Developing new sustainable business models, tools and tech ready for investment

Introduction

On 6 June 2016 at the Royal Society in London, over 300 senior representatives from the financial sector, civil society, government and business came together at the second Global Landscapes Forum: The Investment Case. The event explored the role of the financial sector in imagining, innovating and investing in sustainable landscapes.

Background and overview

Landscapes go beyond forests and farms. They include cities, watersheds, fisheries, infrastructure and mineral and fossil fuel reserves, as well as the people and markets that shape them. Governing landscapes entails complex interactions and difficult tradeoffs between water, energy, shelter, climate and food.

Many governments and companies continue to pursue natural resource-heavy and polluting business strategies and investments. But as Mark Campanale of Carbon Tracker emphasized in the event’s closing plenary, the decisions and tradeoffs made in the past are no longer an option.

Key messages

1. New business models, financial instruments and regulations need to come in at different scales and provide support at different stages and over different timeframes.
2. Technology is needed to make sustainability simpler and cost effective.
3. Risks have to be mitigated and trust built – for investors and their customers.
4. Access to good quality data and using it is essential.
5. We need to start communicating alternative value propositions, collaborating across sectors and value chains.

“Here’s the ABC of our meeting: We need to be ambitious, brave and clear.”

Peter Holmgren
Director General
CIFOR
"If we are talking food, as we learned from Marie Antoinette, we are talking revolutions. And if we talk about livelihoods we are talking about mass migrations.

Chris Knowles
Climate Change & Environment Division
Head, European Investment Bank

Instead, the way resources are used must be reconsidered, and quickly. Commodity markets must be thought of in terms of their environmental impacts – from addressing deforestation in Indonesia to cotton and water usage in China and fisheries in California. And this is far more than an investment issue, it is about securing livelihoods and nutrition for generations to come.

Decisions made at the local level have global implications for trade and national revenues, and vice versa, so policy makers must consider complex dynamics. Governments are looking at policy changes to shift rural development models away from natural resource-heavy sectors, and they have an important role in making sustainability competitive. But addressing poverty is also critical. New development models must provide viable alternatives for citizens and the business community, as well as opportunities for women, indigenous peoples and other marginalized groups so that no one is left behind.

If we are talking food, as we learned from Marie Antoinette, we are talking revolutions. And if we talk about livelihoods we are talking about mass migrations.

Sessions

For the all agenda details, go to: landscapes.org/london-2016/agenda/

High-level Opening Plenary: Making the connections between funds, farms and forest

Expert Clusters: Tools and trends
- Connecting financial tools and landscapes: Aggregators and strategic interventions: Clarmondial, Credit Suisse, Climate Bonds Initiative, F3 Life
- Diversifying financial instruments to realize REDD+: UNEP
- Financial system innovations – how block-chains, mobile banking and the Internet of Things impact landscapes: UNEP, ADM Capital, Dalberg
- Thinking medium before we think big: The role of program related, angel and venture capital in financing landscape start-ups: Nature Services Peru, Map of Agriculture, Oxford Centre for Tropical Forests, IWC
- Risk reduction measures for private sector investment in landscape restoration: The World Bank

Case Studies: Investments on the ground
- Catalyzing financial sector involvement in deforestation-free supply chains: TFA 2020, The Nature Conservancy
- Smallholder finance – evidence from the tropics: CIFOR
- Removing barriers for investing in landscape restoration – what works where?: IUCN, Clarmondial, Fonerwa, Symbiosis Investmentos
- Mapping the legal and policy landscapes for investments in Africa: Lauterpacht Centre for International Law, University of Cambridge

Dragons’ Den: Pitching new investment opportunities

Breakout sessions: Drilling down on investment opportunities
- The Land Degradation Neutrality Fund: Mirova, UNCCD Global Mechanism
- Sustainable Ocean Fund: Althelia Ecosphere
- Sustainable Cocoa in the Dominican Republic: NatureBank

Closing Plenary: Strategic interventions for scaling up and de-risking landscape finance
The demand for alternative opportunities from both government and the investment sector means that innovation is key. But where will the start-ups of landscape management emerge and who will provide the seed funding? To answer these questions, sustainability practitioners must shift from the mindset of a grant-recipient to that of an investee.

The underlying revenue or income stream is much clearer for energy... but those models are still in the development phase in the land use domain.

Ivo Mulder
REDD+ Green Economy Advisor
United Nations Environment Programme (UNEP)

This year’s Global Landscapes Forum: The Investment Case asked where the sustainable investment opportunities are and what financial products are needed to support them. Picking up where last year’s inaugural event left off, the Forum went from making the case for landscape investments to analyzing concrete models. The plenaries, expert clusters, case studies and investment opportunities pitched during the event highlighted key opportunities and challenges for moving forward. Five messages emerged.

1 These messages are based on the findings of individual sessions and do not represent the consensus of the Forum as whole. For more information about landscapes and the Global Landscapes Forum, visit www.landscapes.org.
Key messages

1. New business models, financial instruments and regulations need to come in at different scales and provide support at different stages and over different timeframes.

The complex nature of landscapes means that sustainability interventions must take place at different scales. For example, smallholders and small- and medium-scale enterprises (SMEs) play a fundamental role in global agricultural production and livelihoods, but face significant operational challenges. In contrast, banks, investment funds and other financial service providers operating in international and national capital markets influence how landscapes develop, but have limited connections on the ground. Public and development finance facilities are addressing the role of government in shaping investments but technical assistance facilities, financiers and advisory services are needed to connect the global and sub-national levels.

The slow progress in sustainable land use investment may be related to the mismatch between the stage of maturity of the sector and the type of financial services being provided. Investing in new businesses is risky by nature, and investors with a significant risk appetite will need to engage with startups so the sector can grow. At the same time, existing business models and supply chains need to upgrade their practices. These upgrades may require loans that can be repaid over longer timeframes. But, short-term thinking is common among banks and investors.

Current challenges and proposed solutions

a. Financing mechanisms for small-scale projects and start-ups are limited. The deal size is often too small for institutional investors, the risks are often perceived to be too high and reduced economies of scale leads to relatively high administrative costs and lower profits. What is needed is:

• angel and/or seed investment communities in the land use sector, while not losing the long-term outlook and financial solidity of institutional investors
• investor support for product development, aggregation and the building of a good track record
• enhanced roles for facilitating organizations, i.e. those that can bridge the gap between business and communities such as agricultural service providers and technical assistance facilities
• rapid prototyping and testing of innovations amid changing market conditions
• ‘lighthouse’ projects that demonstrate and promote new ideas, exchange experiences and trial financing models
• greater identification of market niches, e.g. exposing pools of farmers currently lacking access to inputs, processing, capital or marketing channels
• logistics and infrastructure around smallholders and SMEs, in parallel with access to finance
• revival of rural development banks and cooperatives to deliver finance on the ground, such as access to low- or no-interest loans,

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2. Connecting financial tools and landscapes: Aggregators and strategic interventions

3. How can the financial services sector strengthen the sustainability and inclusivity of smallholder farming in the supply of global commodity crops?

4. Thinking medium before we think big: The role of program-related, angel and venture capital in financing landscape startups

5. Sustainable cocoa in the Dominican Republic
The main problem we’re dealing with now is: How do we get this large bulk of money to trickle down to those who need it the most – the smallholders?

Mark Burrows
Managing Director and Vice Chairman of Global Investment Banking Credit Suisse

revolving finance or inputs – not cash – for small businesses, as big banks may never finance smallholders or start-ups, but will finance supply chains.

b. Existing smallholders often operate informally and are disadvantaged by government policies when it comes to formalizing tenure rights, accessing financial services and connecting to value chains. Their business model needs upgrading, but outreach to farmers can be challenging.
   • Governments could play a key role in empowering smallholders and encouraging the development of new markets, as well as regulating large corporations, to make sustainability more competitive.
   • Actively integrating smallholders along a value-chain can potentially be done through an adapted out-grower concept.
   • It is important to build the capacity of civil society and local cooperatives to implement asset investments and ensure projects deliver on their promises to farmers.
   • Investments can be made through a variety of channels, including access to quality inputs, processing facilities and international markets, as well as working capital and warehouse credits.
   • Market access can be made secure through long-term contracts with buyers, which can be facilitated by financial service providers.

c. The right business model or de-risking instrument needs to be matched with the appropriate land-use investment. There are limited commercially viable models for forest and landscape-level restoration, and a poor understanding of how to generate return on investment.
   • Large-scale jurisdictional approaches to developing more sustainable landscapes require blended private and public co-finance initiatives.
   • Examples of products that derive value from protecting forests are needed. What works? What doesn’t? What mix of products and services generate returns?
   • Green bonds hold great potential to work with different timeframes and can depart from traditional models, for example, mixing private capital for renewable energy investments with investments in sustainable land use.
   • ‘Nature conservation notes’ allow investors to put money in special vehicles and deploy capital to funds or green bonds.
   • REDD+ projects can also be sold from a ‘development narrative’ rather than an ‘environmental narrative’. For example, to de-risk private investment and provide smallholder farmers with attractive financial terms to shift towards sustainable practices.

2. Technology is needed to make sustainability simpler and cost effective.

At the closing plenary, CIFOR Director General Peter Holmgren concluded, “If we are too specific about the conditions on the ground then innovations on the ground will be less stimulated.” Innovation, technology, new business propositions and opportunities for growth are key to encourage investment. This innovation could take the form of a new seed variety or a smartphone app. The Forum provided an opportunity to showcase some of
the innovations in finance, agriculture and fintech⁶, as well as the important role that young people have in developing solutions to current problems and adapting technology to tackle landscape-level issues.

Current challenges and proposed solutions

a. **People can be fearful of new methods and technologies** and prefer old habits and behaviors.
   - Innovation on the ground is key to sustainable land use, but this doesn’t just mean financial innovation.
   - Incubators can help accelerate embryonic ideas and bring together a diverse range of actors required to scale up and commercialize tech for the land use space

b. We need to **improve access to marginalized groups**, such as smallholders, who may be physically far removed from markets or unable to operate through existing government or private sector systems.

- **Land-use players** are struggling to deal with traditional finance to unlock investment, so tapping into the fintech market may seem daunting. However, it holds great potential.
- **Fintech** can improve communication and transparency over long distances.
- **Technologies** can be used to help record credit history, which can decrease investment risks and as such create bigger loans for SMEs.
- Greater access to multi-sector land use maps can facilitate landscape planning and natural resource management.

C. Technology and innovation also hold risks, which can be off-putting for already poor and marginalized groups.
   - Greater clarity over some of the potential unintended consequences of technology, e.g. bitcoin, used at scale, would generate an enormous energy footprint.
   - The application of big data at scale could lead to increased knowledge of the biophysical risks rural customers face, potentially excluding them from the insurance market.
   - Data integrity remains of paramount importance. Although blockchain technologies have the potential to create immutable chains of data, with far reaching implications for land use titling, if fraudulent data is initially input, the system will collapse.
   - There might be resistance to fintech solutions from the traditional incumbents, who risk losing market share to technological advances.

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6   Financial system innovations: How fintech impacts landscapes  

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“How do you know what smallholders are doing on the ground? How do you know what they are doing with your money? The solution is in my pocket.”

**Chris Botsford**
Chief Executive Officer, ADM Capital
Youth facilitators

At this year’s Forum, a group of youth volunteers supported the event and the facilitation of each session. Volunteers had a strong background in finance, economics and development studies and a passion for facilitation and engagement.

In their own words:

“I thought it was a great session with some really vibrant and dynamic discussions.”

Annelies Sewell, Junior Researcher (Biodiversity & Finance), Netherlands Environmental Assessment Agency

“It was really interactive! My favorite moment during the event was the exhibition part, where I had to sketchnote the conversation about the case of the Indonesia Palm Oil Pledge (IPOP). The conversation was so interesting and so informative… all of the participants were happy to share their knowledge and advice to me during networking. I cannot wait to collaborate with CIFOR again!”

Mariefi Kamizouli, MSc student in Environmental Economics & Climate Change, London School of Economics & Business.

By working with young people, the GLF aims to support the development of future innovators and decision makers, helping them gain experience and skills, including through facilitation training and event management workshops.

As a direct outcome of this work, the Land Degradation Neutrality Fund has offered a traineeship opportunity to the Forum’s youth volunteers.
3. Risks have to be mitigated and trust built – for investors and their customers

Positive development does not automatically follow from domestic and foreign investment. Trust is lost if social and environmental elements are not integrated in investment agendas. Social and economic inequalities can arise from investments through breach of property rights, unsustainable land use, labor rights abuse and environmental degradation. Building in safeguards is essential. “Most important is the issue of trust itself,” said Zwide Jere, whose organization Total Land Care has spent years working with local farmers in Southern and Eastern Africa.

Current challenges and proposed solutions

a. The legal environment is often not conducive to honest investments, including a lack of community consultation, unclear property rights and insecure land and resource tenure. The informality of the rural economy and value chains also creates challenges for putting in place checks and balances and enforcing regulations and policies.
   - International regulatory bodies can address lack of political will and inadequate environmental and social safeguards of some firms.
   - National governments need to create the enabling environment to build trust, e.g. regulatory instruments and mechanisms for conflict resolution.
   - Governments can create financial products that also reduce risk for investors (e.g. government bonds).
   - Corporate social responsibility and natural capital considerations can be taken into account by credit committees (mechanisms set up to examine financial and reputational risk) stage for investing in projects.
   - Should we consider certification for sustainable banks?

b. There is a serious disconnect between policymakers and implementation on the ground. What is needed is:
   - capacity building opportunities for investors and investment authorities, including formal education (participants can help develop and shape new curricula)

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7 Risk reduction measures for private sector investment in landscape restoration

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Out there in the market there are unscrupulous businesspeople who are not really offering good prices, they are not transparent.

Zwide Jere
Managing Director,
Total Land Care
Global Landscapes Forum: The Investment Case – Outcomes

- informal knowledge-sharing and training arrangements (workshops, materials, networks, communities of practice).

**c. The competitiveness of restoration and other sustainable land use activities is limited** in the face of established agriculture and forestry investments. The public and private sector remain uncertain about the financial, environmental and social benefits, and the lack of a clear track record for many projects and investees makes it hard to raise money. What is needed is:
  - transparency and accountability mechanisms for boosting investor confidence
  - blended private and public co-finance initiatives, which may provide an incentive for investment in more sustainable land-use projects, but with risks involved in distorting markets with large chunks of concessional loans.

4. **Access to good quality data and using it is essential.**

The financial industry relies on data to calculate risk, and investors need answers to basic questions if they are going to support new projects. But, there is limited awareness and information exchange between investors and investees. As such, more information is required on areas such as credit, risk, input costs, expected returns, innovative technology, the stability of the regulatory and policy environment and enforcement. Information is key to matching projects to investors and other financial service providers.

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**What we really need to do is link these planetary limits to how equity markets function.**

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**Current challenges and proposed solutions**

**a. There is a lack of credible information** that allows investors to distinguish a sustainable (e.g. a deforestation-free) investment from others. The disclosure of the sustainability of a company’s operations is still not mandatory. We need to:
  - improve the way capital markets are regulated and what companies have to make public
  - mandate the disclosure of stranded risk and assets (e.g. unburnable carbon) so that investors and others can properly price for those risks
  - create practical sustainability standards and indicators, as well as efficient monitoring methods, for financial institutions.

One solution is TFA 2020’s upcoming launch of Deal Lab, in which investment deals ready for financial scale-up are discussed with financiers and actors with roles in commercial viability. The Deal Lab will look at how investments can be structured to increase their attractiveness for mainstream financial actors.

**b. There is a lack of landscape-level information available** for jurisdictional-level investments, in particular around regulation and policy analysis. What is needed are:
  - preparatory efforts for public-private
partnerships to work in countries looking to apply landscape approaches to land use planning, including data collection
• analytical and participatory assessments that review the regulatory barriers in key regions and recommend regulatory and governance innovations to overcome them, backed by qualitative research and decision-maker consultations.

c. It is difficult to assess and secure the commercial value of ecosystem services, which are not widely traded, and in managing the various counterparty relationships. What is needed is:
• enhanced scientific knowledge around restoring landscapes, including potentially determining the restoration value of different species, seed availability and collection techniques that support restoration
• improved measurement of the direct and indirect impacts of companies on communities and ecosystems.

5. We need to start communicating alternative value propositions, collaborating across sectors and value chains.

The media, marketing and advertising, popular culture, the arts and education all play an important role in shaping values and changing behaviors. All of these tools can be used to positively change the value people place on the environment and communal natural resources like watersheds or natural fish stocks in order to support their maintenance and restoration. Participants at this year’s Forum acknowledged the need for improved communication of the sustainability message through the right channels, language, format and scale.

10 Investing for impact and value in the marine environment: The Sustainable Ocean Fund

11 Removing barriers for investing in forest landscape restoration: What works where?
http://www.landscapes.org/publication/removing-barriers-investing-forest-landscape-restoration-works/
Current challenges and proposed solutions

1. There is little understanding of the importance of common pool resources in public welfare. This makes it harder to access government and private sector support, as well as that of the local community.

   Impact investment communities like GIIN (www.thegiin.org) and global purpose-driven business movements like B Corporation (www.bcorporation.net) should have strengthened roles.

   There should be increased access to information on environmental issues and enhanced capacity building for Investment Promotion Authorities.

   - Successful knowledge sharing of potential strategies and successful Public Private Partnerships (e.g. guidance documents) for landscape-level restoration is important in such innovative projects.

   - Cross-sectoral and landscape-level partnerships need to mature. This is particularly important for governments, which often tend to work in sectoral silos and can be restrained by internal bureaucracy.

2. Communication may at times be a sensitive topic, particularly in countries that are seeing reductions in freedoms of speech. There is a lot of misinformation, skepticism and blame for a lack of progress.

   - Changes in political attitude can empower civil society and limit elite dominance of investment, which currently provides little oversight of how foreign capital is benefiting society.

   - For a long time, civil society has been responsible for clarifying the rules of the game and keeping up the pressure on transparency. But the private sector and government need to volunteer transparency to increase accountability.

   - There is a duty to communicate both short- and long-term risks to shareholders. Greater transparency of business practices is essential.

   - Additional multi-stakeholder roundtables, platforms and South-South learning are needed. This is particularly relevant for issues such as land rights, advocacy and conflicts of interest where a more balanced perspective is required.

3. Smallholders and SMEs need better access to information to make better choices. Currently, the concept of sustainability is seen as limiting or hindering growth and progress, so a bottom-up approach is needed alongside top-down policy and regulations.

   - We need to be clearer about who our target audience actually is. For example, what is the definition of a smallholder? There is much variation within this group and little is known about their value judgments. We need to know who makes decisions. Who has an impact?

   - We need to find persuasive incentives for each stakeholder group.

   - There is huge potential to make use of social media as well as more traditional media and to reach non-traditional audiences.

   - Promoting and strengthening in-country platforms for sustainable landscapes that include local stakeholders from public, private, research and civil society sectors is necessary.

   - We were set up to move investors’ perspectives of how they could think about water. We all know that water is severely undervalued... so why would they pour billions, trillions into it?

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   - Promoting and strengthening in-country platforms for sustainable landscapes that include local stakeholders from public, private, research and civil society sectors is necessary.
Conclusions and next steps

Governments and the private sector have begun to acknowledge the need for change in business-as-usual land-use management. But the objectives of government, investors and actors on the ground may differ.

In the past, most of the funding pledged to combat deforestation and forest degradation came from public sources. Delivering on the new Sustainable Development Goals and the 180 Nationally Determined Contributions submitted at COP 21 as part of the Paris Agreement, as well as meeting private sector sustainability commitments, will require both political will and financial investment in alternative development strategies, from both the private and public sector. Facilities such as the Green Climate Fund are emerging to support these financial needs, but institutional investors are also recognizing the risks associated with unsustainable business practices and the potential for stranded assets in coal, oil and gas and looking to shift some of their investments to more sustainable sectors.

The Forum sought to understand how multi-stakeholder objectives could be aligned without sacrificing the envisaged landscape benefits or compromising the financial business case. Participants reflected on opportunities and challenges and explored potential solutions, calling for more environmentally credible, financially viable and socially equitable investment alternatives.

Next steps

• UNEP report in October 2016 at the International Monetary Fund/World Bank Annual Meeting that will explore the nexus between fintech and sustainable development
• LAC20X20 Latin America and the Caribbean workshop in July 2016
• African Forest Landscape Restoration Initiative (AFR100) workshop in September 2016
• Possible start of similar initiatives like AFR100 and LAC20X20 in Asia and the Mediterranean
• UNFCCC COP 22 in Marrakesh in November 2016 (including landscape restoration side events)
• The LDN fund planned for launch at the end of 2016.
Compiled by Sophia Gnych, CIFOR, based on session reports.

Session hosts

Exhibition hosts