



Global
Landscapes
Forum

White Paper

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How to finance landscape restoration at scale

The importance of enabling and impact investments in Initiative 20x20

This White Paper was produced by
World Resources Institute (WRI); International Union for Conservation of Nature (IUCN)

Background

At the dawn of the first agricultural revolution 8000-10,000 years ago, forests covered nearly half of Earth's landmass. Since then, about 48% of potential forest area has been cleared or degraded, making way primarily for cropland and grazing land, and to a lesser extent for roads and cities. A significant share (37%) is now secondary, fragmented forest and only 15% is primary, intact forest. Moreover, the UN Food and Agriculture Organization (FAO) estimates that 33% of all land is moderately or severely degraded.

A recent analysis by the World Resources Institute (WRI), the International Union for Conservation of Nature (IUCN) and partners on behalf of the Global

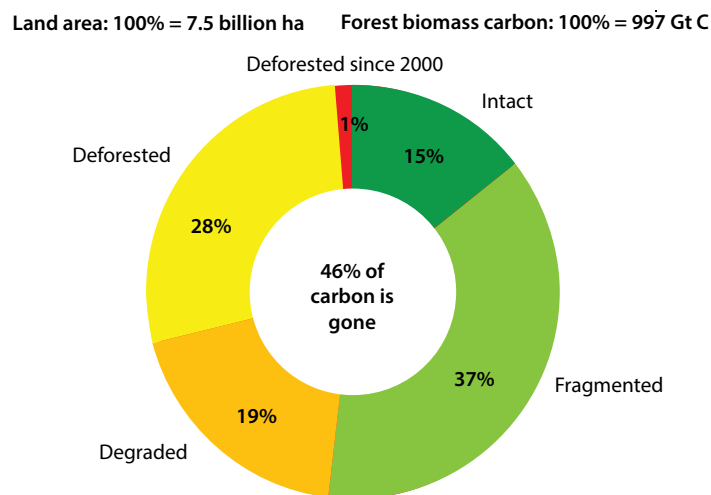


Figure 1. Current status of lands where forests can grow

Source: Laestadius et al. (forthcoming). *The Carbon Potential of Forest Landscape Restoration*. Washington DC: World Resources Institute

Partnership on Forest and Landscape Restoration (GPFLR) indicates that **more than 2 billion hectares (ha)** of the cleared and degraded forest lands — an area twice the size of China — may offer opportunities for landscape restoration. This includes 700 million ha in Africa, 400 million ha in Asia and 500 million ha in Latin America. “Degraded land” refers to areas that have had their natural forest cover cleared or significantly diminished, and now contain low levels of biodiversity and low stocks of carbon (below 40 tons per ha). These lands do not necessarily have poor soil quality; rather they are “degraded” relative to forest that was there before.

A substantial portion of these identified areas has potential to be restored. Two types of restoration opportunity are most widespread, offering potential benefits to many countries:

- *Wide-scale restoration* into closed forest or open woodlands. This is generally in less populated areas with less intensive land-use demands. Wide-scale restoration can occur via natural regeneration (removal of pressures such as livestock and fires), managed regeneration (tree planting) or a combination.
- *Mosaic restoration* into a mix of forests, farms and villages. This is generally preferable in more populated areas and has been shown to be beneficial across a range of environments from the drylands of Africa, to rural areas in developed countries, to the buffer zones around humid tropical forested national parks in Southeast Asia. Approximately three quarters of the global restoration opportunity by area is mosaic in nature.¹ The lower potential carbon density on these lands is compensated by their great extent, making mosaic restoration an important opportunity for combining climate change mitigation and adaptation in vulnerable areas.

Restoring degraded land also contributes to the broader goal of achieving sustainable landscapes and balancing the needs of agriculture and ecosystem

¹ Food and Agriculture Organization of the United Nations, 2011. *The State of the World's Land and Water Resources for Food and Agriculture*. Rome: FAO. See <http://www.fao.org/nr/solaw/en/>

service provision. Today, the world's stock of degraded land is growing due to forest clearing and unsustainable land management practices (Figure 2, item 1). Likewise, forests continue to be converted, primarily into croplands and grazing lands (Figure 2, item 2).² For the sake of the climate and human well-being, the world needs to reverse these trends. Instead, we need a world in which both the amount of forest cover and productivity of existing agricultural land increase.

Restoring degraded lands helps achieve this goal, as follows:

- Some degraded lands can be restored into **natural forests** (especially on slopes, in riparian areas, in areas of high biodiversity, etc.) (Figure 2, item 3).
- Some degraded lands can be restored into mixed forest-agriculture (crops, livestock) landscapes through the scaling up of **agroforestry systems** and other “regreening” practices (especially in areas where food security is a major concern) (Figure 2, item 4).
- Some degraded lands can be restored into highly productive agricultural land following principles of **climate-smart agriculture** (Figure 2, item 5).

Other concurrent and complementary strategies are needed if the goal is to be achieved. In particular:

- Efforts should expand to **improve the productivity of croplands and grazing lands** in a manner that mitigates and adapts to climate change (e.g. climate-smart agricultural practices such as reduced tillage, mulching, modified crop rotations, natural water harvesting, better seed/site pairing) (Figure 2, item 6).
- Efforts to **avoid deforestation** of the remaining natural forests of the world (REDD) need to accelerate through activities such as improved law enforcement, better monitoring and transparency, strengthened indigenous/ community/traditional land rights, alternative livelihoods, payments for ecosystem services, etc. (Figure 2, item 7).

These strategies — climate-smart agriculture, restoration and avoided deforestation — mutually reinforce one another if implemented effectively. For instance, sustainably improving crop and livestock yields means that less land should be needed to feed the world for a given amount of food demand. Restoring land into agriculture and agroforestry can increase total food production and lay the foundation for reducing pressure to convert natural ecosystems. At the same time, effective strategies for avoiding deforestation are necessary to make converting the forest frontier a more expensive option (politically, economically and/or legally) than restoring degraded lands or investing in increased productivity on existing agriculture lands.³ Furthermore, restoring degraded lands into forests is important to provide the ecosystem services needed for climate-smart agriculture and relieving pressure on primary forests.

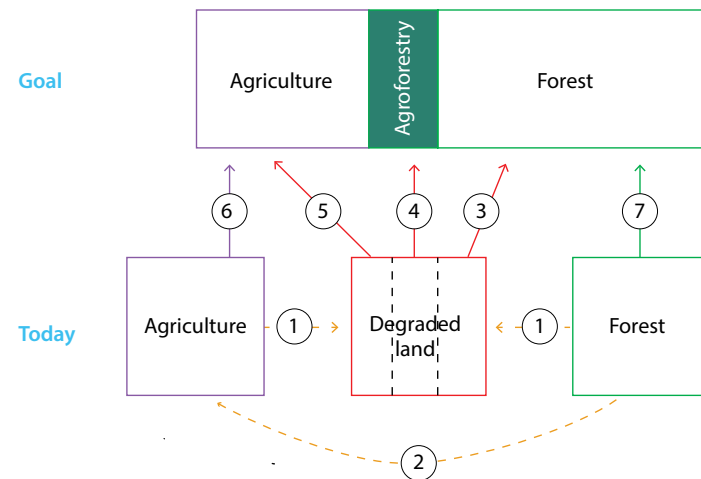


Figure 2. Illustrative dynamics of land use change

Note: Figures not drawn to scale.

² Kissinger, G., M. Herold, and V. De Sy. 2012. *Drivers of Deforestation and Forest Degradation: A Synthesis Report for REDD+ Policymakers*. Vancouver, Canada: Lexeme Consulting.

³ Searchinger, T. 2011. *The Food, Forest and Carbon Challenge*. Washington, DC: National Wildlife Federation. See <https://www.nwf.org/~media/PDFs/Global-Warming/Reports/TheFoodForestandCarbonChallenge.ashx>

Financing landscape restoration

Increased investment in landscape restoration is essential for meeting ambitious global targets that already exist, including the Bonn Challenge to bring 150 million ha into restoration by 2020. Climate and development finance will not be sufficient to meet this level of ambition. Private finance has a very important role to play.

But what is necessary to unlock private finance for landscape restoration at scale?

There are a range of investments, including a spectrum between “enabling investments” that create public goods and “asset investments” that create private assets. Both are equally important, and often enabling investments are required before asset investments can be realized. Figure 3 provides an overview of the various types of finance that are available along this spectrum.

For the session at the Global Landscapes Forum in London on June 10, the expert session on the financing of landscape restoration will largely focus on the case study of Initiative 20x20 in Latin America to frame the discussion.

	Enabling Investment				Asset Investment			
Investor	Government	Donors Philanthropists	Rights-holder Product investor Philanthropists	Private sector companies	Philanthropists	Banks	Private investors and equity funds	
Vehicle	Projects, Policy	NGOs, Research & policy institutions	Small businesses Intermediaries	Capital Expenditure Research & Development	Capital investment	Financial services	Risk-adjusted return on capital	
Mechanism	Public expenditure: Infrastructure Fiscal reform Regulatory reform Subsidies	Grants: Organizational & policy development Institutional reform	Enterprise Philanthropy Grants & seed funding to demonstrate validity of business model	Purchase of capital assets	Impact investment via equity, loans	Loans secured against assets	Investment via equity or loans	
Output	Public Goods				Private Assets			

Figure 3. Range of investments available to support locally controlled forestry

Source: Elson, D. “Guide to investing in locally controlled forestry”.

Overview of Initiative 20x20

Initiative 20x20 is a country-led effort to change the dynamics of land restoration in Latin America and the Caribbean. Its immediate goal is to start restoration in 20 million ha by 2020. This effort targets reduction in land-use-related emissions, as well as economic, environmental and social benefits. For this purpose, the initiative will support actions oriented toward reforestation (natural and assisted), conservation of forests and avoided deforestation.

Cognizant of the various degrees of land degradation in the region, the initiative will also contribute to recovering land functionality (soil conservation and recovery; carbon storage; water retention and stable hydrological regimes; biodiversity conservation and recovery) through agroforestry, silvo-pastures and other sustainable land-use schemes.

The initiative, launched at COP20 in December 2014, is promoted by Mexico, Guatemala, El Salvador, Costa Rica, Colombia, Ecuador, Peru and Chile, and includes three regional programs, namely Bosques Modelo, American Bird Conservancy and Conservación Patagónica, together totaling about 20 million ha of restoration ambitions by 2020. About USD 380 million in impact investment funds earmarked for land restoration in Latin America have also been announced in concert with the initiative.

In addition, recognizing that the transition toward sustainable land-use practices on degraded land can require enabling investments, assistance will be provided for accessing financial and technical resources. This will be done primarily in support of an emerging financial architecture for land restoration in Latin America.

Financial architecture for 20x20

Under 20x20, financial resources for restoration are being identified. The emerging financial architecture includes impact capital, mechanisms to reduce the risks of investment in restoration, and long-term debt financing.

- **Impact capital**

Impact capital is being sought for earmarks in land restoration in the region. To date, five groups have committed about USD 380 million for land restoration. The initiative ultimately seeks a USD 1 billion earmark. The different groups are already developing a portfolio and investing in restoration schemes in the region, targeting sound agroforestry, silvopastoral and agricultural practices, reforestation and avoided deforestation. Throughout the process, the investors stand to gain from the partners' support, whether it is in linking with potential projects (from a country project portfolio) or technical assistance that supports the investments and underlying projects. They could also benefit from the proposed risk mitigation mechanism.

- **Risk mitigating instrument**

Initiative 20x20 also proposes a risk mitigation mechanism that will lower the risk for investors in land restoration. The instrument aims to facilitate private

sector investments in land restoration and compensate for some of the initial barriers. The risk mitigating instrument will cover the first 10% of any project's losses. All resources needed to face the losses are anticipated to be sourced from the Global Environment Facility private set-aside and/or LAIF and may be delivered by the implementing agencies. The Inter-American Development Bank (IDB) is considering becoming the implementing agency. The mechanism is expected to be sized to cover about USD 1 billion in investments.

- **Debt financing**

Initiative 20x20 also seeks to channel ongoing restoration efforts (projects from organizations or other initiatives) to sources of debt financing. Sources like the IDB, the German Development Bank (KfW) or Development Bank of Latin America (CAF) can fund a project individually or co-finance the work of the impact investors. Particularly, CAF and IDB are exploring schemes to deliver debt resources to medium and small projects in the Latin American region. This will complement efforts to reach large projects through existing financing products. It is anticipated that at least USD 3 billion in demand for long-term debt financing will be generated through Initiative 20x20.

Representative questions for discussion

Participants at the Global Landscapes Forum: The Investment Case in London on 10 June can explore several questions related to this topic, including but not limited to:

- **How to match the level of ambition in enabling investments to the level of ambition in asset investments?** To date, the pace and level of ambition of “asset investments” have been higher than the pace and level of ambition for “enabling investments”, i.e. the private sector impact investors are demonstrating leadership through a strong desire to make asset investments immediately. However, issues often need to be addressed in the enabling investment before asset investments can be placed. But enabling finance has been slower to emerge. What strategies can be deployed to address this?
- **How to deliver effective risk management mechanisms?** Who could be involved? How to structure the first-loss guarantee (i.e. first loss for whom)?
- **How to stimulate bankable deal flow?** What capacities need to be built? What role does a larger pool of available capital play in stimulating deal flow? Who has experience in this area? What level of deal flow is needed to reach the level of ambition of the Bonn Challenge? What role can/should NGOs like WRI, IUCN and others play in stimulating deal flow?

Background documents

1. **Little Forest Finance Book**
<http://www.globalcanopy.org/sites/default/files/little-forest-finance-book.pdf>
2. **Guide to investing in locally controlled forestry**
<https://cmsdata.iucn.org/downloads/lcf.pdf>
3. **LPFN financing strategies for integrated landscape investment**
<http://peoplefoodandnature.org/publication/financing-strategies-for-integrated-landscape-investment/>

Case study

Additional information on Initiative 20x20 from the WRI website: <http://www.wri.org/our-work/project/initiative-20x20>



Global Landscapes Forum | *London*

The Investment Case

10 June 2015, London

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