Unlocking Forest Finance: Investing in a transition to sustainable landscapes as a strategy for the environment, the people and the economy

Why invest in sustainable landscapes?

Sustainable management of landscapes is a global and local necessity. But few landscapes around the world are being effectively managed to balance the competing demands of today, let alone those likely to emerge tomorrow. This leaves billions of people and many economies at risk.

Governments have made important commitments to reduce their greenhouse gas emissions in a significant way to meet climate change targets. They have also committed to achieve sustainable development. Although the broad target for governments at all levels is clear, the pathway to achieve it is not well defined. Our experience has demonstrated that governments don’t have clear plans to materialize those goals and translate them into specific actions to be implemented on the ground. Until they define those pathways, and the requirements in terms of funding and assistance, the impacts will remain elusive.

Investors in capital markets are still heavily geared towards the business as usual opportunities. These markets have the potential to trigger dramatically positive change at the landscape level. However, investors need a framework that allows them to access investment opportunities catalyzing change on the ground blended, with a proposal that carefully balances their return need and risk appetite. Investing in sustainable landscapes as a product is still in its early stages and there are no financially tested models able to generate enough traction in the market. There is interest, but lack of projects designed to match the scale and financial demands from investors.

We can help – The Unlocking Forest Finance (UFF) project has collaborated with 3 jurisdictions in Latin America to understand their broader production and conservation goals and translate them into specific action plans for a wide range of interventions including supply chains and livelihoods. We have built tailored business cases that are context specific and explain detailed differences between business-as-usual and sustainable scenarios. On top of that, our group of technical experts have devised specific roadmaps that translate initial production goals into sustainable development goals, demonstrating how these can be achieved while ensuring carbon emissions reductions; further enhancement of other important ecosystem services such as water and biodiversity, and improvement of local social conditions, via higher employment and income.

We can help – UFF can design innovative financial mechanisms catering both the needs of the regions and the needs of investors. Our financial structures involve risk mitigation measures such as insurance and guarantees matching the scale of large-scale interventions. We have done extensive work evaluating the return generating potential for the specific interventions on the ground, and our results demonstrate that the transition to sustainable landscapes makes financial sense. Our financial design has the potential to deliver finance at the scale of US$ billions.
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Example: Increase quality and productivity of coffee in San Martin (Peru) (area 16000 hectares)

Example: Coffee farmers implement plantations without much planning and technology, leading to inadequate system management. Due to lack of knowledge, support and financial access, productivity dramatically decreases from year 3. Finally, topped with weak environmental regulation enforcement, this dynamic leads to deforestation and loss of important ecosystem services.

Example: In the case of coffee, best practice would involve soil analysis, adequate pruning, organic fertilisers, shade in agroforestry systems, adequate water treatment, long term technical assistance linked to finance access and implementation. This would lead to increased and sustained productivity in the long term.

Estimated benefits:
• Creation of 4000+ new jobs
• 3000+ farmers accessing tailored + long term technical assistance
• Improvement in soil fertility
• Circa 4000 ha of avoided deforestation
• Biodiversity enhancement
• Around 18% IRR – per hectare/farmer level cash flow

Example: Specific guidelines for coffee management under a semi-organic agroforestry system

How does UFF deliver value?

1 Understand goals and define targets
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   - Identify ongoing landscape dynamics and assess whether it is leading to sustainability
   - Analyse what will happen if the current trend continues

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3 Identify and analyse alternatives and estimate benefits
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   - Identify options to break current unsustainable trends and catalyse the transformation into sustainable landscapes
   - Project what will happen if the sustainable landscape transition is implemented. This includes assessing the potential for delivery of environmental (i.e. GHG emission reductions, water and biodiversity related ecosystem services), social (employment, farmer income, capacity building) and financial (return) benefits.

4 Implementation design
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   - Define an implementation pathway, inclusive of safeguards, monitoring, production technology packages, technical assistance and institutional arrangements needed to make the sustainable landscape work in the long term on the ground.

5 Identify interest and viability of proposal
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   - Collaborate with the financial sector to create and share knowledge regarding the untapped financial opportunities within the sustainable landscapes sphere
   - Evaluate the financial sense of our proposals to ensure they can gather capital markets interest

6 Identify how to raise and deploy capital
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   - Assess and design financial frameworks that cover all aspects of interest for a wide range of private investors.
   - Risk mitigation: Our frameworks may consider first-loss guarantees and insurance at the required scale.
   - Investable pipeline of projects: In a joint work with local stakeholders, we create a portfolio of investable interventions. We can explain to investors at an incredible level of detail what exactly their resources will do and where are they going – linking investors with the landscape.
   - Financial structure that defines the flow of money from end to end: We work with local financial institutions to build their capacity and ensure they can take resources from investors and channel them to the farmers according to our design, while ensuring due processes to mitigate any related risks.
   - Create more specific financial instruments: We also design credit lines that unlock access to finance on the ground by targeting the main barriers to sustainability in the local financial system.

7 Implementing the Deal
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   - We market our financial designs to ensure transactions and project implementation
About the UFF Partnership

The UFF Partnership includes NGOs, environmental and social sector safeguarding institutes, financial sector experts and strategic advisors including Credit Suisse, European Investment Bank and Althelia Ecosphere.

UFF is managed by the Global Canopy Programme, a UK nonprofit with a strong track record of implementing international projects to address tropical deforestation.

The project also relies on a number of global and local partners: Companhia de Desenvolvimento de Serviços Ambientais, Acre (CDSA), the Amazon Environmental Research Institute, Mato Grosso (IPAM), Centro de Desarrollo e Investigación de la Selva Alta, San Martin (CEDISA), National Agricultural University of La Molina (UNALM) in San Martín, World Wide Fund for Nature (WWF-UK, and other WWF offices), Climate Bonds Initiative (CBI), Vivid Economics, Helmholtz Centre for Environmental Research (UFZ), the International Institute for Sustainability (IIS), the International Institute for Applied Systems Analysis (IIASA), The National Institute for Space Research – Centre for Earth Systems Science (INPE-CCST).

This project is part of the International Climate Initiative (IKI). The Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) supports this initiative on the basis of a decision adopted by the German Bundestag.

Replicating the Unlocking Forest Finance approach in other regions

UFF is actively engaging with a number of other tropical forest regions across Latin America and Asia in developing tailored strategies to support their transition to sustainable landscape practices. Please get in touch to find out how we can help governments, corporations and financial institutions alike realise the economic, environmental and social opportunities that such a transition can bring.

For more information about the UFF project or to contact GCP visit [www.globalcanopy.org](http://www.globalcanopy.org)