Financing for Forest and Landscape Restoration

Mathilde Iweins | FAO
The size of the challenge: How much does FLR costs?

Up to 2 billion hectares of degraded lands (source GPFLR)
Main funding sources for FLR

- **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
- **Non-governmental funding**: International, national and local NGOs and foundations
- **Environmental funds**: Extrabudgetary funding; private, public, national, international sources
- **Non-traditional funding**: Crowdfunding; green bank cards

Long-term sustainable FLR financing

**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
A restored landscape incorporates many land uses—based on the context of the land and the needs of the community.
Provision of improved seed and breed varieties and training in their management
Access to technology to improve water storage and irrigation

Zoning of vulnerable habitats
Additional labour and materials to fence off streams and hilltop forests
Training in ecological weed and pest control

Provision of materials to restore river banks and gullies through plantation of bamboo, terrace construction and anti-erosion ditches

Business development training to access to higher-value market opportunities, make restoration materials profitable (e.g., bamboo, fruit trees etc)
Training and inputs for fish-farming and beekeeping to diversify livelihoods

Restored and productive landscape
With higher environmental benefits, on farm and beyond
With lower opportunity costs

The FLR process & financing needs
Investment needs

Lay the **institutional** and **policy foundation**

**Enabling Investments**
- Stakeholder engagement and cooperation
- Appropriate legal and regulatory frameworks
- Knowledge and capacity to strategically plan and manage at the landscape scale
- Development of incentive mechanisms

**Asset Investments**
- Improved agricultural and forestry practices and value chain activities
- More efficient agro-processing and sustainable energy use
- Building green infrastructure and greening of built infrastructure
- Natural resource restoration

Direct investments in physical components of the landscape
Financing Mechanisms

Provide funds for FLR activities at different stages of the FLR process, to cover transaction costs and scaling up.

Use economic drivers to create a market incentive for investment for FLR by producing profitable products or services for buyers.

**Financial mechanisms**
- **For profit**
  - Short-term loans
  - Medium- & long-term loans
  - Equity investment
  - Insurance / Guarantees
- **Not for profit**
  - Public finance instruments
  - Grants

**Market mechanisms**
- Payments for ecosystem services
- Market development for timber and non-timber forest products and value chains
- Sustainability standards and certification
- Ecotourism
For-profit – Insurance/ guarantees

What are they?

• Mechanism to ‘de-risk’ restoration investments.

• Provide security against political instability, market risks, risks of non-payment.

• Beneficiaries: FLR operators themselves or the investors.

Case Study: The Multilateral Investment Guarantee Agency (MIGA) and EcoPlanet Bamboo

• EcoPlanet Bamboo restores degraded lands, turning them into commercial bamboo plantations using a landscape approach.

• To ‘de-risk’ these investments, MIGA is providing over USD 50 million guarantee against EcoPlanet Bamboo’s investments in Nicaragua and South Africa.

• The 15-year policy against political risk (expropriation, war and civil disturbance,...)
Success Factors

• Necessary to **unblock private investment** by protecting against risks.
• Can **address market failures**, e.g. when there is political risk in the investment region.

Challenges

• **The cost of the insurance** for the insured party.
• When dealing with a new/unproven class of investment, it can be difficult to **calculate the level of risk** and thus the appropriate cost of insurance.

Investors

Investors: Hedge funds, specialist insurers, multilateral financial institutions, etc.

Investor role: Investors **provide the guarantee** or the **insurance** to re-assure other investors or the stakeholders implementing FLR.
Investment needs & Mechanisms

**Financial mechanisms**

**For profit**
- Short-term loans
- Medium- & long-term loans
- Equity investment
- Insurance / Guarantees

**Not for profit**
- Public finance instruments
- Grants

**Market mechanisms**

- Payments for ecosystem services
- Market development for timber and non-timber forest products and value chains
- Sustainability standards and certification
- Ecotourism
Lessons: Coordinating finance to maximize results

To spread the burden of investment risk

Maximize FLR Results

To meet diverse stakeholders needs

To leverage adequate finance over time and across the landscape
Lessons: Coordinating finance to maximize results

Maximize the funds available for FLR for different interdependent and/or complementary activities.

Restoration activities will evolve overtime. Need to build on the achievements of earlier investments.
Lessons: Importance of partnerships and planning

Building partnerships within stakeholders’ groups

Building partnerships between stakeholder groups

Developing a landscape financing strategy
Lessons: Other keys to success

- Developing **business model** (including development of sustainable markets for value chains)

- **Local ownership and champions** and building local capacity
• 3 Modules
• Launched – April 2021 (english) September 2021 (french)
• Over 700 people took the entire course
• Need to extend the reach and support application
THANK YOU