MOBILIZING INNOVATIVE FINANCING FOR SUSTAINABLE LAND MANAGEMENT

INTRODUCTION
Overview of Session

1. What is innovative financing?
2. Why is it important?
3. Potential innovative financing sources and mechanisms
4. Focus:
   - Private sector investments
   - Incentive and market based mechanisms
   - Climate change mechanisms
5. Enabling environment for innovative financing
What is Innovative financing?

- Innovative sources and mechanisms of funding are non-traditional modes of financing (i.e. beyond ODA and Government budget)
- Innovative funding includes resources from internal, external, private or public sources
- Innovative funding can be mobilized through financial mechanisms and instruments
Why innovative financing?

- **Aim to:**
  - **Increase** resources availability
  - **Diversify** the resource base
  - **Complement** traditional funding
  - **Maximise** the impact of ODA

- Can provide **direct incentives** for land managers/users to engage in SLM practises.
Innovative financing for SLM

1. Actors & Institutions
2. Thematic Entry Points
3. Investment Based Mechanisms
4. Incentive and Market Based Mechanisms
Innovative financing for SLM

Agricultural & Institutions

- Private Sector
  - Companies & Financing institutions
  - Farmers
- Civil Society Organisations
- Foundations
- Emerging donors
- Decentralised cooperation (local Governments)
Innovative Financing for SLM

Thematic entry points

- Climate Change (mitigation and adaptation)
- Trade
- Poverty reduction and rural development
- Food security and agriculture
- Biodiversity conservation
- South-South cooperation
- Forestry and water
- Etc....
Innovative Financing for SLM

Investment Based Mechanisms

- Micro-finance (credit + insurance)
- Environmental Funds
- Environmental Performance Bonds
- Green Venture Capital Funds
Innovative Financing for SLM

Incentive and Market Based Mechanisms

- Public payments
  - E.g. co finance investments, subsidies

- Open trading under regulation
  - E.g. emissions trading, GHG mitigation

- Self organised private deals
  - E.g. payment to land users for environmental services

- Certification and Eco-labeling of products and services
  - Payment is embedded in the product
Opportunities for private sector investment in SLM
Why Private Sector?

- Land use and land management is to a large degree a private sector activity

- **Private sector companies** are potential investors and funders of SLM/NAP through core business activities and corporate social responsibility schemes

- **Small farmers and pastoralists** are private sector actors that operate and invest in the land and important partners in market-based mechanisms
In your country context,

- Who are relevant private sector actors in the drylands?
- What motivates private sector actors to engage in and finance dryland management activities?
- How can they be engaged more in financing dryland management activities?
- What possibilities exist for public-private partnerships?
Private Sector Financing

Relevant private sector actors for SLM

- Small-scale farmers, pastoralists and producer associations
- Large-scale farmers/plantations
- Agro processors (Micro to large scale enterprises)
- Suppliers of fertilisers and seeds
- Mining companies
- Forestry companies
- Water power providers
- Financial institutions offering services to land users (including microfinance and insurance)
Why would the private sector invest in SLM?

1. Regulatory compliance
   - Taxes, fines, polluter-pays principle, Subsidies

2. Direct business benefits
   - Business opportunities
   - Secure, sustain or reduce costs of key natural resource inputs required for business operations
   - Securing license to operate and avoiding losses from protests

3. Indirect business benefits
   - “Green” branding, marketing
   - Improved staff pride and morale and enhanced recruitment
   - Reflect broader business values of the corporation

4. Not-business related
   - Philanthropy / Charity
Private sector/NGO Partnerships

- WWF and The Coca Cola Company Partnership
- Working together on:
  - Conserving freshwater river basins
  - Supporting more efficient water use in agriculture
  - Promoting sustainable sugarcane growing practices
  - Decreasing CO$_2$ emissions and energy use
Public/Private Partnerships

- Private financing for public programmes in SLM
- Public support for private SLM initiatives
  - Incentives
  - Scaling up and promotion of successful initiatives
- State enterprises for loan guarantees
- Agricultural insurance subsidies
- Collaboration on Research and Development
- Enabling environment for investments
Nariño, Colombia

• Set up by the Dutch Development Cooperation

• The Partners:
  • Starbucks – the American coffee giant
    • Helping the coffee growers obtain a better coffee quality, farm in a sustainable manner and get higher prices for their crop
    • Pledged to pay a 40% premium above the world market price for Nariño coffee + buy the total crop for 5 years
  • Empresas de Nariño – a Colombian coffee processor
    • Contributed €1 million in technical assistance
    • Guaranteed to buy the coffee through long-term export contracts
  • The Dutch Government – €1 million
  • Nariño’s Provincial Government – easing access to utilities
  • International Organisation for Migration – expertise & technical assistance
  • The Carcafe Foundation – planting 10,000 native trees for watershed protection + providing a local coordinator
  • Colombian universities – research
How can dryland managers involve private sector?

1. Seek information on what private sector actors are investing in land and water related activities in the area

2. Contact strategies and entry points:
   - CSR
   - Company’s charitable agency or foundation
   - Management and boards of businesses
   - Partnerships with the private sector

3. Allow time
How can dryland managers involve private sector?

4. Establish partnerships and engage relevant private sector actors in sustainable management activities
   ▪ Highlight the role of the private sector actors
   ▪ Highlight the benefits private sector will have of investing sustainably in the area (potential benefits, financial viability & possibility for up-scaling)

5. Co-financing of projects and programmes – e.g. direct co-financing, provide infrastructure, lower tax, etc.

6. Focus on realistic results

7. Organisational arrangements – ToRs, designated focal points, clear deadlines and tangible results
Incentive and market-based mechanisms for SLM
Why incentive and market-based mechanisms?

- Land use decisions are made at the private level, but may have external social and environmental consequences at the local, national or global level.
- The external costs of poor land management decisions are rarely borne by the land managers.
- The economic incentive for adoption of SLM practices is lacking or unseen.

Market-based mechanisms can provide the incentives for land users to invest in SLM practices.
Incentive and market-based mechanisms

1. Public payment schemes
   - Permanent conservation easements
   - Contract farmland set-asides
   - Co finance investments
   - Payments for proven investments in land conservation
   - Environmental or green taxes
   - Subsidies
1. Public payment schemes

**Example: China**

<table>
<thead>
<tr>
<th>Program</th>
<th>Supply</th>
<th>Demand</th>
<th>Economics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Four wastelands policy</td>
<td>Farmers willing to engage in SLMPs in exchange of land use rights.</td>
<td>Government willing to exchange land rights for erosion control</td>
<td>National benefits in terms of reduced erosion. Local benefits in terms of increased local “ownership” of the land</td>
</tr>
<tr>
<td>2. Soil erosion control fees</td>
<td>Relevant authorities that will control soil erosion caused by private enterprises</td>
<td>Developers and businesses unable to control soil erosion. The unit that generated the erosion.</td>
<td>Polluter pays principle applied to soil erosion.</td>
</tr>
</tbody>
</table>
Incentive and market-based mechanisms

2. Open trading under regulation

- Conservation Banks
- Tradable development rights
- Trading of emission reductions or removals, e.g. Kyoto-CDM
3. Self organized private deals

- Direct payments for environmental services
- Conservation concession
3. Self organized private deals

Example: Payment for watershed services in South Africa - Working for Water Program

- Hires non-skilled workers, unemployed and traditionally underprivileged
- Remove invasive plant species
- Funding: 80% public budget + 20% foreign donors, municipalities and the private sector
4. Eco-labeling of products and services

- Marketing labels
- Certification schemes
The Biodiversity and Wine Initiative – South Africa
Factors determining the suitability of marked based mechanisms

1. National level context

- Institutional & Governance (vision + capacity)
- Stable political and economic environment
- Regulatory framework in place
- Environmental awareness
- Understanding of social and economic impact of unsustainable land management
Factors determining the suitability of marked based mechanisms

2. Site-specific context

- Ecosystem type and use and current use of the land
- Capacity to enhance environmental services
- Local capacities (social capital, infrastructure, space for discussion)
- Land tenure situation
Factors determining the suitability of marked based mechanisms

3. Economics of SLM practises

- Demand and supply of SLM
- Cost and cost-effectiveness
- Required time for development and implementation
- Amount of resources generated
- Synergies with other thematic priorities.
Enabling environment for innovative financing sources and mechanisms
Innovative sources and mechanisms rely on incentives through regulation and markets.

Role of the public sector is to provide the enabling environment: institutions, regulations, governance needed for innovative sources and mechanisms to work.

For example:

- National legislation to regulate economic activities that affect ecosystems
- Legislation to regulate and secure property rights
- Legislation to provide tax breaks for “green” business operations
Innovative sources and mechanisms

- Must benefit **public sector** and be cost-effective
- Must have benefit for the **private sector**
- Requires focused partnerships. Success will largely depend on a demonstration of mutual benefit, trust and accountability
How can dryland managers approach innovative financing

- Decide what analytical work is needed to determine entry points, incentives and actions required.
- Identify the incentives for stakeholders to invest in SLM?
- Mobilise a range of stakeholders: private sector, CSOs, academic institutions, donors, local and central government
- Take initiative in establishing cooperation mechanisms: South-South and Decentralised Cooperation
How can dryland managers approach innovative financing

- Capitalise on opportunities:
  - Private sector CSR schemes are in vogue
  - Piggyback: Package projects and establish linkages to “hot topics” like climate change, food security, biodiversity, etc.

- Identify opportunity, feasibility and transaction costs of implementing new regulations and/or changing the existing legislation and structures?

- Make the case: Provide evidence, e.g. economic value of land and the returns on investments

- Spread the word: mainstream and advocate
Thank for your Attention!
• Credit for small-scale borrowers
• Some institutions offer technical assistance and business development advice
• E.g. Grameen Bank, Bangladesh

• The role of government in MFIs is to provide the enabling environment for private sector participation, through (Llanto 1999):
  • Deregulated interest rates;
  • Emphasis on long-term sustainability of MFIs;
  • Provision of the infrastructure to make the local economy viable;
  • An appropriate regulatory framework for MFIs.
Micro-finance Institutions

- Relevance to SLM
  - Cooperation programmes between extension agencies and MFIs to finance SLM practices
  - Reaching out to MFIs (as well as traditional FIs) to introduce SLM practices and their business and development potential
South-South Cooperation

- South countries sharing their experiences and successes
- Flow of technology, information, resources, expertise and knowledge
- Cooperation agreements
South-South Cooperation

Initiatives:

- Global Mechanism: SolArid
- UNDP Special Unit for South-South Cooperation
- FAO – South-South Cooperation within the Special Programme for Food Security (SPFS)
South-South Cooperation

Examples:

- Costa Rica – Benin – Bhutan Strategic Cooperation funded by the Netherlands under the Programme for South-South Cooperation
  - Sustainable tourism, conservation and sustainable use of biodiversity, access to sustainable energy and efficient energy use, sustainable chains of production and consumption, gender equity.
  - 27 on-going projects, 4 trilateral, 12 bilateral and 11 pilot.
- India invested in farming activities in Mozambique and in biofuels development in West Africa
- Philippines provided technical assistance to Papua New Guinea to strengthen the implementation of water control systems
Decentralised Cooperation

- Cities, regions and local institutions in developed countries
- ODA, but at the local level

City of Montreuil, France
- Yelimané immigrants

Yelimané, Mali
- Rural communities

Hai Duong, Vietnam
- Agricultural experts

Improving Soil Conservation
Water management
Health
Education

Rice production
Water management

FAO
Agriculture
South-South Cooperation
Investment means to use money in the hope of generating more money.

Investments in SLM practices are potentially profitable, however the benefits accrue on the long-run.

Investment-based mechanisms can help channel investment funds to SLM actors.

Sources for investment-based mechanisms can be varied; internal, external, public, private or mixed.
2. Investment-based mechanisms: Examples

- Environmental Funds
- Debt-for-nature swaps
- Green Venture Capital Funds
• Environmental Funds
  • Endowment; Revolving; Sinking
  • Multilateral financing; INGO financing; grants; loans
  • Could be theme specific
  • Stakeholder representative board of directors
Laos Environment Protection Fund

Asian Development Bank
World Bank

Grants, Loans
Domestic, Foreign
Government Budget
Private entities

LAOS EPF

Non-refundable grants
Preferential Loans
Interest rate subsidies

Community Biodiversity Investment
Policy Implementation & Capacity Enhancement
Pollution Control
Sustainable Land Management
Water Resources Management

Mitigation for...
bare land
intensive land use
desert soil

Interest or benefits accrued from Fund’s investments

Source: www.laoepf.org.la
Green Venture Capital Funds

• Equity financing to “green” entrepreneurs

• Follow an investment model commonly known as “socially responsible investing” or “the triple bottom line”

• Investments from GVCFs can be in loans or equity financing

• Provide loans for small and medium enterprises which contribute to sustainable development
Green Venture Capital Funds

• Verde Ventures Fund: agroforestry (conservation coffee), ecotourism, NTFPs, reforestation – biodiversity hotspots ==> need to establish links with biodiversity conservation