Background on the FTA financial innovations for sustainable landscapes interviews

RESEARCH PROGRAM ON Forests, Trees and Agroforestry

Photo by Nkumi Mtimgwa/CIFOR

The rationale for innovations in finance

Annually, more than US$380 billion is invested in the land use sector[1]. Most of these investments target 'conventional' land use practices, which are widely associated with negative environmental impacts. Today, some 2 billion hectares of land globally is classified as degraded[2]. The high current degradation rates poses a direct challenge to achieving at least 11 of the Sustainable Development Goals. A change in orientation of the global land use investment portfolio is required to transform conventional land use practices into inclusive and environmentally responsible ones; for example, by incentivizing investments in projects that increase genetic diversity, conserve and restore natural vegetation and ecosystems, protect water resources, strengthen social cohesion and equitable participation in economic opportunities, reduce greenhouse gas emissions and build climate resilience. This calls for better leveraging the rising interest in innovative financial instruments. These are instruments that support sustainable development by unlocking new funding sources and making finance more efficient, accessible and results-oriented. The lack of systemized evidence on these instruments and their contribution to more sustainable and inclusive landscapes beckons the question "What types of financial innovations can stimulate private and public investments in projects that contribute to more sustainable landscapes, yet are also inclusive of the rural poor?".

Our objective

In answering this question, FTA undertook three complementary research activities: (1) a systematic review of relevant literature; (2) case study analyses of innovative finance deployment and the resultant landscape-level impacts; and (3) key informant interviews with experts from a wide range of stakeholder groups, ranging from financial service providers to finance beneficiaries and enablers, all involved in international financial flows.

Given the complex and challenging task of both increasing the level and quality of finance for more inclusive and sustainable landscapes, improved collaboration between actors across sectors and scales is critical. Fostering this collaboration begins by taking stock of the diversity of stakeholder perspectives and interests. We do so through 12 targeted interviews. While in themselves illuminating by revealing the wide diversity of perspectives on innovative finance for sustainable landscapes, the interviews also help articulate a joint research agenda that can help close the gap between academia and practitioners.

1 FAO 2017. *The Future of Food and Agriculture. Trends and Challenges*. Rome, Italy: FAO.

2 Although depending on method and definition of degraded lands, a range of 1-6 billion has been reported (Gibbs and Salmon 2015. Mapping the world's degraded lands. *Applied Geography* 57: 12-21).

The experts

We selected representatives from four different types of stakeholder groups for the interviews. These groups include:

- **Public sector** – governmental and inter-governmental organizations that are public sources of (overseas) development finance. Such actors are usually motivated by distinct societal, environmental or political objectives as opposed merely by financial performance. These stakeholders typically provide grants and investment guarantees.
- **Financial institutions** – international banks, development banks and pension funds that provide financial products and services and/or have a direct stake in investment projects. This includes anything from local currency bonds to crop insurance and index-based risk financing.
- **Corporate** – large companies involved in commodity production, processing or trade. These actors have a direct footprint on the landscape through their core business and corporate social responsibility activities in, for example, the agriculture, livestock or forestry sector.
- **Community** – smallholder associations and small- and medium-scale enterprises (SMEs). These can be direct recipients of financial innovations or indirectly as beneficiaries of or participants in corporate investment activities. This group also includes intermediary organizations (civil society and non-governmental organizations) that support these communities and smallholders.

The interview topic

In order to deepen our understanding of how different types of stakeholders perceive and use innovative finance to enhance sustainability of tropical landscapes (including on how financing instruments and investments are inclusive of less favored populations depending on these landscapes for their livelihoods), we asked interviewees to reflect on the following questions:

- How do you define "inclusiveness" and why should it be addressed by financial institutions?
- What are the structural barriers to financing smallholders and SMEs?
- What are the underlying reasons for these structural barriers?
- How is your organization addressing the needs of smallholders and SME for finance and what have you learnt from that?
- What examples do you have of successful or promising financial innovations that contribute to sustainable landscapes, promoting environmentally sound and socially inclusive investments ?
- What types of support and conditions are needed to ramp up development and scaling of such innovative finance?

Suggested background reading

Colenbrander, S., Dodman, D., & Mitlin, D. (2017). Using climate finance to advance climate justice: the politics and practice of channeling resources to the local level. *Climate policy, 2017*, 1-14.

MacQueen, D. Nhantumbo, I., Jones, XH., Lincoln, P., and Blomley, T. 2018. Financing forest-related enterprises: lessons from the Forest Investment Program. Available at: http://pubs.iied.org/pdfs/17453IIED.pdf

Patel, S., & Watson, C. (2018). The role of multilateral climate funds in unlocking climate finance and action in developing country MSMEs. *Private-sector action in adaptation: Perspectives on the role of micro, small and medium size enterprises*, 79.

For more information, contact:

- Inclusive finance scientists D. Andrew Wardell (a.wardell@cgiar.org) and Bas Louman (bas.louman@tropenbos.org)
- Interviewer/editor Nick Pasiecznik (npasiecznik@wanadoo.fr) and communications coordinator Hannah Maddison (h.maddison@cgiar.org)

foreststreesagroforestry.org
@Tropenbos
tropenbosinternational

tropenbos.org
@FTA_CGIAR
foreststreesagroforestry

cifor.org
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