

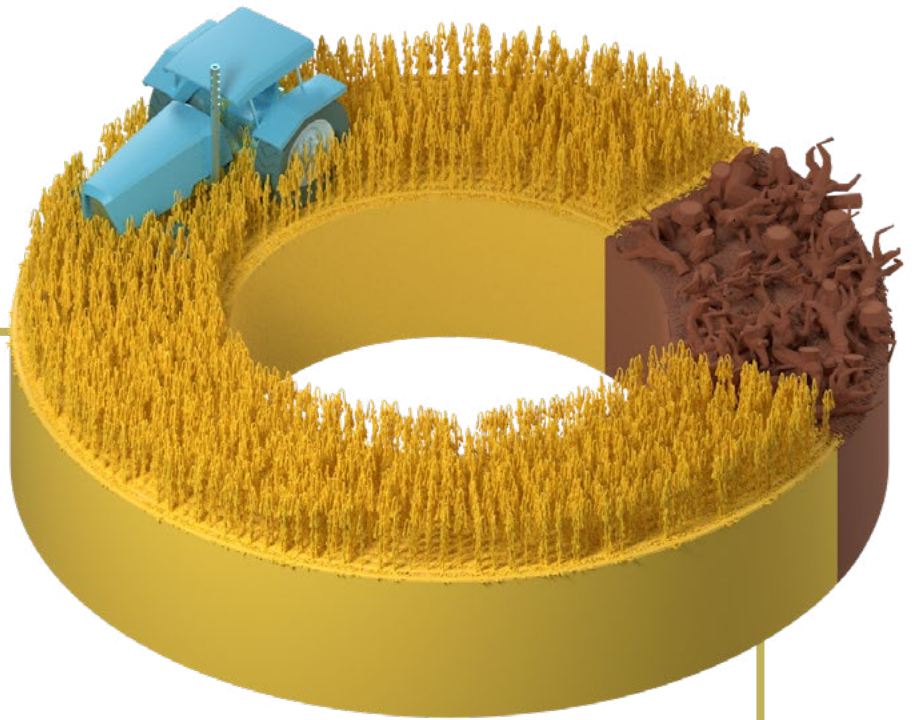
FINANCING SUSTAINABLE LAND USE

FOR PEOPLE AND PLANET

Leveraging and unlocking private finance for sustainable commodity production improves rural livelihoods, protects forests and restores degraded land

**FORESTS AND AGRICULTURE
HOLD MORE THAN 30%
OF THE SOLUTION TO THE
CLIMATE CRISIS**

**BUT CURRENTLY RECEIVE
LESS THAN 3% OF CLIMATE
FINANCE.**



**80% OF WORLD
DEFORESTATION
IS DUE TO AGRICULTURAL
PRACTICES**

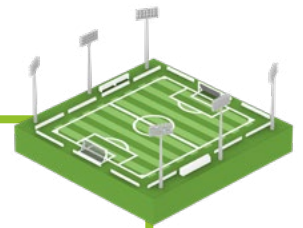
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Why a Land Use Finance Programme?



Across the world, the production of beef, soy, palm oil, rubber and other soft commodities is a major driver of deforestation leading to about 7 million hectares of forest loss per year. As well, this production leads to biodiversity loss and the decline of wildlife populations, freshwater depletion and greenhouse gas emissions. **Together agriculture and forestry account for 24 percent of all global emissions.**

**7 Million Hectars of Forests are Lost each Year,
the Equivalent of 26 Football Fields Every Minute**



But yet, **800 million people currently go hungry** every day. More food needs to be produced over the coming 40 years than has been collectively produced to date in order to feed an estimated 9.8 billion people by 2050. However, if business-as-usual practises continue, this will **exacerbate the environmental impact by 50 to 90 percent**, risking planetary boundaries defined as a safe operating space for humanity.

Therefore, **the world urgently needs to move towards sustainable land use models** that separate deforestation from agricultural production, rehabilitate degraded land and include smallholder farmers in global agricultural value chains. Such an agricultural system better balances the need for economic growth and jobs with the necessity of increasing climate resilience, emission reduction and better forest protection.

For example, in Indonesia, there are about 2 million hectares of aging palm oil plantations farmed by smallholder farmers. As a result, there is a significant risk that farmers will burn additional forests for new palm plantations in the coming years, unless a solution can be found to removing the aging palm trees and replanting **high yielding varieties** on the same land as well **as prioritizing rehabilitation of degraded land**. Given that this would require a multibillion-dollar investment that cannot come from public sources alone, **it is critical to unlock and direct private finance towards palm oil replanting**. The same is true for other commodities that are major drivers of deforestation and forest degradation such as cocoa in West Africa, coffee in Viet Nam and soy and beef in Paraguay and Brazil.

World Wildlife Populations have Decreased by 60% Since 1970



To pioneer the transformation towards sustainable land use at scale, UN Environment (UNEP) launched a **new 4-year Land Use Finance Programme that runs from 2018 to 2021**. The programme aims to proactively unlock public and especially private capital for deforestation-free commodity production, restoration of degraded land and improvement of smallholder farmer livelihoods. This will be done through several finance facilities that blend public and private capital. The programme will work with member states directly to create enabling environments for sustainable land use, including providing analyses and options for reform of fiscal and trade policies.

Figure 1 (right): Rationale for Sustainable Land Use Finance Programme

WHY A SUSTAINABLE LAND USE FINANCE PROGRAMME?

HOW DO WE FEED A GROWING WORLD POPULATION WITHOUT HARMING THE PLANET?



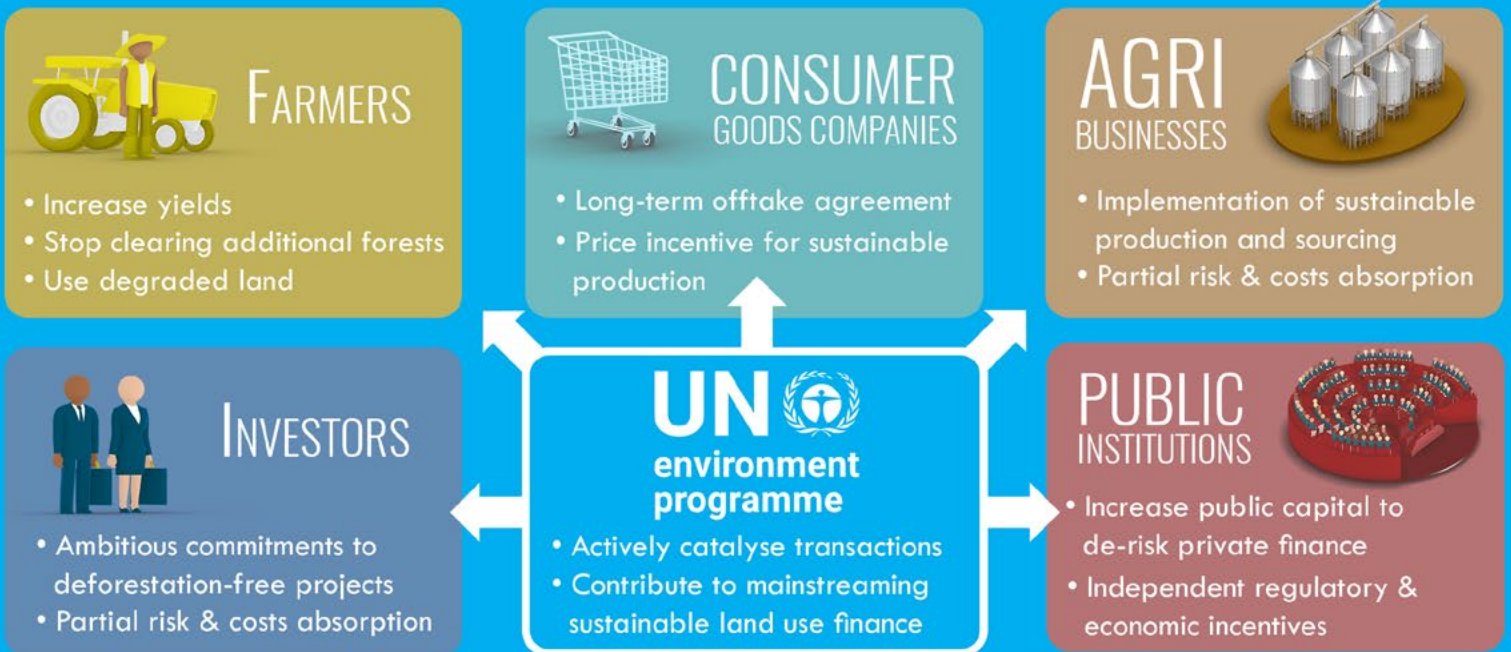
IT IS NECESSARY TO TRANSITION TO SUSTAINABLE AGRICULTURE



BUT THIS REQUIRES CONSIDERABLE FUNDING



THE SOLUTION: BLENDED FINANCE, INDUSTRY COMMITMENTS & ENABLING ENVIRONMENT





2 How Does the Land Use Finance Programme Contribute to the Solution?

2015 was a watershed year for the renewable energy sector. For the first time, there was more renewable energy capacity installed than for oil, gas and coal combined. In addition, **investment in renewable energy reached USD 286 billion**, twice as high as for all fossil fuel investments that year combined. Most of this was private capital. While there is a long way to go towards decarbonizing the transport and energy sectors, the pace is starting to accelerate. This transformation would not have been possible without the support of governments whose initial investments, in the form of feed-in tariffs, subsidies, guarantees and first loss instruments, have been crucial.

In order to achieve a similar systemic shift towards climate smart agricultural production, there will – at least initially – be a need for public finance in the form of **junior subordinate debt, credit guarantees and subsidies** to be blended with senior debt from commercial banks in order to mitigate the costs and risks of transitioning towards sustainable land use that avoids deforestation, rehabilitates degraded land and involves smallholder farmers in global agricultural value chains.

Why is that the case?

There are costs and risks associated with the transition to different business models such as moving from monoculture systems to integrated crops, livestock forest systems and agroforestry. Decoupling, or separating, deforestation from the production of crops such as cocoa or palm oil will require replanting on the same arable land. However, given that it may take 3 to 5 years for farmers and producers to harvest the first crops, **loans tenors will have to be extended to at least 10 years** to make this financially viable during the first years. Lastly, with the issue of unclear land titles for smallholder farmers and limited ability to service debt, public funding is needed to adjust the cost of capital for banks and investors that invest time and resources to develop ‘business unusual’ lending or investment schemes.

To contribute to the solution, the **Land Use Finance Programme acts as an umbrella** for several complementary finance facilities and projects that scale up and direct private finance to sustainable land use that creates positive environmental and social impacts. It does that by stimulating cooperation, identifying in-country deal opportunities and work towards broader systemic change in the finance, agricultural and consumer goods sectors. The programme tries to contribute to the solution in six ways:



Private Finance Partnerships to Shift Business Model

By **partnering with banks, investors and agribusinesses, the programme aims to shift private sector business models** to direct capital towards sustainable land use. UN Environment developed partnerships with banks such as BNP Paribas and Rabobank, both of which have committed significant private funds to deforestation-free and inclusive commodity production. UN Environment also aims to launch a **Deforestation-free Finance Alliance** to bring a larger number of banks, fund managers, investors and agribusinesses together in a commitment to shifting business models towards financing deforestation-free commodity production. Ultimately, the vision is for deforestation-free commodity production to become the new norm, rather than the exception.



Blended Finance Funds

To move from commitment to action, UN Environment has set up and supported several blended finance funds where public and private capital can 'de-risk' senior debt from banks and investors towards sustainable commodity production. These include the **AGRI3 Fund, Tropical Landscape Finance Facility (TLFF), Green Fund and Sustainable India Finance Facility (SIFF)**, among others. The purpose of these facilities is to partly reduce the risks and costs for banks and investors, so they direct a greater amount of private capital towards climate-smart agriculture.

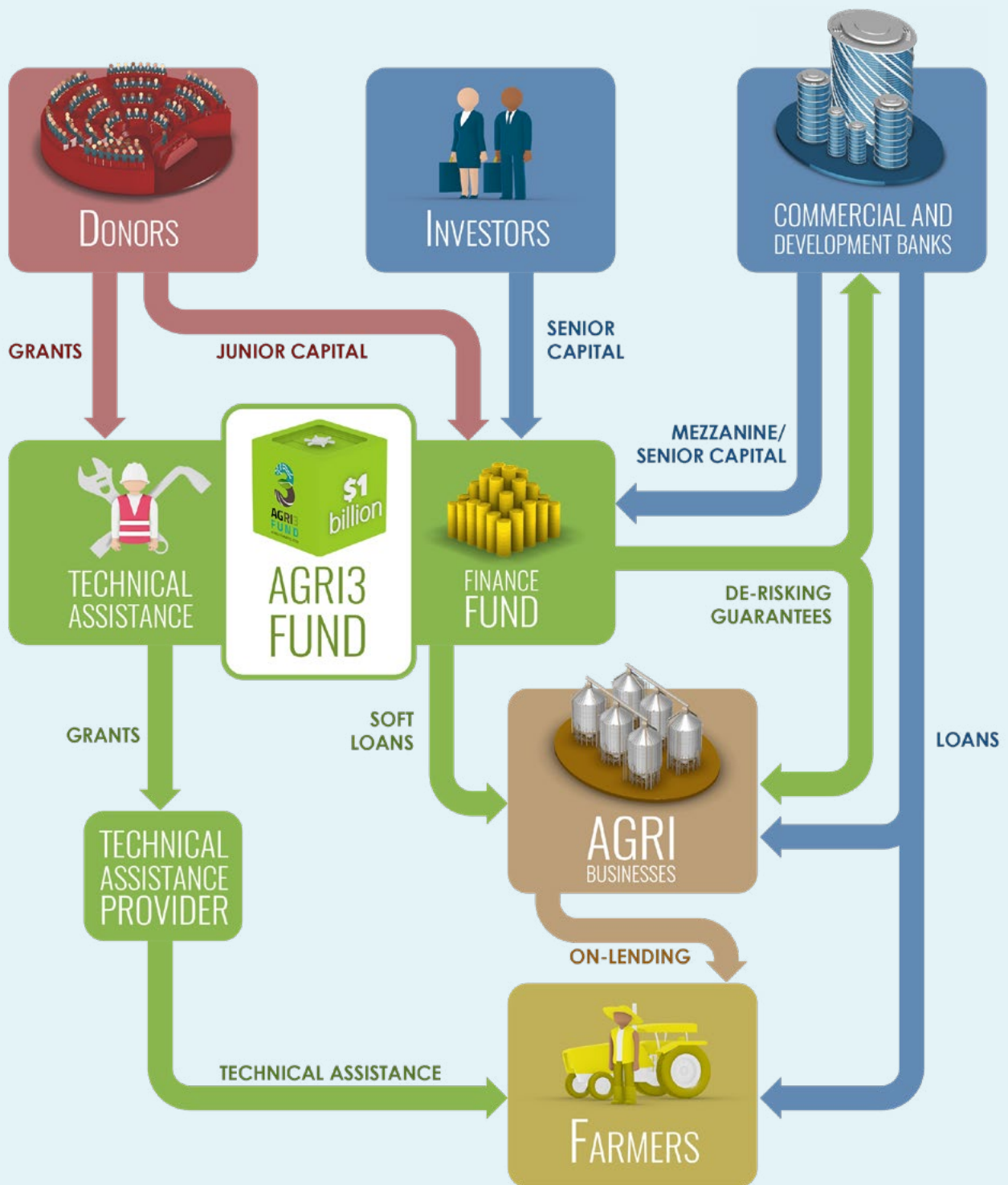


Figure 2: Schematic Structure of the AGR13 Fund

3 Environmental & Social (E&S) impact

To ensure the shift from conventional to sustainable production, UN Environment develops solid **environmental and social (E&S) impact frameworks** for finance facilities and projects. Most banks and other finance institutions have historically looked at deforestation and climate change almost exclusively from a risk perspective, with the IFC Performance Standards as global benchmark. However, moving towards sustainable land use requires changing the mindset of agribusinesses, financiers and governments by not only looking at the risk angle, but also at the desired positive environmental and social impacts of reduced deforestation or forest protection, emissions removed or farm income increased. UN Environment will work with the finance facilities and projects to ensure that monitoring and evaluation systems are in place that assess impact.

4 Business & Finance Analytics

Although a growing number of commodity producers, processors, traders and retailers have made zero-deforestation commitments, there is no clear evidence to determine whether these efforts could pave the way for a transformation in financing and operating agriculture systems. The **business analytics** work focuses on assessing the conditions under which farmers and agribusinesses can move from conventional to sustainable land use models for rubber, soy, palm oil and other commodities while remaining financially viable. By developing integrated financial models, it will become clear how to shift towards deforestation-free commodity production and where public capital can help make this transition possible.

5 Enabling Environment

In many cases, there is not yet an **enabling policy environment** for smallholder farmers, agribusiness firms or finance institutions to switch systematically to deforestation-free commodity production and sustainable land-use. UN Environment aims to support governments in developing public policy frameworks that are conducive to sustainable investments and provide regulatory and economic incentives to make this shift happen (including through reforms of fiscal and trade policies). In addition, through UN Environment's regional and country offices and partners, the programme aims to link blended finance facilities with the objectives of member states to meet international commitments related to the Paris Climate Accord, the Sustainable Development Goals and the Bonn Challenge.

6 Communication

The Land Use Finance Programme will **communicate** successful land use finance deals as blueprints to member states and to the agricultural, forestry and finance sectors to stimulate replication and ultimately mainstreaming. In order to reach a broad audience, UN Environment will make use of existing networks such as the Tropical Forest Alliance2020 (TFA2020), UN Environment Finance Initiative (UNEP FI) and the Principles for Responsible Investment (PRI).





Why	Lack of agricultural loans from banks directed at deforestation free commodity production	Lack of private capital directed at sustainable landscape investments in Indonesia
What	'Blended' finance fund to be capitalized by banks, investors, and public donors	Platform that stimulates long-term finance to projects that deliver green growth in Indonesia
Products	Junior loans, guarantees, grants from AGRI3 Fund used to unlock senior debt from banks	Grants and loans. Loans will be securitized and sold to capital markets
Clients	Agribusiness (traders, producers, processors), farmers	Agribusiness (traders, producers, processors)
Geography	Latin America, Africa, South-east Asia	Indonesia
Anticipated Impact	Improve rural livelihoods, forest protection & shift to sustainable agriculture	Improve rural livelihoods and stimulate sustainable economic growth in Indonesia
Partners	Rabobank, UN Environment, Mirova/Althelia, FMO, IDH	BNP Paribas, UN Environment, ADM Capital, ICRAF
Ticket Size	USD 10-50 million per deal	USD 5-50 million (bond offering > USD 100 million)

Table 1: Some of the platforms, facilities and projects that are part of the Land Use Finance Programme



GOOD
GROWTH
PARTNERSHIP

<p>Lack of private capital directed at protecting and restoring tropical forests and peatlands</p>	<p>Need to decouple deforestation from major supply chains that drive deforestation: palm oil, soy, and beef</p>
<p>'Blended' finance fund that applies landscape approach to forest conservation</p>	<p>Project aimed at changing supply, demand, and finance for major commodities driving deforestation</p>
<p>Junior loans, equity, guarantees from &Green Fund blended on a ratio of 1:4 with private capital</p>	<p>Introducing sustainability measures throughout commodity supply chains & stimulating transactions</p>
<p>Investment funds, agribusinesses (traders, producers, processors)</p>	<p>GEF partner governments, private sector, NGOs</p>
<p>Tropical forests countries</p>	<p>Paraguay, Brazil, Liberia and Indonesia</p>
<p>Tropical forest and peatland protection and restoration</p>	<p>Change models and processes of private sector partners and governments through commodity platforms, training, transactions</p>
<p>Norway, Unilever, SailVentures, IDH, GEF/UN Environment</p>	<p>UNDP (lead), Conservation International, WWF, IFC and UNEP FI. Funding by Global Environment Facility</p>
<p>USD 10-50 million per deal</p>	<p>To be determined</p>

What Does Success Look Like?



The programme aims to create real and positive impact by actively facilitating new land use finance deals, shifting business models of **banks, investors and agribusinesses** and providing options to member states to create enabling environments through regulatory and economic incentives.



One key indicator of success is to see more public capital leveraged that unlocks an even greater amount of private capital from banks and investors that deliver real and verifiable environmental and social benefits in terms of **emission reductions, forest and biodiversity protection, rural livelihood improvements and rehabilitation of degraded land.**

In February 2018, for example, the Tropical Landscapes Finance Facility (TLFF) announced an inaugural **USD 95 million landscape bond** to finance a sustainable natural rubber plantation in two heavily degraded areas of Indonesia. The long-dated bond will fund PT Royal Lestari Utama (RLU – a joint venture between Group Michelin and PT Barito Pacific for sustainable rubber plantations in Jambi, Sumatra and East Kalimantan). Besides the production of rubber, a significant part of the concession will be set aside for conservation, restoration and community programmes. In addition, the project aims to stop encroachment in the biodiverse 143,000-hectare Buki Tigapuluh National Park, one of the last places in Indonesia for Sumatran elephants, tigers and orangutans.

Rabobank is a major lender to producers of soy, cotton and other commodities in Brazil. Under the AGR13 Fund, the bank aims to work with its corporate clients and farmers on loans that redirect capital from the bank towards sustainable soy and beef production. By embedding stringent environmental and social requirements – which will be monitored, reported and verified – UN Environment intends to **create a new norm where commodity production moves away from deforestation and towards sustainable production.**

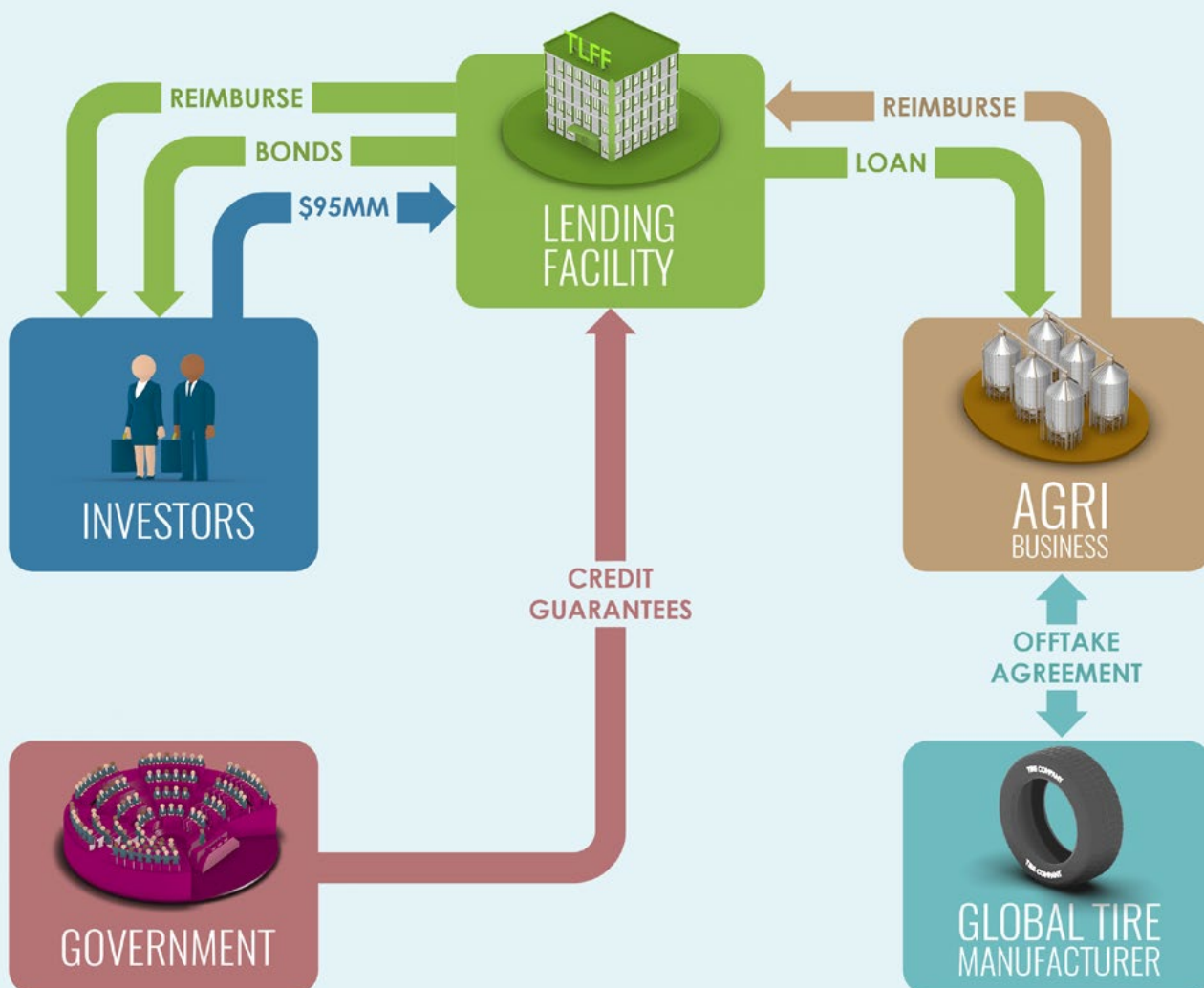


Figure 3: Structure of the Inaugural Bond by BNP Paribas under the TLFF platform

UN Environment will start working with the Government of El Salvador to harmonize and enhance complementarity of agricultural policies and landscape restoration efforts (coffee, cocoa, sugar cane, agroforestry and silvopastoral systems). In addition, it will support the design and development of a **suite of public incentives for agricultural producers** to adopt restoration practices at scale. This will contribute to El Salvador's efforts to meet its Bonn Challenge targets.

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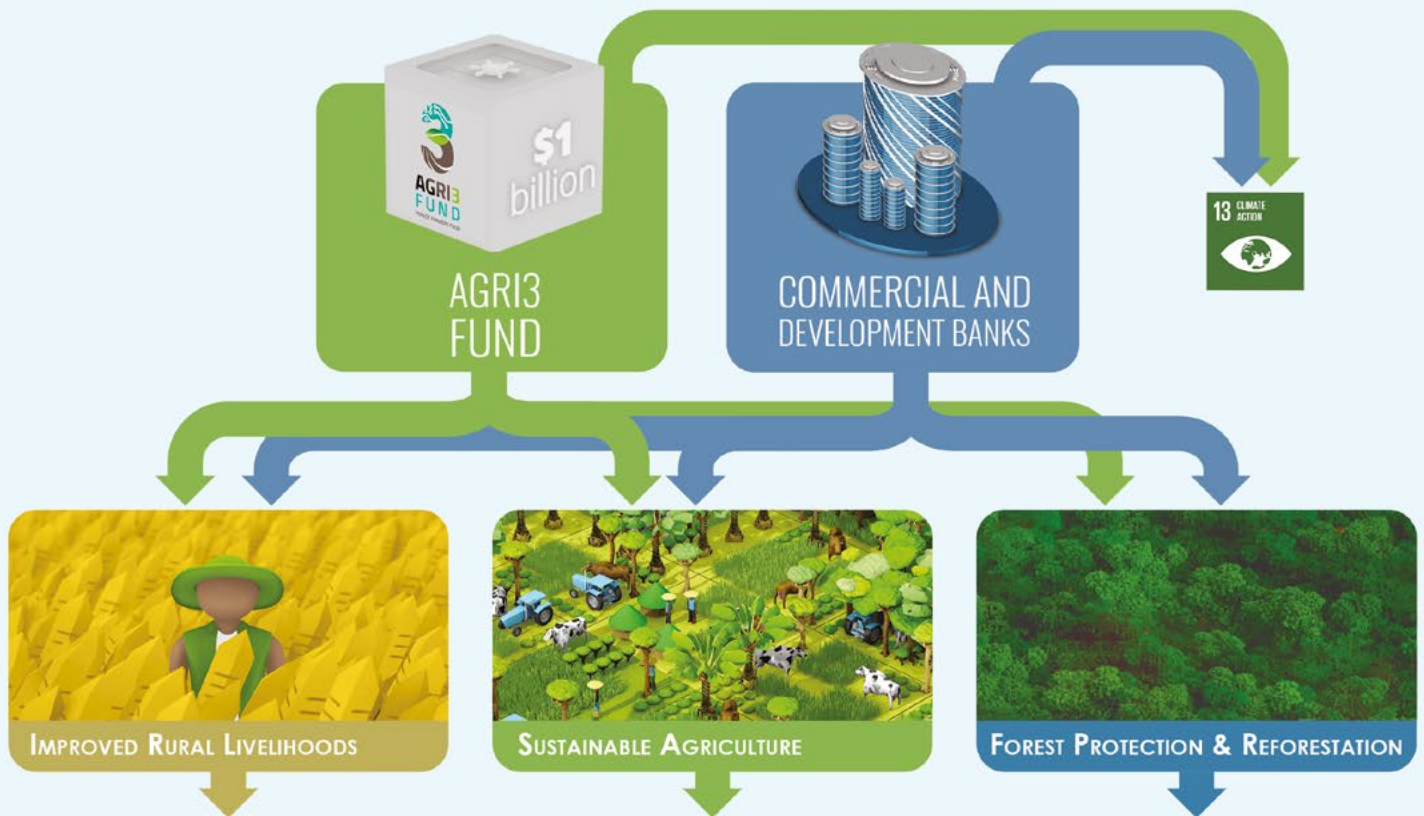
How Does the Programme Contribute to Global Commitments?



The UN Environment Programme of Work 2018-2021 includes a strong focus on healthy and productive ecosystems, climate change, and resource efficiency. The Land Use Finance Programme contributes to these areas by **channeling private investments towards agreed global policy commitments**. A major challenge will be to link the impacts of projects in terms of forest protection, emission reduction and rural livelihood improvements to global commitments. These include the **Sustainable Development Goals, the Paris Climate Accord, the UN Decade on Ecosystem Restoration 2021-2030, the Bonn Challenge and the Aichi Biodiversity Targets**.

The AGR13 fund, for example, has eight key performance indicators including forest protection, emissions reductions and household income contribution. The impact will be measured on an aggregated basis, enabling donors, banks and investors to understand the impact in the context of the Sustainable Development Goals, Bonn Challenge and Paris Climate Agreement.





Agri3 KPIs

Median household income increase Number farmers included in supply chains & trained	Degraded agricultural land restored (in #ha) Sustainable yield increased (tonnes or # ha verified standards) tCO2 from farms avoided/sequestered Agricultural land under sustainable mgt (in #ha)	Area of HCV/HCS natural forest protected (in #ha) tCO2 eq avoided sequestered Increase forest cover (in #ha and %) Natural forestland under active management for replanting and/or restoration (in # ha)
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Links

SGD15 Forest Protection	Paris 2015 UN Climate Change Conference COP21
SGD2 Agricultural productivity, Increase smallholder income	New York Declaration on Forests GLOBAL PLATFORM
SGD6 Water use efficiency (agricultural land)	Bonn Challenge
SDG17 UN Environment & Rabobank partnership	Convention on Biological Diversity

Overall, the programme will contribute to a number of Sustainable Development Goals as well as other commitments.

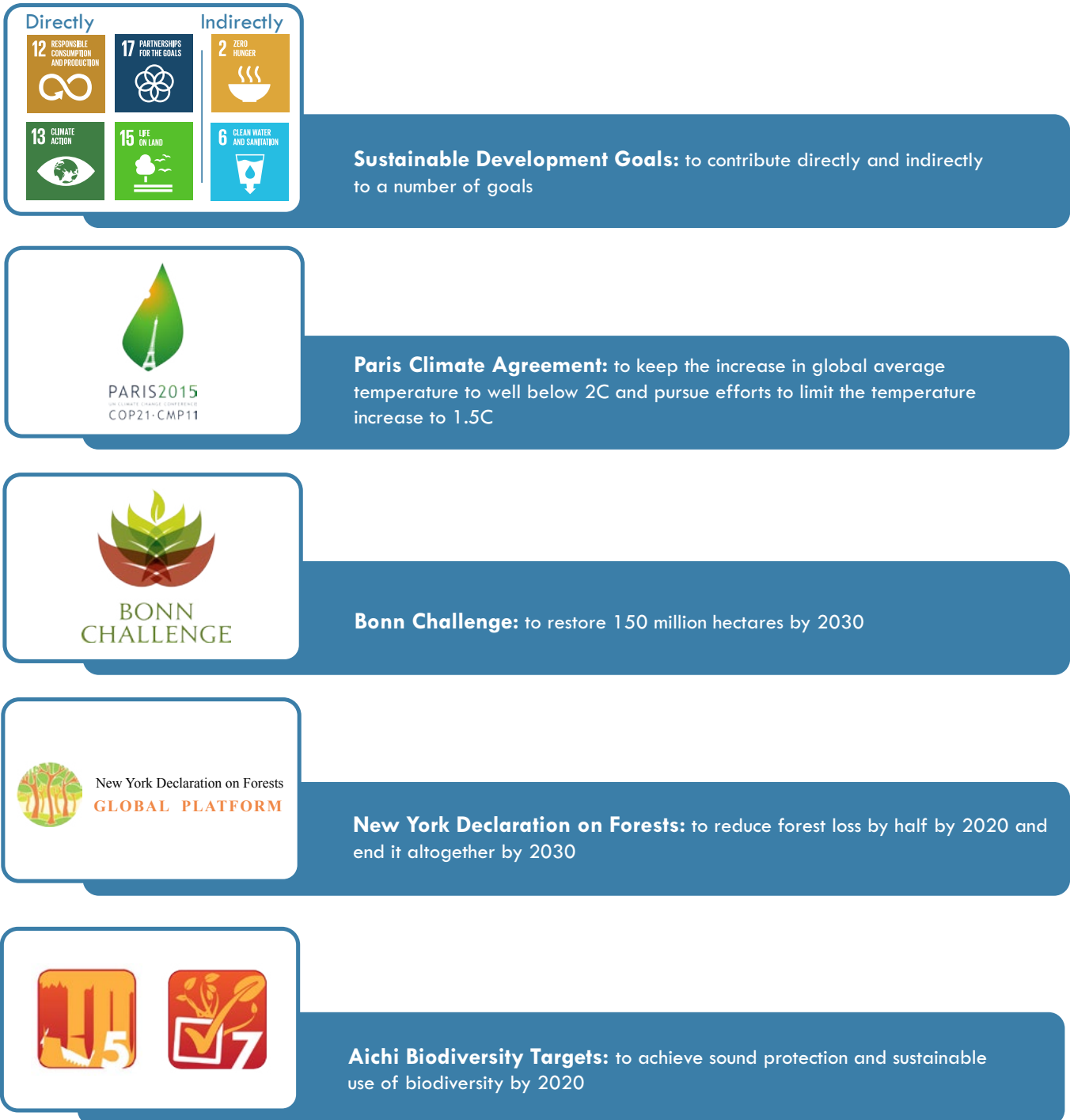
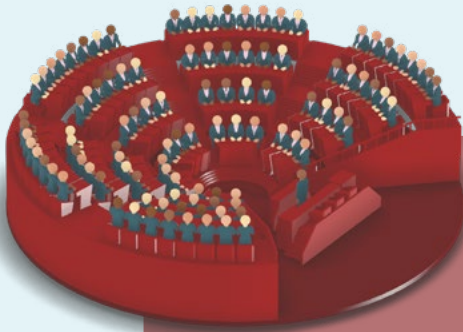


Figure 4 (left): Linking the impact of projects to global commitments such as the SDGs

How Can You Get Involved?



Governments

UN Environment aims to support member states by redirecting private finance towards achieving national development priorities and economic growth while contributing to global commitments related to the Sustainable Development Goals, the Paris Climate Accord, the Bonn Challenge and the Aichi Biodiversity Targets. Governments can become involved on the donor side by scaling up public capital to de-risk and leverage private finance. UN Environment provides technical assistance to member states outlining how public finance and policy incentives at the national and international level can stimulate sustainable private investments in the land use sectors.



Financial Institutions

UN Environment works with development finance institutions, commercial banks, impact investors and institutional investors to help direct private capital towards sustainable commodity production. In addition to existing partnerships, the Land Use Finance Programme welcomes new collaborators, especially institutions with large exposure to the agriculture and forestry sectors.



Agricultural Sector

UN Environment is using its existing networks, such as the World Business Council for Sustainable Development (WBCSD), the Tropical Forest Alliance 2020 (TFA2020) and the Consumer Goods Forum, to engage with companies in the agricultural value chain.



Civil Society

Non-government organisations will be involved, especially through the technical assistance of finance facilities, providing training, capacity building to smallholder farmers as well as monitoring and evaluating impact.

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If you have questions or would like to become involved, please contact us at

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