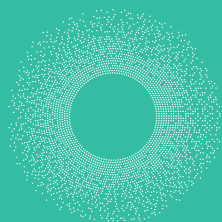




Global
Landscapes
Forum

Luxembourg 2019

White Paper



Breakthroughs in
Sustainable Finance

Mobilising private capital for land and ecosystem restoration

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Introduction

There are currently many ambitious international initiatives supporting sustainable land use and ecosystem restoration, with various development agendas, declarations, and country commitments. These include the **Sustainable Development Goal (SDG) 15 Life on Land** — particularly SDG target 15.3 on Land Degradation Neutrality (LDN) and the associated LDN country targets, **the UN Decade on Ecosystem Restoration and the Bonn Challenge**.

This is due to a growing recognition that **sustainable land management and land restoration can offer multiple economic, environmental and social returns**. The costs of fighting land degradation through restoration and sustainable land management practices versus the much higher cost of inaction repeatedly highlights the strong economic incentive for immediate action. Still, despite the promising economic returns of ecosystem restoration (in addition to environmental and social benefits), there is a considerable gap between supply and demand for appropriate financing, estimated to be **\$2.5 trillion per year** (UNCTAD).

Closing this gap will require collaborative action from a wide range of actors, including the private sector. However, the involvement of private investors in scaling proven sustainable land management practices remains limited to date.

To move forward, it is necessary to understand:

- i. **what private institutional investors are looking for in their investment strategies**, and;
- ii. **how sustainable land use activities can offer suitable investment opportunities, while providing environmental and social benefits**

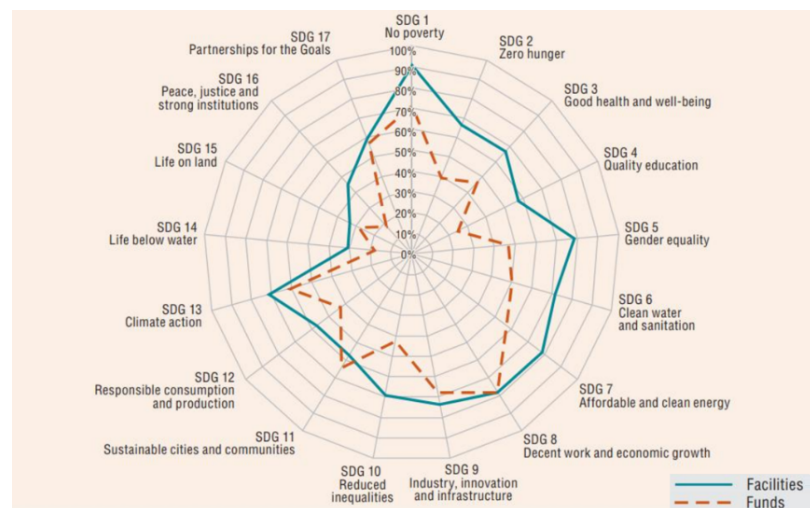
Ahead of the Global Landscapes Forum Luxembourg, this White Paper looks at recent trends in private investment in SDGs, and business cases for investment in sustainable land use and restoration.

During the Forum, the panellists will share experiences on how commercial elements can be incorporated in land restoration projects, to enable private sector involvement in unlocking finance and scaling up.

Wanted: private capital

A huge funding gap for sustainable development

Achieving the Sustainable Development Goals (SDGs) will require an estimated \$4.5 trillion per year. However, the UN puts the financing gap at **\$2.5 trillion per year in developing countries alone** (UNCTAD). To meet this need, only around \$160 billion of official development aid went annually to developing countries between 2012 to 2016. In particular, SDGs related to land and biodiversity (e.g. SDG 15: life on land, and SDG 14: life below water) suffer from lack of finance.



Public-private finance vehicles linked to the SDGs

Source: 'Making Blended Finance Work for the Sustainable Development Goals,' OECD 2018

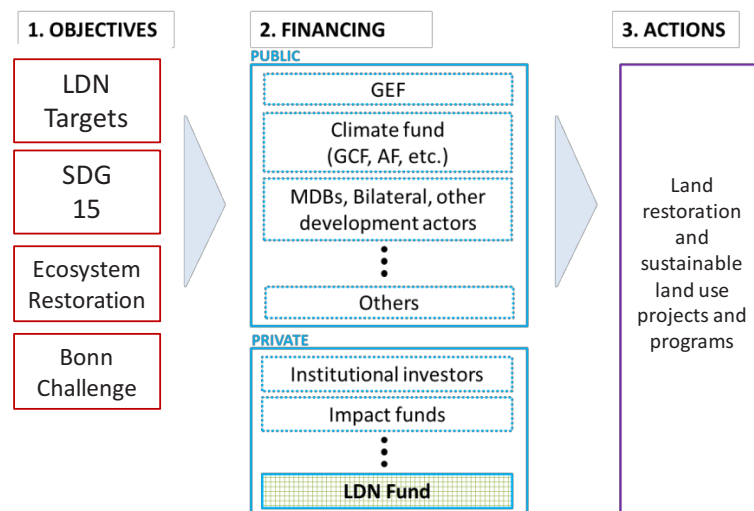
The need to mobilise the private sector to finance land and ecosystem restoration

Combining finance sources

Restoring ecosystems will require the mobilisation and collaboration of a broad range of financing options.

This includes the following:

- **Pre-existing land use finance** (which include multilateral funds and banks) continues to play a pivotal role.
- In addition, **new vehicles and structures** are needed to bring together private sector investors and operators



Land restoration: from objectives to actions

Source: UNCCD /Mirova

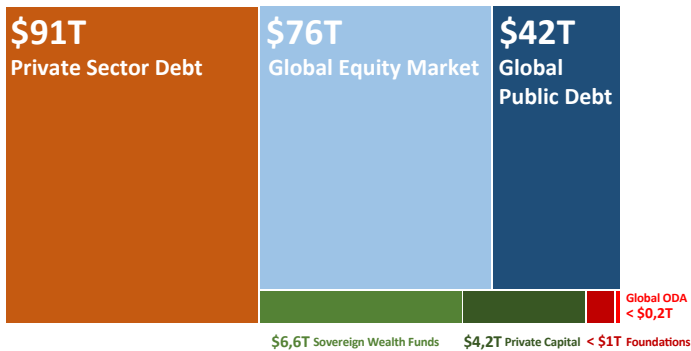
The role of blended finance

As public resources alone will not suffice, there is not only a need but also an opportunity to engage private capital on a large scale. Thus, it is crucial to attract long term private investors, as stated in the Addis Abeba Action Agenda adopted in July 2015¹.

In is also embedded in the 2030 Agenda for Sustainable Development which states that: *"international private business and finance [...] are an engine for development"*. In addition, *"private business, investment, and innovation are major drivers of productivity, inclusive economic growth"*.

One way to mobilise private capital this is to **structure public-private partnerships where public finance allows to attract private capital**. Some finance sources with an interest in environmental and social impacts, such as climate funds and development banks, can make investment opportunities more attractive for private investors by taking on more risk, lower returns, or longer timeframes. This approach is known as *'blended finance'*, and it is receiving a lot of attention in the development community as a way to finance the SDGs.

This mobilisation of capital from the private sector to support the 2030 Agenda is crucial, as private capital and private debt represent massive resources, still largely untapped by SDG activities.



Available finance: public and private pools of capital vs Official Development Aid (ODA)

Source: WWF Netherlands

¹ The Addis Ababa Action Agenda for the Third International Conference on Financing for Development, 2015, UN DESA



The case for sustainable land use investments

Business models and investment opportunities

To attract private investment, there is a need to demonstrate not only the positive environmental and social impacts of land and ecosystem restoration activities, but also the **business case**. Sustainable land use activities have great potential to generate restoration benefits and financial return:

- **Sustainable production of food and fibres**
 - Regenerative agriculture, conservation agriculture, agroecology
 - Agroforestry
 - Forestry
- **Conservation and restoration activities linked to Payment for Ecosystem Services**
 - Carbon sequestration
 - Watershed services
 - Other ecosystem benefits

- **Other businesses**

- Eco-tourism or access to energy can also be combined with restoration activities
- Green infrastructure, e.g. for urban water management

To attract private capital, such activities should show a successful track record and allow for an assessment of the financial risk-return profile. This is currently a challenge, as data is limited compared to more mature markets (e.g. renewable energy or infrastructure). However, over the past years, many initiatives, actors, entrepreneurs, and investors have turned concepts into reality, and are able to share lessons learned.

Lessons learned so far

Many initiatives have been launched over the past few years to support sustainable land use techniques, businesses, investment vehicles, financing instruments, etc. and informative literature is already available. Here are three key messages, with examples of publications providing valuable insights:



Image by Bishnu Sarangi from Pixabay



Key message 1: there are many attractive business models and commercial activities possible

Many players, including restoration entrepreneurs, social enterprises, services providers, and industrial actors, have developed responsible business activities in recent years.

The joint publication by the WRI and TNC “The Business of Planting trees” provides good examples of companies developing models to produce value from restoring land.

<https://www.wri.org/publication/business-of-planting-trees>

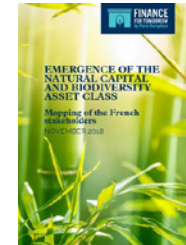


Key message 2: appropriate financial instruments are required, that are tailored to the underlying business activities

Traditional commercial finance is often not suitable for sustainable land use projects, while public finance is limited; public and private financiers need to collaborate to provide suitable financing.

The report from the European Investment Bank (EIB) published in 2019 entitled “Investing in Nature: financing conservation and nature-based solutions” provides concrete feedback and lessons learned for the Natural Capital Financing Facility, co-funded by EIB and EU DEVCO.

<https://www.eib.org/attachments/pj/ncff-invest-nature-report-en.pdf>



Key message 3: A wide ecosystem of actors, including private sector operators, has emerged

New funds, service providers, and project developers have been created in the past years, and the restoration economy is taking shape. Alongside public bodies, NGOs and impact investors, the mobilisation of real economy actors, including corporates and project operators, is playing a critical role.

This has been highlighted by the report “Emergence of the natural capital and biodiversity asset class” prepared by Deloitte for Finance for Tomorrow, the Paris initiative for sustainable finance. It relates to the French ecosystem but provides an interesting mapping of actors and how they interact, which should be replicated for other countries.

<https://financefortomorrow.com/actualites/capital-naturel-biodiversite-panorama-des-acteurs-francais/>



Initial recommendations to promote private investment in ecosystem restoration

Based on the above, we believe that **land and ecosystem restoration has the potential to attract significant private investment.**

There are in particular (i) proven sustainable land use practices, (ii) strong market demand for sustainably produced food and fibres, and above all (iii) promising project developers and entrepreneurs which are developing sustainable business models.

In order to build trust, and pave the way for more private investment, **blended finance is needed** during a transition phase to manage high levels of perceived and actual risk. However, as over time and as projects succeed, **the need for de-risking capital is expected to decrease significantly.**

The mapping of different actors working in this space should be done to support better coordination, clearer division of work and optimal allocation of resources.

Finally, to avoid accusations of greenwashing or 'impact washing', **land and ecosystem restoration activities need to clearly demonstrate their positive environmental and social impacts**, using appropriate indicators to report the benefits they generate for nature and local communities. This requires the convergence of impact reporting frameworks and best practices throughout the sector. Public bodies can help facilitate such coordination, while private actors are encouraged to innovate and propose new solutions.

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