

White Paper

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Risk reduction measures for private sector investment in landscape restoration



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What do participants need to know about the topic?

Restoring landscapes is a complex endeavor. Without **sufficient motivation**, public and private sector decision-makers and the people living within landscapes will not change their land use or land management practices in a manner that fosters restoration. Without the **right enabling conditions**, land use and land management practices will not change either – even if decision-makers are sufficiently motivated. Without **adequate implementation capacity and resources**, successful restoration over the long term will not occur – even if motivation and enabling conditions are present. All three are needed.¹

The private sector plays a pivotal role in achieving landscape restoration. For instance, the most important drivers of deforestation and degradation are commercial agriculture, timber extraction and mining, followed by more subsistence-driven activities.² Private businesses are frequently the driving force in these sectors and thus must be involved in restoration of degraded lands and forests. To this end, strategies and policies are needed to motivate private sector investment in landscape restoration, create the right enabling conditions for such investments and establish the implementation capacity and resources for restoration. The public sector role is in creating the investment climate and enabling conditions for landscape restoration. Business or investment climate is defined as the economic and financial conditions in a country that affect whether individuals and businesses are willing to lend money and acquire a stake in businesses operating there. Investment climate is affected by many factors, including poverty, crime, infrastructure, workforce, national security, political instability, regime uncertainty, taxes, rule of law, property rights, government regulations, government transparency and government accountability.³

Uncertainties in investment climates have undermined attempts to engage the private sector in landscape restoration. In this session we will discuss general elements for improving the investment environment for landscape restoration and the role of the public sector in reducing the risks for private investments.

¹ Hanson C, Buckingham K, DeWitt S and Laestadius L. 2015. The Restoration Diagnostic – A Method for Developing Forest Landscape Restoration Strategies by Rapidly Assessing the Status of Key Success Factors. Washington, DC: World Resources Institute.

² Hosonuma N, Herold M, De Sy V, De Fries Ruth S, Brockhaus M, Verchot L, Angelsen A and Romijn E. 2012. An assessment of deforestation and forest degradation drivers in developing countries. *Environmental Research Letters* 7(4) cited in Hennemann I. 2013. *The Opportunities for External Business Investments in Landscape Restoration*. Centre for Development Innovation (CDI-WUR).

³ Castrén T, Katila M and Lehtonen P. 2014. *Business Climate for Forest Investments: A Survey*. Washington, DC: Program on Forests (PROFOR).

What are the current challenges in relation to the topic?

Landscape restoration has gained prominence in recent years and there are some successful case studies. For instance, the Consumer Goods Forum, which counts 400 companies representing over USD 3 trillion in revenue as members, is committed to achieving zero net deforestation in key commodity supply chains by 2020.⁴ The Tropical Forest Alliance 2020, a public-private coalition, aims to reduce commodity-driven deforestation by 2020. In addition, private partners have committed to global restoration targets through the Bonn Challenge, which aims to restore 150 million hectares of land around the world by 2020, and the New York Declaration on Forests, which extends the Bonn Challenge to 350 million hectares by 2030. They have also embraced regional initiatives like the African Forest Landscape Restoration Initiative (AFR100), a country-led effort to restore 100 million hectares of land in Africa by 2030, the African Resilient Landscapes Initiative (ARLI) to promote integrated landscape management with the goal of adapting to and mitigating climate change, and the Initiative 20x20, a country-led effort to restore 20 million hectares of land in Latin America and the Caribbean by 2020. Other successful country-level cases are those in Liberia and Paraguay, illustrated in detail in the box.

While these initiatives and pledges represent tremendous progress, there is still much to be done to deliver on these commitments. Lessons, tools and policy recommendations need to be exchanged to enable further progress and scale up to broader landscape levels.

Case studies

Liberia - Forest Sector Project

The Liberia Forest Sector Project (LFSP), to be financed with a USD 36.7 million grant from the government of Norway, marks Liberia's commitment to take informed risk in the forest sector to maximize its contribution to the country's economy through poverty alleviation, job creation and growth. It will support Liberia's transition from the commercial management of forests to integrating conservation and community-driven management.

The private sector's full and active participation has been identified as a key element in the project's success. Liberia will not be able to achieve sustainable, low-carbon development without the private sector addressing its own contributions to carbon emissions while simultaneously striving to increase investment, productivity, growth and employment. The LFSP will engage with the private sector at three levels: (a) community forest enterprises establishing joint ventures with involvement of the private sector; (b) public-private partnerships for sustainable agriculture with individual farmers, including the expansion of the tree crops model that has already been tested in the country with the support of the World Bank; and (c) promotion of biodiversity offsets with the mining sector. The project will not support outgrower schemes involving large-scale monocultures in agriculture concession areas. In addition, the LFSP will complement the work of other projects such as the "Green Growth: Achieving forest conservation in commercially productive landscapes in Indonesia, Liberia and Brazil" project that aims to create, through the High Carbon Stock approach, deforestation-free supply chains at scale by forging committed public-private partnerships for jurisdictional and landscape approaches to be implemented with support from the Sustainable Trade Initiative and financial leverage from the government of Norway.

⁴ See http://www.theconsumergoodsforum.com/sustainability-strategic-focus/ sustainability-resolutions/deforestation-resolution

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Paraguay – Conservation of Biodiversity and Sustainable Land Management in the Atlantic Forest of Eastern Paraguay

The objective of the project is to assist the government of Paraguay in its efforts to reduce the deforestation rate and associated biodiversity loss within the productive landscape of the Paraguayan Atlantic Forest through developing connectivity within a conservation corridor, improving the protected area system and strengthening the policy framework and enforcement mechanisms. The project is being implemented by a public-private partnership between Itaipu Binacional (in charge of the world's largest hydroelectric power plant) and the Ministry of Agriculture and Livestock and the Secretary of Environment. It has successfully involved the private sector and has successfully promoted sustainable land management practices in 125,000 hectares of Paraguayan forests. More than 36,000 hectares have been made ecologically viable in a "Biodiversity Corridor," while almost 4,000 local residents have been trained in forest management and conservation. More than 55 indigenous communities have benefited, including the Mbya Guarani, Ache, Avá Guaraní and Pai Tavytera peoples, representing more than 11,000 inhabitants. The project aims to make Paraguay a world leader in recovering biological connectivity and promoting sustainable development.

Which concrete measures do you propose to overcome these challenges?

The public sector plays an important role in improving the investment climate through policies to address the uncertainties outlined above. Most of the policy approaches to manage risk of investments in sustainable landscapes can be divided into the following three major categories:

A. Economic incentives

Lack of financial and human capital can be major barriers towards integrated landscape management. Several options are available to help encourage investment and reconcile differences in perceptions between winners and losers from integrated landscape management initiatives. Below are some examples:

- **Public investments**. Government subsidies and other public investments can be provided during the initial stages of a landscape initiative to help cover upfront costs, build stakeholder capacity and establish value chains for products from restored areas, thus reducing the risks for a business to invest in longer term restoration. Additionally, food and cash payments for implementation of sustainable land management interventions can help overcome short-term opportunity costs for producer groups.
- Payments for ecosystem services (PES). PES schemes are designed to internalize environmental externalities and provide incentives for investing in the provision of ecosystem services. Several PES schemes have been developed, including:

- 1. public payment schemes that commonly involve direct payments from, for example, a government agency, to landowners to enhance ecosystem services
- 2. formal markets with platforms to allow trading of ecosystem service credits of, for example, carbon and water quality, between buyers (polluters) and sellers (landowners)
- 3. self-organized private deals where individual beneficiaries of ecosystem services contract directly with landowners to enhance those services
- 4. eco-labeling schemes that assure consumers that products were sustainably made. The market for products that comply with voluntary sustainability standards is increasing significantly.⁵ Government support to foster such markets includes supporting the certification processes for producers and providing to the stakeholders involved reliable information on products with multiple certification and pricing information.
- Innovative financing mechanisms that meet multiple objectives and reduce investment risk. Some means to encourage private investments and reduce risks include private and public sector insurance, risk guarantee mechanisms, long-term bonds and finance coordination mechanisms. Tailored loan facilities can be established in existing national development banks or other financing institutions.

B. Regulatory instruments

Government agencies can help reduce risks of integrated landscape management and encourage uptake through a variety of regulatory instruments that help to clarify stakeholder roles, reduce the potential for conflict and overcome redundancies and inefficiencies in current efforts to address food security, natural resource restoration and ecosystem health. Examples include:

- Develop legislation and institutions to facilitate public-private partnerships. These have proven effective in combining the business skills and efficiency of the private sector with the risk-bearing capacity of the public sector. Governments should be encouraged to develop legislation and institutions that are able to establish partnerships with private sector investors.
- Policies that clarify rights and responsibilities. Individuals and communities whose land management activities influence a landscape should have clearly defined land and resource rights and land use responsibilities.
- Mechanisms for conflict resolution. Governments can act to establish mechanisms for conflict resolution and compensation that are transparent and accessible to all parties involved.
- Strategies to harmonize and coordinate resources for restoration programs and projects. Governments can act to promote systematic integration of stakeholders, including the private sector, by developing strategies and policies to improve communication to make landscape-level restoration initiatives more targeted and reduce programmatic redundancies.
- Laws and regulations requiring restoration. One key success factor to motivate restoration initiatives – including involvement of the private sector – is the existence of laws that require restoration⁶, for example, legislation that requires land managers to allow tree recovery or to replant trees in forest areas that have been cleared. These laws need to be broadly understood and enforced in a visible, credible and fair manner.
- Action against illegal extraction of natural resources. Illegal extraction of natural resources not only tarnishes the reputation of the sectors, but also causes negative social and environmental impacts.

⁵ According to a 2015 Nielsen survey, 66 percent of global consumers say they are willing to pay more for sustainable products (an increase from 55 percent in 2014). Lernoud J, et al 2015.

⁶ Hanson G, Buckingham K, DeWitt S and Laestadius L. 2015. *The Restoration Diagnostic – A Method for Developing Forest Landscape Restoration Strategies by Rapidly Assessing the Status of Key Success Factors*. Washington, DC: World Resources Institute.

C. Technical assistance and knowledge-sharing

Lack of information can be a major barrier towards effective adoption of integrated landscape management and sustainable land management interventions. Policies that can contribute to reducing information barriers and improving acceptance include:

- **Technical guidance documents**. Policies can promote dissemination of information through guidance documents and targeted meetings to help reduce information barriers and increase awareness of the benefits of landscape approaches.
- Investor platforms, special meetings and road shows. Bring together
 potential investors and other key stakeholders for information exchange and
 networking. The organization of such events can be easily outsourced to
 private sector associations or chambers of commerce, national investment
 promotion agencies or similar organizations. The establishment of associations
 with SMEs and building partnerships with larger companies will complement
 these actions.
- Farmer-to-farmer learning. Government agencies can motivate by facilitating cross-visits, farmer-to-farmer visits, peer-to-peer learning and other means of information sharing, communication and outreach to help scale-up interventions.

- Creation of coordinating platforms and knowledge systems. Better systems for information sharing can be implemented by governments as a key step towards improving coordination for landscape restoration, identifying risks and establishing joint mitigation measures.
- Develop tools to calculate risks and returns from integrated landscape management. Government agencies can support cross-sectoral investments and participation in integrated landscape management by improving awareness of risks and returns on investment for farmers, donors/financiers and other relevant stakeholders. Governments have a key role in the crucial task of identifying the returns for businesses to invest in landscape restoration.

Together, the above approaches and interventions call for sustained political commitment to restoration. This commitment (at multiple governmental levels if relevant) gives a strong, positive and clear message to private investors towards landscape restoration. It is then the role of international development agencies to support governments in policy, institutions and economics to create the enabling environment and minimize the risks involved in investing long-term in landscape restoration.

What are the remaining open questions?

- What is the role of the financial sector to reduce risks for private investments in landscape restoration?
- How can development agencies support governments to provide the enabling environment for private investments in forest restoration?
- What is the right mix of market versus regulatory measures to create the enabling environment for private investments?
- What additional incentives can motivate private investment in restoration?

What are your proposed milestones for implementation?

By looking at concrete examples in Liberia and other countries, the session will showcase the milestones required for implementation.

Who carries responsibility for/ can support implementation?

The session will look at specific case studies to show the role of each actor.

Background documents

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The Investment Case

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