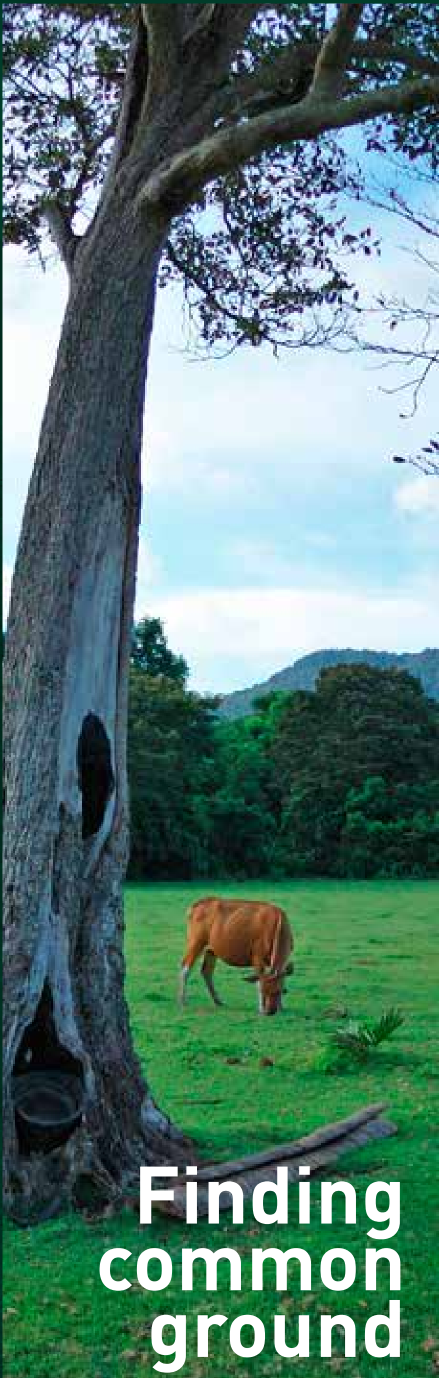
Global Landscapes Forum

A roadmap to financing sustainable landscapes



Finding common ground

Institutional investors, banks, insurance providers and hedge funds all play key roles in influencing land use. When investing in rural landscapes, the private sector has traditionally supported low-risk, high-return plantation agriculture and forestry models – often to the detriment of forests and small-scale production systems. But some investors are beginning to focus on investing in sustainable landscapes, both 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 platforms.

The sustainable investments market has grown significantly, from $13.3 trillion in 2012 to $21.4 trillion in 2014. The United States is the fastest-growing region in terms of assets under management, followed by Canada and Europe. Management includes a wide range of sustainable investment strategies, from negative screening to corporate engagement/shareholder action to impact investing.

Potential is great for the financial services sector to facilitate the development of more sustainable landscapes, but this change will need more than innovative financial instruments and market demand.

The 2015 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.

Why invest in landscapes?

In London on 10 June 2015, a variety of representatives of the finance community rubbed shoulders with anthropologists, foresters, NGOs and government representatives at the **Global Landscapes Forum: The Investment Case**. The event was part of a growing multistakeholder movement that seeks to harness the influence of the financial sector to transform rural landscapes.

Investors and financial service providers can proactively support the development of more sustainable rural landscapes – and they show increasing interest to do so. But they face significant internal and external challenges.

Overcoming these challenges will take innovation, collective action, better data collection and analysis, and a shift in cultural and social norms. New approaches to sustainable land use require support and strengthened technical capacity among all stakeholders, including NGOs, researchers, companies, investors, banks, local communities and, above all, government. Investors need a stable foundation in policies that incentivize sustainable practices and regulate against unsustainable ones, with consistent enforcement. Corporate commitments and market-based mechanisms should not seek to exclude government but instead push for a greater collective responsibility that can support a diverse range of projects. These include: landscape conservation, green bonds, profitable restoration activities and smallholder cooperatives, among others.

The 10 expert clusters held during the London Forum highlighted key opportunities, challenges and targets for moving forward. Six themes, described here, emerged from the forum's expert clusters, plenaries and keynote addresses. And changes are already underway: several participants left the Forum with milestones – from detailed project-specific targets to broad sweeping aims – that can transform business-as-usual practices to meet international sustainability goals. We will report back on the progress of these milestones and others as they are added over the coming months, and in particular at COP21 in Paris, December 2015.

Some milestones on the road to financing sustainable landscapes

2015	Launch of the Agricultural Supply Chain Adaptation Facility (ASCAF) pilot phase in Latin American and the Caribbean	General, Policy
Dec 2015	CIFOR and partners report on The Landscape Fund pre-pilot phase	The Landscape Fund
Dec 2015	Official launch of the Landscape Degradation Neutrality Fund at UNFCCC COP21 in Paris	Landscape Degradation Neutrality Fund
Dec 2015	Private sector early movers develop business case for sustainable palm oil	Private sector commitments
2016	Governments draft policies to encourage public–private partnerships	Private sector commitments
2016	Private sector early movers integrate sustainable practices into supply chains to fulfil pledges	Private sector commitments
2016	Landscape Degradation Neutrality Fund is up and running	Landscape Degradation Neutrality Fund
2016	Private sector sends proposals to governments in detailing specific roles and actions for reaching zero deforestation commitments	Private sector commitments
2016	The Landscape Fund distributes first pilot loans	The Landscape Fund
2017	20x20 Initiative achieves target of $500 million in private equity commitments	20x20 Initiative
2020	20x20 Initiative helps restore 20 million ha of degraded land in Latin America and the Caribbean	20x20 Initiative
2020	New climate agreement (to be adopted in Paris in December 2015) comes into force	General, Policy
2020	Target for proposed SDG 15 to halt deforestation, restore degraded forests, and increase afforestation and reforestation globally	General, Policy
2030	New York Declaration on Forests target to stop deforestation by 2030	Private sector commitments
2030	Target for proposed SDG 2 to double the agricultural productivity and the incomes of small-scale food producers through secure and equal access to land, financial services	General, Policy
2050	New standards in place for 'green/climate bonds' to finance land-use and conservation projects	Private sector commitments

*The **Agricultural Supply Chain Adaptation Facility** provides a first-loss guarantee to Multilateral Development Banks and agricultural corporations to increase financing for producers and processers.*

*The **Landscape Degradation Neutrality Fund** is an investment platform organized as public–private partnership, promoting the rehabilitation of 12 million hectares per year.*

*The **Landscape Fund** is a pilot project focused on making the connections between private finance actors and sustainable land use investment opportunities on the ground, building on a networked approach.*

***Initiative 20x20** is a country-led effort to bring 20 million hectares of land in Latin America and the Caribbean into restoration by 2020.*

*Following the New York Declaration on Forests, a number of **private sector commitments** were made, pledging to reduce deforestation and improve sustainable land use.*

Key themes

Six major thematic areas emerged from the Forum discussions

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.

All levels of government must collaborate to develop multiscale frameworks that companies can build on to benefit both local people and the environment. Outstanding uncertainties and conflicting regulation (e.g. contested land tenure, perverse incentives for unsustainable practices) need to be clarified and progressive policies set to give investors the confidence that government is pursuing a more sustainable agenda.

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

Building sustainable landscapes requires a deep understanding of place. Culture, local and national politics, language, the current and historical business environment, infrastructure, financial literacy, population demographics, and the natural environment all influence the success of land-based investments.

But data are lacking on land-based investments, financial service provision and land-based sectors. This not only limits government reforms but raises the risk for investors, putting up roadblocks to the creation of new financial products. Both government and the private sector can improve access to good data through better monitoring and public disclosure – but this takes capacity building and funding.

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. And the obstacles to providing formal finance to rural smallholders and businesses are well known: high transaction costs associated with due diligence, a fragmented market, lack of data on risk and return, poor infrastructure and lack of assets and financial planning skills. New mechanisms are needed to extend credit to smallholders as well as small- and medium-sized entities (SMEs) that work in agriculture, forestry and agricultural processing activities, in emerging markets. Strict measurements of environmental, social and economic improvement alongside financial performance could be major incentives for change.

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

There is great potential to develop novel financial instruments for more sustainable landscapes. But different activities, recipients, service providers and institutional settings are likely to need different types of financing. For example, long-term investments are critical for conservation finance, while financial instruments that spread risk and provide essential guarantees of minimum returns are needed to motivate private and institutional investors.

Coordinating investments within a landscape of activities and facilitating investor engagement with stakeholders is essential – but it needs alternative structures to be in place.

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

Ingrained behaviors and weak capacity of key stakeholders are major barriers to the implementation of alternative land use models. Add to this a lack of coordination and sustainable land use planning and a limited awareness of supportive financial products, such as insurance, on the ground.

Therefore, retraining stakeholders is key to transitioning to more sustainable land-use models. Company employees, smallholders and civil servants all need the technical skills to understand new standards, methodologies and instruments. This will require additional investments in capacity building.

6 In order to channel private capital into sustainable landscapes, a strong deal pipeline needs to be created 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 this takes a compelling business case.

Advocates of sustainable land-based investments argue that companies in the land-use sector have many ways to engage with and benefit from innovative financing structures, while investors would benefit from accessing new and innovative business models. But new business propositions must be conscious of other important factors such as risk-adjusted returns, the quality of the business environment, political and economic stability, access to growing markets, availability and price of land, and physical growing conditions when approaching potential investors and seeking to build a strong deal pipeline.

Global Landscapes Forum

For more information about landscapes and the Global Landscapes Forum, visit **landscapes.org/london**

GlobalLandscapesForum

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