

OUTCOMES



Global Landscapes Forum The Investment Case

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Coordinating partners



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Towards a roadmap to sustainable finance at scale

On 10 June 2015 in London, a variety of representatives of the finance community rubbed shoulders with anthropologists, foresters, non-governmental organizations (NGOs) and government representatives at the **London Global Landscapes Forum: the Investment case**. The event forms part of a growing multistakeholder movement that seeks to harness the influence and potential of the financial sector to transform rural landscapes.

It is being increasingly acknowledged that investors and financial service providers (FSPs) can play a significant role aligning investments and financial products with the needs of the environment, local communities, business and government to achieve sustainable land use in developing countries.

The ten expert clusters held during the event highlighted key **opportunities, challenges and milestones for moving forward**. Six themes emerged from the forum's expert clusters, plenaries and key-note addresses. The themes are based on the findings of individual sessions and do not represent the consensus of the forum as whole. For more information about landscapes and the Global Landscapes Forum, visit www.landscapes.org.

Background and overview

Roughly a third of the greenhouse gasses (GHGs) that contribute to climate change originate from land-use change (LUC), in particular forestry (17%) and agriculture (14%)¹. Middle-income developing

Key points to emerge from the forum

1. Governments are key to unlocking private capital for sustainable landscapes by creating clear and stable regulatory frameworks that level the playing field for responsible investors, while also developing attractive and credible policy frameworks for investment.
2. Comprehensive and accurate data regarding land-based actors, industries, investments and financial service provision are needed to enable reform, as well as greater data transparency.
3. Smallholders and SMEs need better access to longer-term, more flexible credit that is tailored to their needs.
4. Innovative financial products/instruments are needed to connect the supply of capital with the demand for capital – particularly when moving away from project finance to integrated landscape finance.
5. Technical capacity and knowledge of sustainability concepts must be built among financial sector professionals and government, as well as those working in land-use sectors.
6. The ability to channel private capital into sustainable landscapes will depend on a strong deal pipeline of opportunities with compelling risk return profiles and, ideally, a proven track record.

¹ [GIZ] Deutsche Gesellschaft für Internationale Zusammenarbeit. 2014. Potentials for Greenhouse Gas Emission mitigation in Agriculture. <http://www.giz.de/fachexpertise/downloads/giz2014-en-potentials-greenhouse-gas-mitigation.pdf>

countries release the largest share of GHGs related to agriculture and forestry, and low-latitude tropical belts that include countries such as Brazil and Indonesia have been experiencing high rates of deforestation in recent decades, raising concerns about their emission-generating potential.

With an expected global population of 9.5 billion by 2050, agricultural production, resource extraction, land degradation and climate change will increasingly tax our natural resource base. This threatens the ecosystem services that deliver natural resources as well as the intensive, profitable agricultural production on which the global population has come to rely.

A landscape approach has been proposed in order to manage LUC and GHG emissions, taking into consideration and balancing trade-offs among all land-use sectors, including agriculture, livestock management, natural forests and ecosystem services, renewable energy generation and infrastructure development.

Institutional investors, banks, insurance providers and hedge funds all have a key role to play in influencing changing landscapes. When investing in rural landscapes, FSPs have traditionally supported low-risk, high-return plantation agriculture and forestry models, arguably to the detriment of forests and small-scale production systems. However, a number of investors are increasingly interested in investing in sustainable landscapes out of enlightened self-interest and to meet customer demands for more ethical investments. As such, a number of international banks and investors have begun to integrate environmental and social standards into their risk and investment policies, market new sustainable finance instruments, and participate in multistakeholder governance platforms².

² Banking Environment Initiative, Natural Capital Declaration,

List of sessions and participants

Financial instruments: Unlocking capital for land use and conservation projects – the business case for investing: European Investment Bank, United Nations Environment Programme (UNEP), Finance in Motion, Credit Suisse, Climate Bonds Initiative, Clarmondial

Tenure and governance: Learning from best practice examples in agriculture and forestry supply chains: Organisation for Economic Cooperation and Development (OECD), Center for International Forestry Research (CIFOR)

Risk management and insurance: Dealing with climate and environmental risks – lessons from the insurance sector: Earth Security Group, Principles for Sustainable Insurance

REDD+ and the private sector: Leveraging private sector finance for REDD+ implementation: UNEP, Global Canopy Programme (GCP), Environmental Defense Fund, Permian Global

Public–private partnerships: What can public and private resources achieve together? World Bank

Integrated landscape investments: How to encourage coordination and measure effectiveness across landscapes? EcoAgriculture Partners, Dutch Ministry of Foreign Affairs, Landscapes, for People Food and Nature, UNEP

Finance solutions at scale: The Landscape Fund: CIFOR, The Munden Project Systems

Investing in no-deforestation commodities: The case of palm oil: UNEP, Climate Policy Initiative, Unilever, World Economic Forum, Tropical Forest Alliance 2020

Profitable interventions: Land Degradation Neutrality (LDN) Fund: The Global Mechanism, United Nations Convention to Combat Desertification (UNCCD)

Large-scale restoration: Initiative 20x20 and beyond: World Resources Institute, Permian Global, Althelia Climate Fund, Terra Bella Fund, Moringa Partnership, and the International Union for Conservation of Nature.



The sustainable investments market has grown significantly, from USD 13.3 trillion in 2012 to USD 21.4 trillion in 2014³. The fastest-growing region in terms of assets under management is the United States, followed by Canada and Europe, which also represent 99% of global sustainable investing assets. There is a wide range of sustainable investment strategies, with negative screening⁴ being the most commonly used (USD 14.4 trillion), followed by Environmental and Social Governance (ESG) integration⁵ (USD 12.9 trillion) and corporate engagement/shareholder action⁶ (USD 7.0 trillion). Impact investing⁷, however still represents a small segment of the sustainable and responsible investment market.

There is great potential for the financial services sector to facilitate the development of more sustainable landscapes. However, as highlighted by the GLF's keynote speaker, James Cameron⁸, this change will require more than innovative financial instruments and market demand. He called for participants to use three tools to leverage change: **love**, to instill a sense of belonging, responsibility and husbandry to their business activities; **reason** and hard facts to help make informed decisions and reassure investors; and **power** to create the right incentives and disincentives for the necessary transformation to occur.

The 2014 Global Landscapes Forum series was developed to help inform global climate and development frameworks about how a 'landscape approach' can contribute to sustainable solutions under a wide range of social, environmental, political and economic conditions. Six key messages emerged from the London forum:

United Nations Principles for Responsible Investment (UNPRI), UNEP Finance Initiative, Sustainable Stock Exchange initiative, Equator Principles, and Global Reporting initiative

3 Global Sustainable Investment Review 2014. Global Sustainable Investment Alliance. Available at: http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf

4 'Negative/exclusionary screening': the exclusion from a fund or portfolio of certain sectors, companies or practices

5 'Integration of ESG factors': the systematic and explicit inclusion of ESG factors into traditional financial analysis

6 'Corporate engagement and shareholder action': the use of shareholder power to influence corporate behavior.

7 'Impact/community investing': targeted investments, typically made in private markets, aimed at solving social or environmental problems

8 Chairman of the UK's Overseas Development Institute and an investor in sustainable farming in Tanzania.

Key messages

1. Governments are key to unlocking private capital for sustainable landscapes by creating clear and stable regulatory frameworks that level the playing field for responsible investors, while also developing attractive and credible policy frameworks for investment

Failure in public policy cannot be resolved by the private sector. Firms and producers of all sizes require **stability and predictability** from the public sector and guarantees that there will be no backtracking on reforms. Current environmental and social regulations and market structures are underdeveloped in many countries and sectors, as are fundamental legal frameworks. Land tenure and environmental liability assignments are particularly weak. It was argued that increasing agricultural productivity will lower the pressure on forests only if accompanied by **proactive, professional and ecologically based forest protection that is enforced on the ground**.

Governments, at the **regional, national and subnational level must collaborate to develop multiscale frameworks** on which companies can build in a way that benefits both local people and protects the environment. In particular governments must clarify outstanding uncertainties and **conflicting regulation** such as contested land tenure to reduce civil rights abuses, as well as remove **perverse incentives** for unsustainable practices, such as broad expansion targets. There is also a need to adopt more environmentally and socially **progressive public policies and regulations** that give investors the confidence that government is pursuing a more sustainable agenda and that they will be positioning themselves well for future business development.

The private sector can play a significant role in supporting progressive policies that support long-term sustainability, rather than lobbying against them for private, short-term gain. Although open trade should be supported, the benefits that arise must be more **equitably distributed among local small-scale farmers and communities**.

- **Government should increasingly participate in and support voluntary sector initiatives.** The LDN Fund session concluded that partnering with governments and local operators (e.g. suppliers, farmers) determines the success of the project. There is a key role for local civil servants to set up the appropriate policy frameworks and support regulatory reforms, enforce the law, work across different sectoral policies, build capacity for planning, and help integrate land-use and conservation plans.
- **Risks and uncertainties associated with land-based investments must be reduced.** This is particularly true for those related to tenure, licensing and government policies. Governments need to provide a stable or predictable regulatory environment to encourage investors to place their capital in higher-risk, long-term investments. The session on tenure and governance argued that this also requires recognition of indigenous and customary tenure rights, at a status equal to state and private tenures the certification and registration of individual customary parcels and common areas, and converting customary rights to freehold rights.
- **Government fiscal policies and regulations should facilitate/support actors engaging in sustainable production at scale.** The session on investing in no deforestation commodities called for a level playing field for investors, by making sustainable investments more financially competitive and ideally more profitable than business as usual through sectoral policies. This may be challenging in light of potentially conflicting domestic development and energy priorities.
- As such it was suggested that **the private sector should develop specific proposals to governments** in geographic areas in which they operate, laying out what the private sector will do and how it will contribute, and what is needed from government and other partners, including local finance providers.
- **Internal political short-sightedness and incentives for short-term gains at different government scales must be addressed.** The group discussing private-sector finance for REDD+ highlighted political will as critical when transitioning from project-level approaches to jurisdictional-scale approaches.
- **There is a need not only for greater spatial planning of investments within a landscape, but also improved landscape-level land-use planning by local government.** This would reduce risks for investors, provide greater cost sharing, reduce leakage and result in better environmental and social outcomes due to sustainable reform across all players.

Milestones

- June 2016 – **Zero deforestation** pledged by the private sector to develop specific proposals to governments in geographic areas in which they operate.
- July 2015 – **FAO-OECD guidance for responsible agricultural supply chains** to be finalized. Follow-up implementation activities by FAO and OECD include an interactive website, road-testing of the guidance by businesses, and a collection of case studies from enterprises.
- December 2015 – Pilot phase of the **Agricultural Supply Chain Adaptation Facility (ASCAF)** to start in one or two Latin American and Caribbean countries.
- 2015 – The **Tenure Facility**, which aims to secure community land and forest rights, will implement approved pilot projects and appraise proposed projects.

2. Comprehensive and accurate data regarding land-based actors, industries, investments and financial service provision is needed to enable reform, as well as greater data transparency

Building sustainable landscapes requires a deep understanding of place. Culture, local and national politics, language, current and historical business environment, infrastructure, financial literacy, population demographics, and the natural environment are all examples of context-dependent variables that will influence the success of land-based investments. There is a lack of comprehensive, disaggregated, reliable and publicly available



data on land-based investments, financial service provision and land-based sectors. This not only limits government reforms but increases the risks for FSPs and investors, preventing the development of innovative financial products and entrance into new sectors, such as insurance.

“ You can insure against anything you can price

Session participant

Both the government and the private sector can improve access to good data by increased monitoring and public disclosure. But improved data collection will require capacity building and additional funding by both the private and public sector. Better data and analysis would build clearer picture of the landscape and inform policy makers, the private sector and civil society to deliver more tailored solutions using regulations, policies, market forces and financial products. It would also provide greater information to individual firms in terms of their financing possibilities and the limits of self-financing.

- In the session on investing in no deforestation commodities it was argued that there is **poor understanding of what actions need to be undertaken and by whom to deliver sustainable production, how much it costs, and who can or should bear that cost burden**. Establishing these parameters is essential to determining the extent to which existing finance in the sector can be diverted to support a sustainable transition, and the gap needing to be filled with “new” finance.
- The nature of risks associated with land-use and conservation projects is relatively unknown because many of these risks are currently beyond the reach of usual risk assessment tools used by professional investors. **Financial and biophysical data need to be included in risk assessment tools, along with data on the nature of risks that actors such as smallholders are exposed to. Lack of data currently limits the possibilities for the insurance industry to enter the market.**

- The session on integrated landscape investments concluded that there is a need for greater **clarity and understanding on what it means to invest in integrated landscapes**, as well as tracking progress and returns against particular indicators at a landscape scale.
- The session on the Landscape Fund advocates that aggregators⁹ should verify sustainability at scale and that baselines must be established during contract engagement with the borrower.
- The tenure and governance session argued that there needs to be more **comprehensive land valuation**.

Milestones

- 2015 – Innovative environmental and social monitoring and evaluation tools are needed, such as that developed by the EcoEnterprises Fund, which address over 250 social and environmental factors, and IRIS, a catalogue of performance metrics to measure social, environmental, and financial success for impact investors, developed by the Global Impact Investing Network (GIIN).
- 2016 – First pilot loans of The Landscape Fund are expected to be made; these will require the collection of comprehensive baseline data.

3. Smallholders and SMEs need better access to longer-term, more flexible credit that is tailored to their needs

The private sector is not one uniform, cohesive group. It consists of different players with their own values, business models, risk appetites, return expectations and time horizons. **The challenges of providing formal finance for rural smallholders and small businesses are numerous and well**

⁹ Aggregators are in-country intermediaries who distribute loans; they include finance providers (banks, micro-finance institutions), producer organizations (dairy, grain etc.), research institutions and other groups that are trying to implement new sustainable practices but that lack the capital to do so.

understood. Among the most important are: poor infrastructure for delivery, lack of assets that can be used as security for medium-and long-term credit, lack of commercial and financial skill to plan and manage investment in improving production, and high transaction costs due to the fragmented nature of the market (associated with due diligence).

“**Market interest rates might be cheaper than borrowing from local informal money lenders. But you are headed for serious trouble when farmers are being forced to pay up to 35% on unsecured loans.**”



Daniel Gad

Ethiopian farmer, entrepreneur and representative of the World Farmers' Organisation

Additional mechanisms are needed to extend credit to small- and medium-sized entities that work in agriculture, forestry and agricultural processing activities in emerging markets, that meet their needs and wishes but which include environmental and social conditionalities. If novel credit mechanisms can be developed, then **strict measurements of environmental, social and economic improvement** alongside financial performance could provide important incentives for change.

Forum sessions suggested that commercial financial service providers, multilateral banks and international financing institutions, as well as government agencies, should consider the following:

- Outputs from the session on the Landscape Fund suggested that **public money (in the form of grants, loans and insurance) should be a kick-starter.** After a pilot phase, private capital can gradually move in to take the place of the initial public subsidy.

- **Loans are required to be delivered at longer maturities** than are typically available for these kinds of borrower, and with some flexibility in the repayment schedule appropriate to the borrower's productivity cycle.
- Building business models for smallholders which **lower transaction costs**, for example by aggregating loans, is essential.
- The private sector needs to explore ways of **feasibly delivering this credit**, addressing the challenge of the **dispersed client base and lack of infrastructure for delivery.**
- **Public sector investment should subsidize the costs of aggregation**, particularly for small-scale projects.

Milestones

- 2015 – The WEF Global Advisory Council on Forests with UNEP-FI will initiate an initiative on smallholder financing.
- 2015/16 – The Landscape Fund will report back on its pre-pilot phase at the end of 2015; the first pilot loans are due in 2016.

4. Innovative financial products and instruments are needed to connect the supply of capital with the demand for capital – particularly when moving away from project finance to integrated landscape finance

There is great potential to develop novel financial instruments that facilitate more sustainable landscapes. But **different activities, recipients, service providers, institutional settings and stages of maturity of an initiative are likely to require different types of financing.** For example, considering the nature of underlying assets, long-term investments are critical for conservation finance, but for private and institutional investors, financial instruments that spread risk and provide essential guarantees of minimum returns are needed.

There are key differences between project and business investments, and there are several challenges associated with investing in landscapes. Many public sector actors talk about “project-based” investments at a landscape scale, while private-sector actors focus on investing in specific businesses within a landscape that will contribute to a landscape-level impact. **Coordinating investments within a landscape of activities** and facilitating investor **engagement with stakeholders** is essential.

- **Pooling of assets and investors for risk diversification** is increasingly being used to achieve large-scale funding.
- **Green/climate bonds** are a promising and familiar product for private investors to participate in the financing of various land-use and conservation projects, if they are structured with an attractive risk profile.
- The large-scale restoration session proposed using a **range of financial instruments in combination** (a blend of equity, debt, etc.) to generate capital for improvements.
- The session on leveraging private-sector finance for REDD+ argued **that market commitments**

Milestones

- December 2015 – participants in the REDD+ and the private sector session will pull together a working group of like-minded organizations to explore ideas about how to advance market commitments and market-based financing mechanisms for REDD+. There are also plans to prepare a joint proposal that can be tabled at COP 21 in Paris.
- 2015 – A public–private partnership (PPP) has been established around Lake Naivasha in Kenya to address water issues, and has already developed a Sustainable Development Action Plan to structure and implement activities within the landscape. It is now developing a Sustainable Development Fund to aggregate funding sources and investments.

and market-based financing mechanisms, such as ‘put’ options¹⁰ are possible means to scale up REDD+ investment. This follows the precedent established by the World Bank with its Pilot Auction Facility for Methane and Climate Change.

5. Technical capacity and knowledge of sustainability concepts must be built among financial sector professionals and government, as well as those working in land-use sectors

A major barrier to transitioning to alternative land use models is the **engrained behaviors** and capacity of key stakeholders, including governments, producers and investors. There is a lack of coordination and low planning capacity at the public level in many host countries, as well as limited numbers of professional project managers. Many NGOs are poorly equipped to assess the economics of projects.

“The entire value chain... needs to be filled with expertise, with in-depth knowledge of what is really needed so that the right interventions are happening.”



Elvira Lefting

Managing Director,
Finance in Motion

- During the session on insurance the **lack of awareness or a culture of insurance** was discussed as a major barrier to supporting rural actors, in addition to the appropriate infrastructure and institutions to deliver the service. Therefore, **retraining stakeholders is key** to transitioning to more sustainable land-use models. Company employees, smallholders and civil servants require the technical skills to understand new standards and methodologies. Additional investments in training are required.

¹⁰ The right but not the obligation to sell at a predetermined price at a specific time in the future.

- The PPP approach advocated by the LDN fund will include a **combination of funding and the provision of technical assistance for capacity building** that engages all relevant stakeholders, from investors to landowners.
- Initiative 20x20 will make use of a range of **partners to provide training** and technical input to help with the development of restoration plans and restoration implementation.
- In the session on integrated landscape investments the EcoEnterprises Fund discussed how it uses technical assistance, in connection with its asset investments, to support the **companies in whom it invests**. This includes impact assessment assistance, environmental technical assistance, and developing specific social/environmental modeling/monitoring tools as well as community-focused technical assistance.
- **Cultural and social norms regarding novel financial products** such as new types of insurance need to be explored among rural actors.
- The session on tenure and governance discussed tools, methodologies and guidelines that are being developed such as the **FAO-OECD Voluntary Guidelines on the Responsible Governance of Tenure of Land (VGGT) and Fisheries and Forests in the Context of National Food Security**.
- Both the World Resources Institute and the World Bank argued that there is an **important role for intermediaries in connecting different stakeholders and bridging the gap between the local public sector and the global private sector**. Their role should be to disseminate and exchange lessons learned as well as to support reforms.

Milestones

- June 2015 – Guidance to companies committed to the VGGT: to be finalized.
- July 2015 – FAO-OECD guidance for responsible agricultural supply chains: to be finalized.

6. The ability to channel private capital into sustainable landscapes will depend on a strong deal pipeline of opportunities with compelling risk return profiles and ideally a proven track record

Greater financing needs to come from private capital given the scale of the challenge and opportunity, but for this to happen there must be a **compelling business case**. Advocates of sustainable land-based investments argue that companies in the land-use sector can engage with and benefit from innovative financing structures in multiple ways, while investors would benefit from accessing new and innovative business models.

“ We need the donor-backed financial agencies to come and guarantee some of these projects and get some bonds out there... then we need a 3–5 year strategy to withdraw those supports.



Sean Kidney
CEO Climate Bonds Initiative

When approaching investors, new business proposals must consider factors such as risk-adjusted returns, the quality of the business environment, political and economic stability, access to large growing markets, availability and price of land, and physical growing conditions.

- Landscapes need innovation and creativity. It is essential that both the **public and private sector support innovation and research in sustainable landscapes**. The challenge, however, is that both public and private sectors may be local and divided into sectoral silos.
- The session on investing in zero deforestation commodities found that **private sector actors who have pledged to deliver zero deforestation commodities must develop a comprehensive business case** for transitioning to sustainable

- palm oil, identifying costs, funding gaps, partners and timeframes.
- This same session also concluded that **commodity buyers should be making commitments to sustainable sourcing** that effectively ‘de-risks’ the financial investments to enable initiatives to be taken to scale.
- The LDN Fund proposed a business model that offers **multiple ways for businesses and investors to engage with landscape restoration**. This could include making upgraded land assets available for companies needing land for their operations, or allowing private sector players with degraded land to lease out their land to the Fund for rehabilitation and sustainable use by others. Businesses themselves can also decide to invest in the Fund and companies specialized in land rehabilitation can bid for projects supported by the Fund.
- A number of sessions discussed the importance of ensuring that the **funding matches the cash flow profile of the investment**.
- The session on removing roadblocks argued that sustainable land-based landscape-level investments need to **build a track record of success over several years**. Examples of investments need to be tested, pooled and analyzed by banks and investors.

- **NGOs and project coordinators need a greater understanding of business models that are of interest to a range of investors**. What sort of margins and risk level are they looking for? What timeframes? This will help to develop projects and secure funding.
- Initiative 20x20 is pursuing a business model that makes use of the **skill sets of multiple stakeholders**.

Milestones

- December 2015 – Official Fund launch of the LDN fund at UNFCCC COP21 in Paris, France. The Fund aims to mobilize USD 2 billion per year in investments and will be launched with anchor investors and gradually evolve towards a full-fledged multi-layer PPP platform.
- December 2015 – Zero deforestation pledged by the private sector to develop a comprehensive business case, identifying costs, funding gaps, partners and timeframes.
- 2020 – Initiative 20x20 will bring 20 million hectares of degraded land in Latin America and the Caribbean into restoration.



Photo by Thomas Hubert/CIFOR

Conclusions

There is great potential for the investment and financial services community to not only avoid environmentally and socially damaging investments by evaluating them against ESG standards, but to proactively support the development of more sustainable rural landscapes.

However, they currently face significant internal and external challenges. Overcoming these challenges will require innovation, collective action, knowledge sharing and training, improved data collection and analysis, and shifts in cultural and social norms. Developing innovative approaches/projects to achieve sustainable landscapes requires support from all stakeholders, including NGOs, researchers, companies, investors, banks, local communities and, above all, government. Investors require a stable foundation to be laid by governments that incentivizes sustainable practices and regulates against unsustainable ones, with consistent enforcement. Corporate commitments and market-based mechanisms should not seek to exclude stakeholders, but instead push for a greater collective responsibility.

The responsibility needed for environmental and social best practice will mean that all stakeholders involved in governance and management of the landscape will need to build their own technical capacity and understanding of sustainability concepts in order to support a diverse range of projects such as landscape conservation, restoration and smallholder cooperative and financing structures.

In addition, when creating innovative financial products and projects that connect the supply of capital with the demand for capital, a strong deal pipeline of opportunities with compelling risk return profiles is needed to grab the interest of investors and financial service providers. A proven track record and greater access to comprehensive and accurate data will also help ensure against risks.

We will be reporting back on the progress of these milestones over the coming months, and in particular at COP 2015.



Photo by Thomas Hubert/CIFOR



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Strategic partners



Session hosts

