Forest and Landscape Restoration Financing

Financing strategies for Forest and Landscape Restoration (FLR)

Faustine ZOVEDA
Forest and Landscape Restoration Mechanism (FLRM) FAO
“An active process that brings people together to identify, negotiate and implement practices that restore an agreed optimal balance of the ecological, social and economic benefits of forests and trees within a broader pattern of land uses.” (GPFLR)

Up to 2 billion hectares of degraded land (source GPFLR)

FOREST AND LANDSCAPE RESTORATION (FLR)

What it costs

- **Bonn Challenge**
  - 2011–2020
  - 150 million ha
  - USD 36 billion/year

- **New York Declaration on Forests**
  - 2014–2030
  - 350 million ha
  - USD 49 billion/year

- **Land degradation neutrality**
  - (SDG Target 15.3)
  - 2015–2030
  - 2 billion ha
  - USD 318 billion/year

Forest and Landscape Restoration Opportunities:
- Wide-scale restoration
- Mosaic restoration
- Remote restoration

Other Areas:
- Agricultural lands
- Recent tropical deforestation
- Urban areas
- Forest without restoration needs
Who is investing in FLR?

**Funding Sources**

- **Climate finance**
  - Voluntary carbon markets; REDD+; CBR; small grants; adaptation funds; Green Climate Fund; national climate funds

- **Private sector**
  - Corporate social responsibility; private impact funds; institutional investors

- **Development cooperation**
  - Development finance institutions; technical cooperation agencies

- **Environmental funds**
  - Extrabudgetary funding; private, public, national, international sources

- **Non-governmental funding**
  - International, national and local NGOs and foundations

- **State budgets and resources**
  - FLR integrated in budgeting system; public incentives for FLR (e.g. payments for ecosystem services)

- **Non-traditional funding**
  - Crowdfunding; green bank cards

---

**Risks and barriers for FLR investment**

The more degraded the landscape, the higher the cost of restoration and the higher the risk of the investment. Different investors are willing to accept different levels of risk.

**Cost of the restoration**

- Traditional investors (pension funds, commercial banks)
- Private equity impact funds, crowdfunding (lending), development finance institutions
- Governments, international cooperation (technical assistance, grants)

**Risk of the investment**

- Corporate social responsibility, private foundations
- Crowdfunding (donations)
- NGOs, public foundations

---

*Degradation level: Low, Moderate, High*
**Benefits of FLR Investment**

### Socio-economic Benefits
- Job and income creation through restoration economy
- Wood and non-wood forest products
- Enhanced crop yields and food security
- Resilience of livelihoods of local communities
- Cultural/recreational benefits

### Environmental Benefits
- Restoration of degraded land/ecosystems
- Soil conservation
- Climate change mitigation and adaptation
- Disaster risk reduction
- Improved habitats and biodiversity
- Enhanced freshwater supplies

**Include both in cost-benefit assessment!**

---

**Costs, Benefits and Rate of Return of FLR**

<table>
<thead>
<tr>
<th>Ecosystem</th>
<th>Cost (USD/ha)</th>
<th>Benefits (USD/ha)</th>
<th>Benefits-cost ratio</th>
<th>Returns **</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tropical forests</strong></td>
<td>$3,450</td>
<td>$1,487,000</td>
<td>50%</td>
<td>37.3</td>
</tr>
<tr>
<td><strong>Other forests</strong></td>
<td>$2,390</td>
<td>$26,300</td>
<td>20%</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Woodland/shrubland</strong></td>
<td>$990</td>
<td>$321,800</td>
<td>42%</td>
<td>28.4</td>
</tr>
<tr>
<td><strong>Inland wetlands</strong></td>
<td>$33,000</td>
<td>$1,713,000</td>
<td>12%</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>Coastal</strong></td>
<td>$232,700</td>
<td>$935,400</td>
<td>11%</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Grasslands</strong></td>
<td>$260</td>
<td>$86,900</td>
<td>40%</td>
<td>26.4</td>
</tr>
<tr>
<td><strong>Mangroves</strong></td>
<td>$2,680</td>
<td>$86,900</td>
<td>40%</td>
<td>26.4</td>
</tr>
</tbody>
</table>

*Net present value of benefits over 40 years
**Internal rate of return

---

**Different Investors Expect Different Returns**

- **Financial returns**
  - **Environmental and social returns**
    - Crowdfunding (donations)
    - NGOs, public foundations
    - Corporate social responsibility, private foundations
    - Governments, International cooperation (technical assistance, grants)
    - Private equity impact funds, crowdfunding (lending), development finance institutions
    - Traditional investors (pension funds, commercial banks)
Enabling FLR financing

INVESTORS REQUIRE SUPPORT TO COST-BENEFIT ANALYSIS

Ex ante CBA

Support for financing strategy
Which investor is ready to finance which costs? to purchase which benefits?

Decision-making tools

Direct benefits
Trade of landscape products and services (agriculture, forest value chains, CO₂, etc.)

Traditional investors and high-net-worth individuals

Indirect benefits
Indirect and intangible ecosystem services (biodiversity, scenic beauty, water)

High-net-worth individuals, NGOs, foundations, development finance institutions

Direct costs
Implementation, production, materials, physical inputs, etc.

Traditional investors, high-net-worth individuals, development finance institutions

Indirect costs
Legal frameworks, capacity development, opportunity costs, environmental/social costs

State, foundations, development cooperation, NGOs

Ex post CBA

CBA database
Relevant partners: ELD, TEEB, IPBES, BIOFIN, WAVES, universities

Who might be investing in the future?

DISTRIBUTION OF CURRENT AND FUTURE FLR INVESTMENT: A ROUGH ESTIMATE

USD 35–300 billion per year?

- Traditional investors
- Corporate social responsibility
- Non-governmental funding
- Crowdfunding
- Development cooperation (technical assistance and financial cooperation) and climate finance
- Private equity impact funds
- National environmental funds and State budgets

USD 5–10 billion per year?

- 5%
- 5%
- 5%
- 5%
Sustainable financing for Forest and Landscape Restoration

THE ROLE OF PUBLIC POLICY MAKERS

THE POLICY BRIEF PROVIDES SEVERAL RECOMMENDATIONS TO PUBLIC POLICY MAKERS TO HELP THEM TO IMPROVE THEIR SUPPORT TO FOREST AND LANDSCAPE RESTORATION FINANCING BY:

1) Mainstreaming FLR in States budgets;
2) Setting up appropriate financing mechanisms;
3) Engaging the private sector and attracting investors to FLR;
4) Building alliances and partnerships.
Mainstreaming FLR in State budgets

Integrating Forest and Landscape Restoration (FLR) in state budgets and public investment funds and proofing these financing instruments against possible negatives impacts on landscapes.

Mobilizing Official Development Assistance (ODA) funds for Forest and Landscape Restoration (FLR) (whether as donor or beneficiary) and adapting the wide range of ODA instruments to FLR.

Developing monitoring systems for Forest and Landscape (FLR) expenditures and mechanisms for collecting consistent data on the costs and benefits of FLR investments.
Setting up appropriate financing mechanisms

Designing, adapting and implementing innovative national and local financing mechanisms for Forest and Landscape Restoration (FLR) with, for example, national and local forest funds, microfinance instruments and credit lines in public and private banks.

Using these financing instruments to implement public incentive schemes (e.g. payment for ecosystem services mechanisms) and coupling these schemes to investments in sustainable value chains to ensure a long-term self-sustaining financing strategy on FLR.

Promoting Forest and Landscape Restoration (FLR) as a solution for joint climate change mitigation and adaptation, targeting climate finance, and advocating for FLR windows in climate change instruments such as Adaptation Fund and the Green Climate Fund (GCF).
Engaging the private sector in FLR

1. Corporate Social Responsibility
   - No direct immediate financial returns expectation
   - Communication and marketing departments, Corporate foundations or CSR platforms

2. Sustainable Business and Investment
   - Direct financial returns expectation (short or long terms)
   - Impact investors (private equity impact funds, etc...), traditional investors (commercial banks / pension funds)
Corporate Social Responsibility (CSR) principles & Forest and Landscape Restoration (FLR)

CSR fields and indicators

<table>
<thead>
<tr>
<th>CSR Integration</th>
<th>Human Rights</th>
<th>Labor Practices</th>
<th>The Environment</th>
<th>Fair operating practices</th>
<th>Consumer Issues</th>
<th>Community Involvement &amp; Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Stakeholder Engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Innovative private impact funds already engaged on FLR

**INNOVATIVE PRIVATE EQUITY IMPACT FUNDS**

- **Average size**: USD 100-200 million
- **Average deal size**: USD 3-10 million
- **Geographic coverage**: Multicontinental
- **Source of capital**: High-net-worth individuals and family offices, development finance institutions, private companies and foundations
- **Expected returns**: Economic valorization of agriculture, forestry and agroforestry commodities and/or high-quality carbon credits

**Some examples:**
- Althelia Climate Fund
- Moringa Fund
- Terra Bella Fund
- Permian Global
- Livelihoods Carbon Fund
- Livelihoods Fund for Family Farming
- Landscape Fund*
- Land Degradation Neutrality Fund*
- EcoBusiness Fund
- Arbaro Forest Fund*
- EcoEnterprises II
- Commonland
- Global Environment Fund

* Under design
Engaging the private sector in FLR

Building an enabling environment for investors in FLR

**Increasing engagement with the private sector**, especially with private impact funds and other innovative initiatives such as layered funds that can benefit from the support of governments and public institutions (Private impact funds + Readiness Facilities like Moringa Fund and Incentives for provision of Ecosystem Services (PPP))

**Establishing risk mitigation mechanisms to engage Forest and Landscape Restoration investors at scale** (Guarantee mechanisms, Multi-layered private funds, Sustainable Investment Criteria (PRI) and consistent MRV tools)

**Adapting the legal framework to attract investors to FLR**
- Land tenure rights;
- Benefit sharing mechanisms;
- Fair investment regulations.

**Improving Costs-Benefits Analyses**
- Compile existing data and design a CBA data base
- Improving data quality for indirect costs and benefits
- Propose a ex-ante CBA tool
Building alliances and partnerships on FLR

Raising awareness among investors & project promoters/implementers

Building alliances and partnerships both at global, regional, national and local levels

- Global Partnership for Forest and Landscape Restoration (GPFLR)
- Initiative 20*20 in Latin America, AFR 100 or the GGWSSSI
- National alliance in the Southern Agricultural Growth Corridor in Tanzania

Building marketplaces on Forest & Landscape Restoration

- At landscape, national, regional and/or global levels
- Mobilizing all investors types potentially interested in FLR
- Which suitable facilitator/coordinator?

Communicating on success stories and opportunities

- Data base of successful business cases
- Promoting work of private impact funds towards traditional investors
- Using existing communication channels and creating new ones?
Public policy makers: FLR financing champions

- Integrating FLR in state budgets and public investment funds, and proofing these financing instruments against negative impacts on landscapes
- Mobilizing official development assistance (ODA) funds for FLR (whether as donor or beneficiary) and adapting the wide range of ODA instruments to FLR
- Developing monitoring systems for FLR expenditures and mechanisms for collecting data on the costs and benefits of FLR investments
- Designing, adapting and implementing innovative national and local financing mechanisms for FLR, for example through national and local forest funds, microfinance instruments and credit lines in public and private banks
- Using these financing instruments to implement public incentive schemes (e.g. payment for ecosystem services mechanisms) and coupling these schemes to investments in sustainable value chains to ensure a long-term self-sustaining financing strategy
- Increasing engagement with the private sector, especially with pioneer private impact funds and other innovative initiatives such as layered funds that can benefit from the support of governments and public institutions
- Investing in human capital at the landscape level to create a pool of local champions (e.g. local businesses, private operators, administrations) able to attract investors to FLR
- Building a legal and regulatory framework that promotes landscape “readiness for investments” and attracts investors to FLR
- Establishing risk mitigation mechanisms to engage FLR investors at scale
- Promoting partnerships and alliances at local, national, subregional, regional and international levels, and contributing towards international FLR initiatives
- Promoting FLR as a solution for joint climate change mitigation and adaptation, targeting climate finance, and advocating for an FLR window in climate change instruments such as the Adaptation Fund and the Green Climate Fund
Thanks for your attention!