Learning event "Landscape Finance"

July 4, Amsterdam

Introduction

The second landscape learning event was organised around the hot topic of landscape finance.

The preparatory team was composed of the following members: Joost van Montfoort, Jan Willem den Besten (IUCN) Nathalie van Haren, Paul Wolvekamp (Both ENDS), Cora van Oosten (CDI), André Brasser (Beagle-secretary).

The facilitator of the day was Caroline Leenderts (RVO-NL).

Central questions for the day were: What is meant by landscape finance; and how can landscape programmes access to larger investments? Guiding were the two plenary prsentations of Carolijn Gommans (ENCLUDE), and Edit Kiss (ALTHELIA).

Programme of the day:

12.00 Welcome & Opening by Director IUCN
13.10 Introduction to landscape finance by Carolijn Gommans (ENCLUDE)
13.30 Assessing the status of Landscape Finance Cases (tool)
13:45 A real life case presented by Edit Kiss (Althelia Climate Fund)
14:00 Group work:
3 guiding questions (for 7 cases):

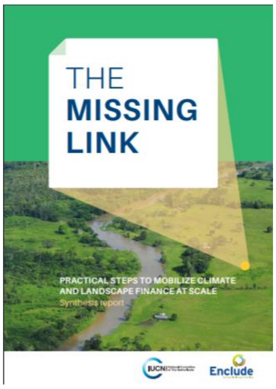
1. *What exactly has to be financed within your landscape?*
2. *How much finance is actually needed?*
3. *What are the incentives for investors to come in?*

16:30 Moving on in Landscape Finance: plenary discussion and lessons learned
16.50 Wrap up and closure, networking time and drinks

1. Introduction to landscape finance: Carolijn Gommans – Enclude Solutions.

Presentation Here

Carolijn Gommans shared the results of the study "Missing Link - Connecting international capital markets with sustainable landscape investments", carried out by ENCLUDE, together with Wageningen University. The study states that landscapes offer new opportunities for investors to combine economic interests with social and environmental responsibility. Landscape investment however differs from other kinds of sustainable investment in the sense that ideally, landscape investment is not focused on investments in one land management unit (e.g. farm or concession) managed by one landowner or manager. Rather, it is focused on larger spatial units, with recognition of a variety of land uses carried out by multiple stakeholders and entrepreneurs.

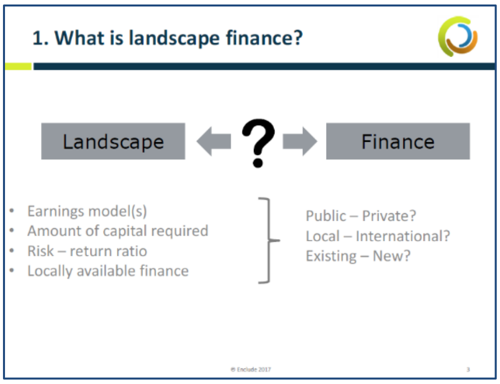


The document presents three key factors that make landscape investments successful, which are:

- *Aggregation:* Many landscape projects are small in scale and must therefore be bundled in order to make the potential returns match the transaction and monitoring costs associated with executing an investment. This however means that there is a need for an additional layer of facilitation and management, and associated costs. Fund managers may rely on local (non-profit) partners to play this intermediary role of assessing projects, tailoring financial supply, funnelling financial resources to end-users, and monitoring their activities.

- *Active role of the government*: Governments are increasingly searching for ways to build the capacity of landscape programmes and partners to absorb private capital. This includes (international) support for programmes in spatial planning and technical assistance for the design and implementation of landscape programmes. Furthermore, governments are increasingly playing an important role in providing catalytic funding for newly developed initiatives in which investors are still reluctant to invest.

- *Risk mitigation:* Due to the early stages of development of landscape investments the most common forms of risk mitigation are blended finance and technical assistance. In addition, landscape programmes, by design, address risk through their holistic approach and responsible use of resources.

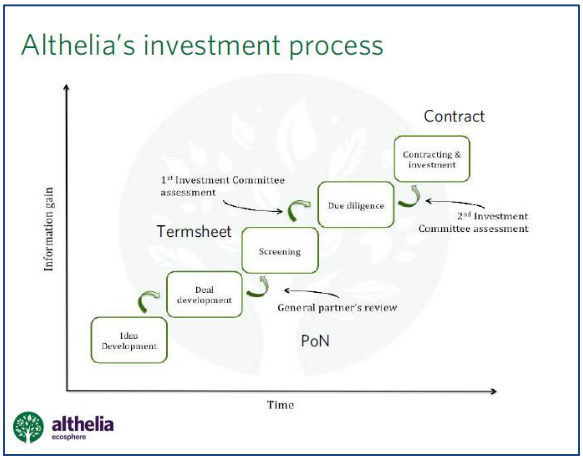


In summary, the field of landscape finance is still in its early stages of development. Impact-oriented investors, such as foundations, development finance institutions and financially powerful individuals can bring in the capital which is more flexible and risk-taking to support the proof of concept of innovative yet risky landscape programmes. Once there are more successful examples, institutional investors could responsibly step in, and gradually take up a more important role. If institutional investors are to become more active in landscape finance, they will have to develop more flexibility in terms of asset class, sector focus and minimum size of investment, to be able to participate effectively and responsively.

2. An example of landscape finance: Edit Kiss – Althelia Climate Fund

Presentation Here

Althelia's Climate Fund follows a truly spatial or 'place-based' landscape approach, and capitalizes on a landscape's multi-functionality, and the variety of goods and services that it provides. Althelia focuses on achieving complementarity between production and protection, and regards these as leverage points for investments. For each of its landscapes, Althelia designs an integrated investment model, based on a combination of goods (e.g. cocoa and coffee), and services (e.g. carbon sequestration and water retention). In this way, it combines the conservation of natural ecosystems with sustainable commercial activities, whilst supporting the livelihoods of traditional and migrant communities.



Althelia's mission is really to trigger a reflection on the value of natural capital, which can create new environmental assets, leading to more sustainable land use where production does not have to be at the expense of natural ecosystems. Investing in sustainable land use generates the real assets with environmental assets, thus building multiple revenue streams which together generate positive social and environmental impacts. A good example of this is presented by an investment case in the Carribean Guatamala landscape, which combines agroforestry, ecotourism and REDD+. It purchasing strategic land patches of remaining natural forests to put under protection, while at the same time introducing agroforestry systems outside of these natural forests. It provides additional services such as environmental education, community association, and strengthening participatory governance. Besides income from protection and production, the

programme has created additional ecotourism opportunities, to bring additional revenues and jobs to the landscape.

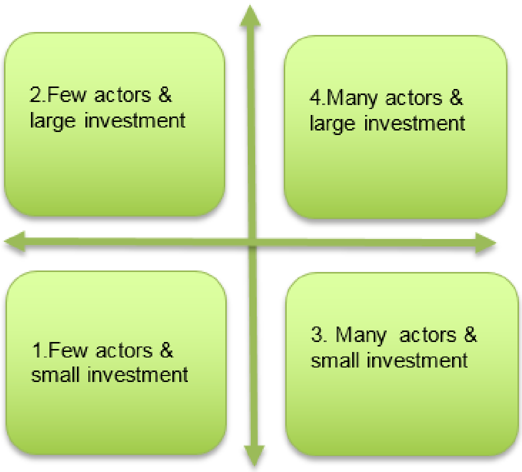
Based on its growing experience, Althelia has identified six factors for success:

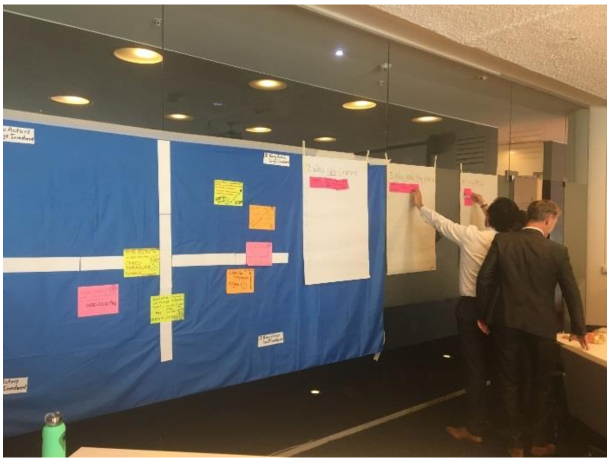
1. See and articulate the opportunities where others see challenges
2. Build coalitions wherever needed and possible
3. Blend finance based on the mapping of a landscape's financial needs, the desired outcomes and the potential impacts
4. Build a diversified revenue model
5. Ensure maximum creativity in providing collateral and securing finance
6. Assist clients to move from a "donation" mind-set towards social entrepreneurship

3. Assessing our own landscape investment cases

In order to assess our own cases of landscape finance, Jan Willem den Besten from IUCN introduced an easy tool that helps getting grip on your own investment case. The tool consists of a matrix with four quadrants, representing four types of investment cases, representing an increasing level of complexity:

1. A case with few actors, and relatively small investment required (e.g. traditional and small-scale development projects led by NGOs)
2. A case with few actors, and large investment required (e.g. large scale re-greening programme, restoring agricultural lands)
3. A case with many actors, and relatively small investment required (e.g. mosaic landscape with many smallholders having small projects only)
4. A case with many actors, and large investment required (e.g. upscaling smaller activities in a mosaic landscape to a much higher scale)





1. The matrix

2. Plotting our cases

As shown in the picture, most cases presented found themselves in the quadrant of few actors and small investments, or many actors and large investments.

Through group work, seven cases were presented, discussed and analysed, with the aim to strengthen the cases, and constructively learn. Several financial experts joint us, to give professional feedback and extra assistance. This additional expertise raised the level of discussions, and highlighted many of us, not having a financial background.

Guiding questions for each of the cases were:

1. What exactly has to be financed (what is your business case)
2. Who do you think could/should finance that need?
3. Why would they be interested to step in, and which are the incentives that will help them step in?

(see case descriptions at the end of this document)

4. The Key lessons that we learned

There were many lessons that we learned during the day. Lessons which relate to the landscapes we are working in, to the actors and inhabitants living in the landscapes, to the potential investors we are looking for, and to the programmes we are building or implementing. These lessons are:

1. *Lessons for landscapes*

Many landscapes need substantial finance. But before accepting any investment fund to intervene, landscape actors should think of the following criteria:

- Does the investment fund have a presence in the landscape? Can it be approached?
- Is the investment fund involved in landscape level processes and landscape level dialogue?
- Does the investment fund include multiple revenue streams derived from the landscape?
- Is there a monitoring system that measures the impact of the investment on the landscape, in economic, social and environmental terms?

2. *Lessons for Investors*

There are well-managed, commercially attractive opportunities to invest in landscapes. But it requires creative risk-sharing structures and partnership models, as well as technical assistance on the ground. Criteria that make a landscape appealing to an investor are:

- Current scale (capital raised to date)
- Appealing structure for institutional investors
- Good risk/return profile for institutional investors
- Track record of the fund (evidence of success of the fund manager and/or the fund itself)

3. *Lessons for Governments*

Official Development Assistance can be effectively used to leverage private capital. As the funding available for Official Development Assistance is drying up globally, it is important for Governments to think about how the funding that is still available can be used most effectively. Government funding can be used to attract private capital that would otherwise not have invested, due to the risk/ return profile of such projects. It is through such blended finance structures that additional capital can be put at use to further development in key target geographies and sectors.

4. *Lessons for landscape programmes:*

Landscape programmes are developed in different stages, each of which having its own requirements in terms of financial needs and type of finance. Some key factors for success, to be taken into account:

- Aggregation (bringing together a range of projects into one investable portfolio)
- Risk Mitigation (technical assistance, blended finance, stakeholder engagement)
- A constructive and proactive role of the Government (catalytic support through technical assistance & blended finance and policies that make a business case to invest in nature conservation)

5. Lessons for NGOs. CBOs and other landscape actors

Very important yet often forgotten is the issue of human rights. Any landscape investment is obliged to take into account basic human rights, especially related to the right to access and use resources, land tenure, special indigenous peoples' rights, and the right on a clean and healthy environment.

- Collaboration with (local) NGOs and CBOs are essential for successful landscape investments as these can help identify opportunities and provide credibility.
- Smallholders often face difficulty gaining access to loans. How to include and support these stakeholders?
- Blended structures can be used to attract private capital for landscape based initiatives.
- Upscaling requires a business model, one needs to prove delivery mechanism and think of 1) income generation activities 2) using existing delivery model (e.g. farmer field schools and existing cooperatives)

5. Glossary Landscape Finance

As the topic of landscape finance is quite new to many of us, the following glossary may be useful, to get familiar with the most frequently used financial concepts:

Aggregation: Many landscape projects are small in scale and must therefore be bundled with other investments in order to make the potential returns match the transaction and monitoring costs associated with executing an investment (Enclude)

Business case : is an argument, usually documented, that is intended to convince a decision maker to approve some kind of action. The business case has to articulate a clear path to an attractive return on investment (ROI) (whatis.techtarget)

Capital: Refers to financial assets or the financial value of assets, such as funds held in deposit accounts, as well as the tangible machinery and production equipment used in environments such as factories and other manufacturing facilities (investopedia)

Financial return/return on investment (ROI): measures the amount of return on an investment relative to the investment's cost (investopedia)

Institutional investor: An entity which pools money to purchase securities, real property, and other investment assets or originate loans. Institutional investors include banks, insurance companies, pensions, hedge funds, REITs, investment advisors, endowments, and mutual funds (Wikipedia)

Landscape: Geographical construct that includes not only the biophysical components of an area but also social, political, psychological and other components of that system (Sayer et al, 2007:2679).

Landscape approach: Managing complex landscapes in an integrated fashion, in a holistic fashion, incorporating all the different land uses within those landscapes in a single management process *(CIFOR)*

Landscape restoration: Turning barren or degraded areas of land into healthy, fertile, working landscapes where local communities, ecosystems and other stakeholders can cohabit, sustainably (IUCN, 2013)

Mixed / blended finance: The strategic combination of public and philanthropic funds, to mitigate risks and to mobilize private capital flows to investment programmes (Enclude)

Public-private partnerships: collaboration between a government agency and private-sector company can be used to finance, build and operate projects (investopedia)

Risk mitigation: A systematic reduction in the extent of exposure to a risk and/or the likelihood of its occurrence (businessdictionary) Due to the early stages of development of landscape investments the most common forms of risk mitigation are blended finance and technical assistance. In addition, we argue that landscape projects, by design, address risk through their holistic approach and responsible use of resources (Enclude)

Risks return ratio: The expected returns of an investment to the amount of risk undertaken to capture these returns (Investopedia)

Types of finance:

- **Loan:** money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest (investopedia)
- **Grant:** A transfer of money for the purposes of funding a specific project or program. Grant money is not a loan, and does not have to be repaid, but it does have to be spent according to certain guidelines(investopedia)

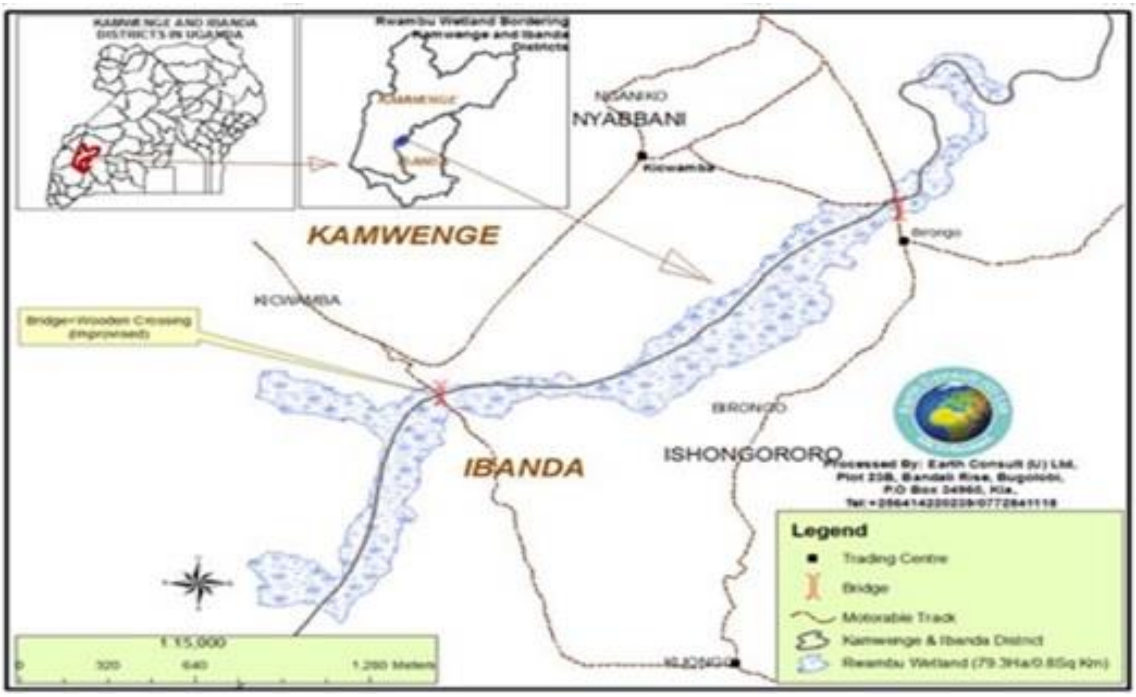
6. Description of the cases presented

1. Aidenvironment – Uganda, Rwambu landscape

n 2012 RAIN with financial support from the Dutch WASH Alliance, started a pilot to test an integrated approach to agricultural land management, wetland protection and Water Sanitation and Hygiene (WASH) service provision at landscape level in Rwambu area, Uganda. More specifically it aimed to demonstrate how wetland restoration and management coupled with in-situ rainwater harvesting could be integrated at catchment level to sustain WASH.

Current challenges in the landscapes include natural resources that are being depleted: dried wells/erosion/removal of trees for charcoal/population growth. In this project RAIN promoted integrated solutions that stimulate environmental sustainability (IWRM/3R/WASH) in combination with income generation activities (agri/fishery/cattle/seeds) resulting into restoring the existing wetlands as a water purifier, restoring soil fertility, IWRM/3R principle applied, ecosystem regeneration (biodiversity), recharging shallow wells, increase crop yields, demarcation.

Watch on YouTube: [Thinking with the Landscape: Rwambu, Uganda]



However, in the original design of the project, a business case was not included, thereby limiting the access to landscape finance. Upscaling the projects and possible income generating activities in the future can be:

1) growing banana, maize, potato, coffee, fish for income generation activities
2) use delivery model of farmer field schools and existing cooperatives (organize farmers to negotiate better prices)
3) use carbon credits for restoring landscapes
4) identify specific plots for charcoal production

What needs to be financed: seeds, capacity development, organisation of local farmers to scale and negotiation of better prices, determine specific plots for reforestation, efficient irrigation and to improve access to market

Who could possibly finance this: Dutch Embassy could finance the seeds coming from NL, UN type of organisations could use our delivery model for multiple messages (not only water), MFI's could be interested in the agriculture side of the project, collateral.

For more information: http://www.rainfoundation.org/rwambu-environmental-sustainability-pilot/

2. Both ENDS - Farmer-Led Regreening in Niger


Re-greening the Sahel: making the difference in Niger

With support of the Turing Foundation, CRESA, Both ENDS and WRI successfully regreened drylands in Niger from 2010 till 2016. By introducing the method of Farmer Managed Natural Regeneration (FMNR – Farmer-Led Regreening in short), physical buffers of trees and bushes are built by applying traditional local agro-forestry techniques. These practices protect native trees and regenerate the underground forest to sprout spontaneously, turning the landscape into a robust savannah forest with an increased plant and animal biodiversity, contributing to higher production and yields. This is significantly different from conventional reforestation methods (e.g. soil preparation, composting and planting), which are more labour and knowledge intensive and thus costly and less easy to spread on a large scale.

Financing possibilities: While the financial resources until now came from private foundations, there are several ways forward to finance Farmer-Led Regreening on the long-run:

- Small-scale investments in value chain development (NTFPs, etc)
- National and/or local public support programmes put in place after lobby and advocacy efforts
- Climate finance such as the Green Climate Fund
- Impact investing possibilities through for instance the Land Degradation Neutrality Fund
- Loans and saving mechanisms
- International public support by multilateral organisations and/or governments

Click here for more information:
http://www.bothends.org/uploaded_files/document/LR_Niger.pdf

3. WWF - Ravi River & The Indus Dolphin (Pakistan)

The Ravi river is a transboundary crossing India and 500 km in Pakistan. Current problems are created by pollution from industrial areas of Lahore and Faisalabad in Pakistan which affects the only 1200 remaining Indus dolphins. Due to lack of capacity at government level to implement water governance practices (pollution & water allocation) relatively little is being done.

Contributors to the pollution in this landscape are the 2700 SME's located in Lahore industrial zone in textile, leather, pulp & paper and sugar and global brands sourcing or own plants in this area (Nestle, Levis etc). There are however clear incentives for SMEs to reduce pollution: cost reduction, regulatory risk, reputational risk (access to market) and physical risk.

The identified business case for the Ravi river is:

- 3700 SMEs need access to micro & SME finance to introduce water efficiency and energy efficiency at site level
- Pilot 21 SMEs investment about $50 k/SME
- Total size SME finance $50-100 million
- Push to PK government to improve water management in Ravi River:
- $2.5 million TA by ADB to improve capacity Water Resources department
- Potential $1.2 billion pipeline of sovereign loans `

Click here for more information: https://www.worldwildlife.org/species/indus-river-dolphin