—for example, enabling private investment in reforestation, ensuring that communities can benefit (in which case social forestry regulations may need updates), or setting up national carbon registry systems. Member countries look to AFoCO as a regional body to provide policy advice or examples. AFoCO can facilitate **policy dialogues** or expert missions to help governments create an enabling environment for forest investments. The FAAF forum has highlighted such cross-sector policy issues, with calls for aligning corporate and government efforts. By gathering input from various stakeholders, AFoCO can advise on balancing development and investment needs with environmental and social safeguards.

In essence, member countries are asking AFoCO not just for funding (they know AFoCO's own fund pool is limited), but for **“soft” support that positions them to attract and manage external funding.** This reaffirms AFoCO's strategic shift to an enabler: its services are evolving to include investment facilitation, advice, and matchmaking. The organization's work program will likely incorporate more training modules on finance (e.g., how to structure a blended finance deal, how to write a business plan for a forest enterprise) and more engagements with finance and private-sector counterparts on behalf of countries.

1) The AFoCO Climate-Forest Cooperation Framework, officially endorsed at the 11th Session of the AFoCO Assembly in 2024, is the guiding framework to implement AFoCO's Strategic Plan (2024–2030) and Climate Action Plan (2025–2034). The Framework promotes a phased, MRV-based, and finance-aligned approach to forest-based climate action, enabling Member Countries to scale from readiness to market-linked interventions.



Box 1. PPPs are still rare in forestry. What can be done?²

In many AFoCO Member Countries, governments remain cautious about engaging the private sector in forest financing—particularly when it involves instruments like loans, equity investments, or performance-based contracts.

This hesitation often stems from a combination of structural, legal, and capacity-related barriers. For one, many countries lack clear legal frameworks that define the roles, responsibilities, and risk-sharing mechanisms for private actors in forest governance. Land tenure insecurity—especially in community-managed or customary forest areas—adds further uncertainty, making it difficult for investors to assess long-term viability. In addition, most forestry agencies have limited experience structuring or overseeing public-private partnerships (PPPs), particularly in sectors like forest restoration, mangrove rehabilitation, or non-timber forest product (NTFP) value chains, which are less familiar to traditional financiers.

Moreover, in contexts where **forestry has historically been managed as a public good or donor-supported sector**, the private-capital-prone approaches can raise concerns about equity, access, and regulatory oversight. **Without adequate institutional safeguards or capacity**, there may be reluctance to expose forestry programs to financial instruments perceived as risky or complex. Challenges can also arise from less visible but equally significant **cultural differences between public officials and private investors**. These differences include divergent expectations, communication styles, and even interpretations of key terms. For instance, the word “equity” may refer to social fairness or inclusion in public policy discussions, while in financial contexts it typically denotes an ownership stake or investment instrument.

These challenges can result in a cycle of underinvestment: limited capacity leads to few demonstrable project models, which in turn fails to attract private capital, reinforcing public-sector dependency. As a result, many forest-sector investments—though technically sound and socially impactful—remain underfunded or stuck in the “missing middle” of project finance: too large for micro-grants, but too localized or unconventional for MDB lending.

Overcoming this cycle requires a deliberate and strategic response. AFoCO Member Countries will need to invest in building the legal, institutional, and financial foundations that can support PPPs in forestry. This includes establishing standardized procedures for clarifying land-use rights, developing templates for forest-sector PPP contracts, and strengthening coordination between forestry and finance ministries. Importantly, public-sector leaders must also build trust and alignment with local communities to ensure that private-sector engagement contributes to—not undermines—social and ecological outcomes.

AFoCO, as a regional platform, can play a catalytic role by supporting legal reforms, piloting blended finance approaches in a risk-managed environment, and providing technical assistance to governments seeking to crowd-in private capital for forest solutions. By doing so, member countries can shift from viewing private involvement as a risk, to managing it as a strategic opportunity—unlocking new resources for forest-based climate action at scale.

2) The content is based on insights from an AFoCO capacity building workshop on public-private partnerships (PPPs) in the forest and forestry sector, conducted virtually in 2022 with the participation of 14 Member Countries (AFoCO 2022). For more information, see the full policy brief: https://afocosec.org/wp-content/uploads/2022/06/BR2022-006-POLICYBRIEF06_Public-Private-Partnerships-in-the-Forest_220701spread.pdf.

3.3 From implementer to enabler: strategic functions to support blended finance

The AFoCO Climate Action Plan (2025–2034) outlines an ambitious framework for scaling forest-based climate solutions across its Member Countries. These include nature-based approaches such as forest restoration, reforestation, mangrove rehabilitation, and sustainable land management. While these solutions are technically sound and socially grounded, they continue to face structural financing barriers due to perceptions of high risk, uncertain returns, and limited bankability.

Since its establishment, AFoCO has taken on the role of an action-oriented implementer, delivering regional initiatives through technical capacity building, field-level projects, and policy engagement. However, as the global climate finance architecture evolves and Member Countries seek more diverse financing avenues, AFoCO is increasingly expected to play a more catalytic role. This involves not just executing programs, but also enabling member countries to access capital, expertise, and strategic partnerships.

Blended finance provides a viable pathway for AFoCO to fulfill this expanded role. Rather than acting solely as a grant provider or implementing agency, **AFoCO can function as a facilitator of investment readiness, a convener of cross-sector stakeholders, and a regional gateway to nature-based solutions for impact-aligned capital.**

This is especially relevant given the growing interest from impact investors seeking climate-positive and community-aligned projects in Asia. However, these investors often face difficulties in identifying investable opportunities or credible local partners. By leveraging its regional networks and technical expertise, AFoCO can help structure projects, lower transaction risks, and connect field-level needs to available capital.

More broadly, blended finance can address the risk-return imbalance that has historically deterred private investment in forest-based climate projects. Initiatives such as community forestry, peatland restoration, and carbon-credit generation often provide global public goods—such as carbon sequestration and biodiversity conservation—but lack stable cash flows in early stages (see Box 2). Through blended structures that combine grants, concessional loans, and private capital, project developers can enhance financial viability. Instruments such as first-loss guarantees, or interest rate buy-downs, can further improve the attractiveness of these projects for commercial investors.

To effectively support this transition, AFoCO must position itself not only as a hub of technical and policy knowledge, but also as an enabler that supports Member Countries in navigating and accessing blended finance opportunities. In parallel, AFoCO's role is expanding to **help shape private sector partnerships in forestry globally**. For example, through its collaboration with global and regional corporate partners exploring **mutual-value frame and membership-based engagement platforms**, AFoCO is contributing to new frameworks that integrate environmental, social, and financial capital. These efforts aim to support long-term engagement with private-sector actors through structured cooperation mechanisms, providing an additional pathway for mobilizing values-aligned investment and mutual accountability in forest-based climate action.

Box 2. Applying blended finance to AFoCO's flagship initiatives

AFoCO's Climate Action Plan (2025–2034) includes key initiatives to support forest-based climate solutions in member countries. While initially grant-driven, these initiatives hold strong potential to evolve into investment-ready platforms. What follows outlines how blended finance can be applied across four flagship initiatives.

1. Asian Forest Living Lab Initiative: The initiative provides a real-world testing ground for integrated forest solutions, often involving communities, local governments, and academic partners.

Blended finance opportunities:

- Seed capital from public sources to de-risk early-stage enterprise models.
- Impact-linked loans for producer cooperatives or ecotourism startups.
- Matching grants to crowd-in private donations or social investment.
- Technical partnerships (e.g., for remote sensing, IoT-based monitoring, or digital MRV systems) to enhance credibility, transparency, and data quality.

2. Forest Fire Management in Asia (FFMA): The initiative focuses on strengthening regional capacity to prevent and respond to forest fires through training, early warning systems, and technology transfer.

Blended finance opportunities:

- Structured PPPs for joint infrastructure or leasing firefighting equipment.
- Technical partnerships with telecom and AI firms to deploy IoT sensors, satellite detection, and predictive analytics for fire detection and response.
- Private-sector engagement for early-warning technology.
- Results-based financing tied to verified reduction in fire incidence.

3. Mangrove Initiative: The initiative targets mangrove restoration, maximizing carbon sequestration while supporting fisheries, resilience, and local livelihoods.

Blended finance opportunities:

- Community-based PPPs for mangrove tourism and fisheries management.
- Use of drone and GIS technology to map and monitor restoration progress.
- Payment for ecosystem services (PES).
- Co-investment from insurance or marine sustainability funds.

4. REDD+ Readiness Initiative: The Initiative aims to enhance the institutional and technical capacity of Member Countries to engage in both voluntary and compliance-based carbon markets.

Blended finance opportunities:

- Technical assistance grants for project documentation and MRV systems.
- Partnerships with data and tech providers to develop digital MRV systems using satellite imagery, AI, and blockchain.
- Aggregated crediting platforms to pool small projects into a bankable scale.

3.4 The strategic need to connect actors through blended approaches

To effectively support this transition, **AFoCO must position itself not only as a hub of technical and policy knowledge, but also as an enabler of financial empowerment**—helping Member Countries navigate, attract, and structure climate-aligned investment. Achieving this requires more than project preparation; it calls for strategic alignment among the full range of actors involved in forest finance. As the only intergovernmental organization dedicated exclusively to the forest and forestry sector, AFoCO also has a unique opportunity—and responsibility—to help define global best practices for nature-based blended finance. By demonstrating scalable, inclusive, and investable models across Asia, **AFoCO can contribute meaningfully to shaping the next generation of forest finance worldwide.**

While AFoCO's traditional ODA-funded projects have laid a strong foundation for forest-based climate action, scaling these efforts to meet the ambition of the Climate Action Plan will require access to more diverse and catalytic sources of capital. To move beyond grant-only modalities, AFoCO and its Member Countries must strengthen readiness for PPPs and blended finance. This includes improving project preparation systems, adopting investment-oriented design practices, and enhancing institutional capacity to manage multi-stakeholder funding structures. Integrating these elements into the project cycle—from concept development to structuring and implementation—will be essential to unlock larger, more sustained financing flows and deliver transformational impact at scale.

As forest-based climate solutions scale up, the need to mobilize diverse forms of capital—public, private, and philanthropic—has become increasingly urgent. Traditional finance alone is insufficient to meet the growing demand, while new actors are emerging with resources and expertise to contribute. However, these actors often operate in silos, resulting in fragmented efforts. Blended finance offers a structured approach to align diverse actors—each with complementary roles and resources—toward common development and climate objectives (OECD, 2021; Convergence, 2021). The following outlines the respective roles of each sector and the strategic space for AFoCO's engagement.

- **Governments** play a foundational role in enabling blended finance by establishing clear regulations, securing land tenure, and aligning national policies with climate investment goals. They also provide fiscal tools—such as co-financing, tax incentives, or guarantees—that help attract private capital. Critically, governments are key to scaling ODA-funded initiatives by integrating PPP and blended finance principles into project planning. AFoCO can support the transition of grant-based programs into investment-ready models aligned with carbon and climate finance opportunities, while also signaling credibility to external investors.
- **Public-sector institutions**, including national forest agencies and state-owned development banks, bring grounded implementation capacity and long-term public stewardship to forest initiatives. These institutions are often responsible for local coordination, ensuring social safeguards, and maintaining continuity in public mandates. However, many lack the technical capacity or operational flexibility to structure or manage blended finance instruments. AFoCO can add value by offering technical assistance, standardized tools, and regional learning platforms to strengthen institutional readiness and help these actors engage meaningfully in investment-oriented partnerships.
- **Multilateral development banks (MDBs) contribute scale**, institutional legitimacy, and access to concessional finance such as grants, low-interest loans, or guarantees that can reduce investment risk. Yet, MDBs have historically exhibited a varying appetite for risk in forest investments, often due to land tenure uncertainties, complex monitoring requirements, and a preference for wholesale (large-scale) projects over retail (smaller, boots-on-the-ground) projects. This opens space for AFoCO to serve as a regional partner that provides investable project pipelines, enhances safeguards, and supports MDBs in de-risking forest finance initiatives across Asia.

- **Private-sector investors**, including both commercial and impact-oriented actors, bring capital, networks and influence, operational expertise, and technological capabilities. Their participation often depends on the existence of financially viable business models and sufficient risk mitigation strategies. AFoCO can support this engagement by helping design bankable projects, offering de-risking tools, and facilitating access to investable pipelines.
- **Companies**, particularly those with significant value chain exposure (e.g., agribusiness, consumer goods, logistics, and digital service providers), play an increasingly strategic role in advancing forest-based climate solutions. Beyond their role as technology providers, companies are shaping investment priorities through procurement standards, decarbonization strategies, and ESG commitments. For example, global brands such as Mars have launched initiatives to decouple deforestation from their supply chains, while digital platforms currently under development between AFoCO and MVL are developing ecosystem-based solutions that incentivize local action through tokenized rewards or transparent traceability systems. These private-sector actors not only bring capital and operational scale, but also influence upstream producers and downstream consumers, making them powerful agents for system-level transformation.
- **Local communities and stakeholders**, such as smallholder farmers, indigenous peoples, and community-based organizations, are often directly involved in forest management and restoration. While they possess valuable local knowledge and have a critical role in implementation, they frequently face barriers in accessing finance. Blended finance models that integrate community-level capacity building, technical support, or microfinance mechanisms can enhance inclusiveness and ensure local ownership. AFoCO can bridge this gap by integrating community co-benefits into project design and promoting inclusive models through its Living Lab and training initiatives.
- **Philanthropic institutions and NGOs** offer risk-tolerant capital and technical assistance. In many forest-based climate initiatives, philanthropic actors have contributed early-stage funding and outcome-based payments. NGOs often assume key roles in environmental and social safeguards, monitoring, and stakeholder engagement. AFoCO can leverage such actors to test blended models, align standards, identify co-investment partners, and facilitate scale-up based on pilot success.
- **Technology and innovation actors** contribute digital tools, data platforms, and monitoring systems that increase the transparency, accuracy, and efficiency of climate and forest projects. Companies working in satellite imaging, AI-driven carbon monitoring, and sensor-based fire detection are increasingly essential in supporting credible MRV systems and enabling investability. These actors may also codevelop solutions with governments or communities and can be valuable partners in blended finance structures focused on digital infrastructure and verification services. AFoCO can act as a convener, piloting these tools through partnerships and facilitating scale-up across its project portfolio aligning with the existing initiatives (e.g., Asian Forest Living Lab initiative).

To unlock the full value of these contributions, it is essential to develop financing platforms that clarify roles, distribute risk appropriately, and align incentives. Well-designed blended finance structures help define clear roles, allocate risks appropriately, and align incentives among partners (OECD, 2021). For example, in a hypothetical initiative to restore 100,000 hectares of degraded land, the government might provide policy support and land tenure clarity; an MDB could contribute a concessional loan for infrastructure and seedlings; an impact investor might offer equity in exchange for a portion of carbon revenues; an NGO might offer technical support and safeguard monitoring with the backing of philanthropic grants; and community members could contribute labor and co-manage enterprises that generate local economic benefits. The effectiveness of such a collaboration depends on careful structuring and coordination (World Bank Group, 2022; WRI, 2020).

In summary, mobilizing forest-based climate finance at scale depends not only on financial instruments, but on effectively connecting the diverse actors who enable, finance, implement, and verify such solutions. By embedding blended finance logic into its core programs—and by fostering collaboration across public, private, philanthropic, and community stakeholders—AFoCO can help shape investable solutions that are both environmentally sound and socially inclusive. As the landscape of impact investing continues to grow, particularly around nature-based solutions, the ability to design initiatives that appeal to mission-driven capital will become increasingly valuable.

3.5 Managing risks in private-sector engagement

As AFoCO expands its engagement with private actors, it must also adopt a proactive stance on risk management—particularly regarding reputational and operational risks. Unlike traditional donor relationships, private sector partnerships are often driven by performance expectations, visibility considerations, and commercial sensibilities. Misaligned incentives, underperforming pilots, or lack of follow-through can jeopardize trust and limit future collaboration.

To mitigate these risks, the following risk categories should be systematically addressed:

- **Reputational risks.**

Failed pilots, unclear benefit-sharing, or poorly communicated outcomes could harm AFoCO's credibility with the private sector. Transparent communication, phased commitments (e.g., MoU → pilot → scale), and third-party verification can help manage expectations and protect institutional reputation.

- **Partner/stakeholder risks.**

Not all private entities have aligned values or long-term commitments. AFoCO should conduct light due diligence on new partners—assessing ESG performance, mission alignment, and track records—to reduce misalignment.

- **Operational risks.**

Capacity mismatches, unclear project roles, or unforeseen implementation hurdles may derail blended projects. Risk-sharing mechanisms, contingency protocols, and strong local coordination structures can help contain operational risks.

- **Exit and continuity risks.**

Where partnerships do not continue, AFoCO should ensure that learning is documented and stakeholders are debriefed. Structured exit options and post-project evaluations can help mitigate negative perceptions and preserve institutional learning.

As part of its evolving private-sector engagement strategy, AFoCO may also consider developing a **risk-screening tool or partnership safeguard checklist**, embedded in the CAMP platform or early-stage project design. This would help standardize practices across Member Countries and ensure that scaling partnerships does not come at the expense of trust or quality (see Box 3).

Box 3. Integrating risk management across the AFoCO project cycle ³

AFoCO-funded initiatives and programs may have adverse or positive impacts on people or the environment during the project cycle. A good risk-management system at project entry and throughout the project cycle will be key.

To understand and manage the risks involved in private sector engagement, AFoCO's risk management system may include the following:

- **Environmental and social safeguards (project cycle).**

Private-sector engagement projects can follow the existing Guidelines for Environmental and Social Management System, as approved by the Assembly Decision 28-III-19R (29 October 2019).

- **Exclusionary screening criteria (partner identification).**

AFoCO's exclusionary screening criteria for private-sector engagement will further adapt widely accepted UN frameworks that prohibit partnerships with entities engaged in activities contrary to international norms and treaties, such as: the **UNDP's Private-Sector Engagement Due Diligence Framework** (2022); the **UN Global Compact's Business Partnership Criteria and Integrity Measures** (2017); the **IFAD's Guiding Principles for Engagement with the Private Sector** (2021); and the **World Bank Group's IFC Exclusion List** (updated 2022). These instruments collectively emphasize alignment with human rights standards, environmental sustainability, anticorruption measures, and the exclusion of entities involved in prohibited industries or activities, such as arms trafficking, environmental degradation, and exploitative labor practices. They include:

- Entities directly related to activities prohibited by UN Security Council sanctions, resolutions, or conventions (e.g., transnational organized crime, terrorist financing, climate, biodiversity, etc.) or other similar measures, including the Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT) standards of the International Monetary Fund's Financial Action Task Force (FATF);
- Activities or entities that are complicit in human rights abuses or tolerate forced or compulsory labor or the use of child labor;
- Entities or individuals directly involved in the sale, manufacture or distribution of weapons banned by United Nations treaties, including antipersonnel landmines or cluster bombs and munitions and biological, chemical, or nuclear weapons, or which otherwise do not meet the obligations or responsibilities required by the UN;
- Entities or individuals involved in the production and wholesale distribution of tobacco products, or deriving revenues from gambling (except lotteries) or pornography; and
- Entities or individuals that have systematically failed to demonstrate a commitment to meeting, or failed to meet in practice, the principles of the UN, including the Universal Declaration of Human Rights, the Rio Declaration, the International Labor Organization Declaration on Fundamental Principles and Rights at Work, and the UN system-wide zero-tolerance policy on all forms of sexual exploitation and abuse.

- **Risk assessment and due diligence (overall list of risks).**

Before formally engaging with a private-sector partner, it is important to conduct a detailed risk assessment using a comprehensive set of risk categories as an internal due diligence procedure, and to continue to monitor those risks throughout the project cycle and engagement with the private-sector entity. The risk categories include political risks, operational risks, financial risks, stakeholder risks, conflict of interest, etc., with risk ratings and mitigating measures (table 1).

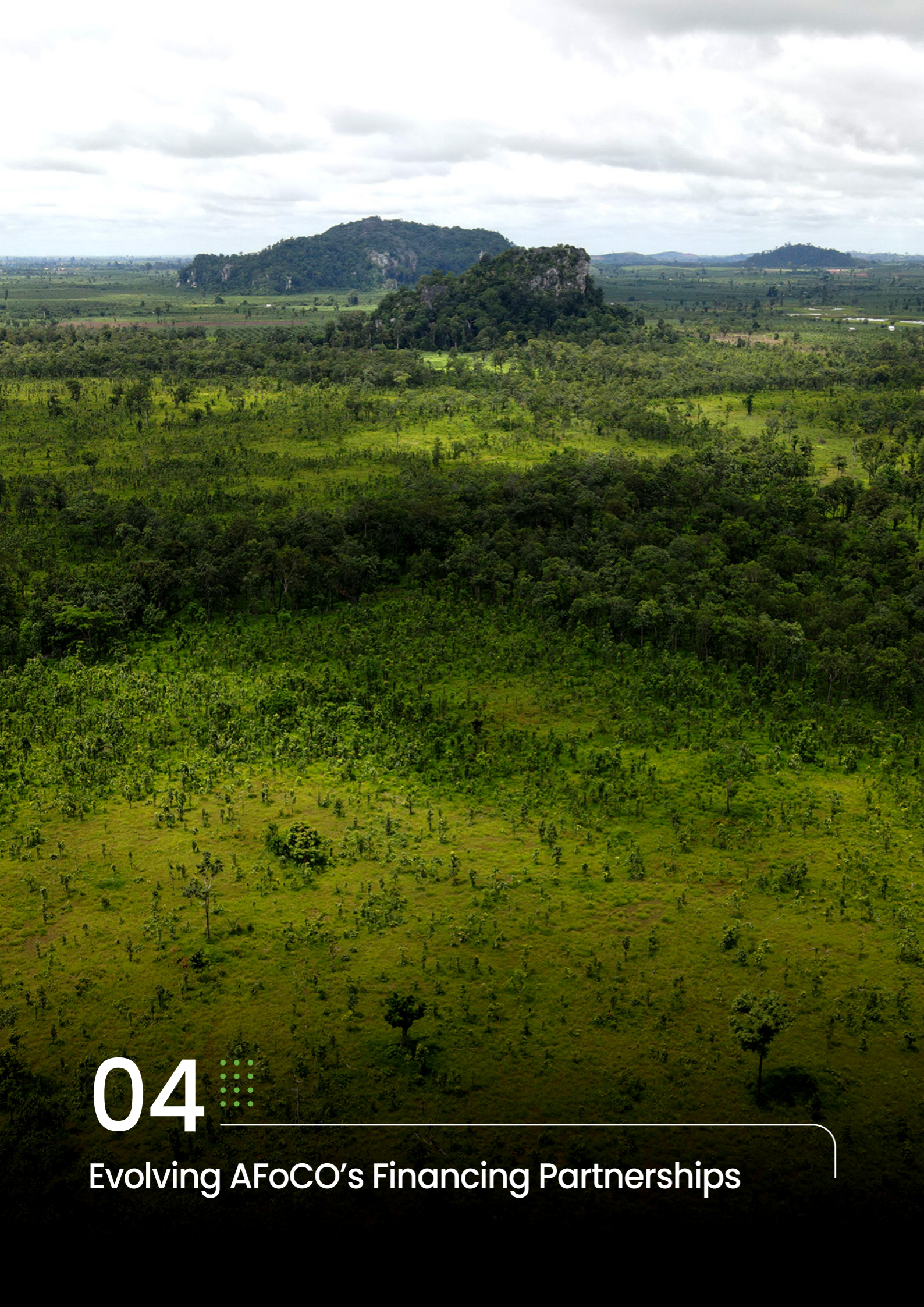
³ The contents are adapted and updated from the internal strategic report on AFoCO's Private-Sector Engagement, originally developed in 2023.

Table 1. A sample table on private-sector engagement risk management

| | |
|---|---|
| Likelihood (low, medium, or high) | |
| Risk area / risk name | Types of risk area (non-exhaustive examples): • Stakeholder or client • Operational • Conflict of interest • External to AFoCO • Environmental and social |
| Description and potential impact | |
| Mitigation (required if likelihood is M or H) | |

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To meet the ambition of its Climate Action Plan 2025–2034, AFoCO is expanding its role beyond traditional grant-based programming. While ODA-funded/grant-based projects have laid a strong foundation for forest-based climate action, scaling these efforts will require access to more diverse and catalytic forms of capital.

In response, AFoCO is strategically building partnerships across the blended finance ecosystem. These include multilateral finance institutions, carbon market actors, impact investors, private sector innovators, and emerging financing platforms. Each partnership is structured to address specific gaps—whether in project preparation, risk-sharing, or market access—that have historically limited private investment in forests.

This section introduces AFoCO's current activities. To fully leverage these partnerships, AFoCO and its Member Countries must enhance their readiness for public-private collaboration. This involves strengthening project design and structuring capabilities, aligning incentives among stakeholders, and embedding financial logic into the entire project cycle—from concept to implementation. Doing so will position AFoCO to unlock larger, more sustained investment flows and deliver long-term climate and community benefits at scale.

4.1 Carbon finance partnerships

Carbon finance is a cornerstone of AFoCO's strategy to mobilize private capital for forests. Two notable partners in this domain are Rabobank's Acorn platform and Climate Asset Management.

- **Rabobank, Acorn:**

Rabobank, a Dutch banking leader in sustainable agriculture, operates the Acorn program, which empowers smallholder farmers to generate carbon removal units (CRUs) through agroforestry and sell them on voluntary markets. In September 2023, AFoCO signed an MoU with Rabobank to collaborate on forest carbon projects using Acorn. This partnership is significant: it entails an initial investment of USD 50 million over a decade, targeting agroforestry in AFoCO Member Countries. Through this, smallholder farmers in countries like Cambodia, Vietnam, Kyrgyzstan, Indonesia, and the Philippines will transition to agroforestry, sequester carbon, and get 80 percent of the carbon revenue, with Rabobank facilitating sales to responsible corporate buyers. AFoCO's role is to identify project sites, mobilize farmers, and ensure capacity building, essentially acting as the on-the-ground enabler, while Rabobank brings in carbon finance and market access. This partnership exemplifies blended finance in practice: Rabobank's private capital and carbon market expertise blend with AFoCO's development mandate and local networks to deliver both climate finance and community benefits. As reported to the AFoCO Assembly, this initiative underscores AFoCO's commitment to diversify climate financing options.

- **Climate Asset Management (CAM):**

CAM is a specialist natural capital investment manager formed in 2020 as a joint venture by HSBC Asset Management and the climate change investment and advisory firm Pollination. It is one of the founding members of the **Natural Capital Investment Alliance** under the Sustainable Markets Initiative led by King Charles III. CAM's mandate is to deploy large-scale capital (from institutional investors, sovereign funds, etc.) into projects that generate returns from nature—including forestry, regenerative agriculture, and carbon credits. AFoCO has been in discussions with CAM, as evidenced by the Secretariat visiting the UK to explore collaboration. A partnership with CAM could potentially bring **major investment into AFoCO's project pipeline**. For example, CAM could co-invest in a portfolio of AFoCO-endorsed forest restoration projects that yield carbon credits or other revenues. CAM has reportedly raised around USD 1 billion for natural capital projects; even a fraction of that directed to Asia's forests could be transformative. Working with CAM, AFoCO would likely package projects at a scale attractive to institutional investors, ensure due diligence on the ground, and help meet CAM's impact criteria. This synergy can fast-track capital flows because CAM provides ready funds and financial rigor, while AFoCO offers on-the-ground credibility and alignment with national priorities.

04

Evolving AFoCO's Financing Partnerships

These partnerships with carbon-focused entities do a few things for AFoCO: (1) **validation**—they show that global finance actors trust AFoCO as a partner (Rabobank’s involvement sends a strong signal); (2) **technical exchange**—AFoCO staff and member countries gain exposure to the latest carbon accounting tools, legal structures for carbon finance, etc., through working with these partners; (3) **scaling effect**—one bank’s USD 50 million and one asset manager’s potential multimillion in funds far exceed AFoCO’s core budget, illustrating how partnerships multiply impact.

Rabobank and CAM provide a strong foundation: one at the relatively smaller-scale, smallholder level, the other at a large institutional level, covering two ends of the spectrum in carbon finance. Building on this experience, AFoCO also has the potential to develop its own forest-sector carbon finance model grounded in a market-based-solutions (MbS) perspective. Such a model could be designed to reflect the unique characteristics of forest and land-use projects in its Member Countries—particularly the involvement of local communities, the long-term nature of benefits, and the need for equitable benefit-sharing.

An **AFoCO-led carbon financing approach** could serve as a regional mechanism to bundle small-scale projects, streamline MRV requirements, and link community-based forest initiatives with high-integrity carbon markets. This would not only increase market access for underrepresented projects but also reinforce AFoCO’s role as a regional catalyst for climate finance in the forest sector. Over time, such a mechanism could complement voluntary and compliance markets alike, while showcasing how forest governance and market logic can be integrated through practical, de-risked financing structures.

4.2 Impact investment partnerships

In line with the rise of impact investing described earlier, AFoCO has started building partnerships to tap into **impact capital**—investments that seek social/environmental impact alongside returns. Three key partners or collaborators in this space are Artha Networks Inc. and Merry Year Social Company (MYSC).

- **Artha Networks Inc.:**

Artha is a global impact investment platform known for connecting social enterprises with investors, particularly in sectors like sustainable agriculture and microfinance. In February 2025, AFoCO signed a partnership with Artha Networks to scale up private sector investments in forests and climate action. Artha brings expertise in **structuring blended finance** and a network of mission-aligned investors. The partnership’s aims include leveraging Artha’s platform to **mobilize funding for AFoCO projects** and developing **innovative financing mechanisms blending public-private resources**. This collaboration effectively provides AFoCO a bridge to the broader impact investor community. Artha can help package AFoCO’s field projects into opportunities that fit impact investors’ criteria (e.g., risk-return profiles, workable impact metrics). For instance, Artha might help design and create an investment profile for a forest landscape restoration project that can be posted to their network of investors. By partnering with Artha, AFoCO signals to the impact investment community that it is open for business and capable of generating **investable projects by scaling up the outputs of grant-based initiatives**. The partnership is explicitly framed around alignment with the SDGs and the mobilization of diverse financial resources, highlighting AFoCO’s strategic shift from reliance on a single source of funding to a blended finance approach for sustainable forest management.

- **Merry Year Social Company:**

MYSC is a Korean impact investment and venture-building firm with a focus on social innovation. In April 2025, AFoCO and MYSC launched **a partnership to create a blended finance fund**. The aim is to blend finance for sustainable forest management and climate-smart innovations, scaling up NbS and MbS in AFoCO Member Countries. The envisioned fund will likely pool contributions from various sources: possibly CSR contributions from Korean companies, commitments from foundations or development agencies interested in innovative climate finance, and private impact investors. AFoCO’s role is to channel a pipeline of viable projects—such as forestry-based social enterprises, community ecotourism initiatives, and sustainable value-chain ventures—into the fund, while ensuring alignment with Member Country priorities. MYSC brings its expertise in inclusive business models, impact investment structuring, and entrepreneurship acceleration to manage and operationalize the fund. A key benefit of this MYSC-led venture-fund model is its **potential to identify and incubate innovative solutions that address practical challenges in scaling up NbS**. These include monitoring technologies (e.g., drones, satellite tools, forest monitoring software), agroforestry productivity enhancers (e.g., climate-resilient seeds, organic inputs), and integrated carbon/agroforestry developers. By leveraging **AFoCO’s Living Lab Initiative as a field validation platform**, such solutions can be piloted and refined in real-world contexts. This integrated approach is expected to foster inclusive PPP models, build investment readiness at the community level, and contribute to a replicable regional financing mechanism for forest-based climate action in Asia.

This combination of Artha and MYSC indicates AFoCO’s strategy of **co-creating financial vehicles** rather than just tapping into existing ones. By creating its own platform (with expert partners), AFoCO ensures that the capital deployed is directly aligned with its mission and the needs of its members. The partnership with Artha ensures a pipeline of deals and potential co-investors beyond MYSC’s circle; MYSC ensures execution and local investment expertise.

In summary, AFoCO is effectively **embedding itself in the impact investment ecosystem** through these partnerships, transitioning toward being not only a project implementer but a co-manager of investment initiatives in forests.



4-3 Multilateral development bank as co-finance partnership

MDBs remain critical partners for scaling up financing, given their large financial resources and mandate for development impact. AFoCO's engagement with MDBs is about creating synergies where AFoCO's projects or programs can leverage MDB co-financing and where MDB initiatives can benefit from AFoCO's technical and regional expertise. With MDBs, AFoCO can also play an important role in helping address institutional risk aversion commonly associated with forestry-related projects—by improving project quality, providing locally anchored implementation channels, and offering de-risking mechanisms through blended finance structures.

1. Scaling access to capital:

Among MDBs, the Asian Development Bank (ADB) stands out as the most regionally relevant partner for AFoCO. ADB has significantly increased its climate finance commitments, targeting USD 100 billion by 2030 including dedicated allocations for NbS and adaptation. In 2023, ADB launched its Nature Solutions Finance Hub at COP28 to mobilize at least USD 2 billion in private capital for NbS, using de-risking tools such as guarantees, impact-linked loans, and blended finance instruments. AFoCO brings to this partnership a pipeline of regionally grounded NbS projects that can be scaled through ADB's funding channels. In return, ADB benefits by accessing well-prepared projects that align with its targets for nature and climate finance.

2. Project design and implementation:

In many cases, MDBs support large-scale government-led initiatives such as national reforestation or rural development programs that include forest components. AFoCO can contribute by co-designing project elements to ensure that social, ecological, and community-based considerations are embedded in implementation. For example, AFoCO can provide co-finance for activities such as community capacity building or innovation pilots that may fall outside standard MDB financing scopes. Conversely, MDBs can co-finance AFoCO-led regional initiatives such as FFMA or Living Labs by providing infrastructure and equipment support, while AFoCO leads on technical delivery.

3. Institutional coordination and country-level integration:

Beyond project-specific collaboration, AFoCO and MDBs can align at a strategic programming level. AFoCO can engage with MDB's resident missions as environment specialists to embed AFoCO Climate Action Plan-aligned project pipeline into national programming frameworks. For instance, this coordination is especially relevant for forest landscape restoration (FLR), where AFoCO's community-based restoration models can complement regional ADB initiatives like the Green Recovery agenda or projects in the Greater Mekong Subregion. ADB has a watershed management project in the Philippines, where AFoCO could complement the effort by providing a targeted restoration grant that improves the ecological outcomes and de-risks the loan component, while generating stronger, measurable results for both institutions.



4-4 Global corporate engagement with emerging financing platforms

To advance private-sector participation in forest-based climate action, AFoCO is not only leveraging partnerships but also building its own platforms to catalyze financing. These efforts follow a stepwise approach: starting with platform launches, followed by convening and matchmaking, and now progressing toward engaging global corporate capital through values-based investment frameworks.

Part 1. Platform Launch and Structuring: FAAF and CAMP Operationalization

AFoCO has successfully launched two key financing platforms: **Friends of Asia and Asian Forests (FAAF)** and the **Climate Action Matching Platform (CAMP)**.

- **FAAF**

launched through high-level forums in 2024, is designed to convene public- and private-sector actors—including government officials, corporate ESG leaders, and technical experts—to build trust, showcase models, and announce commitments. FAAF is relational in nature, emphasizing dialogue and long-term cooperation. It also serves as a space to incubate new initiatives, such as forestry ESG standards or regional financing coalitions.

- **CAMP**

functions as a structured matchmaking mechanism—both online and offline—where investment-ready forest projects from Member Countries are presented to donors, impact investors, and philanthropies. The platform enhances transparency and efficiency, allowing funders to view vetted, high-quality proposals aligned with national priorities. Over time, CAMP is expected to include additional features such as crowdfunding windows or due diligence data rooms, further expanding accessibility and scalability.

Together, CAMP and FAAF form the structural foundation for AFoCO's blended finance ecosystem, providing both the transactional infrastructure and the relational capital to accelerate forest-based investment.

Part 2. Strategic Deepening through Thought Partnership: EoM Alliance and MVL Collaboration

To complement its operational platforms, AFoCO is engaging with the **Economics of Mutuality (EoM) Alliance**, a global movement launched in partnership with Oxford University and Mars Corporation that redefines business performance around mutual value creation—spanning financial, social, and environmental capital. In March 2025, the Secretariat signed a memorandum of understanding with **Mutual Value Labs (MVL)**, a core member of the EoM Alliance, to explore strategic approaches that align environmental sustainability with long-term business value.

MVL specializes in diagnosing systemic drivers of environmental degradation and designing multi-stakeholder strategies that unlock co-benefits across sectors. As a first step, AFoCO and MVL are co-developing a **systems thinking diagnostic report** to identify key leverage points for forest conservation and restoration that resonate with corporate sustainability priorities. This work aims to articulate how forest-based interventions can contribute to resilient supply chains, climate targets, and ESG strategies, thus positioning forests as relevant to core corporate business objectives.

Based on this analysis, the Secretariat will work with MVL to **develop corporate engagement models** that identify ethical, strategic, and operational entry points for engaging global corporations with AFoCO's mission. These models will inform the design of a **membership-based engagement and fundraising mechanism**, enabling structured long-term collaboration with private-sector actors (see Box 4).

This strategic track is designed to strengthen AFoCO's broader PPP model by attracting values-aligned corporations and building **scalable, investable NbS portfolios** that generate mutual value—for investors, communities, and ecosystems. In synergy with CAMP and FAAF, the EoM/MVL collaboration ensures that AFoCO's financing ecosystem is not only structurally effective but also ethically grounded and strategically attractive to global private capital.

Box 4. Membership-based engagement platforms: unlocking long-term value

As AFoCO expands its approach to private-sector collaboration, membership-based platforms are emerging as a potentially valuable tool to structure long-term engagement. These platforms differ from project-specific partnerships in that they provide a more continuous, relationship-driven framework that fosters shared learning, trust-building, and sustained resource mobilization.

In this context, AFoCO has initiated a strategic collaboration with **Mutual Value Labs (MVL)**, a member of the **Economics of Mutuality (EoM) Alliance**. The collaboration is based on a mutual interest in exploring new models of engagement that combine environmental objectives with business value creation. MVL brings experience in developing multi-stakeholder frameworks that align financial, social, and environmental outcomes.

One of the key features of this collaboration is the potential development of a **membership-based engagement mechanism**, through which AFoCO could engage global corporations and other private actors under a structured model. This approach may allow for more consistent alignment between AFoCO's forest and climate goals and the strategic priorities of corporate stakeholders.

Key expected benefits of such a platform include:

- Providing **predictable and flexible financing** that is not limited to specific project timelines.
- Facilitating **knowledge exchange** and exposure to business-led innovations relevant to forest and climate action.
- Offering a **structured channel for corporate engagement**, especially in areas such as nature-based solutions and inclusive forest economy models.
- Enhancing AFoCO's visibility among private actors interested in contributing to regional sustainability efforts, thus being better able to leverage their **influence and networks**.

As this model is still under development, AFoCO and MVL plan to further explore design features such as member tiers, engagement incentives, and alignment with regional platforms like **FAAF** and **CAMP**. The partnership also includes a joint diagnostic exercise aimed at identifying potential leverage points for corporate involvement in forest-based climate initiatives.

This evolving model reflects AFoCO's broader strategy to facilitate diverse forms of cooperation while ensuring that new mechanisms remain consistent with its institutional mandate and the priorities of its Member Countries.

4.5 Partnership with technology and innovation

Engaging the technology and national research sectors is a growing priority within AFoCO's partnership strategy, as digital innovation holds transformative potential for forest monitoring, disaster early warning, carbon accounting, and community access. While AFoCO has not yet formalized a major tech partnership, discussions and interest are emerging with leading players such as **Nokia Bell Labs** and the **Korea Institute of Science and Technology Information (KISTI)**.

• **Nokia Bell Labs: Climate-Responsive Communication and Early Warning Systems**

Nokia Bell Labs, the research arm of Nokia, has developed advanced solutions that integrate **IoT sensors, AI analytics, and next-generation telecommunications infrastructure** to support early warning systems for climate-related hazards such as forest fires, droughts, and flooding. In the AFoCO context, these technologies could be deployed in vulnerable forest zones to detect threats—such as acoustic signatures of chainsaws or abnormal heat surges—and transmit real-time alerts to authorities via secure cloud platforms. Such systems would significantly enhance disaster preparedness and forest protection.

A potential partnership with Nokia Bell Labs would involve piloting these systems in selected AFoCO Member Countries, using a **blended finance structure**—with in-kind technology contributions from Nokia and public or donor funding for site deployment and capacity building. Importantly, AFoCO's **Living Lab Initiative** could serve as the primary vehicle for these pilots, allowing technology solutions to be field-tested within existing project landscapes. Over time, Living Lab sites could be maintained as long-term forest **monitoring stations**, equipped with digital infrastructure to continuously track ecosystem health, carbon stocks, and resilience indicators.

• **KISTI: Trusted Data Infrastructure for Regional Forest Information Systems**

KISTI offers a robust, non-commercial data infrastructure through Korea's national science network, providing **secure, sovereign-controlled platforms** for storing and managing large-scale forest datasets. AFoCO is exploring cooperation with KISTI to build a **regional forest data repository** that enables Member Countries to manage geospatial, ecological, and MRV-related data within a trusted institutional framework. This system could form the backbone for harmonized reporting to climate funds, facilitate transparent verification of carbon outcomes, and ensure digital sovereignty over sensitive national forest data.

• **Strategic Value and Synergy**

Together, partnerships with Nokia Bell Labs and KISTI exemplify how AFoCO can align conservation with cutting-edge innovation while addressing long-term system sustainability. While Nokia offers dynamic, real-time monitoring capabilities, KISTI ensures continuity, data integrity, and institutional trust. The integration of these solutions within the Living Lab Initiative not only enhances immediate project effectiveness but also transforms AFoCO project sites into **permanent knowledge and monitoring hubs**. These hubs can serve as reference landscapes for scaling, investment readiness, and regional learning.

As facilitator, AFoCO's role would be to coordinate pilot design, ensure alignment with Member Country priorities, and support long-term continuity through capacity building and data-sharing frameworks. Through such partnerships, AFoCO can create digital forest infrastructure that supports both science-based policy and blended finance mobilization—anchored in real, observable change on the ground.

05

Operational Recommendations for AFoCO and Member Countries

Translating blended finance strategies into action requires more than partnerships and platforms—it demands structured operational support, institutional coordination, and capacity building at multiple levels. To deliver on the potential of forest-based investment under the Climate Action Plan, AFoCO will need to adopt new ways of working that align with the expectations of investors, technical partners, and financing institutions.

The following operational recommendations are proposed to strengthen AFoCO's role as a regional enabler and to support parties in accessing, structuring, and sustaining blended finance models.

5.1 Strengthen in-country capacity for PPP and blended project design

As noted in section 3.1, public-private partnerships (PPPs) in the forestry sector differ from traditional infrastructure-based models by emphasizing inclusive, nature-based collaboration. For AFoCO and its Member Countries, advancing blended finance requires the ability to structure, negotiate, and manage such partnerships effectively. Without adequate in-country technical and institutional capacity, even well-aligned investment opportunities may face delays or fail to reach implementation. While many Member Countries have established strong foundations through ODA-funded programs, these efforts often remain grant-dependent and disconnected from broader financial systems. Moving forward, there is a need to transition from stand-alone initiatives to integrated, investment-ready pipelines anchored in national policy frameworks and designed to engage a range of financing partners.

Recommendations:

- **Dedicated capacity building programs on finance and forest PPPs.**

AFoCO should design and deliver targeted training modules—through regional or in-country workshops—focusing on the development of bankable forest projects and the structuring of PPPs. Targeted towards government officials, for example, key topics might include financial modelling for nature- and market-based solutions (e.g., carbon, ecotourism, NTFPs), identification of scalable PPP models, stakeholder negotiation strategies, and risk-sharing mechanisms. A critical focus should be placed on enabling participants to assess and adapt existing ODA-funded or publicly financed forestry programs into PPP-compatible formats. This includes recognizing institutional entry points, lowering perceived barriers to PPP engagement, and clarifying the public sector's enabling role—particularly in terms of policy, regulation, and incentives. Capacity building efforts should also help clarify when and how to use PPPs appropriately in the forest context, ensuring that public interests (e.g., community rights, environmental integrity) are safeguarded while making investment cases more robust. AFoCO can strengthen this approach by incorporating regional case studies, training programs, and tools for policy analysis and legal review as part of its broader PPP training offering.

- **Embed market-based features in ODA project design.**

To support a transition toward blended finance, AFoCO should promote the integration of market-oriented elements—such as carbon revenue-sharing, cost-recovery models, or performance-based incentives—into ODA-funded projects. These features can enhance long-term sustainability and lay the groundwork for future private investment. By piloting such hybrid models within ODA programs (e.g., enhanced models of PES, ecotourism, NTFP, etc.), AFoCO can demonstrate the feasibility of “graduating” projects into market-linked instruments, building confidence among both donors and private financiers. Over time, this will help mainstream a culture of investment-readiness across AFoCO's portfolio and position its ODA activities as catalytic platforms for long-term, scalable forest finance.

• **Hands-on support for pilot PPP structuring.**

It might be worthwhile for AFoCO to identify one or two pilot PPP projects in volunteer Member Countries (maybe one in Southeast Asia, one in Central Asia) and dedicate an expert team to help structure it from concept to contract. This could serve as a demonstration and learning-by-doing. For instance, choose a pilot like a public-private reforestation project on degraded land where a timber company co-funds with the government and the community. AFoCO's experts can help at each step: feasibility, partner selection, contract drafting, financial close. The lessons, templates, and toolkits from this can be codified and spread.

To complement these capacity building efforts, AFoCO may consider introducing a project preparation facility (PPF) in line with AFoCO's Climate-Forest Cooperation Framework (refer to 3.1). Such a facility could help address early-stage challenges in blended finance projects by providing targeted technical assistance for feasibility assessments, stakeholder consultations, financial modelling, and safeguards screening. This support would be especially valuable for initiatives aiming to access carbon finance or transition toward results-based mechanisms. The PPF could serve as an upstream enabler—helping Member Countries structure project ideas into investment-ready formats, especially those aligned with the valuation and marketization phases of the Carbon Framework. Over time, a flexible, light-touch PPF can reduce barriers to project origination and strengthen the forest-climate investment ecosystem across the region (see Box 5).

Investors and financing partners value capable and responsive local institutions. By investing in blended finance readiness—building national focal points, standardizing tools, and supporting real project pilots—AFoCO can support the Member Countries' move beyond grant-reliant models. Strengthening these foundations will not only improve the bankability of forestry projects but also increase the chances that donor-funded programs will evolve into self-sustaining, investment-driven solutions aligned with long-term national climate goals.



Box 5. Exploring a project preparation facility (PPF) under the AFoCO Climate-Forest Cooperation Framework

To help Member Countries move from concept to investment readiness, AFoCO may consider establishing a flexible **project preparation facility (PPF)**. Such a facility could serve as a catalytic entry point to improve project quality, especially for those aiming to access carbon finance under the AFoCO Climate-Forest Cooperation Framework.

Potential PPF Functions

- Provide technical assistance grants for scoping, carbon feasibility assessments, and stakeholder consultations.
- Support preparation of project concept notes (PCNs) and project design documents (PDDs).
- Identify investable and revenue generating opportunities, such as facilitating the aggregation of small-scale initiatives into bankable packages.
- Enable early development of MRV systems and safeguard-screening processes.

Alignment with the Carbon Framework

The PPF could directly support the Framework's "valuation and marketization" phase by:

- Assisting projects to meet eligibility criteria for carbon standards (e.g., voluntary markets, Article 6).
- Bridging transaction costs for validation, registration, and third-party verification.
- Deploying phased support based on project-specific carbon readiness or strategic alignment with national NDCs.

By addressing upstream barriers, the PPF could strengthen AFoCO's role in enabling scalable, climate-aligned investments and enhance Member Countries' capacity to engage in results-based carbon mechanisms.

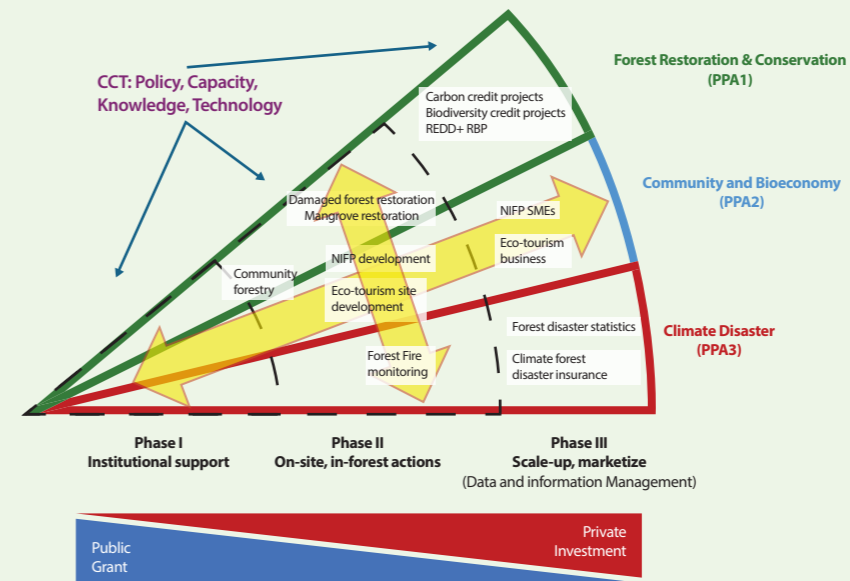


Figure 2. Scale-up and integration of provisional projects under the Framework*

*Excerpted from the AFoCO Forest-Climate Framework, reported at the 12th session of the Assembly in May 2025.

5-2 Enhance innovation and flexibility in financing modalities

Traditional funding often comes with strict rules and narrow scopes, which can stifle innovation. To unlock new solutions in forest management (technologies, business models, partnerships), AFoCO and the Member Countries may need to consider more **flexible funding modalities** for project development that allow trying new ideas, adapting quickly, and even accepting the risk of failure as a learning process.

Recommendations:

- **Partnerships with incubators/accelerators.**

AFoCO can partner with incubators and accelerators that support environmental and social enterprises to strengthen climate tech capacity in Member Countries. By sponsoring a “forestry and climate” track, forest-focused startups—such as eco-product ventures or digital monitoring solutions—can access mentorship and early-stage support. These partnerships build innovation capacity and generate solutions that can be piloted in AFoCO project sites, including Living Labs. As locally developed technologies are applied on the ground, Member Countries can improve their readiness to structure and manage public-private partnerships. In the long term, such efforts can contribute to stronger domestic PPP governance by linking innovation, application, and institutional learning within the AFoCO project ecosystem.

- **Encourage blended use of grants, loans, and equity in pilots.**

AFoCO may consider structuring pilot initiatives with a mix of grants, concessional loans, or small-scale equity to simulate real investment conditions and promote early private-sector engagement. For example, a community forestry enterprise could receive a grant alongside a zero-interest loan or involve an impact investor contributing a modest equity stake. This approach helps build practical experience with investment models and supports a shift toward financial sustainability. Repaid funds could be reinvested through a revolving mechanism to support future pilot activities.

- **Establish an innovation grant window or challenge fund.**

AFoCO could allocate internal resources or mobilize donor support to launch a Forest Finance Innovation Challenge. This initiative would solicit proposals from Member Countries, startups, communities, or research institutions to pilot new financing models, technologies, or enterprise concepts. Seed grants could support activities such as drone-assisted reforestation, cooperative carbon credit aggregation, or nature-based business models. To encourage broad participation, the application and reporting processes should be streamlined and accessible.

By supporting innovation, AFoCO can help accelerate progress and identify new financing and technology solutions for the forest sector. Flexible funding serves as a catalyst for this, functioning as a form of research and development for sustainable forestry finance. While core programs provide stability, innovation-oriented mechanisms allow AFoCO and its Member Countries to remain adaptive and responsive to emerging opportunities and challenges, including shifts in climate risks and market dynamics.

5-3 Standardize investment frameworks and de-risking instruments

Blended finance structures often involve unfamiliar risks for investors—whether financial, operational, or political. Reducing these risks through standardized instruments and frameworks can improve investor confidence and accelerate capital mobilization. In parallel, common metrics and project structuring tools allow for aggregation, reduce transaction costs, and support more consistent project implementation.

Recommendations:

- **Develop standardized investment frameworks for common project types.**

Many AFoCO pipeline projects, like community forestry enterprises or reforestation carbon projects, share similar structures. To streamline deal preparation, AFoCO can develop model term sheets outlining key elements: roles and responsibilities of stakeholders, cash flow arrangements, benefit-sharing structures, and risk allocation. A template for a forest PPP, for example, might specify land tenure arrangements, community labor inputs, investor contributions, and financial returns, including community profit shares and capped investor ROI. Legally and economically vetted templates can significantly shorten negotiation time and increase replicability across countries.

- **Harmonize and apply impact metrics and monitoring systems.**

Demonstrating measurable outcomes is critical to attracting and retaining blended finance. AFoCO should adopt a standard set of key performance indicators (KPIs)—such as hectares reforested, tons of CO₂ sequestered, jobs created, or increases in household income—aligned with international frameworks like the SDGs or the Impact Reporting and Investment Standards (IRIS+). Standardized metrics will allow AFoCO to aggregate data across projects, improve reporting to donors and investors, and build a robust monitoring and evaluation (M&E) system. A digital dashboard for real-time project performance could enhance transparency and support data-driven decision-making.

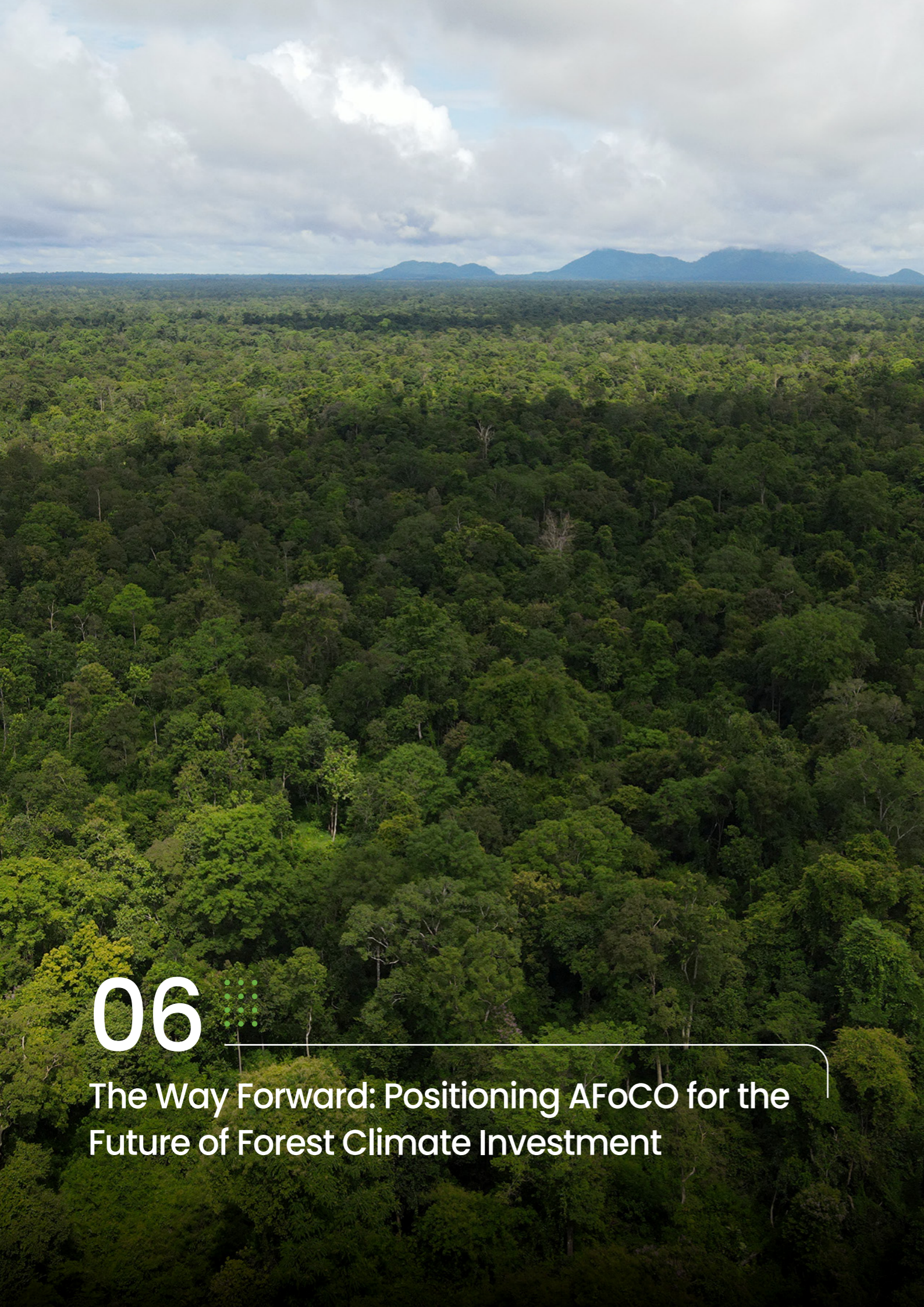
- **Disseminate knowledge on de-risking and project structuring tools.**

Many forestry and finance officials operate in parallel but disconnected systems. AFoCO can develop and share practical guidance—such as briefing notes on guarantees, benefit-sharing models, or liability considerations—and convene cross-sectoral training workshops. Joint sessions involving forestry and finance ministries can help align understanding of financial instruments and forest-sector needs, improving readiness to apply blended finance mechanisms effectively.

To complement these efforts, AFoCO could explore prototype de-risking facilities, such as a “forest fund guarantee scheme” providing partial guarantees to private investors, or subsidized insurance schemes for community-based plantations. Prearranged access to such instruments—through partnerships with guarantee and risk-sharing entities—would allow AFoCO to deploy risk mitigation tools more effectively across its project pipeline.

Potential partners could include international agencies such as GuarantCo, The U.S. Development Finance Corporation (DFC), and MIGA (World Bank Group), as well as national institutions like K-SURE and the Korea Development Bank, which provide export credit guarantees and concessional finance for international development projects. At the regional level, the Asian Development Bank (ADB)—particularly through mechanisms like the ASEAN Catalytic Green Finance Facility (ACGF)—offers blended finance structures, guarantees, and technical assistance aimed at mobilizing private investment in nature-based solutions.

By establishing access to such ready-made de-risking mechanisms, AFoCO can improve investor confidence, reduce transaction costs, and ensure that financial, environmental, and social safeguards are consistently applied across its blended finance portfolio.



06

The Way Forward: Positioning AFoCO for the Future of Forest Climate Investment

In view of the shifting dynamics of climate finance—marked by growing emphasis on blended mechanisms and the increased participation of private and institutional capital—AFoCO is presented with new opportunities to enhance its role as a regional enabler. As the only intergovernmental organization focused exclusively on the forest sector in Asia, AFoCO is uniquely positioned to support its Member Countries in aligning national forest priorities with evolving global financing trends.

To build on its existing foundation of grant-based cooperation, AFoCO may consider systematically integrating blended finance elements across its programs. This includes developing capacities for project structuring, supporting Member Countries in advancing investment readiness, and facilitating partnerships that align financial instruments with forest and climate objectives.

Moving forward, AFoCO can strengthen its positioning by:

- Supporting the institutionalization of project preparation, PPP facilitation, and financial risk mitigation frameworks at national and regional levels.
- Utilizing existing platforms such as CAMP and FAAF to match projects with suitable financing partners and to foster multi-actor engagement.
- Deepening collaboration with corporate and innovation partners, including through values-based engagement strategies and diagnostic approaches.
- Expanding the use of Living Labs as long-term forest monitoring and innovation hubs, linking technology application with climate finance mobilization.

The implementation of these actions will require continued coordination with Member Countries, development finance institutions, and technical partners. As a next step, the recommendations in this report will be further refined based on inputs from the Annual Thematic Dialogue and other stakeholder consultations. This iterative process will inform the development of an implementation roadmap aligned with the objectives of the Climate Action Plan (2025–2034).

By advancing these priorities, AFoCO can contribute to building enabling environments that facilitate access to forest and climate finance—supporting Member Countries in delivering on their mitigation and adaptation commitments while fostering inclusive and sustainable forest-based solutions at scale.



