

Policy Brief

Financing instruments and policy levers to harness biomanufacturing for climate, biodiversity and growth

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Key messages

- Biomanufacturing can enhance supply chain resilience, advance climate action, augment biodiversity conservation efforts, and contribute to economic growth.
- Investment gaps persist as many G20 countries support bioeconomy innovation, targeted financial instruments to leverage private capital remain underused.
- Policymakers have powerful tools to crowd in private investment, including blended finance, de-risking mechanisms, market-based instruments, and public-private partnership frameworks.
- Comprehensive governance frameworks and cross-sectoral coordination are essential to durably mobilise private investment and scale biomanufacturing capacity.
- OECD analysis and guidance can support countries in designing integrated finance and governance frameworks for scaling sustainable biomanufacturing.

Bioeconomy, biomanufacturing and carbon management

Countries globally are mobilising the bioeconomy's potential for sustainable growth and development through dedicated national and regional bioeconomy strategies. The bioeconomy utilises biological resources and biotechnologies to produce valuable products and services across sectors such as agriculture, health, chemicals, energy, and manufacturing. Its economic value is substantial and expected to grow dramatically. Today's global bioeconomy is estimated to be valued at US\$4-5 trillion, with a growth potential of up to US\$30 trillion by 2050 (Nature Finance, 2024^[1]). It also brings the opportunity to address major global challenges including climate change, biodiversity loss, health concerns, and contribute to achieve long-term sustainability goals (Nature Finance, 2024^[1]).

Biomanufacturing lies at the heart of this transformation. As a key enabler of a sustainable and circular bioeconomy, biomanufacturing involves using biotechnologies to convert biological feedstocks into bio-based products. Bioresources such as biomass, waste streams, and captured carbon return to the economy as a wide range of bioproducts in a circular manner. Enabling biotechnologies include fermentation, enzymatic conversion, synthetic biology, and integrated biorefinery processes. Biomanufacturing facilitates the efficient valorisation of bioresources, through the cascading use of feedstocks and the production of high-value biomaterials, biochemicals, biofuels, and other industrial feedstocks.

More broadly, biomanufacturing is a critical component of carbon management strategies, which integrate the bioeconomy, carbon recycling, and renewable energy (OECD, 2023^[2]). In hard to decarbonise sectors – such as chemicals, plastics, and aviation fuels – strategic carbon management focuses on replacing fossil carbon with renewable carbon sources. Carbon management frameworks promote circularity by keeping carbon circulating in the economy through reuse, recycling, and bioconversion.

The interaction between bioeconomy and carbon management through biomanufacturing is therefore central to achieving net-zero targets. Effective biomanufacturing support mechanisms offer practical approaches to decouple economic growth from fossil carbon use, and simultaneously reduce pressures on land, water, and biodiversity. However, realising this potential requires targeted and comprehensive investment frameworks that de-risk innovation, build enabling infrastructure, and create robust markets for sustainable carbon-based products.

This policy brief addresses how leveraging de-risking instruments can catalyse investment in biomanufacturing to support capacity scale-up and value chain creation in line with the G20 Bioeconomy Initiative. Drawing on OECD research and analyses, it highlights critical investment gaps, identifies policy levers, and explores financial instruments that can mobilise both public and private capital towards bioeconomy transitions.

Mechanisms to mobilise private investments for growth, including for the bioeconomy

G20 policymakers can draw on a range of financing mechanisms to incentivise investments for economic growth, development, climate action, and the bioeconomy. OECD analyses highlight that mobilising public, private, philanthropic, and development capital for the Sustainable Development Goals, and in particular for nature-dependent activities, will require innovative financial structures and partnerships (OECD, 2024^[3]) (OECD, 2020^[4]) Despite significant growth in climate-related development finance – from USD 216 billion in 2013 to USD 356 billion in 2022 (OECD, 2024^[5]) (OECD DAC, 2025^[6]) – the mobilisation of private sector finance remains limited. OECD therefore recommends systematic collaboration among development finance institutions, multilateral banks, partner countries, and the private sector, emphasising

the critical role of blended finance and capacity development to foster conducive investment climates (OECD, 2024^[5]).

The key mechanisms below leverage public support to *de-risk*, *incentivise*, or *co-finance* projects, thereby attracting institutional investors and other private financiers at scale. Each mechanism is presented in terms of its function, how it mobilises private investment, and, where relevant, its applicability to biomanufacturing.

Blended and concessional finance

Public-private blended funds and partnerships

Blended finance combines public, philanthropic, and private resources in a coordinated investment vehicle or project to catalyse commercial investment (OECD, 2020^[4]). The premise is to share risks or accept lower returns on the public portion so that private investors can participate with confidence. Common structures include public-private investment funds, pooled financing facilities, or joint ventures where government or development banks take junior equity or provide subordinated loans. By structuring capital in tiers (a “waterfall”), these mechanisms align different investors’ risk appetites. For example, a public investor might take the first loss while pension funds and sovereign wealth funds take senior positions with lower risk. The OECD’s work shows that such arrangements have been used in health and energy innovation to great effect, bringing in pension funds, insurers, and other institutional investors that require stable returns (OECD, 2020^[4]).

For climate and bio-based applications, blended funds can provide the biomanufacturer high-risk capital needed to get new technologies off the ground while attracting institutional capital to co-invest. A careful design is critical: clear governance, alignment of interests, and an exit strategy for public support help ensure that the private sector truly “crowds in” rather than becoming dependent on subsidies.

Concessional loans and equity

Development finance institutions (DFIs) and climate funds may offer concessional loans (e.g. below-market interest rates, longer tenors) or minority equity stakes to improve the bankability of projects aligned with policy goals. Concessional financing can also come in the form of soft credit lines or local-currency facilities to mitigate currency risk in developing markets (OECD, 2025^[7]). In early-stage or high-risk investments, particularly in the bioeconomy, concessional terms can address financing gaps – such as high upfront costs or long payback periods – by enhancing a project’s risk-return profile. For instance, a DFI might offer a low-interest loan to a biorefinery project, reducing the overall cost of capital so that a commercial bank is willing to finance the remainder. However, the use of concessional finance in private commercial ventures must be carefully designed to avoid market distortions or crowding out private capital. Policymakers should use concessional finance sparingly to address clear market failures or pioneering projects, and structure these investments to gradually transition to fully commercial finance as the contribution of bioresources in sectors grow (OECD, 2021^[8]).

Private sector instruments and additionality

In many cases, DFIs operate under dual mandates – to deliver both commercial returns and development impact – and are required to invest on market-based terms to avoid displacing private actors. In this context, private sector instruments (PSI) are increasingly used to mobilise additional private capital without relying on concessionality (OECD, 2023^[9]). PSI can include loans to the private sector, equity investments, guarantees, mezzanine finance instruments, and reimbursable grants, often deployed through specialised vehicles or blended structures. These instruments aim to achieve financial additionality, providing finance where private markets are unwilling or unable to invest while avoiding market, such as in high-risk

segments of the bioeconomy or in capital-constrained contexts. For example, PSI can be used to offer anchor investments, de-risk innovation, or catalyse co-investment in bio-startups and scale-ups. Their use should be guided by clear mandates, transparency, and development impact frameworks (OECD, 2024^[10]; EDFI, 2019^[11]).

Public co-investment and guarantees in R&D

In R&D intensive fields – like biomanufacturing of vaccines, biofuels, or climate-smart agriculture – governments tend to directly co-invest alongside industry to share costs and upside. Public stakes in venture funds targeting bio-startups, or co-investment in demonstration plants, can reassure private investors that the government is committed for the long haul. Such joint public-private investments not only bring more capital but can also align regulatory support and reduce information asymmetry. When coupled with the guarantees and insurance described above, co-investments can significantly de-risk innovation. OECD found that leveraging *insurance and guarantee instruments* alongside public funding is key to mobilising capital for R&D-intensive ventures (OECD, 2020^[4]; Garbacz, Vilalta and Moller, 2021^[12]). The lesson is that financing arrangements for the bioeconomy applications should integrate multiple tools. For example, a biomanufacturing project might blend grants for research, equity from government in a scale-up fund, and guarantees to attract commercial lenders – each playing a role in the overall financing package.

Risk Transfer Mechanisms and de-risking instruments

Risk Transfer Mechanisms (RTMs) such as guarantees, insurance, and risk-sharing facilities have been central in OECD's guidance to enhance blended finance effectiveness (OECD, 2021^[13]). Guarantees are promises by a public or development institution to cover certain losses on an investment. For example, a *partial risk guarantee* will cover private investors against specified political or regulatory risks in a project (such as government non-performance) (OECD, 2025^[7]). By improving the odds of recovery, guarantees reduce downside risk, encouraging banks and institutional investors to finance projects that would otherwise be deemed too risky.

In practice, development banks and donor agencies have used guarantees to unlock capital in emerging markets. For instance, by insuring against political instability or payment default, they make infrastructure and clean energy projects bankable. In the bioeconomy context, a guarantee could support biomanufacturing facilities by mitigating sovereign, policy and regulatory risks, thereby catalysing private investment that would not occur without risk cover.

In blended finance structures, public or philanthropic actors often provide first-loss capital or insurance – absorbing initial losses so that private investors are shielded (OECD, 2020^[4]). By transferring various risks to parties better able to bear them (governments, insurers or donors), de-risking instruments give private financiers the confidence to commit capital to sustainable development projects. These tools have broad applicability – from renewable energy to new bio-based industries – wherever risk perception is a barrier to investment. However, they should be targeted to specific risks (e.g. technology performance risk, political risk) and priced appropriately so as not to distort markets (OECD, 2018^[14]).

Price-based instruments and market creation mechanisms

Price guarantees and contracts-for-difference

Governments can also use price-based instruments to stabilise future revenues and create markets for sustainable projects. *Contracts-for-difference (CfD)* and feed-in tariffs, for instance, pay the investor the difference between a market price and a fixed target price for outputs like renewable power. This assures developers of a minimum revenue stream, reducing volatility. Such schemes have successfully crowded-

in private capital for wind and solar energy by mitigating price risk. A recent climate-related example is the “H2Global” double-auction mechanism, which bridges the gap between higher production costs of green hydrogen and what buyers will pay (OECD, 2025^[7]). A dedicated intermediary runs back-to-back auctions – contracting to buy hydrogen from producers at a fixed long-term price and selling to consumers at whatever price they are willing to pay – using public funds to cover the difference. This kind of price guarantee creates a market for new technologies.

For the bioeconomy, similar approaches could support novel bio-based products (for example, sustainable aviation fuels or biochemicals) by guaranteeing a premium price in early years. The key for policymakers is to use these tools selectively to kick-start markets, and taper support as technologies become cost-competitive.

Carbon pricing and credit markets

Pricing externalities is another powerful economic instrument, and a core condition for aligning private incentives with public goals. Instruments like carbon taxes, emissions trading systems (ETS), and carbon credits thereby improve the economics of low-carbon and bio-based projects (OECD, 2023^[15]). A robust carbon price signal increases expected returns for climate-friendly investments. For example, a carbon credit scheme can provide an additional revenue stream to a biofuel project for each tonne of CO₂ saved (OECD, 2025^[7]).

This provides the basis for market creation and encourages private investors to finance such projects, knowing that avoiding emissions has tangible financial value. While carbon pricing is economy-wide policy, its effect is to mobilise private capital into solutions like reforestation, renewable energy, or bio-products that generate tradable credits. Policymakers should ensure that any crediting mechanism is credible and transparent so that institutional investors feel confident counting on these revenues. In the carbon mitigation realm, initiatives like carbon farming or forest conservation can leverage carbon markets to attract private investment (as seen in some forestry bond projects). Robust carbon accounting methodologies for biomanufacturing processes and the resulting carbon footprint of bioproducts will enable the application of these mechanisms in the bioeconomy.

Green and sustainability-linked bonds, and results-oriented finance

Green bonds are standard debt instruments issued to finance green or climate-related projects. They attract institutional investments by offering a familiar investment format with the added assurance that proceeds go to sustainable activities. Private sector issuers, governments, and development banks have issued green bonds to fund projects like renewable energy, sustainable forestry, or clean transportation. They often experience high demand from pension funds and asset managers with green investment mandates. By 2024, annual green bond issuance reached EUR 878 billion globally, reflecting their emergence as a key channel to mobilise private capital for climate action (Luxembourg Stock Exchange, 2024^[16]). The financial additionality of green bonds depends on whether they finance projects that would not otherwise have secured funding. In the bioeconomy, this could be achieved by designing bond frameworks that target underfunded technologies or infrastructure with high climate or biodiversity impacts. This way, they can support issuers in emerging markets or sectors with limited access to commercial debt.

Sustainability-linked bonds (SLBs) are bonds “for which the financial and/or structural characteristics can vary depending on whether the issuer achieved predefined sustainability/ESG objectives” (ICMA, 2020^[17]). Instead of restricting proceeds to green projects, SLBs incentivise issuers across all sectors to improve sustainability metrics (e.g. emissions intensity, deforestation-free sourcing). They link borrowing terms – such as coupon rates or repayment schedules – to the achievement of pre-agreed sustainability targets. This mechanism mobilises private investment by aligning financial returns with sustainability outcomes. Similarly, investors can be repaid more if the issuer falls short on goals, compensating them for the impact risk. Early lessons suggest that companies with credible data and commitments can secure favourable

terms (even interest rate reductions) by using SLBs (OECD, 2025^[7]). For the bioeconomy, such instruments could be promising, for mature companies in sectors like chemicals, forestry, or agriculture. They can enable these companies to tap debt markets for sustainability improvements, directly linking corporate finance with environmental performance. Policymakers should note that standardising reporting and verification of sustainability targets is essential for this market's integrity (OECD, 2025^[7]; OECD, 2024^[18]).

Beyond green and sustainable bonds, results- or outcome-oriented investments such as impact bonds can mobilise private capital by guaranteeing payment for outcomes. These instruments can effectively turn development impacts into an asset with financial value (OECD, 2020^[4]). Policymakers designing such mechanisms must set clear, measurable indicators and ensure verification systems to make these instruments credible to investors and service providers.

Implications for financing the bioeconomy

Mobilising investment in biomanufacturing and the wider bioeconomy will require more than targeted financial instruments – it demands a coherent enabling environment and strong policy alignment. Despite growing recognition of blended finance's potential to support sustainable development, significant gaps persist in its use within science, technology and innovation (STI) sectors (OECD, 2020^[4]). Many policymakers, private investors, and development actors still lack sufficient familiarity with available tools or fail to coordinate effectively. Mechanisms such as tax incentives, insurance, and concessional capital remain underused, particularly in developing countries.

Moreover, STI policy is often siloed within national innovation agendas rather than strategically integrated into global frameworks for climate action and sustainable development. In emerging, cross-sectoral markets like the bioeconomy, governance fragmentation and misaligned policy signals can deter private capital. As emphasised in the Climate Club policy toolbox for industrial decarbonisation (IEA, 2025^[19]) and the OECD Climate Adaptation Investment Framework (OECD, 2024^[20]), investment mechanisms only function when paired with enabling conditions. These conditions include stable regulation, inter-institutional coordination, infrastructure planning, and robust monitoring systems.

For G20 governments, a recommended action would involve aligning financial instruments with industrial, climate, and innovation strategies. Public support must be designed to complement – not crowd out – private investment, addressing market failures and scaling viable biotechnology applications. The OECD's recent work under the Climate Club and STI frameworks demonstrates that financial tools are effective in industrial decarbonisation. Along the same lines, blended finance structures, market commitments, and green bonds, are also relevant to biomanufacturing (OECD, 2025^[7]). However, tailoring these mechanisms to the unique risk and market profile of bio-technology applications is essential.

A forward-looking financing strategy for the bioeconomy should therefore combine targeted de-risking tools, blended and catalytic finance, and market-shaping policies – all underpinned by clear, predictable policy frameworks. With the right mix of instruments and governance, countries can unlock new private finance flows and scale sustainable biomanufacturing value chains that deliver on climate, biodiversity, and development goals.

Selected examples of G20 countries' biomanufacturing investment strategies

Closing the investment gap will require strategic policy frameworks capable of mobilising resources beyond public actors. Investment banks, philanthropic sources, multilateral institutions, and private investors will play a significant role in creating new value chains. At least 50 countries have put in

place national bioeconomy strategies or adopted policy measures aimed at scaling their bioeconomy (Gardossi et al., 2023^[21]).

To identify relevant practices and case studies, the OECD's *STI policies for net zero portal* offers detailed insights into national initiatives supporting sustainable technologies. The G20 country examples below illustrate a range of public strategies to support biomanufacturing and bioeconomy investments.

Australia and the Republic of Korea

The Australia-Republic of Korea Green Economy Partnership Arrangement on Climate and Energy (2021) illustrates the use of structured bilateral cooperation to accelerate investment in clean energy technologies. Building on the Low and Zero Emissions Technology Partnership, the initiative advances joint R&D and technology deployment in hydrogen and other low-emission sectors. Finance mechanisms include facilitating public-private partnerships, advancing sustainable trade finance, and fostering cooperation between financial institutions such as Export Finance Australia and Korea Trade Insurance Corporation (KSURE). Although not directly focused on biomanufacturing, this model shows how public frameworks can actively enable private co-investment in strategic low-carbon sectors.

Brazil

Brazil's Action Plan in Science, Technology, and Innovation for Renewable Energy and Biofuels (2018-2022) seeks to maintain the country's leadership in renewables through technology development and industry partnerships, focusing significantly on biofuels. The strategy mobilises blended finance tools – including concessional lending, project grants, equity participation, and risk-sharing instruments – through federal agencies such as the Brazilian Innovation Agency (FINEP) and the National Development Bank (BNDES). Public-private partnerships are central to overcoming technical and financial barriers. In addition, Brazil applies sector-specific mechanisms such as auctions, advanced market commitments, and regulated R&D obligations for energy providers. These instruments provide a foundation for attracting further private investment into broader bio-based value chains.

Germany

Germany's National Bioeconomy Strategy (2020) adopts a whole-of-government approach to fostering sustainable innovation. It emphasises the integration of biological and digital technologies across sectors and the mobilisation of private capital through research-industry partnerships. The "Bioeconomy International" programme funds international R&D consortia with €5-20 million per initiative, helping to connect German firms and research institutions with global counterparts. Additionally, the Bioeconomy Council promotes stakeholder engagement and policy coherence, key enablers for blended finance ecosystems, even if not yet directly tied to specific financial instruments.

South Africa

South Africa's Foundational Biodiversity Information Programme (FBIP) channels project-based research grants (€100-500K) to generate the biodiversity data required for bioeconomy development. By targeting applied and multidisciplinary research with commercial potential, the FBIP supports future investment opportunities for private actors, especially in biotech. While the programme focuses on upstream knowledge generation, its alignment with national bioeconomy objectives and support for collaborative public-private research networks creates the conditions for future capital mobilisation.

United Kingdom

The UK's Networks in Industrial Biotechnology and Bioenergy (2019-2024) promote collaboration between academia and industry in strategic areas such as biorefining, environmental biotechnology, and carbon recycling. Although publicly funded (€1-5 million per year), the programme is designed to de-risk early-stage innovation and help research outputs move toward commercialisation – effectively building a pipeline for future private investment in biomanufacturing.

United States

The U.S. Bioenergy Technologies Office (BETO) has committed significant funding (€50-100 million annually) for low-carbon biofuels research and demonstration projects. Through targeted project grants and collaboration frameworks, BETO leverages extensive private-sector involvement across bioenergy value chains, reducing technological and financial risks. Additionally, the AgSTAR programme fosters private-sector investments by providing comprehensive technical assistance and pre-feasibility analyses for biogas recovery projects, effectively mobilising private finance towards sustainable agriculture and renewable energy integration.

These examples reflect strong public-sector commitment and demonstrate a range of approaches to developing the bioeconomy. However, the reliance on direct public funding and R&D investments points to a broader issue: innovative financing tools that mobilise private capital – such as blended finance, guarantees, insurance mechanisms, and green or sustainability-linked bonds – remain underutilised in most strategies.

To address this gap, G20 countries can build on OECD tools and policy guidance to design more comprehensive frameworks that link bioeconomy objectives with broader climate and industrial policy goals. The OECD's work on sustainable finance, STI governance, and climate transition strategies provides a foundation for helping countries identify, design, and scale financial instruments that attract private investment into biomanufacturing. Doing so is critical to achieving both domestic and global sustainability objectives.

What can policymakers do?

- **Embed finance mobilisation objectives in national bioeconomy strategies**, explicitly linking public policy goals with instruments that leverage private capital (e.g. blended finance, concessional lending, guarantees, sustainability-linked bonds).
- **Design coherent, cross-sectoral policy frameworks** that align industrial, climate, and innovation policies – ensuring stable market signals and reducing regulatory uncertainty for private investors in biomanufacturing.
- **Deploy risk-sharing and de-risking mechanisms**, including guarantees, insurance, and public-private co-investment structures, to lower barriers to entry in early-stage and high-capital biomanufacturing ventures.
- **Incentivise demand for sustainable bio-based products** through economic instruments such as Contracts for Difference (CfDs), carbon pricing, and targeted auctions.
- **Foster global and regional cooperation**, including with development finance institutions and multilateral bodies, to channel financing and technical expertise towards inclusive biomanufacturing value chains, especially in emerging and developing economies.

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