THE MISSING LINK

PRACTICAL STEPS TO MOBILIZE CLIMATE AND LANDSCAPE FINANCE AT SCALE

Synthesis report
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INTRODUCTION

FINANCING INTEGRATED LANDSCAPE MANAGEMENT

This synthesis report provides practical steps on what investors, governments, entrepreneurs and NGOs can contribute to finance Integrated Landscape Management (ILM). These practical steps are based on detailed analysis of four examples that have integrated elements of ILM into their investment model. Readers can take these recommendations and best practices and embed them into their existing policies and practices.

THE PROBLEM: COMPETING CLAIMS

A landscape is a socio-ecological system that consists of a mosaic of natural and/or human-modified ecosystems. Its boundaries may be discrete or fuzzy, and may correspond to watershed boundaries, distinct land features, and/or jurisdictional boundaries, or cross-cut such demarcations. They may encompass areas from hundreds to tens of thousands of square kilometers.

A lack of proper spatial planning at landscape level causes over-exploitation, environmental degradation, and pushes the landscape beyond its carrying capacity. It is the tragedy of the commons defined. Unsustainable competing claims on the resources within a landscape can lead to increased social conflict. Therefore, properly governed landscapes increases cooperation between users of resources within the landscape and reduces risk for investors and entrepreneurs. Integrated Landscape Management (ILM) offers an approach to practically organize this governance of landscapes.
THE SOLUTION: INTEGRATED LANDSCAPE MANAGEMENT

ILM refers to long-term collaboration among different groups of land managers and stakeholders to achieve the multiple objectives required from the landscape. These typically include agricultural production; provision of ecosystem services (such as water flow regulation and quality, pollination, climate change mitigation and adaptation, cultural values); protection of biodiversity, landscape beauty, identity and recreation value; and local livelihoods, human health and well-being.

ILM is increasingly considered to be a practical way to reconcile the increased competition for space, through balancing competing demands and striving for smart integration of agricultural production, nature conservation and livelihood options at the landscape level. It actively promotes to combine private and public interests, and stakeholder collaboration within sourcing areas and commodity chains.

SIX STEPS TOWARDS ILM

The Little Sustainable Landscapes Book identified five key elements or steps in achieving integrated landscape management. As can be seen in Figure 1, we propose that an intermediate step (i.e., step 3) is added to this model. With climate change advancing rapidly, it is imperative that each landscape performs an assessment on how climate change will impact the landscape over time. Determining the carrying capacity of a landscape by stakeholders usually reveals current conditions. However, climate change may change that carrying capacity within the investment horizon.

ILM is a practical way to reconcile the increased competition for space.
WHY IS INTEGRATED LANDSCAPE MANAGEMENT OF IMPORTANCE TO COMPANIES

According to the World Business Council for Sustainable Development (WBCSD), a landscape approach makes perfect business sense. Peter Bakker, CEO of the WBCSD, states that “Business activities and communities are not isolated but part of a wider landscape in which they rely on the same resources for their activities. A landscape approach is a multi-stakeholder and cross-sectoral process that helps businesses and communities achieve sustainability goals.” Furthermore, ILM can lead to attractive investment opportunities. The process is designed to maximize local cooperation, which reduces the risk that an investment will create conflict with local communities and the government.

WHAT ARE THE CHALLENGES TO SCALE INVESTMENTS IN ILM

Although the model implies a clear step-wise approach that can be followed, it is clear that in reality private investors are experiencing barriers in following each of these steps. After all, setting up a multi-stakeholder platform, exchanging information, determining the carrying capacity of the landscape, identifying priorities, subsequently investing in concrete projects, and finally monitoring and learning all adds significantly to overhead costs. Our report confirms that private investors alone will not take the initiative to implement a pure landscape approach as outlined in Figure 1. It takes too long, it is too costly, and investors do not have the capacity to bring all the stakeholders together.

However, as the case studies outlined in the next chapters will show, investors do adopt important elements of the ILM approach in their investment strategy. Analyzing what these elements are, and how they are applied will give us valuable insights into how we can scale up landscape investments.

For example, private equity fund manager New Forests (one of the examples highlighted in this report) convened a collaborative landscape planning meeting in the Green Triangle of Australia. It brought together the property managers of its investments in the region, representatives of the local Catchment Management Authority, and representatives of the non-profit Greening Australia. During the meeting, each organization shared its environmental objectives in the region, and where these objectives were relevant to New Forests’ estates, it developed priorities for stewardship activities, such as pest control and biodiversity corridors.

This synthesis report will analyse in detail four case studies which describe how these investors have adopted elements of the ILM approach, resulting in practical recommendations for all stakeholders involved in ILM.

Specifically, the report will guide investors and entrepreneurs on how to use elements of the ILM approach in their own investment strategies, and governments and NGOs on what they can do to support these investments.

CHAPTER 2 FOUR EXAMPLES OF LANDSCAPE FINANCE

In this chapter we will highlight four examples that either adhere to the landscape approach or have adopted strong elements of the landscape approach. Each of these examples has mobilized USD 100 million or more, usually from a combination of public and private investors.

CASE STUDY 1: ALTHELIA CLIMATE FUND

Founded in 2011, Althelia Ecosphere is an impact fund management firm that specializes in sustainable agriculture and performance-based conservation. Its first fund, Althelia Climate Fund, was launched in November 2013 and is focused on investing (mostly through debt) in agroforestry and other sustainable land use projects in Africa, Latin America and Asia. The Althelia Climate Fund is an 8-year closed-ended fund, and is structured as a Luxembourg SICAV-SIF. It is managed by its Luxembourg-based General Partner, Althelia Climate Fund GP s.ar.l, and advised by its London-based subsidiary, Ecosphere Capital Partners LLP.

Investment Focus

One of the elements that make the Althelia Climate Fund unique is that most of its investees aim to generate returns from both agri-commodities (e.g. sustainable cocoa, beef, and coffee) and environmental services (e.g. carbon), with a balanced target on the portfolio level. This sets it apart from many other landscape investment funds that are either focused on the carbon aspect, or more commonly, the commodity aspect of the landscape. 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 to begin to reflect 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.

Core to Althelia’s model is the building of public-private partnerships, in which partners share responsibilities and benefits. To this end, collaboration with local governments is crucial to secure institutional support and allow for up-scaling of the lessons learned to higher levels of environmental policy making. Collaboration with local non-profit organizations is indispensable for having a direct presence in the landscape to ensure that projects are well aligned with a landscape’s inhabitants, which are integral part of a project’s activities.
The Missing Link

Raising Capital

Althelia Climate Fund was launched with the support of Conservation International, which provided a bridge loan of USD 1.35 million to help jump-start the fund. The first close came in June 2013 at EUR 60 million with the support of the EIB, Finnfund, FMO, and the Church of Sweden. After the first close, USAID provided a portfolio guarantee, which covers 50% of any losses at the portfolio level for a fund size of up to USD 133.8 million, to attract additional private capital to the fund. The fund had its final close in December 2015 at EUR 101 million, which included AXA Impact Management, and Credit Suisse (through a note issued to its private wealth clients).

Althelia has also developed mechanisms to reduce the risks associated with the revenue. Firstly, the fund operates a ‘payment for performance’ approach, so less than 30% of the total investment is allocated upfront to cover capital expenditure and initial operating costs. The balance is disbursed year-by-year, provided the projects’ performance has been according to plans. Secondly, Althelia has launched Ecosphere+, which aims to build scale in the marketplace for environmental assets. This initiative may reduce some of the risks related to the off-take of carbon from Althelia Climate Fund’s other investments.

Management

Althelia Ecosphere was co-founded by Sylvain Goupille and Christian del Valle, who are currently the Managing Partners of the firm. Although Althelia Ecosphere does not have a fund management track record prior to the Althelia Climate Fund, the co-founders and their team gained significant expertise in the area of environmental finance and markets, carbon and conservation at BNP Paribas.

Impact

Althelia has seven impact themes for which it will track impact over the course of the fund’s life, which are: climate, species, ecosystems, livelihoods, inclusiveness, sustainable enterprise and fair economic return. As an expression of its commitment to environmental, social and governance (ESG) standards and portfolio performance, Althelia has worked with investors and non-profit partners to design a proprietary ESG policy and management system, incorporating the IFC’s Performance Standards on Environmental and Social Sustainability and the EIB Statement of Environmental and Social Principles and Standards. Landuse-based emissions reductions financed by the fund will also be validated and verified to the Climate Community and Biodiversity Standards, using the Gold Level of the Standards for projects delivering smallholder/community-led equitable benefits and exceptional biodiversity benefits, as appropriate.

Lesson Learned

Lessons for Entrepreneurs/ Fund Initiators

Blended structures can be used to attract private capital: The Althelia Climate Fund demonstrates how a 50% portfolio guarantee from USAID can be used as an effective tool to attract additional private, impact-oriented capital from private institutions, such as AXA Impact Management and the Church of Sweden. While there is only a small chance that the portfolio guarantee will be called upon, it does provide some measure of confidence to investors that at least half of their capital will be returned in the worst-case scenario. Especially for a first-time fund manager, a portfolio guarantee can be effective to reduce some of the perceived risks. A more tailored instrument could be a guarantee that is structured as a first loss guarantee, which could reduce the risk on the return profile of the fund and therefore could be more attractive for private investors than a pure downside protection.

Lessons for Government

Lessons for Investors

Multiple revenue streams can be generated from the landscape: Althelia Ecosphere is a pioneer in landscape finance, aiming to prove that the carbon markets provide an under-tapped revenue source for landscape investments and that carbon finance can be catalytic in land use investment decisions. The fund manager aims to launch multiple similar funds in the near future and position itself as one of the leading financiers of businesses with a landscape approach, whether on land or in the sea. Some flexibility around asset classes and sectors may be required to finance such crosscutting fund models.

Lessons for Government incentives to develop environmental credit markets could enhance the success of landscape initiatives: The further development of carbon markets can significantly enhance the return potential of landscape projects and funds. Currently, it is difficult for investors and fund managers to rely on such returns, but with government support to enhance such markets, investors can start to gain more confidence that such returns can be realized. Althelia is developing its own activity to support the market and to develop potential buyers of the credits, but further support from the government could be very beneficial for their and others’ investment activities in the landscape.

Lessons for NGOs

NGOs can be reliable local partners: Althelia’s investment in Peru shows that a local NGO is an important factor in the success of the project. NGO “Asociacion para la Investigacion y el Desarrollo Integral - AIDER” has 27 years of experience in sustainably managing forest in the Madre de Dios landscape and will provide a range of services.

Investment Focus

The two core objectives of the fund are to enhance food security through investing in small and medium enterprises, and to contribute to quality employment creation and income increases for local farmers. AATIF considers product chains as being part of their wider landscape, and it capitalizes on the variety of product chains within one landscape, which offers opportunities for building place-based and multiple-product investment portfolios to reduce the risks of fluctuating prices and volatile market conditions.

AATIF directly finances economically sound agribusinesses and provides indirect financing to the agricultural sector by refinancing financial intermediaries, such as banks and other intermediary companies like aggregators. All AATIF’s investments are built on innovative loan structures, which are embedded in strong social and environmental governance structures, guaranteeing not only productive employment and healthy working environments, but also the sustainable management...
of land and water, sustainable production patterns and sustainable use of terrestrial ecosystems. Whenever possible, AATIF invests in cooperatives, commercial farms and processing companies that envisage product diversification within the landscape as an instrument to diversify risks for both the investor, as well as the landscape.

Raising Capital

The G8 Summit in 2008 resulted in the renewed focus by the German government on investing in sustainable agriculture in Sub-Saharan Africa. Key to this initiative was the German government’s intention to use its funding to attract more private capital towards agriculture in that region. KfW soon thereafter issued a tender for a co-creator and investment manager, and selected Deutsche Asset Management, part of the Deutsche Bank Group. Before launching the fund, Deutsche Asset Management had the opportunity to help structure the fund. It also came in as one of the anchor investors in the fund, with a EUR 20 million investment.

Deutsche Asset Management then played an essential role in attracting private investment for the senior-level shares, 18 months after the launch, when there was proof of concept. These private investors were particularly from the wealth management side and investment professionals, and have over EUR 700 billion in assets under management, including several sustainability-focused funds, such as the European Energy Efficiency Fund. Deutsche Asset Management’s strong track record has created comfort amongst private sector investors, especially in the early years.

Impact

AATIF is guided by principles of sustainability and additionality (i.e. being able to provide funding that would otherwise not be provided). To assess an investment’s compliance with the fund’s Social & Environmental Safeguard Guidelines, the fund has partnered with ILO who, in collaboration with UNEP, acts as the fund’s compliance advisor. Each investee is required to establish a Social and Environmental Assessment and Management System (SEMS), tailored to the nature and scale of the investment and commensurate with the level of social and environmental risks and impacts. AATIF recognizes that the pursuit of economic growth through employment creation and income generation should be balanced with protection for basic rights of workers and works with investees to avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from investment activities. Furthermore, AATIF aims to avoid involuntary resettlement by exploring alternative investment designs, requires investees to avoid or mitigate threats to biodiversity arising from their operations, and encourages them to create opportunities for indigenous peoples.

The fund has an innovative public-private partnership structure, where there are three tranches of financing, with the first-loss tranche (c-shares) provided by BMZ and CFC, and the mezzanine tranche (b-shares) provided by KfW, Deutsche Bank and the Austrian Development Bank. This then allows for private sector investors to come in at the senior level (a-shares) with appropriate risk/return levels for private debt in Africa.

Management

AATIF is managed by Deutsche Bank, an established asset manager with a strong track record. Deutsche Asset Management has a team of over 500 investment professionals, and has over EUR 700 billion in assets under management, including several sustainability-focused funds, such as the European Energy Efficiency Fund. Deutsche Asset Management’s strong track record has created comfort amongst private sector investors, especially in the early years.

Lessons Learned

Lesson for Entrepreneurs / Fund Initiators

Blended finance can be used to attract new sources of private capital: AATIF provides a unique example of how private capital can be attracted to finance businesses across the agricultural value chain in Sub-Saharan Africa that usually would not even attract the attention of private sector investors. Because of the unique structure, where KfW, BMZ and Deutsche Bank take on most of the risk, the risk/return profile for private investors to come into the senior tranche (a-shares) becomes more attractive.

Securing a strong investment manager has a positive signalling effect: Having a strong investment manager, such as Deutsche Asset Management, provides additional comfort to private investors that the fund will be professionally run and underlying investments will go through a thorough due diligence process.

Strategic partnerships can strengthen adherence to the landscape approach: While Deutsche Asset Management is a strong commercial investment manager, it does not have strong social, environmental and developmental expertise for agricultural projects in Sub-Saharan Africa. As such, AATIF has engaged with ILO to provide, in collaboration with UNEP, the necessary expertise during the due diligence process and monitoring process.

Lessons for Investors

There are well-managed, commercially attractive opportunities to invest in landscape initiatives: Because of the fund’s distinct risk-sharing structure and partnership model, investors can gain exposure to the agricultural value chain in Africa without taking undue risk. Most of the downside risk is covered by BMZ through the c-shares. Investors can be sure that thorough commercial due diligence will be executed by Deutsche Asset Management, and thorough social and environmental due diligence will be advised by the ILO and UNEP.

Lessons for Government

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 Government to think about how the funding that is still available can be used most effectively. AATIF has successfully shown how BMZ and KfW used its Official Development Assistance to finance the agricultural value chain in Sub-Saharan Africa, and leverage its funding 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 to use to further development in key target geographies and sectors.
NGOs can contribute to create sustainable value chains

Lessons for NGOs

NGOs can contribute to create sustainable value chains: While AATIF was conceived as a public-private partnership fund, it operates according to private sector principles, including private sector project partners, a private sector fund manager and private investors. However, NGOs can partner across the agricultural value chain for example by providing knowledge on climate smart agriculture. The Technical Assistance Facility and the Compliance Advisor tasks are performed by Common Fund for Commodities and the International Labor Organization respectively. However, such tasks could also be performed by NGOs.

CASE STUDY 3: ECOSYSTEM INVESTMENT PARTNERS II

Ecosystem Investment Partners (EIP) II is a closed-ended private equity fund that delivers restoration and conservation at scale by capitalizing on land-based environmental offset markets in the United States. Its structure is typical of a traditional private equity fund with Limited and General Partners.

Investment Focus

EIP manages 12 mitigation banks throughout the United States. Mitigation banking is accomplished through restoration and protection of wetlands, streams and habitat that offset the negative impacts of a particular development in an area nearby (e.g. the same watershed). “No net loss” regulations based on the Clean Water Act (1972) require negative impacts of development projects to be offset. Development companies have little experience in, or appetite for, offsetting these negative impacts through their own restoration activities, and thus they can buy mitigation credits from specialized firms such as EIP.

A ‘credit’ equates to a unit of functioning (wet)land, to be determined by the area, its location, and its functional value. Putting a price to the ecosystem services provided by (wet)lands has created an effective way to internalize what previously were considered economic externalities. To earn a credit, a company or state entity must provide demonstrable ecological uplift, permanent protection (for example through a conservation easement) and financial assurances.

Mitigation banking can be considered one of the most mature ecosystem markets, as it demonstrates how government policy can effectively mobilize private capital at scale to meet environmental, social and economic demands. It is a market of growing significance, as the asset class has increased by over 1,000% in the United States since 1996.

Raising Capital

Founded in 2006, EIP raised its first USD 26 million fund in 2008. In July 2012, EIP was successful in closing its second fund at USD 181 million, more than USD 30 million above its target of USD 150 million. Its most recent fund closed in February 2016 with commitments of USD 303 million, far exceeding its target of USD 200 million.

The fund manager has been successful in attracting institutional investors, such as pension funds and endowments, with what the fund’s Managing Partner refers to as “risk-adjusted, competitive returns.” This comes after many years of awareness building and education amongst institutional investors about the potential of mitigation banking and conservation. It is an example of how environmental markets, created and enabled by government policy, can offer attractive investment opportunities at scale.

Management

EIP is a Baltimore-based firm founded in 2006 by Nick Dilks and the late Fred Danforth. After retiring from Capital Resource Partners, an investment firm he helped found, Fred Danforth purchased and restored a Montana ranch. The ranch restoration kick-started his fascination with business models that could generate conservation and restoration at scale, recognizing a missing link between investors and land conservation. He was committed to showing that investment in land restoration and conservation can generate market rate returns, and believed that if you could show good returns, the availability of capital would be limitless.

EIP is managed by a dedicated team of financial and environmental professionals with a strong track record in both conservation and finance. EIP works closely with key government natural resource agencies and non-profit organizations to oversee responsible stewardship of land and water resources, and incorporates an array of stakeholders in its design and implementation of conservation projects.

Impact

EIP delivers clear, measurable positive impacts to the environment, in addition to positively impacting the economies and societies where its mitigation banks operate. In terms of its primary impact focus — the environment — EIP has restored numerous acres of wetlands and streams, in addition to permanently protecting vulnerable areas and planting trees. The fund’s activities are also important in recognizing the value of wetlands and swamps, which were previously seen having little to no economic value. Wetlands play a role in recharging aquifers, filters for polluted storm water and collection basins for floods, among other important ecological uses.

Aside from its environmental contributions, EIP generates social benefits such as job creation. Large-scale restoration projects require many laborers for tasks such as earth moving, tree planting, and wildlife management, particularly in areas where there has been a lot of displacement from other industries, such as mining. For example, a stream restoration project in Southern West Virginia hired community members coming out of the coalmines for long-term monitoring and management jobs who could apply their mining skills to restoration.

Lessons Learned

Lessons for Investors

Untapped investment opportunities: Land-based environmental offset markets can offer attractive investment opportunities. While government policy needs to be further developed globally to enable such markets, EIP demonstrates that once policy is in place, the investment opportunity can be very attractive at an institutional scale. As the global push for more environmental protection and restoration increases in strength, the amount of such opportunities are likely to increase.
The correct framing of an investment opportunity is critical to being able attract institutional capital: EIP has been able to attract commitments from a wide range of traditional, mainstream investors because it offers market-rate returns, not because the investors are driven by the environmental benefits but because EIP’s product, environmental offset credits, are so valuable and sought after. The ability of EIP to absorb large amounts of capital and generate market-based returns lies in its structure as an asset management approach, not because the investors are pension funds, but clients also include insurance companies, sovereign wealth funds, endowments, and family offices.

Raising Capital

New Forests Tropical Asia Forest Fund is a closed-ended, commingled fund with a 10-year fund life, with possibility of extension for up to three additional years. The fund held an initial close in June 2012 and final close in June 2013 with USD 170.7 million in capital commitments. The fund has nine Limited Partners, including development banks, pension funds, and funds of funds. The majority of its investors are pension funds, but clients also include insurance companies, sovereign wealth funds, endowments, and family offices.

Management

Tropical Asia Forest Fund Holdings Ltd is a wholly-owned subsidiary of the New Forests Group. New Forests was established in 2005 in Australia, with a head office in Sydney, with the objective of developing an investment business focusing on sustainable forestry and environmental markets globally. New Forests now manages investments including more than 780,000 hectares of land, conservation projects, timber plantations, and associated natural vegetation, agriculture, and timber processing infrastructure. Investments under management and capital commitments total AUD 8.7 billion (USD 2.7 billion) and are spread across Australia, New Zealand, Southeast Asia, and the United States.

Impact

The Tropical Asia Forest Fund adheres to a product-based approach to landscape finance. It invests in sustainable timber plantations and may include opportunities related to ecosystem restoration and protection, through engaging directly in the primary production at the base of the supply chain.

New Forests acknowledges that the management of forests has moved beyond forests towards a range of sustainable development issues, which demands active fund managers be able to navigate an increasingly complex operating environment with numerous stakeholders involved. As a response, New Forests has been continuously evolving its social and environmental guidelines to best meet the issues that present themselves in the landscape. The most recent version of this is the Sustainable Landscape Investment model, which encompasses six core themes, including productivity, land use planning, ecosystem services, shared prosperity, governance and risk management. Every year, the company publishes detailed reports of how each of its funds and underlying investments are performing against the goals set for each of the themes. It also openly discusses some of the complex issues that arise at the landscape level and how it is looking to resolve those issues, for instance through active participation of local stakeholders. The fund manager is also keen to include ecosystem services more actively into its revenue model, but highlights that these markets are still underdeveloped in Asia. As such, it works with local governments and non-profits to help further develop those markets. In the United States, where California’s carbon market has been operating for several years, New Forests has an active carbon investment program and also manages combined timber and carbon investments.
Lessons Learned

Lessons for Investors
There are opportunities to invest in sustainable forestry funds that consider all aspects of the landscape:
Fund managers are advancing their responsible investment policy (some faster than others) to account for the complex realities on the ground. New Forests is one of the most advanced fund managers in this area, having evolved its social and environmental guidelines to include all aspects of the landscape. It is also exceptional in its transparency - all its social and environmental reports are publicly available on its website for both investors and non-investors to view. New Forests believes that this makes business sense, and is looking to continue evolving its guidelines to become even more pro-active in all aspects of the landscape in its future funds.

Clear messaging, transparency, and understanding of investors are critical to attracting institutional capital: New Forests has been able to attract significant institutional capital, not only because of its track record, but also because of its clear messaging. Its investment proposition fits neatly into an asset class (real assets) and a sector (forestry), and this focus is clearly communicated to investors. The transparency on social and environmental reporting on all aspects of the landscape is just seen as an added benefit of investing in the fund by most of its investors.

Lessons for NGOs
Provide knowledge during due diligence and facilitate multi-stakeholder dialogue: Local NGOs can work with the local communities to ensure that land rights are respected. As part of the due diligence process New Forest will ensure that such rights are respected. Neglecting such rights may lead to social conflict, which increases the risk to the company and its investors.

Lessons for Entrepreneurs / Fund Initiators
First building a track record in a ‘less risky’ geography could help with raising funds in emerging markets: New Forests’ first few funds were focused on Australia and New Zealand, which are seen as more mature markets by investors. It was not until the fund manager built up a track record in those geographies that it launched its first Asia fund. If it were not for the track record, it might have been way more difficult for them to secure USD 170.7 million for the Tropical Asia Forest Fund.

CHAPTER 3
RECOMMENDATIONS

This analysis means something to everybody. Based on the findings of the study, we have identified recommendations for entrepreneurs/fund initiators, government, investors and NGOs who wish to encourage more institutional investment in landscape initiatives. We would like to highlight that many of these recommendations apply for impact investments in general.

First of all, no matter what kind of stakeholder you are, there is ultimately a need for:
1. More players: Landscape investments are predominantly promoted by non-profits, which do not have access to finance at scale. There is a need to get more companies, governments, development finance institutions and institutional investors on board.
2. More examples: Examples of successful landscape initiatives are needed to create the required track record. To get institutional investors on board more successful examples at scale are required. It will be good to make the sharing of lessons learned and good example part of technical assistance facilities.
3. Enhanced awareness and openness: There is a need on the side of landscape actors to be more aware of the rules of the game in the financial world, and a need on the side of investors to be more open to the social and environmental realities of landscapes in emerging markets.

RECOMMENDATIONS TO ENTREPRENEURS AND FUND INITIATORS

New opportunities are emerging in landscape finance. Banks can act as fund managers, like Deutsche Bank; or former bankers can start a private equity fund, like Althelia did. Some entrepreneurs like EIP see an opportunity from government regulations, such as wetland banking in the United States. And forestry investment funds are moving away from a single commodity focus and start embracing a more diverse approach. None of these entrepreneurs and fund initiators act in solitude. It requires cooperation from local and central governments in investee countries, civil society, sometimes support from home governments, and sometimes start capital from NGO’s or philanthropic organizations.
For entrepreneurs and fund initiators we have the following recommendations:

1. Clear communication of asset class:
   Opportunities do not always fit neatly into a particular asset class or a particular sector. This makes it difficult for institutional investors to find a place for the opportunity within their allocation framework, and often provides a hurdle to even start the due diligence process. Investment managers that are able to clearly communicate which “bucket” they belong to have an easier time raising institutional funding.

2. Understand investors and clearly market the opportunity: Initiators of landscape investment opportunities should make sure they understand investors and how they are organized in order to efficiently market an investment opportunity. In particular, those seeking investment should be aware of an investor’s expected risk/return profile, and the pockets from which the institution is able to invest. The proposition should fit within institutions’ definitions of asset classes or sectors—definitions that may differ from investor to investor. It is important that messaging is clear and tailored for each investor. Lastly, those marketing investment opportunities should recognize that investors are not necessarily sympathetic to environmental causes; the reality that institutional investors expect to see market returns is more prevalent.

3. Transparency and reporting: Transparency and reporting on social and environmental performance contributes to the success of investment opportunities. Clear messaging and communication of a strong track record are enhanced by quality social and environmental policies and reporting. Partnering with a respected third party to perform monitoring tasks or adhering to well-known standards can signal credibility.

4. Strategic partnerships: Strategic partnerships can strengthen adherence to the landscape approach. In some cases, partners provide the social and environmental expertise surrounding the investments, as is the case with AATIF’s engagement with ILO and UNEP. Other partnerships are formed for the purposes of providing technical expertise to investees to ensure inclusive and environmentally sound strategies are developed. Another type of strategic partnership is partnerships with local leaders, cooperatives, social movements and NGOs that are in close contact with local communities. They can play an intermediating role to ensure that the voices of these local stakeholders are heard and taken into account and can help build the strength of many of these initiatives.

For governments we have the following recommendations:

1. Regulations and incentives: The introduction of targeted regulation and incentives to preserve nature can be an important stimulus for landscape investments. Governments can mandate, for example, that damage done to the environment must be compensated by equal support for restoration projects elsewhere. Such mandates create the demand for environmental credits. In addition to implementing strong environmental regulations, governments should consider what other actions they can take to incentivize participation in voluntary offset markets.

2. Provision of grants to cover technical assistance and transaction costs: Government grants are important for the provision of technical assistance. Technical assistance can be instrumental in enabling businesses to include local communities in a mutually beneficial way, avoid overexploitation of the environment and build the capacity of investees thereby lowering risks and contributing to increased revenue and long-term profitability of the company. It can be used to develop a joint vision between stakeholders, or to support the implementation of solution designs, like government policies that incentivize landscape investment, assistance to companies to manage out-grower schemes or technical training to improve farming or forestry methods. Technical assistance could also come in the form of monitoring and evaluation systems that are tailored to the investee and the local context. Finally, by helping to defray transaction costs, governments can help catalyse deal-flow in this space.

3. Providing long-term and risk-tolerant capital: Government provision of first-loss capital in blended finance can be catalytic in de-risking investment opportunities in order to attract capital from private investors. For example, blended finance constructions used by AATIF and the Althelia Climate Fund have been successful in crowding in institutional investments.
RECOMMENDATIONS TO INVESTORS

Only institutional investors have the resources to finance sustainable and climate resilient landscapes at scale. Our examples highlight that the risk/reward for such investments can meet their statutory obligations. Institutional investors must understand and appreciate that multiple actors are building a new investable asset class. In addition to providing capital, institutional investors should get engaged in the debate and provide their expertise to structure these investments according to their own investment criteria.

For investors we have the following recommendations:

1. Support for proof of concept of smaller scale landscape initiatives: There are many smaller scale landscape initiatives that need to be further tested and developed to be ready for larger amounts of capital. Anchor investors can be instrumental in proving a fund’s ability to scale. Well-known investors with good reputations can also play a role in attracting early capital from others. Ecosystem Investment Partners has shown that institutional investors do come on board once a concept is proven, the asset class is clear and a certain scale is achieved.

2. Flexibility in terms of asset class and sector focus: If institutional investors want to increase their green portfolio, some flexibility in terms of asset class, sector focus, and minimum size of commitment should be considered. This is in recognition of the fact that many landscape investment opportunities are crosscutting in both asset class and sector focus.

RECOMMENDATIONS TO NGOs

NGOs have several key assets: they are considered trusted parties and often have a strong local network. This can make NGOs very valuable and reliable partners. However, NGOs will stay true to their mission. They must develop a sense that the project they contribute to will further their mission, else they should not cooperate. This can put limitations on their work.

For NGOs we have the following recommendations:

Increase financial literacy: For any project that involves attracting finance, in particular private sector finance, NGOs must develop a basic financial literacy. In particular, NGOs must be able to appreciate how investors perceive risk and how they can contribute to minimize that risk. It is two worlds that must come together and start speaking the same language.

Develop TA and compliance monitoring skills: Because of their status as trusted parties, NGOs can invest in developing skills and knowledge to provide technical assistance and compliance monitoring to landscape initiatives. Now such tasks are often being performed by other types of organizations. Furthermore, NGOs are well positioned to manage a multi-stakeholder process.

Reach out to financial institutions: NGOs should reach out to financial institutions, for example to local banks within the landscape. Before reaching out, NGOs should know exactly what they need from the institution (knowledge, network, funding?). There should be reciprocity in every relationship: NGOs can bring something (the value proposition) and they can ask for something. Just asking for sponsorship does not work; there must be value to the financial institution as well.

Provide seed capital: well capitalized NGOs can provide entrepreneurs with seed capital to develop the fund or investment concept. In case of Althelia, Conservation International provided debt which was paid back.

DISCUSSION

This report has provided valuable insights in how different stakeholders can contribute to mobilize capital at scale for ILM investments by incorporating elements of the ILM approach in their investment strategy. In addition to the lessons learned from the four case studies analysed in this report, we see more opportunities to capture the maximum benefits from the landscape approach.

Currently, engaging the private sector as a key stakeholder remains a challenge: according to EcoAgriculture Partners less than 25 percent of the landscape initiatives involve private sector stakeholders. In other words, landscape initiatives that follow the step-wise approach are mainly driven by local civil society and governments. The absence of the private sector, including investors, means that these bottom-up landscape initiatives do not lead to the development of bankable projects. One of the problems is that the financial literacy of the landscape initiators often is low.

We therefore propose a three-way strategy: Firstly, it is possible to connect the step-wise approach with capital markets. There is a major opportunity to improve the connection of landscape initiatives with capital markets. Existing landscape initiatives developed by government and civil society should work towards building a portfolio of bankable projects. They can invite investors and banks at an early stage to help them design the landscape program. Governments should invest in Project Development Facilities where stakeholders within the landscape come together and identify and develop bankable projects. IUCN NL has established a Project Development Facility to identify and develop bankable projects in its landscape initiatives and connect these with investors.

Secondly, investors in projects that contain elements of ILM should gradually increase adopting more elements of the ILM approach. Investors can start with setting up multi-stakeholder platforms and capturing multiple benefits from the landscape. Once comfortable with these steps they can gradually adopt more ILM elements, for example by assessing the carrying capacity of the whole landscape in which they invest.

Thirdly, climate finance can play an important role in ILM. Already the effects of climate change are being felt. Well managed landscapes can both play a role in mitigating climate change and adapting to climate change. For example, through improved topsoil management and other climate smart agriculture techniques and reforestation, carbon can be stored and sequestered. And by building the future effects of climate change into the planning and management of landscapes, they can be made more resilient and absorb climate shocks.

The international community has pledged USD 100 billion per year starting in 2020 to help developing countries to adapt to climate change and to contribute to the reduction of greenhouse gas emissions. These funds will find their way into the developing countries through many different channels, including through the Green Climate Fund, Development Finance Institutions (DFIs), bilateral aid, and through the mobilization of private capital. Building climate resilience into ILM should qualify for such funding.
NOTES

1 Defining Integrated Landscape Management for Policy Makers, Ecoagriculture Policy Focus No. 10, 2013


4 Little Sustainable Landscapes Handbook, Global Canopy Program, 2015

5 Peter Bakker, see website World Business Council for Sustainable Development, 2016 at http://www.wbcsd.org/work-program/focus-areas/ecosystems/landscapeapproach.aspx

6 Althelia Ecosphere Completes First Closing for Althelia Climate Fund with over EUR 60 million Raised. FMO website. 12 June 2013.

7 Senior Oil & Gas Executive Lisa Walker joins Althelia Ecosphere to head up new environment and climate venture. Press release from Althelia Ecosphere and Ecosphere+. 12 September 2016.

8 Althelia website. Link: https://althelia.com/


15 IUCN NL, Nyenrode Business University and Wageningen University have set up the Green Finance Academy to increase the financial literacy of civil society and governments to enable them to develop bankable projects. For more information, please see www.nyenrode.nl/gfa