



Tools to Unlock Finance for Sustainable Land-Use

Executive Summary

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Agriculture, forestry and other land use generate around a quarter of global greenhouse gas (GHG) emissions, and in many countries the proportion of emissions from land use is far higher. There are opportunities to redirect the hundreds of billions spent globally on brown activities toward those with a more sustainable emissions profile ('green' activities) without sacrificing either productivity or economic development. Countries with high land use emissions and their development partners, as well as businesses and investors, urgently need to identify the changes in public support that can help to drive scaled-up private sector investment in sustainable land use. This study has developed a series of three tools to help governments and their partners achieve this.

Countries with high land use¹ emissions have committed to reduce them,² but given the crosscutting nature of land-use activities, there are often trade-offs between mitigation and development objectives. Land and its resources are essential to meet the growing global demand for food, fuel, and fiber and support the livelihoods of over 2.6 billion people worldwide, many of whom live in the world's poorest regions. Getting this transition right is crucial.

It will be essential to significantly scale up finance for sustainable activities to mitigate land-use emissions at the levels required. Developed countries have committed to mobilize USD 100 billion in climate finance annually by 2020, to help developing countries address their low-carbon and climate-resilient needs. However, the international financing mechanisms that were envisaged to deliver land-use investments, including REDD+³, are not yet doing so at the necessary scale. There is an urgent need for new approaches to finance land-use mitigation.

Annual flows of *sustainable* land-use finance constitute only a small portion of total land-use investments, with estimates ranging widely from USD 1.3 billion to 51.8 billion. Total financial flows to agriculture and forestry activities in developing countries are in the hundreds of billions of dollars, but these investments are predominantly *brown* in nature - that is, they have a

high emissions profile. They are financed mostly from domestic private actors and are supported heavily by domestic public subsidies and incentives.

This study has developed three tools that governments and their partners can use to:

- Inform the design of land use emission reduction strategies supported by multilateral and bilateral programs;
- Identify domestic and international financial instruments to redirect public and private finance towards more sustainable land-use practices; and
- Encourage coordination between public instruments across land-use sectors.

These three tools cover national and international, public and private finance, across a full range of land-use activities. Recognizing the enormity of the task, they focus initially on catalyzing investment in mitigation but could be developed to address adaptation needs depending on country priorities.

Table 1 summarizes their scope and potential benefit to governments, development partners and private investors.

1 Herein land use refers to agriculture, forestry, and other land use.

2 Land-use emissions are responsible for over a half of national GHG emissions in more than 60 (mostly developing) countries (CAIT 2015)

3 Reducing Emissions from Deforestation and forest Degradation, the sustainable management and conservation of forests, and the enhancement of carbon stocks.

Table 1. Tools to support the development and implementation of financing strategies for land use mitigation

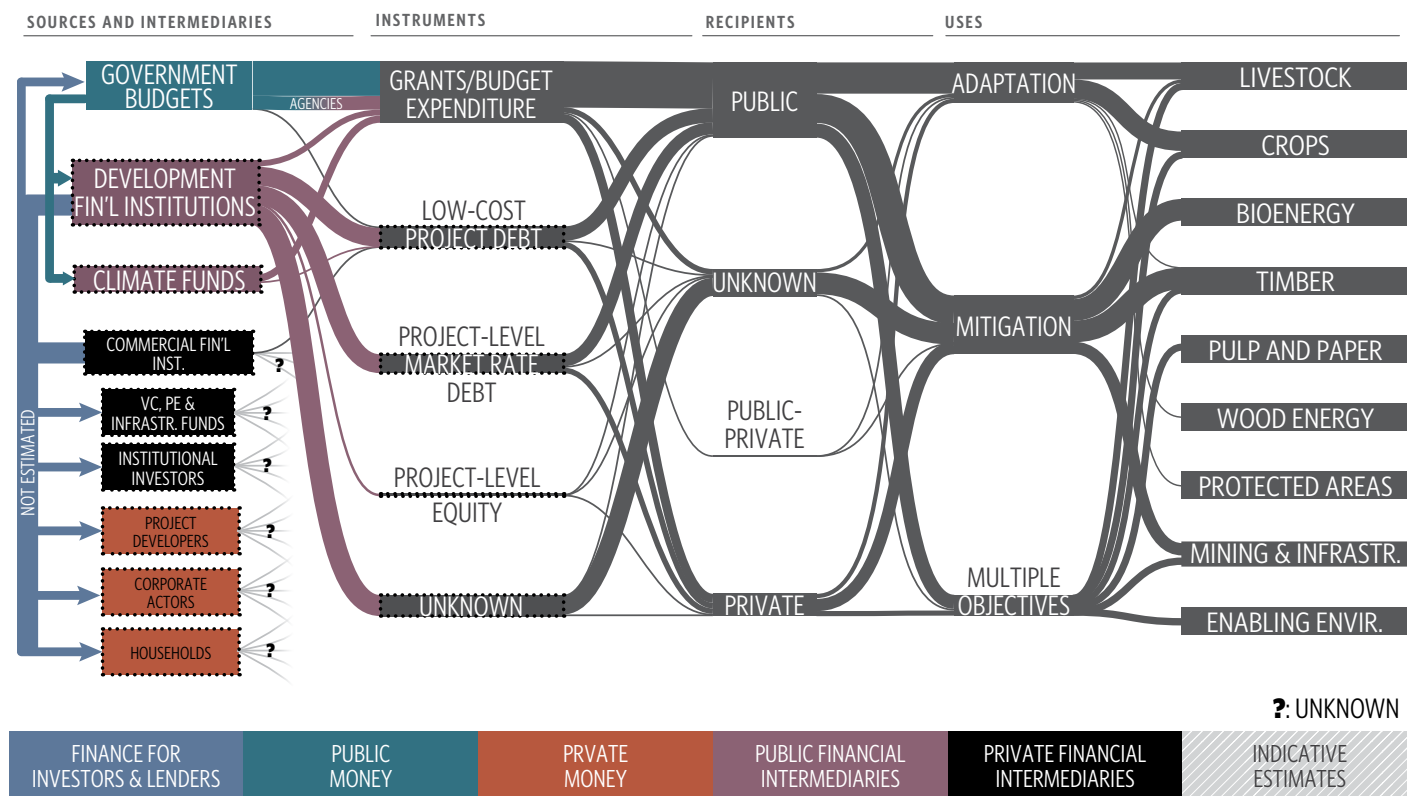
	<i>What does the tool tell us?</i>	<i>How can this tool support land use mitigation efforts?</i>
LANDSCAPE OF LAND USE FINANCE	<ul style="list-style-type: none"> • Maps both public and/or private investments and expenditures in green (and potentially brown) land-use activities • Provides quantitative estimates of current flows • Identifies key actors and intermediaries, investment instruments and recipients 	<ul style="list-style-type: none"> • Provides a comprehensive qualitative and quantitative picture of finance flowing to land-use mitigation • Provides a baseline against which to measure progress • Identifies where the biggest barriers, financial gaps and opportunities lie • Informs the design of land-use mitigation investment plans that align bilateral and multilateral support with domestic efforts and needs
ACTIVITY FINANCE ANALYSIS TOOL	<ul style="list-style-type: none"> • Assesses activity costs and revenues • Identifies potential gaps threatening project viability • Identifies entry points for public financial support and incentives 	<ul style="list-style-type: none"> • Clarifies the specific needs of investors • Supports the design of tailored public incentives • Identifies exposure to investment risks
PUBLIC FINANCIAL INSTRUMENT MAPPING TOOL	<ul style="list-style-type: none"> • Maps flows of public financial support to green and brown land-use activities • Provides quantitative estimates of incentive flows • Identifies potential incoherence between policy incentives 	<ul style="list-style-type: none"> • Clarifies the relative scale of green and brown land-use finance • Encourages prioritization and coherence across sectors • Provides a rationale for cross-sectoral coordination, both at the level of government, but also amongst donors • Identifies entry points for external support that maximize domestic/private sources of investment • Clarifies options for greening supply chains and investments

The Landscape of Land-Use Finance

The Landscape of Land-Use Finance tool provides a snapshot of land use spending by public and private actors. It can help countries and development partners to understand how much and what type of finance is flowing, among which key actors, and to which activities. This analysis can inform the design of multi-sectoral strategies to address land-use emissions and development challenges (such as REDD+ programs).

It helps by identifying channels, gaps, and blockages in the flow of finance. Governments could track public or private expenditures/investments as a first step to obtain an initial overview of core land use financial flows, rather than comprehensively including all flows. As capacity and data availability increases, they could expand the scope to include all actors to enable a more detailed understanding of how different sources of finance interact.

Tool 1: Landscape of Land Use Finance



Financial Viability-gap analysis

The financial viability-gap analysis tool explores whether mitigation activities are viable from a financial perspective. By highlighting potential barriers to the deployment of sustainable activities (such as risk, information and capacity, or financial gaps), as well as the entry points for public and private finance, this approach can inform the design of tailored public incentives to unlock investment in green activities. Governments can increase the financial viability of sustainable production investments by:

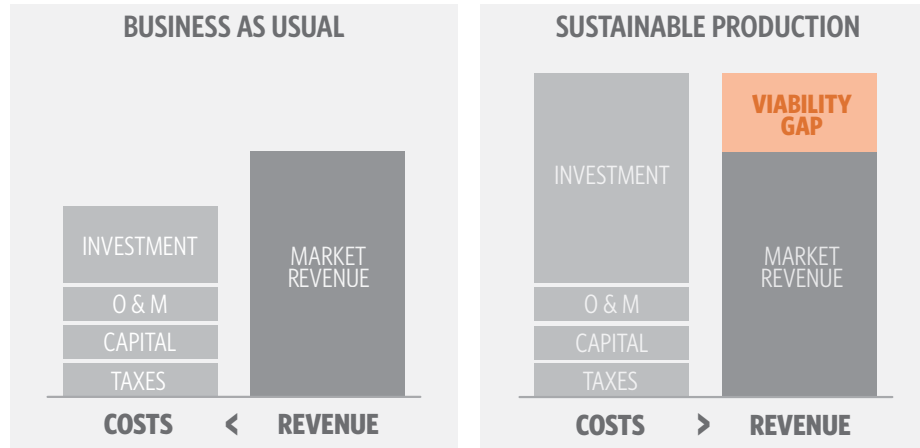
1. **Reducing costs** - through e.g. low cost loans and guarantees, tax breaks, and project preparation grants;
2. **Increasing revenues** - using e.g. premium pricing of sustainable commodities, price floors, and pay-for-performance grants to improve investors' returns
3. **Improving the enabling environment** - by e.g. legal / regulatory standards, land allocation and management systems, certification standards, and implementation of monitoring and enforcement systems.

The financial viability gap analysis tool can be carried out as part of a detailed sectoral assessment or at the activity level.

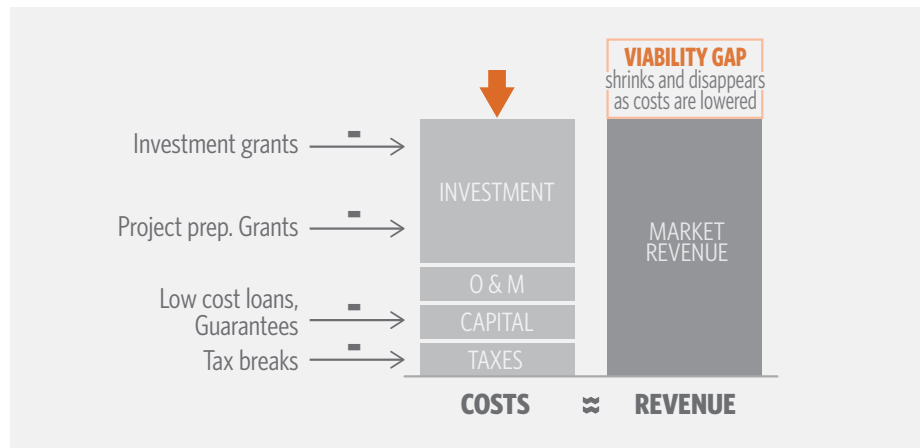
Tool 2: Financial viability gap analysis tool

Viability gaps arise where costs of an activity are greater than available revenues

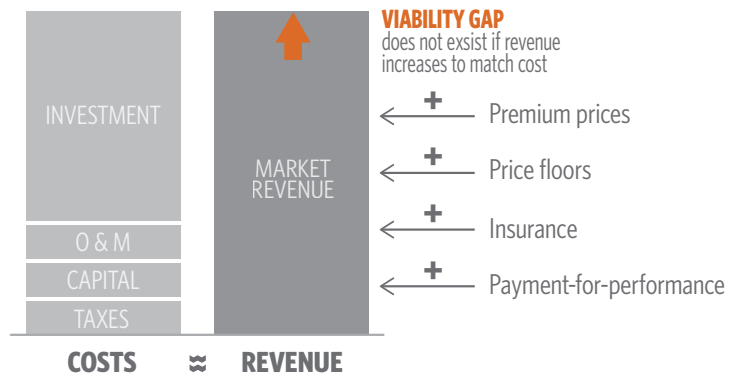
Public and private finance can help tackle the viability gap by:



1. Reducing costs



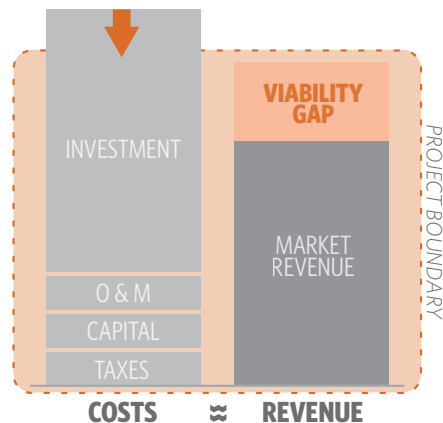
2. Increasing / creating revenues



3. Improving the investment climate - tackling risk, return and information barriers

IMPROVING THE ENABLING ENVIRONMENT

- Capacity building
- Technical assistance
- Legal reform
- R&D
- Law enforcement
- Spatial planning
- Demonstration projects

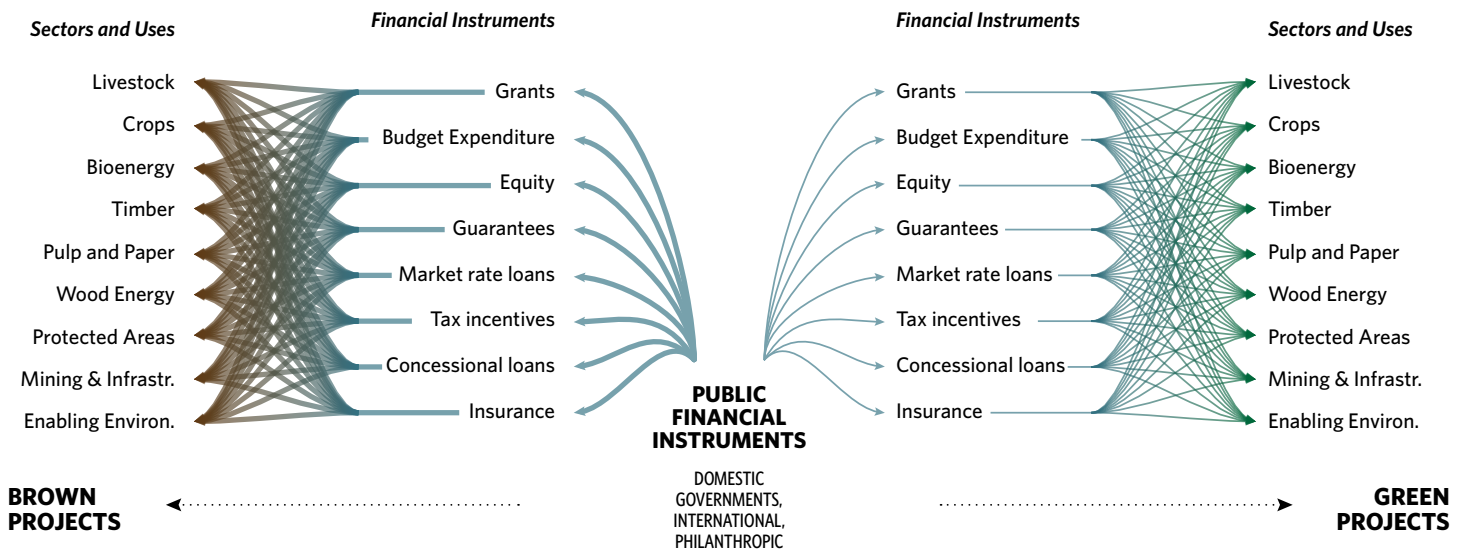


Public Finance Mapping Tool

The public finance mapping tool provides a framework to track key public financial instruments in any given country, jurisdiction or sector. It can identify whether instruments target sustainable or unsustainable land-use activities. This tool enables governments to assess whether their overarching financial policies and instruments, including those supported by development partners, are coherent, and consistent and to what extent they provide support for sustainable production. This

tool can provide insights to enable greater coordination across sectors, technologies and geographies, among governments and donors, by identifying entry points for donors to deliver finance in ways that maximize domestic and private sources of investment. As a first step, governments could focus on incentives for sustainable and unsustainable activities. In time it could also be useful to map disincentives arising from, for example, taxes and fees imposed upon land use activities.

Tool 3: Public finance instrument mapping tool showing incentives for land use mitigation activities



Land use encompasses a diverse and crosscutting range of political, economic, environmental and social interests. Getting the right combination of policies and financial instruments in place to unlock sustainable investment at scale is politically challenging and often subject to long-standing vested interests. Improving the ability of governments to assess empirically, how finance is flowing across land-use sectors, which viability, cost and risk gaps need to be addressed, and whether public or domestic instruments represent

counter-veiling measures, is essential. Success will also crucially depend on whether governments have the capacity to define, test and verify, sustainable actions in ways that deliver development and environmental sustainability. The frameworks, approaches and tools presented in the paper seek above all, to help countries with high land use emissions and their development partners to visualize opportunities to work together with businesses and jointly finance sustainable land use transitions.