International Workshop on Jurisdictional Landscape Programs

Financing Landscape Programs – Integrating Different Financing Sources

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INTEGRATED FINANCING: KEY ELEMENT -- HOW MUCH?

- **How much will it cost?** **What are the policies, programs and measures to be facilitated and funded toward sustainable land use / landscape approach**

- **How much funding can we find?** **What are the sources, strings potentials (How much for reporting & transaction costs?)**

- **How much should we spend** **on different activities, areas and interest groups (= stakeholders)? Where is the greatest need, the greatest potential, the greatest potential return?**

- **How much can other parties bring** **to the table (private sector, financial institutions, small scale agents)? Cumulative value of small scale decentralized actions can be large!**

HOW MUCH IS IT WORTH IN THE LONG RUN?

- **Improved livelihoods and food security** → **Welfare of People**
- **Improved rural economy, increased productivity, new markets, jobs** → **Wider Economic Gains**
- **Improved environment, watershed, and ecosystem functioning** → **Quality of Life**
- **Improved access to other economic opportunities: climate smart products, nature based tourism** → **New Climate Economy**
- **Links back to WHY are we doing it** → **Beyond Carbon & Climate Change**

INTEGRATED FINANCING: PROS AND CONS

Why it is Good:

- Helps to implement change
- Can buy things, pay people, create positive incentives for actors
- Can cover up front investments needed for longer term change: Human capital
- External financing is best when it pays for a transition to something bigger and better
- Long term: Programs should self-finance from agents & economic activity in the landscape

Why it is Hard:

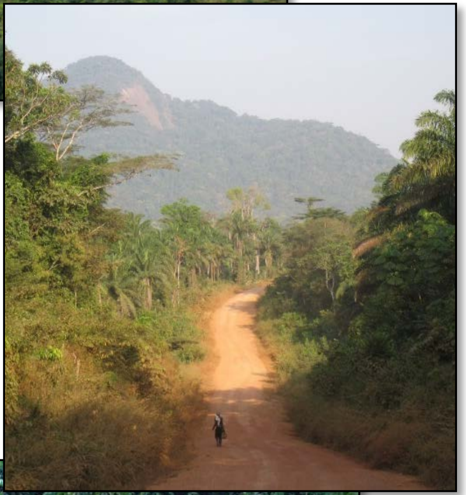
- Different donors, different priorities, different criteria for different sources
- Different agencies, sectors, districts, users have competing needs/wants
- Challenge of sequencing (timing) & delivery to right agents, right locations
- (New) Results based: No funds without performance
- Challenges of communication & expectations

FINANCING: KEY PIECES OF AN INTEGRATED STRATEGY & PACKAGE

MATCHING FINANCING TO PRIORITY NEEDS & RESULTS

Financial planning needs understanding of different funding sources & their characteristics. Some sources:

- Are more reliable than others or are easier to obtain
- Can be used freely to meet priority needs; others come with conditions
- Take a long time & effort to establish, less good for short term needs
- Longer term, these may offer steady, reliable financing to meet recurring costs



MATCHING FINANCING TO PRIORITY NEEDS & RESULTS

Finance Source	Good For	But Can Have Limits
Grants	• Public goods • Poverty reduction • Low cost	• Global economic conditions • Donor partner changing political conditions • Time or target restrictions (unsustainable) • May be strings attached & transaction costs
Loans	• Productive uses • Full ownership • Better for up front investments • Priorities with good returns	• Must pay back • Risk of low returns • Not for sustaining operations, routine costs • May be strings attached & transaction costs
Govt Own Finance	• Priority development programs • More sustainable for based functions	• Must compete with other sectors/ priorities • Limits on amount • Constraints on big, up front investments • Subject to changing political allocations

MATCHING FINANCIAL SOURCES TO PRIORITY NEEDS & RESULTS

Finance Source	Good For	But Can Have Limits
Climate Finance – may be grants or loans	• New & additional beyond development or poverty needs • Aimed at mitigation, adaptation, resilience	• May be limited in time, but good window for now • Subject to global political conditions, negotiations
Results Based Finance	• Must deliver the performance to get the payments • Creates incentives for new forms of economic activity, behavior change • Places value on climate friendly actions, non consumptive uses	• Usually pays the increment or incentive (carbon sequestration) • Not the full cost (tree planting, landscape management) • Risks & uncertainties of delivery, leakage, etc • Long term may depend on global markets, climate negotiations

Leveraging & Integrating: International Finance for Forests/ REDD / Landscapes

Degraded Landscapes, Environmental Services
Poverty, Low Productivity

Readiness Phase

Implementation & Investment

Results & Performance Payments

Improved Productivity, Environmental Services,
Livelihoods, Economic Returns

FOREST CARBON PARTNERSHIP FACILITY

UN-REDD PROGRAMME

Federal Ministry for Economic Cooperation and Development

CIF Climate Investment Funds
FOREST INVESTMENT PROGRAM

Norway's International Climate and Forest Initiative (NICFI)

gef

BioCarbon Fund
Initiative for Sustainable Forest Landscapes

FOREST CARBON PARTNERSHIP FACILITY

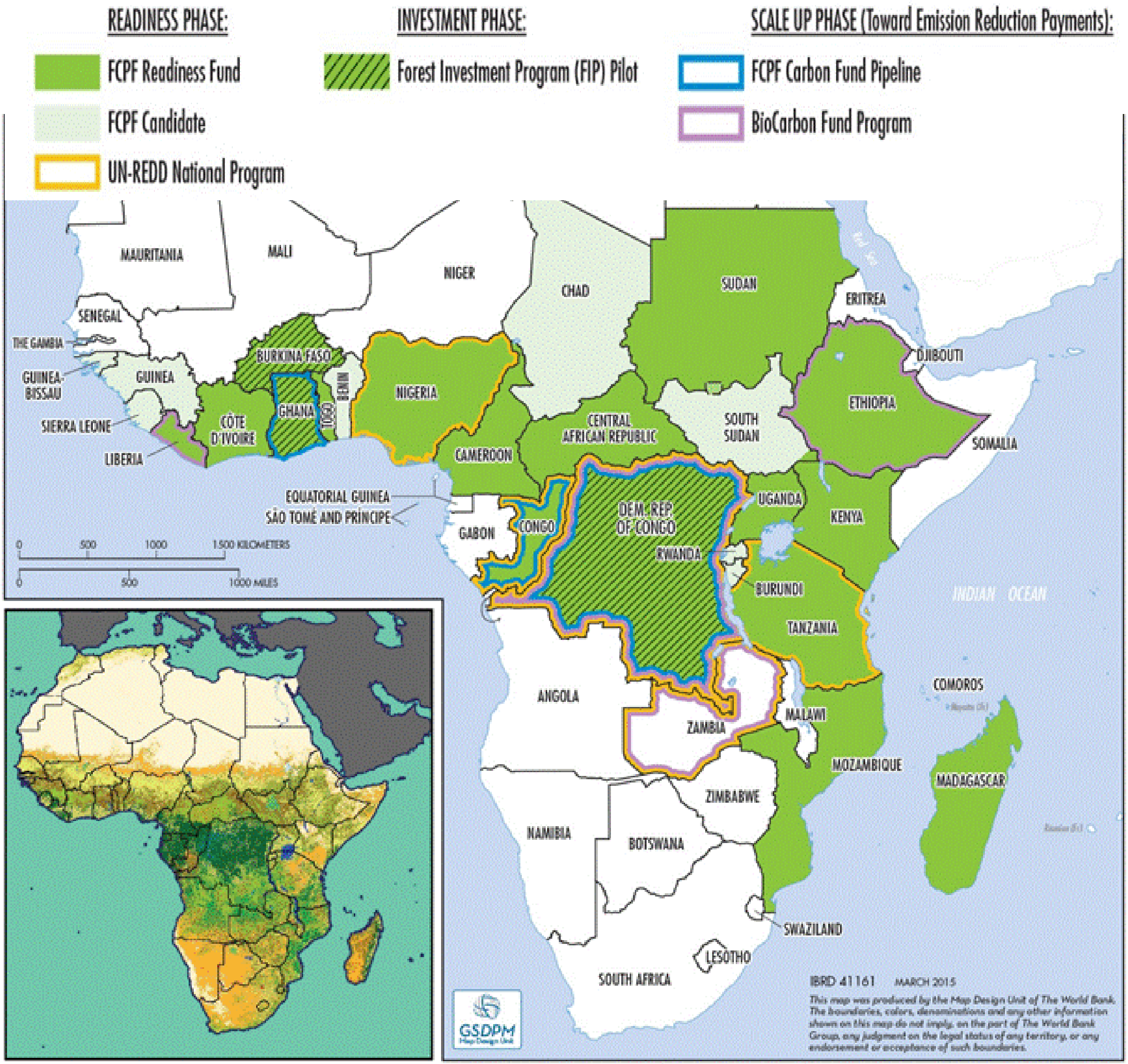
GREEN CLIMATE FUND

Voluntary Markets

Bilateral & Private Sector

Leveraging & Integrating: International Finance for Forests/ REDD / Landscapes

Africa: Good Effort to Access Climate Finance



Leveraging & Matching: Government's Own Finance

Government Financing Sources

- Taxes on activities, goods, services
- Subsidies (a way of leveraging action, financial choices)

- Natural resource revenues and royalties
- Fees for goods and services

Government Financing Advantages:

- Indicates commitment; sustains action/progress independently
- Sends an important signal to both donors & private sector
- Provides funds for matching from other sources

Leveraging Financial Resources From Multiple Sources

- Leveraging means making your funds go farther, crowding in other money
- Cost sharing = matching funds (GEF)
- "Top up" or incremental funding for climate / public good features of a project
- Challenge / Block grants (subnational government) (Brazil)
- Incentive payments (PES)
- Risk sharing, risk reduction
- Enabling conditions to attract private sector sources

LEVERAGING & MATCHING: PRIVATE SECTOR CONSIDERATIONS

Private Sector Includes:

- Large scale enterprises / industries
- Upstream and downstream enterprises (value added and processing)
- Smallholders, farmers, communities
- Certifying agents and service providers (technical advice, agricultural inputs)
- Banks, private equity funds and microfinance institutions
- Insurance agents and markets (that can lower the cost of business, lower risk)

LEVERAGING & MATCHING: PRIVATE SECTOR CONSIDERATIONS

Private Sector Can Provide

- Direct funding
- Cost sharing
- Investment

Can Work Through

- Firm level
- Public private partnerships
- Provision of inputs or knowledge
- Risk reduction, buy down,

But Needs:

- Enabling conditions
- Loud, long clear signals
- Removal of barriers

Public-private partnerships (PPPs)

- Allow sharing of risks, resources, responsibilities & benefits
- Provide framework for cooperative implementation of SLM strategies
- Private partner may provide financing and investment
- Government partner may provide enabling conditions, licenses or permits (e.g., access to land)

RESULTS-BASED FINANCING

- Existing financing mechanisms (carbon /climate funds)
- Visible on the horizon: Green Climate Fund
- Possible over the horizon: Larger global carbon/climate markets

Issues to be managed:

- Scaling up to landscape level
- Delivery of results = required
- Failure to deliver ➔ Lack of expected finance
- Uncertainty and equity in sharing benefits and risks

FOREST CARBON PARTNERSHIP FACILITY

BioCarbon Fund
Initiative for Sustainable Forest Landscapes

GREEN CLIMATE FUND

Norway's International Climate and Forest Initiative (NICFI)

RESULTS-BASED FINANCING: EXAMPLES

Ethiopia: Humbo Assisted Natural Regeneration Project

Rehabilitation of degraded land

Kenya: Agricultural Carbon Project

New agriculture practices → increased crop yields and farm productivity

Training for smallholder farmers in sustainable agricultural practices

Madagascar: Ankeniheny–Zahamena Biodiversity Conservation Corridor (REDD+) Project

Protecting biodiversity

ENABLING CONDITIONS TO ALLOW or STIMULATE INVESTMENT

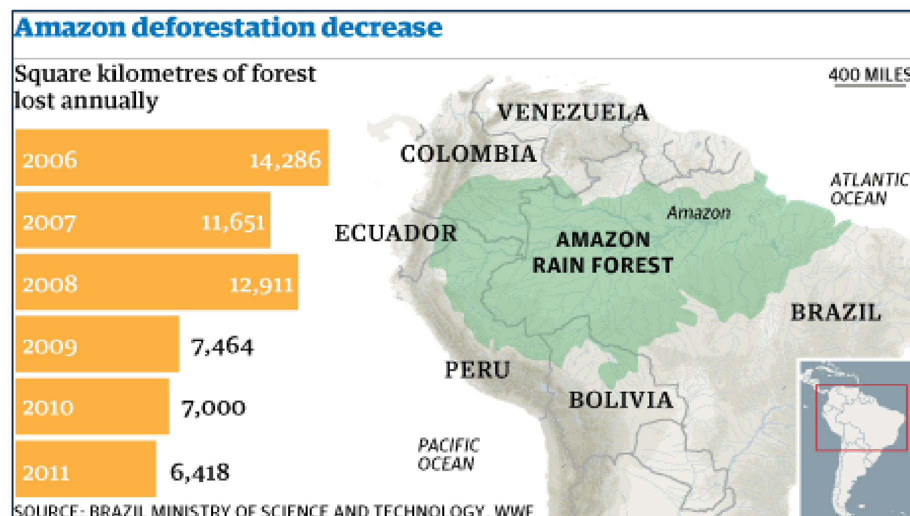
- **Enabling Conditions:** policies that seek to strengthen national, regional, local action; law enforcement / rule of law; and mobilize finance or incentivize behavioral change of actors on the ground
- **Barriers:** May need to remove obstacles, not just provide incentives (examples: Ethiopia, Indonesia: tax status of carbon revenue = undecided)
- **Potential Obstacles:** Capacity, concerns about governance, insecure land tenure, illegal activities
- **Improved Forest/Land Governance:** national policies, enforcement capacities, training and capacity-building, technical assistance, land titling, and certification

ENABLING CONDITIONS: INVESTMENT CLIMATE, REGULATION OF FINANCIAL INSTITUTIONS

Examples: Policies that affect the financial sector, access to capital, and investment climate for doing business – can tilt the playing field toward greener, more resilient activities

Policies that affect the ease of opening, running a business. "One stop window" for applications; reducing red tape

Brazil tightened rules for bankers, which dried up financing for illegal or destructive forest conversion; Deforestation rate dropped rapidly



ATTENTION TO NEEDED INCENTIVES, BEHAVIOR CHANGES

Incentives Can Help To:

- Stimulate private actors by overcoming low returns or cash flow issues
- Reduce transaction costs by supplying local knowledge, access
- Enable smallholders to access to credit, business networks/markets, technical assistance & capacity building
- Provide extra funds to reward stewardship of natural resources of upstream beneficial action (PES)

Incentives Influence Land Use Decisions:

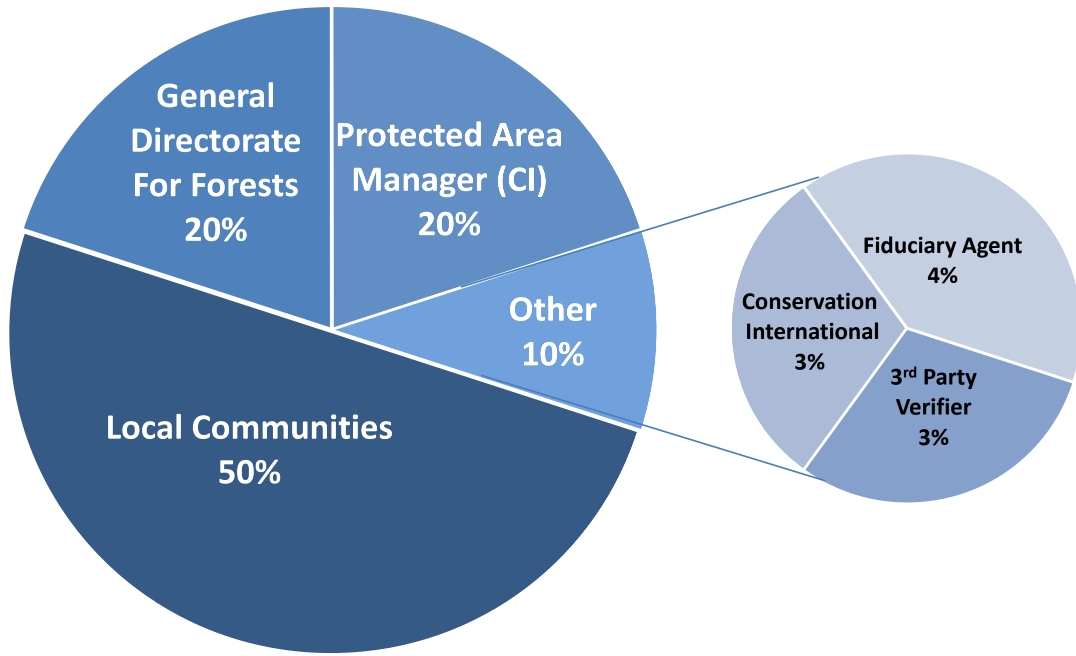
- Taxes or subsidies (including tax breaks) for specific activities
- Fees for use of land, resources, facilities
- Policy or price incentives for downstream activities (e.g, commodities)
- Inputs: Free or reduced cost seedlings, fertilizer (a form of subsidy)
- Financial sector action: loan and credit guarantees that promote sector investments or reduce investment risk

CLEAR BENEFIT SHARING: SOME PRINCIPLES

- Those contributing to results should receive tangible benefits
- Benefits do not need to be in the form of cash or direct payments
- Communities, collective actors should determine collectively how benefits can/should be distributed
- Clarify in advance who does what for which gain to avoid conflict, competing claims
- Capacity building & transparency are needed so that everyone understands where costs or underperformance reduce payments
- Individual level payments for landscape level ERs may face overwhelming measurement challenges and high transaction costs
- Plan measures to manage expectations, manage risks in case under delivery of planned ERs undermines available resources

RESULTS BASED FINANCE
Madagascar Example: Revenue Distribution Approach

- Govt will be responsible for receiving carbon revenues & disbursing back to stakeholders based on a agreed shares
- Govt may designate a 3rd party to conduct some functions



INTEGRATING FINANCING FOR LANDSCAPES: CHALLENGES

- **Integrating climate finance with development finance**
- **Showing and telling how rural people are benefiting**
- **Dealing with complexity – and *risks***
- **Patching together programs from various funds**
- **Integrating & blending financing in a sustainable way**

- **What is your experience?**

…Thank You!