



Global
Landscapes
Forum



Photo by Marco Simola/CIFOR

White Paper

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Thinking medium before we think big

The role of program-related, angel and venture capital
in financing landscape startups



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Nature Services Peru, Map of Agriculture and International Woodland Company

What next?

As the world population climbs towards 10 billion and consumption in the world's emerging economies increases, society faces a production-protection imperative in its agricultural, forestry and natural landscapes. In order to transform our current linear economic model to a more efficient and resilient circular economy¹, the full costs and benefits of both the provisioning and regulatory services of landscapes need to be more fully integrated into global supply chains and the broader economy.

Integrated landscape management, territorial performance systems, the landscape approach and other strategies are being championed for achieving this objective. These strategies advocate integrated solutions by systems of multiple actors. Through processes of collaboration and competition, hierarchical actors like governments and development institutions, egalitarian actors like non-governmental and community organizations, and commercial actors like companies and exchanges will need to reach their multiple and often contradictory landscape objectives. However, for the emergence of new organizational and technological systems², investment in new businesses and knowledge generation networks is crucial.

1 [WEF] World Economic Forum. 2014. *Towards the Circular Economy: Accelerating the scale-up across global supply chains*. Geneva, Switzerland: WEF.

2 We view the emergence of the landscape management sector as a systemic process as described by Hughes T. 1987. *The Evolution of Large Technological Systems*. In Wiebe E. Bijker et al. eds. *The Social Construction of Technological Systems*. Cambridge, MA: MIT Press.

Current challenges

Investing in new businesses is risky by nature. Nine out of 10 businesses fail in their first five years. Investors with a significant risk appetite will need to engage with startup landscape companies in order for the sector to grow. In parallel, enabling investments in public policies, market arrangements and physical infrastructure will need to take place to accompany commercial investments in their formative stages.

Major current constraints to mobilizing finance for commercial landscape investments include short time horizons required for returns by most investors, a mismatch between investment stake and size of investment opportunities and high investment risk versus return potential.³ We suggest that to a large extent these constraints are related to the mismatch between the stage of maturity of the sector and the type of financial services being provided. Much of the landscape investment discussion to date has focused on multilateral institutions, investment funds, bank loans and capital markets – which are financial instruments that normally scale in the later stages of a firm or industry (see Figure 1).

This claim is backed by the most recent report of the Global Impact Investing Network (GIIN)⁴, which highlights the lack of appropriate types of capital across the risk-return spectrum. Impact seed and venture capital investors that do not necessarily require high returns, and high-quality investment opportunities with

3 Clarvis MH. 2014. Review of financing institutions and mechanisms. In Shames S, ed. *Financing Strategies for Integrated Landscape Investment*. Washington, DC: EcoAgriculture Partners, on behalf of the Landscapes for People, Food and Nature Initiative.

4 [GIIN] Global Impact Investing Network. 2016. *Annual Impact Investor Survey*. New York: GIIN.

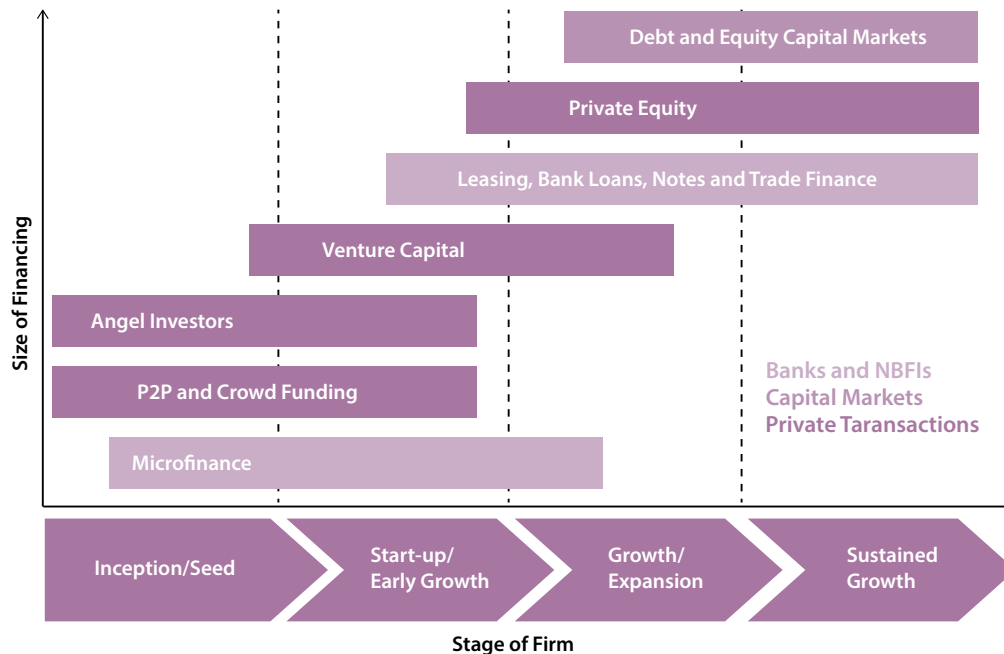


Figure 1. Relationship of various financing options to the stage of the firm

Source: Credit Suisse, Climate Bonds Initiative, Clarmondial, 2016. Levering ecosystems: A business-focused perspective on how debt supports investments in ecosystem services. Geneva: Credit Suisse.

track records (companies with a proven business model), have been identified as the most significant challenges for the growth of the impact investing industry. We need to see investment in thousands of landscape management startups, and this may not happen quickly before capital markets and investment fund participation in the sector matures.⁵

The 158 respondents to the latest GIIN annual impact investor survey had USD 77.4 billion in assets under management in 2015, of which only 6 percent was committed to the agriculture and food sector and two percent to the conservation sector. Respondents committed a total of USD 15.2 billion to 7,551 impact investing deals last year and planned to increase investments by 16 percent in 2016. Though social investments have to date been the key theme in the impact sector, environmental impact investing is on the rise, especially in the agriculture, technology and food subsectors^{5,6}. In effect, as can be seen in Figure 2, investing in sustainable landscapes and investing in renewable energies appear to be the two key overarching themes for the impact investing community.

⁵ See <http://www.landscapes.org/the-missing-middle-why-market-based-efforts-to-sustain-natural-landscapes-will-not-scale>.

⁶ Valoral Advisors. 2015. *2015 Global Food & Agriculture Investment Outlook 2015: Institutional investors meet farmers*. Buenos Aires, Argentina: Valoral Advisors.

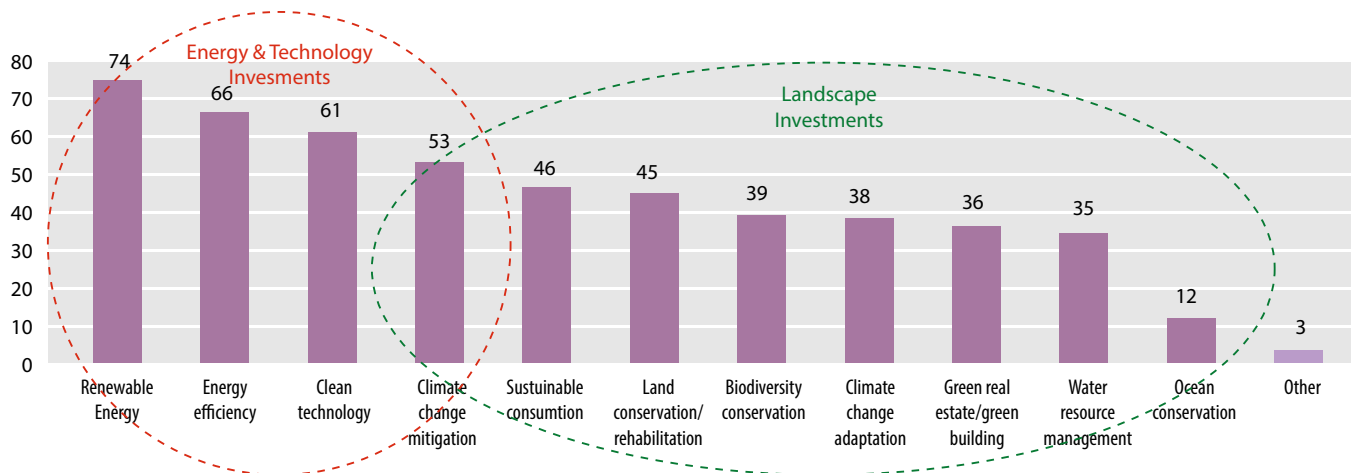


Figure 2. Environment impact themes targeted by number of respondents

Respondents could select multiple options; number of respondents that selected each option shown above each bar.

Source: Adapted by authors from. GII 2016 Annual Impact Investor Survey

Concrete measures to overcome obstacles

Angel investors – people investing in the inception and early stages of businesses whose values and purpose they share – normally commit between USD 5,000 to 500,000 to a company, as well as substantial personal time, technical expertise and networks. It is this investment of ideas, time and reputation that differentiates angels from other investors, and that is crucial in sectors where the rules of the game are as yet uncertain or ambiguous.

The range of venture capital investments is broad; it is fairly common for individual investments to range from USD 500,000 to five million. Venture capital

firms are professional organizations working in a high-risk environment, so normally expect a return on investment above 20 to 25 percent. They therefore look for companies with proven cash flows and clear growth potential.

Peer-to-peer (P2P) and crowd finance are two forms of angel and seed investing that have been greatly enhanced with the globalization of internet use, and are allowing micro-investments (anything from USD one dollar upwards) and seed investments to occur with much reduced transaction costs.

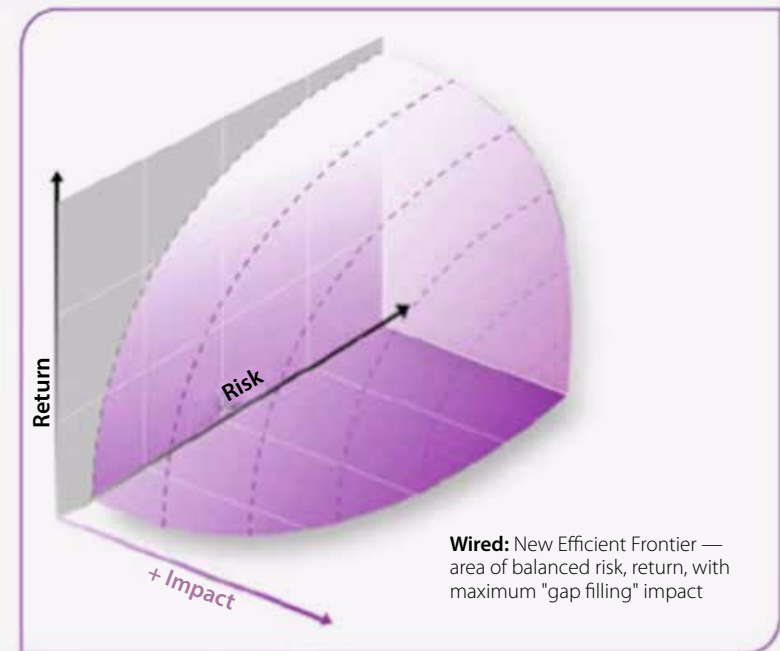
We suggest that key foundations engaged in the agriculture and conservation sectors have a key role to play in addition to the angel and venture capital investment ecosystem through their program-related investment (PRI) decisions. Intrapreneurs, or well-established businesses seeking to venture into unproven landscape investment models, present an alternative requirement to other small and medium-sized enterprises (SMEs). They do not need the business development support provided by angel investors and require a certain investor solidity not provided by P2P lending. Intrapreneurs are more likely to have a budget for business development, but it is unlikely sufficient to cover the longer ecosystem management horizons required to produce a scalable landscape investment model. For this, they require impact-first investors or large donor agencies that value the track record of the business in general, and have impact objectives aligned with those proposed by the intrapreneur's proposed innovation.

Models of blended capital that combine donor finance for a measurable social and/or environmental impact combined with patient capital from an impact investor, who would receive financial returns on the investment, need to be explored and lessons learned communicated from these innovative financing structures. We also need to better articulate program-related, angel and venture capital investors to the rest of the investment ecosystem through processes like the Global Landscapes Forum so they can focus their resources on the most promising landscape management companies globally.

The investment sector is heavily data reliant. A dearth of dependable information, similar to that available for other asset classes, may also be inhibiting landscape-related investment. Public and program-related enabling investments in the collective provision of landscape-focused information infrastructure that both commercial and not-for-profit organizations can use, as well as commercial investments in new data provider companies, are key. This is vital to better understand the risk-return profiles in the landscape finance continuum and how they differ across geographies and sectors.

Remaining open questions

Does the concept of the efficient frontier describe fully the characteristics of landscape investments, be they in agriculture, timber or conservation enterprises? Or do we need new metrics that explicitly supplement these financial performance variables with environmental and social impact key performance indicators, such as those available in the IRIS catalogue⁷ developed by GIIN?



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7 See <https://iris.thegiin.org/metrics>.

Such an extension beyond narrowly measured risks and returns would allow a deeper understanding of investment propositions, including the potential impact of environmental and social developments on economic performance. The developing perspective of the “Universal Owner” emphasizes that large investors “own a slice of the whole economy and the market”, and that effects that might otherwise be externalities very rapidly become internalized.⁸

Current economic research argues that long-term investments in natural capital should be evaluated with discount rates that decrease with time⁹, an argument that could probably be applied to investments in soil and biodiversity that are applicable across agricultural, forestry and natural landscapes. In light of this, what returns are possible and acceptable across landscape sectors, and what are the timeframes for such investments (i.e. investing in sustainable agriculture vs. investing in national parks)?

8 Urwin R. 2011. Pension Funds as Universal Owners: Opportunity Beckons and Leadership Calls. *Rotman International Journal of Pension Management*. 4(1):26-33. Available at: [http://rijpm.com/admin/article_files/fulltext_\(5\).pdf](http://rijpm.com/admin/article_files/fulltext_(5).pdf)

9 Hepburn C and Gosnell G. 2013. Evaluating impacts in the distant future: cost-benefit analysis, discounting and the alternatives *In* Atkinson G, Dietz S, Neumayer E and Agarwala M. eds. *Handbook of Sustainable Development*. New York: Edward Elgar Publications.

What are the proposed milestones and who are the key actors?

To bring the aforementioned missing middle financiers to develop integrated landscape SMEs, the following needs to be achieved:

Milestone	Enabling actors
Research and subsequent publicly available data on the landscape “asset class” so that investors can make informed decisions	Independent research organizations and business consultancies with connections and interest to both the private and public sector to spearhead (CGIAR, GIIN, others????)
A robust set of impact metrics that both landscape enterprises and investors can relate to	Review GIIN/IRIS within integrated landscape investment logic
A network that creates a bridge between a pipeline of solid, investable small and medium-sized landscape enterprises and the investors sharing the same objectives	Supranational organizations such as the World Bank/IFC, World Economic Forum or coalition of environmental foundations, with input from incubator advisors, SMEs, financiers, NGOs, etc.
A resource base of case studies of proven blended finance models that appeal to both finance-first and impact-first investors, and act as inspiration to SMEs	Supranational organizations, such as the World Bank/IFC or large foundations, with input from SMEs, NGOs, DFIs, governments, etc.



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Coordinating partners



Strategic partners



Funding partners



Authors

