Finance of Land and Water

The Investment Case of Natural Resources

Frederik Claasen

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Aidenvironment
Barentzplein 7
1013 NJ Amsterdam
The Netherlands
+ 31 (0)20 686 81 11
info@aidenvironment.org
www.aidenvironment.org

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Introduction

This publication is a white paper publication of the Land and Water Cluster of Aidenviroment and RAIN, as a result of the knowledge sharing event in November 2015, financed by the IFAD RAIN4Food program and the Wash Alliance International (WAI). This event shared the knowledge gained from the RAIN Uganda Rwambu Project¹, financed and implemented by the WASH Alliance International.

This publication is a quick read into the finance of land and water or integrated landscape management (also referred to as Integrated Landscape Investments). The domain of Integrated Landscape Investments is relatively new; this white paper touches the latest research and aims to provide guidance to organizations seeking finance for integrated (within the landscape) land and water programs.

Two publications played an important role in providing input for this paper: ‘The Little Landscapes Book’, 2015, published by the Global Canopy Programme and ‘Scaling up investment and finance for integrated landscape management: Challenges and innovations’, 2015, published by the Landscapes for People, Food and Nature Initiative, drafted by Seth Shames and Sara J. Scherr.

Besides these publications, the white paper builds on the practical expertise of the consultancy practice of Aidenviroment on finance for value chains and water related interventions. Additional to this publication Aidenviroment/RAIN published a paper on the Business Case of Land and Water, and a back ground paper on literature research and working case studies related to the same topic.

We especially would like to thank Mrs Nienke Stam, working with IDH learning and innovation department for sharing useful information and publications.

As this paper is a quick read, we did not include an executive summary. Chapter 1 and 2 explain why the perspective of the landscape and the business case is important when considering an integrated landscape investments approach, which is described in chapter 3. Chapter 4 provides practical guidance in making a finance proposal, while chapter 5 concludes with our and your next steps.

¹ http://www.rainfoundation.org/project/NL-KVK-34200988_DWDG_UG13_512/
1. The Landscape Perspective

This chapter explains the importance of taking the landscape approach in managing the activities within the landscape, and explains the role of finance.

**Why taking the landscape perspective?**
Water is a natural resource within the landscape. Water is critical for food production and food security. Due to the increase population growth and increased sensitivity of the production of commodities to climate change, there is increasingly a competition on natural resources, the landscape being the playing field.

Competition will not always lead to efficient and effective use of natural resources. To work towards solutions, the actors within the landscape and organizations sourcing from the landscape and their financiers have to understand the social, environmental and economic potential of the landscape, and the dynamics between the different users.

Shared understanding should result in collaborative planning, an integrated landscape plan (ILP), framed as a business case that addresses amongst others the supply, demand, and distribution (allocation) of scarce resources like land and water. A finance chapter should be part of the plan, describing the credit need, the sources of finance, the impact, and the cash flow generating capacity / economical return of the activities. By doing so, finance becomes an integrated part of the management of natural resources.

**What is the role of finance within the landscape?**
The landscape management cycle comprises five steps: 1) the setup of a strong multi stakeholder platform, 2) the process of creating alignment that leads to collaborative planning, 3) effective implementation, followed by 4) monitoring and suggestions for adjustments that will provide input to 5) the platform for improving the management process.

*Figure 1: Landscape catalysts*

The role of finance

*Source: ‘The Little Landscapes Book’, 2015, published by the Global Canopy Programme*

Finance, together with governance and markets, is a catalyst for integrated landscape development. Access to finance is important when financing the activities of the ILP, but when the (often project based) activities phase out, access to finance is still needed to ensure integrated landscape development to sustain and scale up. This requires a sophisticated mix (blend) of financial sources.
Governance (e.g. supportive policies and laws) facilitate the setup of landscape management units or platforms and support the execution of its activities. The public sector plays an important role and the landscape can offer the opportunity to show case or test how supportive policies and laws work out in practice within a well-defined area, before adopting these policies and laws on a national level.

The market is a well-known catalyst for market driven activities and will support landscape development when balanced with the right governance. It is important to select market driven activities carefully and rigorously, and link these activities to value chains within and outside the landscape.

‘Lake Navasha’ provides a good example how market, finance and governance acted as catalysts to scale up the activities of the multi-stakeholder platform.

Development of a multi-stakeholder platform Lake Navasha

Kenya’s second largest freshwater body supports a booming horticulture industry, representing about 70% of Kenya’s flower cut exports and 2-3% of the Kenya GDP. Other economic activities are fishery, tourism, dairy and beef, and the production of thermal energy.

The diversity of stakeholders put pressure on the natural resources. The severe drought in 2009 catapulted the need for an integrated approach to natural resource management into action. In May 2011, supported by politicians on the highest level, the stakeholders raised the Imarisha Lake Naivasha Management Board (following a PPP framework).

The board ordered to set up a secretariat that had to enhance collaboration, coordinate activities, monitor compliance with law and regulations and develop a code of conduct (and enforce this code).

The board set up and started to manage a Trust to receive financial resources to enable implementation of Imarasha’s mandate. In 2012-13, due to the restructuring of the constitution, government could not release public funding, fortunately the Trust Fund leveraged partnerships with private sector, providing sufficient funds for Imarasha to survive.

In 2015, the Ministry of Environment and Natural Resources gave Imarasha the status of a special program. The Board developed a Sustainable Development Action Plan 2012-2017 guiding the activities of the PPP, focusing on four prioritized topics, started to push external communications and is now in the process of starting a sustainable financing mechanism.

Source: ‘The Little Landscapes Book’, 2015, published by the Global Canopy Programme
2. The business case perspective

It is important to explain the difference between a finance proposal and a business case. Before applying for finance the finance need, the use of funds, and the expected return and impact should be clear. Traditionally, when applying for grants, a project or program proposal describes the activities and deliverables; when applying for (semi) commercial funding, PPP funds or blended funds (e.g. a mix between grants and loans), a business case should be an integrated element in the proposal.

What is a business case?
A business case is an argument, which is intended to convince a decision-maker to initiate action on a particular project or task. If successful, this results in the investment of time, money, and other resources, with the goal of achieving a desired outcome. For example, a business case might propose that a factory invest in increased production of an in-demand product, with the goal of increasing sales.

A business model is the model that describes how a business earns money in order to cover its costs and to finance its investments. Business plans describe how the model works and provide the arguments for a business case, you might say the business case is the conclusion of the outcome of the business model.

Most traditional business cases only consider how an individual business can pursue its own isolated gain, without considering how additional value might be created for the environment, the workers, and the local economic development. If this logic is followed by every decision-maker, the result is a progressive decline in the total resources available to the collective.

In order to achieve collective and individual business gains while avoiding degradation of natural resources, cooperation across multiple groups is necessary. Businesses start to recognize the interdependency between the state natural resources are in and business results and continuity. By adopting language which business decision-makers are accustomed to, new (more successful) ways to articulate environmental protection imperatives can potentially be developed.

It is important to reinforce that this is not a discussion limited to the competitive dynamics between similar businesses, but rather of cooperation between multiple user types which are dependent on each other’s use of land and water. Such users include a) those who have direct control over the activities that take place on the land (such as farmers), b) businesses which are dependent upon resources coming from the landscape, and thus rely on its continued productivity (e.g. a factory using water), as well as c) non-commercial stakeholders (e.g. consumers of water for drinking and cooking).

Why is a business case needed?
As the 2016 Global Risks Report of the World Economic Forum makes clear, the most significant concern of our time is the degraded condition of both land and water, and the environmental functions which relate to these. These risks are not new, but appreciation of their scale and destabilizing potential – as well as their potential to be significantly addressed – continues to increase.

Market mechanism is a well-known catalyst for activities that are linked to economic development, which is an important driver for developing and emerging countries in their efforts to get out of poverty, connect to global markets and boost (economic) growth. However, markets have flaws. When markets leave natural resources out of the equation, both ecosystems and economics built upon them are imperiled.

Presenting the management (conservation, restoration) of land and water as a business case is aimed to increase the appreciation, valuation and monetarization of natural resources by the market. As private
businesses play an important role in markets, this approach will lead to engagement of the private sector in land and water management activities.

*What is the scope of the business case?*

Traditionally, a business case applies to a single project, program or other proposal that is framed by clear, traditional organizational and legal boundaries. Viewing the landscape from such a perspective is fairly new, as the landscape itself often does not have a specific legal framework (may transcend multiple national and government boundaries), nor, in many cases, a clear organizational structure.

Identifying boundaries of a landscape case - and promising action points therein - is the first step in defining the scope of a landscape business case. This requires understanding of living organisms relating to that landscape, as well as understanding the quantity and quality of natural resources therein. The next step is to delineate the users’ dependency on the landscape, and the presence of the public sector, businesses, and civil society which can contribute to change.

These steps provide the scope that can be framed in a structure that businesses recognize:
- The social, natural, and economic ‘resources’ in a landscape (the factory called ‘landscape’);
- The ‘activities’ required to restore, conserve or maintain landscape functions/productivity;
- The (environmental and human) ‘partners’ necessary to execute activities;
- The ‘value proposition’ the landscape offers to each group of landscape users;
- The ‘relationship’ landscape users have with the landscape;
- The ‘distribution’ (channels) of the value proposition of the landscape to its users; and,
- The ‘direct users’ of the landscape (landscape user segments).

*How to frame a land and water project as a business case?*

Presenting the restoration and conservation of natural resources as a business case increases the appreciation, valuation, and ‘pricing’ of natural resources. Framing land and water projects as a business model will engage the private sector in finding shared (business) opportunities that meet the needs of landscape users, and their clients, while increasing the value of natural resources.

Creating the unique value proposition (UVP) is the starting point for building and defining the business model. As such, we find it at the core of the wide-spread and widely used Business Model Canvas – a concept, model and toolbox used to create and develop business models and plans. We adapted the model to make it specific to land and water. The result we call: The Landscape Canvas.

In general, a business model for land and water adds value in four different ways:
- Fulfilling basic needs for consumption and storage/treatment of waste (e.g. water and sanitation);
- Providing inputs for production, and storage/treatment of waste (e.g. food, energy and waste);
- Providing safety for consumption and production (e.g. space for shelter and flood protection);
- Providing ‘soft’ values such as status, identity and culture (e.g. pride and inspiration).

And in relation to land and water, user segments can be segmented as follows:
- Consumers, who ‘consume’ the value proposition (e.g. communities that need drinking water);
- Producers, who use the value proposition for production (e.g. sand harvesters);
- Regulators, who use the value proposition for the public interest (e.g. local government, tax income);
- Impact seekers, who have an interest in creating positive impact (e.g. impact financiers).

Each of these segments has its own needs. And each therefore has its own business model that connects to what the landscape offers as value proposition.
To develop the business case for land and water we work through the following steps:

- Understand the basic needs and the business model of the landscape users;
- Describe the activities and perceived pains and gains of these users in relation to the natural resources;
- Identify shared opportunities (i.e. shared with other landscape users);
- Define capabilities (i.e. what must be able to be done to deliver the (shared) value proposition);
- Determine the contract partners needed to realize the capabilities and deliver the value proposition;
- Calculate revenue streams and cost structure;
- Determine the finance need and seek for funding.

Two more aspects are critical:

- Relationships, channels and governance; and,
- Finance.

Governance, channels, and customer relationships are important elements in the Landscape Canvas that manage the relationship land users have with the landscape. Channels provide physical access to the UVP, customer relationships include mechanisms that manage informal relationships, while the governance comprises the more formal and institutional framework.

Finance is crucial for starting up activities and businesses, therefor we continue this white paper explaining the investment case of Land and Water. The investment case is the business case for a financier that explains how the financier will receive a social, financial and environmental return on his investment. For further reading on the Landscape Canvas (see below), please refer to the separate publication: ‘The Business Case of Land and Water, The Value Proposition of Natural Resources’.

Figure 2: Landscape Canvas
Framing Land and Water projects as business case

Source: Aidenvironment/Proportion
3. Finance within the landscape

Finance for Integrated Land and Water Management (also referred to as Finance of Land and Water) is not simple as the activities within the public and private domain come together and overlap. This chapter defines the scope and elaborates on the importance of integrated landscape investments.

What is the scope of finance / investment within the landscape?
The traditional way of looking at finance within the landscape is through the sustainable land use investment angle, which differs from the integrated landscape investment approach on three aspects:

Table 1: Finance within the landscape
How integrated landscape investments differ

<table>
<thead>
<tr>
<th>Aspects</th>
<th>Integrated landscape investments</th>
<th>Sustainable land use investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>Economic, environmental and social context</td>
<td>Ownership or management unit</td>
</tr>
<tr>
<td>Alignment</td>
<td>Coordination with the landscape stakeholders</td>
<td>Coordination with activities within the management unit or ownership</td>
</tr>
<tr>
<td>Objectives</td>
<td>In line with shared objectives of landscape stakeholders</td>
<td>In line with the objectives of the management unit or ownership</td>
</tr>
</tbody>
</table>

Source: ‘Scaling up investment and finance for integrated landscape management: Challenges and innovations’, 2015, published by the Landscapes for People (…)

Integrated landscape investment includes financing so called ‘enabling investments’, these investments are needed to mitigate negative impact on the environment, lower the overall risk profile (de-risking) and enhance the sustainability of cash flow generating investments. As a result, two parameters are relevant for selecting the appropriate financial source in first place: cash flow generating capacity and ownership, the table below provides examples.

Table 2: Drivers for specific financial sources
Ownership and cash flow

<table>
<thead>
<tr>
<th>Generating cash flow (CF)</th>
<th>Low CF</th>
<th>CF Neutral</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In short term (ST)</td>
<td>In long term (LT)</td>
</tr>
<tr>
<td>Single ownership</td>
<td>Banks (commercial loans)</td>
<td>Investors (equity), development banks</td>
</tr>
<tr>
<td>Shared ownership</td>
<td>Micro banks (group lending)</td>
<td>Cooperative banks</td>
</tr>
<tr>
<td>Public ownership</td>
<td>Project finance</td>
<td>Project Finance and PPP</td>
</tr>
</tbody>
</table>

Source: Aidenvironment

Investments in CF generating activities are called asset investments. These are investments that finance the purchase of fixed assets, working capital (e.g. stock), and initial losses (startup costs). Investments in CF neutral activities are called enabling investments. The low CF generating investments is the so-called grey area.
Another parameter playing a role in selecting the type of financial source is impact (social, environmental, and economical return). Financiers that are aiming to achieve social and environmental return will be more willing to finance low CF generating activities, or CF generating activities against ‘soft conditions’ (e.g. a longer tenor, a lower interest rate of without securities).

Last but not less important is the availability of security. A security is an asset that can be liquidated to provide cash that can be used to pay off non performing debt. Traditional lending (instead of CF based lending) is based on the availability of assets that can provide security to the lender. At the landscape level securities are often limited (as ownership is not often clear or shared within the public domain). External (third party) guarantees are often needed to attract commercial funding.

Linking the landscape investments with these specific parameters is called the structuring of integrated landscape investments. For investors to understand the specific risk / return profile of their investments, they need to be able to separate the different types of investments into ‘cats, dogs and cows’.

**Combining Rain Water Harvesting and Micro Finance**
This project is an example how enabling investments differ from asset investments.

The RAIN Foundation started a project enabling farmers to have reliable access to water through rainwater harvesting for irrigation by means of micro-finance. The project is unique since it will be built upon a commercial finance system for the farmers, making rainwater harvesting less dependent on subsidy schemes. By supporting local service providers to create a business for delivering the technology or provide support in drafting business plans, the project will enable that farmers have access to technical and financial expertise.

**Figure 3: Combining rainwater harvesting and micro finance**
Enabling and asset investments

**Why is the integrated landscape investment (ILI) approach important?**
The ILI approach creates business benefits for actors within and outside the landscape. Competition over landscape resources might lead to inefficient use and allocation of resources. Alignment with environmental and social context and contribution to economic development will strengthen the reputation, and the ‘license to operate’ of the users of the landscape (from the perspective of the financier: the investment targets).
The ILI mitigates investment risks, as risks are interlinked within the landscape (e.g. the availability of water). Some risks do only occur at landscape level (e.g. erosion, depleting ground water level). Actors within the landscape can be triggered to transfer risks to other actors, without proper alignment procedures.

ILI secures access to financial sources in the long term. Investors increasingly use positive and negative investment criteria. International Finance Institutes and professional donors have to comply with international sustainability frameworks. Not meeting (often landscape based) criteria on environmental impact will cut off access to these financial sources.

ILI creates sustainable development and tax income. ILI stimulates resilience and the restoring of natural resource capacity. This will create a sustainable enabling environment that will support communities and businesses to flourish and develop. Economic development and the push to formalize the market will create opportunities for governments to increase tax income.

What are challenges when taking a ILI approach?
The challenges taking a ILI approach strongly connect to the challenges of taking the business case perspective:

- Monetization of the value proposition and cost recovery: putting a price tag on the value proposition and its potential improvement has to create sufficient interest among landscape users to invest in improvement, or otherwise provide the logic for governance bodies to introduce a mandatory system that ensures cost recovery at least;
- The long-term nature of land and water projects: though the returns of a given project occur over an extended period of time, the point at which a tangible increase in ecosystem services will be recognized by paying beneficiaries is important for the viability of any business and investment case;
- The lack of ownership and occurrence of trade-offs: why would a user invest in the landscape and its natural resources when s/he has no ownership thereof, and (negative) trade-offs might occur? There are multiple linkages between effective restoration and tenure security; both informal tenure and migratory land users see little reason in delayed-payoff activity, unless tenure is improved and stakes of different land users are well aligned;
- High transaction costs: the landscape users are often not organized well (especially in developing countries and emerging economies). Even when users are willing to pay for the UVP, getting grip on the multiple small revenue streams while ensuring appropriate levels of transparency remains a challenge;
- Scale and impact: it requires a balancing act to set the optimal scale when defining the boundaries of the landscape. Usually the scale is set based on geographical parameters (e.g. a catchment area), however restoration and conservation activities need scale to show their impact, as the impact of small individual pilots will probably not visible quite easily. And on the other hand, there are limitations to the span of control of the ‘landscape (finance) manager’.
4. **Making the deal**

Although ILI is a relatively new domain, organizations can prepare themselves to become successful.

**So what are the strategic challenges and pathways to solutions in the long term?**

Investors need to continue efforts on including negative and positive investment criteria, taking an integrated landscape approach into account. E.g. heavy water users should physically restore the water extraction before getting finance. NGOs together with financiers must build track record and communicate best and worst practices. CF based lending should be promoted; just as the appreciation of so-called patient capital.

Landscape professionals and financiers should jointly develop and refine risk assessment tools that assess how landscape developments affect the stability of cash flow and profitability. Governments, IFIs and donors must provide financial incentives and additional security, e.g. guarantees. Mechanisms that facilitate the blending of commercial finance and grants should be put in place (e.g. output based subsidies).

**How to move forward in a more practical way?**

There are seven practical steps to take for getting access to integrated landscape investments. The starting point is the integrated landscape plan.

*Figure 4: Steps toward implementation*

*From plan to finance*

<table>
<thead>
<tr>
<th>Frame land and water projects as a business case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop Unique Value Propositions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Calculate and describe finance need</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure the finance need</th>
</tr>
</thead>
<tbody>
<tr>
<td>CF generating investments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure (potential) sources of finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance for asset investments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Calculate and describe return on investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Sustainability of) cash flows</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monitor the performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment performance</td>
</tr>
</tbody>
</table>

Source: Aidenvironment
The first step is to appoint a landscape investment coordinator, who will initiate and manage this process. This landscape investment coordinator works closely together with investors in taking these different steps and providing technical assistance to actors within the landscape that need finance for specific activities.

The coordinator will also design and implement the investment vehicle that will funnel the (financial) sources to the uses (investments), this can be managed by setting up a legal structure (e.g. a fund) or by coordinating investments on a one to one bases.

**Figure 5: Flow of funds**

![Flow of funds diagram]

*Investment vehicles and coordination*

Source: Aidenvironment

The second step is to structure the credit need along the lines of the parameters explained in chapter 2. Structuring provides an overview to the financiers how funds are being used (the uses). Step 3 provides insights in the nature of investments, this step is crucial to tap into the right (and applicable) financial sources available within the landscape.

After quantifying and qualifying the financial uses, step 4 provides an overview of internal and external financial sources; internal resources refer to the self-financing capacity of the landscape, the revenue stream generated by landscape users. Step 5 calculates the available cash flow for meeting financial obligations, describes how financiers can have grip on the flow of funds (access to cash flow), and what the expected return on investment (financial and social and environmental impact) will be.

After executing the finance package, monitoring of the performance is important to make sure financiers will remain ‘comfortable’. Depending on the type of finance (equity, loans), investment performance and loan performance have to be monitored in combination with the monitoring of impact.

**Which instruments or financial sources are applicable?**

We believe climate funds will be important in financing landscapes. The Green Climate Fund (GCF) streamlines climate finance to developing countries. So far USD 6 billion has been contributed, having USD 4 billion in pipeline. Disbursements started at the end of 2015. The fund has two windows: one for adaption, and one for mitigation. A private sector facility allows private finance to come in.

In order to speed up its disbursements, GCF delegated power to approved accredited entities, including development banks, Trust Funds, national NGO’s and international operating civil organizations. In November 2015 the board approved its first set of projects.
Steps to take when applying for a grant:

- Develop an idea and a consortium.
- Develop a 2 pager and present to one of the accredited organizations.
- Make a choice if you want to start writing a proposal or work with a project preparation grant.
- Start to lobby: There should be someone in the country to lobby the idea with the government and to align the idea with policies. The same person should lobby the idea with the National Designated Authority or Operational Focal Point of the grants.

Climate funds are not the only financial source. Private sector funds are available too. The table below provides a non-exhausted overview.

**Table 3: ILI related funds**

<table>
<thead>
<tr>
<th>Fund</th>
<th>Source of capital</th>
<th>Investment focus</th>
<th>Investment tools</th>
<th>Investment size</th>
<th>Engagement period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Althelia Ecosphere, Althelia Climate Fund</td>
<td>EIB, Finnfund, FMO, and others</td>
<td>Forest protection and sustainable land use</td>
<td>Private equity in PPP framework</td>
<td>EUR 10 million</td>
<td>8 years</td>
</tr>
<tr>
<td>Eco Enterprises Partners II Fund</td>
<td>Divers, among others TNC, FMO, IADB, EIB</td>
<td>Organic agriculture, eco-tourism, sustainable forestry</td>
<td>Long term mezzanine finance in assets, growth and working capital</td>
<td>EUR 0.5 to EUR 3 million</td>
<td>5-8 years</td>
</tr>
<tr>
<td>GEF IAP on fostering sustainability and resilience for food security</td>
<td>GEF related investors</td>
<td>Land rehabilitation, governance, policy development</td>
<td>Grants to 12 sub Saharan African countries</td>
<td>EUR 3-9 million per country</td>
<td>5 years</td>
</tr>
<tr>
<td>IDH ISLA</td>
<td>Dutch Ministry of FA</td>
<td>Large scale land rehabilitation</td>
<td>Grants and contributions from private sector</td>
<td>EUR 1 million per landscape</td>
<td>4 years</td>
</tr>
<tr>
<td>Livelihoods Fund for Family Farming</td>
<td>Danone and Mars</td>
<td>Sustainable agriculture</td>
<td>Mutual fund in PPP framework</td>
<td>EUR 120 million (size of fund)</td>
<td>10 years</td>
</tr>
<tr>
<td>Moringa Fund</td>
<td>French based investors and others</td>
<td>Large scale agro forestry projects</td>
<td>Private equity and a grant program</td>
<td>EUR 4-11 million</td>
<td>6-10 years</td>
</tr>
<tr>
<td>Land degradation neutrality fund</td>
<td>Divers</td>
<td>Large scale land rehabilitation</td>
<td>Private equity</td>
<td>TBD</td>
<td>5-20 years</td>
</tr>
<tr>
<td>Commonland</td>
<td>Dutch based investors and NGOs</td>
<td>Land rehabilitation</td>
<td>TBD</td>
<td>TBD</td>
<td>20 years</td>
</tr>
</tbody>
</table>

Source: ‘Scaling up investment and finance for integrated landscape management: Challenges and innovations’, 2015, published by the Landscapes for People (…)

Publication number 2645-07B
The Landscape Fund (TLF) is a joint initiative of the Munden project and the Centre for International Forestry Research. TLF aims to transform landscapes by investing in sustainable agriculture and forestry. The relative small loans are packaged (aggregated) and offered to international investors. Local financial intermediaries are distributing loans. TLF uses a statistical model to decide on potential landscapes taking transaction costs and impact into account.

Athelia Climate Fund aims to change landscapes by investing in landscape projects that have potential cash flow generating capacity (certified commodities, carbon credits). ACF always leverages public grants using PPP agreements. USAID provided a credit guarantee to lower the risk profile for private investors.

The Livelihood Fund invests in improving farmer’s practices and productivity at landscape level. By charging the off takers a fee per volume of commodity sourced from the landscape, the fund aims to ‘revolve’ itself over time.

The BioCarbon Fund initiative for Sustainable Forest Landscapes (ISFL) finances enabling investments like the governance, legal framework development, and land use policies. ISFL works alongside REDD+ programs.

Local finance plays an important role in financing integrating landscape investments. However, the financiers in place, the public and private financial instruments, the state of art and structure of the financial sector, and the legal framework in place will differ.

It is important to assess the willingness and ability to invest or pay of the actors within the landscape. Regarding asset investments, financiers will often require cash or in kind contribution (25-35%) from those benefiting from (or having ownership of) the investment. Local saving schemes (set up by communities or farmer cooperatives) play an important role in relation to this matter, just as the introduction of user fees in relation to the finance of operation or compensation.

To get a better view on the local available financial instruments, we recommend reading the PPP framework policy and related public funding mechanisms, to do research on landscape development and ‘environment / conservation’ funds, to scan commercial loan programs, local equity and venture capital funds, and seek for private sector funds available through corporate social responsibility (CSR) programs.

Market based financial instruments connect financial instruments to the market. The market mechanism provides extra liquidity to investors, as investors are able to sell their investments on a market. Cap and Trade products (CO2) and so called Landscape Bonds are examples of market based instruments and can be used to finance the landscape.

Landscape bonds are relatively new to investors. The issue of bonds requires special expertise as the documentation is complex and the legal framework puts specific requirements on issuing and trading these bonds. The Unlocking Forest Finance Project is interesting to refer to. The UFF project aims to catalyze the creation of financial instruments - green bonds - operating at the scale of sub national regions, to stop the conversion of tropical forest to produce commodities, and to transition towards sustainable modes of development².

² See more at: http://globalcanopy.org
5. **Our next steps, your next steps**

This white paper provided a short introduction to Integrated Landscape Investments. The paper advocates including a financial strategy into the integrated Land and Water Management activities from start on. The starting point is a strong landscape platform that includes a finance coordinator.

Separating asset investments and enabling investments is crucial in blending the applicable financial instruments. Applications or finance proposals should include a business case that describes how the landscape offers a value proposition to the landscape users and to which extend these users are willing and able to pay for at least the recurring costs of land and water interventions.

Traditional fundraisers will not end up jobless, many financiers will not require a business case of a sophisticated finance approach being part of proposals. However, most of these financiers still target isolated and single projects, or one-off interventions that are hard to scale up as a connection to market mechanisms, governance or additional finance (the ‘three catalysts’) is lacking.

Our aim is to change the dialogue about conservation and bring additional and different (private) financiers on board in our efforts to restore and conserve natural resources (like land and water). The Landscape Canvas and ILI approach speak the language of the CEO and CFO in sectors across the globe. By using this language and framing land and water projects as a business case and investment opportunity, we bridge the gap that still exists between private sector and land and water specialists.

The Landscape Canvas model and ILI approach bring a new perspective and a practical tool. However, we realize that this is just a start to our journey. While developing the Landscape Canvas and analysing and refining the ILI approach, we encountered criticism, scepticism, positive feedback, and enthusiasm – all common reactions to co-creation and innovative processes.

We would like you to become part of this process too.

We envision a Global Landscape Social Lab in which organizations such as WAI contribute programs to be framed as business cases, and pilots that can verify and improve the Landscape Canvas and ILI approach. We encourage Program Developers to join – those recognize the added value of private sector involvement, who wish to access new sources of funding. Which brings us to the investors – investors with a long term vision who seek to realize financial and social returns for a better world and who seek improved access to bankable projects and programs.

The Global Landscape Social Lab will support the improvement of the current Landscape Canvas and the development of tools which can be used to frame restoration and conservation in the language of business and to engage the private sector: tools which are needed to tap into new sources of funding.

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**About the author:**
Frederik Claasen is an all-round financial specialist and business developer with impact. Following a 14-year career as Senior Vice President in structured finance and corporate social responsibility (CSR) with ABN AMRO Bank, Frederik joined Aidenvironment as Senior Consultant in 2007. Frederik has over eight years’ experience in the consultancy on a wide range of sustainability issues, primarily in the international water and agriculture sectors. Frederik is director of the Ecological Management Foundation and member of the Management Team of Aidenvironment. Frederik studied Business Economics and Finance at the University of Amsterdam.

claasen@aidenvironment.org
www.aidenvironment.org
Appendices