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 Financial Sources to Priority Actions & Results
- Leveraging Financial Resources From Multiple Sources
- Results-Based Financing
- Enabling Conditions to Allow/ Stimulate Investment
- Attention to Needed Incentives, Behavior Changes
- Clear Benefit Sharing Plan & Structure
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

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

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| 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

- **Readiness Phase**
- **Implementation & Investment**
- **Results & Performance Payments**

- Degraded Landscapes, Environmental Services, Poverty, Low Productivity
- Voluntary Markets
- Bilateral & Private Sector

- **Norway’s International Climate and Forest Initiative (NICFI)**
- **UN-REDD Programme**
- **Climate Investment Funds (CIF)**
- **Forest Carbon Partnership Facility (FCPF)**
- **BioCarbon Fund**
- **Green Climate Fund**
- **Federal Ministry for Economic Cooperation and Development**
- **Global Environment Facility (GEF)**

- Improved Productivity, Livelihoods, Economic Returns

Mozambique Landscape Workshop, FINANCING, p. 9
Leveraging & Integrating: International Finance for Forests/REDD/Landscapes

Africa: Good Effort to Access Climate Finance

Map showing readiness, investment, and scale-up phases for various countries in Africa. Map includes symbols for FCPF Readiness Fund, Forest Investment Program (FIP) Pilot, FCPF Carbon Fund Pipeline, and BioCarbon Fund Program.
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
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
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!