



Summary of Expert Meeting and Training Session on Financing Low Emissions Development Strategies (LEDS) in the AFOLU sector

Asia LEDS Partnership Forum 2014

November 10 and 12, 2014, Yogyakarta, Indonesia

Background

Low Emissions Development Strategies (LEDS) in the agriculture, forest and other land use (AFOLU) sector face financing challenges due to perceived risks related to weak land tenure and enforcement and the current lack of accounting and investment frameworks. This has led to a lack of bankable AFOLU LEDS projects despite increasing public financing commitments and growing interest from private financiers seeking to reduce exposure to carbon-intensive investments and support social and environmental goals.

Prominent efforts to channel financing towards emissions reduction in the AFOLU sector include Reducing Emissions from Deforestation and Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks (REDD+). While REDD+ constitutes the most advanced initiative in the sector, agricultural emissions are not covered and projects targeting the voluntary carbon market (VCM) are not yet accepted as integral components of internationally compliant REDD+ frameworks operating at the national level. More broadly, private sector engagement has been lacking in REDD+ as well as in other emissions reduction efforts in the AFOLU sector.

The voluntary sustainability initiatives adhered to by individual companies are in early stages of development and only make economic sense where environmentally sensitive markets are concerned. Additionally, these voluntary sustainability initiatives have yet to be embedded in carbon accounting frameworks and need to be part of broader government backed efforts to be effective, especially in relation to forest emissions. New standards aimed at investment rather than commodity supply, such as the Climate Bonds Initiative's AFOLU standard, are currently under development but it is unclear to what extent companies require debt finance for AFOLU-related low emissions strategies.

To generate dialogue between relevant actors and help bridge the financing and public-private gaps in developing and implementing AFOLU LEDS, the USAID LEAF program organized an expert meeting and a training session on "Financing LEDS in the AFOLU sector" as part of the Asia LEDS Partnership Forum on November 10 and 12, 2014.

Approach

Discussions were structured around three main questions:

1. What is the demand for finance and what are the barriers being faced in accessing finance?
2. What finance is available and what are the barriers being faced in financing LEDS in the AFOLU sector?
3. How can the finance supply and demand gap for AFOLU-related LEDS be bridged and what is the role of each actor (governments, donors, development finance institutions, private sector, and NGOs/CSOs)?

Key messages

The key messages that emerged from the discussion are detailed in the following sections.

Demand for finance

Different actors have different financing needs for LEDS in the AFOLU sector and require different types of financing through different mechanisms. Financing needs for different actors include the following:

- **Governments** need financing to build capacity for REDD+ and other low emissions development initiatives in the AFOLU sector; build policy and institutional frameworks to motivate private sector investment; and develop banking regulatory framework rather than waiting for individual moves by banks, which could be competitively disadvantageous.
- **NGOs/CSOs** need financing to work with large companies or separately to engage smallholders and SMEs; raise awareness, build capacity and influence SMEs working around agricultural concessions including those of corporates with sustainability commitments; and formulate projects that are financially attractive to the private sector.
- **Large companies** can often raise their own sustainability financing and do not need additional resources. Engagement of donors and NGOs/CSOs can even be undesirable as data sharing may be required.
- **SMEs** usually get financing from national banks and currently lack awareness of sustainability and are therefore often not yet interested in investing in lowering emissions. SMEs also often lack capacity to implement sustainability initiatives.

Supply of finance

International public finance is an important source of funding for AFOLU-related LEDS in the Asia-Pacific region. However, disbursement of multilateral funds has been slow due to factors such as the inability of countries to clarify responsibilities and meet safeguard criteria and the ineffectiveness of multilateral REDD+ institutions (UNREDD and FCPF).¹

¹ NORAD (2014). Real-Time Evaluation of Norway's International Climate and Forest Initiative. Synthesising Report 2007-2013. <http://www.norad.no/en/tools-and-publications/publications/evaluations/publication?key=415169>.

With regards to **private finance**, carbon prices in the voluntary market have fallen to a level that has seriously curtailed interest in project development in the AFOLU sector in recent years and many see no change in sight. Premiums associated with sustainability labelling have also been difficult to realise and sustainability certification and associated investment has therefore only been pursued by higher profile multinationals with reputational exposure in western markets. However, sustainability labelling is becoming necessary for market entry in some regions and with respect to some commodities. On the investment side, green or climate bonds have recently emerged as a potential source of finance for emissions reduction due to growing interest from investors seeking to reduce exposure to carbon-intensive investments. Climate-themed bonds were valued at \$502.6 billion in 2014² although only 1% of these were in the AFOLU sector and none of this 1% was in in developing countries. This situation reflects the real and perceived risk associated with investing in AFOLU in developing countries. In addition, although bond values indicate potential volume they are less relevant than other forms of financing (e.g. loans to local cooperatives, debt / equity to local companies) at the individual landscape/project level.

Some key challenges faced in financing AFOLU LEDS in Asia-Pacific countries include:

- Lack of demand for green products and ecosystem services (including carbon emissions reductions);
- Lack of interest from domestic investors and companies in financing and implementing emissions reduction;
- Lack of investment security associated with unclear rules and regulations and weak land tenure and law enforcement in particular;
- Lack of accounting and investment frameworks and appropriate sustainability standards;
- Lack of regulation requiring investments to be sustainable;
- Expense associated with implementing standards;
- Lack of aggregation resulting in insufficient volume to interest international investors;
- Lack of capacity/experience of AFOLU LEDS proponents with offering low emissions-related goods and services of interest to financiers.

Closing the financing gaps

The key messages that emerged from the discussion were as follows:

- Developers of AFOLU LEDS should consider non-carbon benefits such as resilience, adaptation and livelihoods and not focus solely on emissions reduction. Framing the conversation in terms of how AFOLU LEDS will help increase climate change resilience and economic competitiveness will better resonate with governments and the private sector in Asia-Pacific countries.
- To finance AFOLU LEDS sustainably, developers have to consider the need for income/financial returns on investment in addition to capacity building and social and environmental benefits. This can be done through developing business plans for AFOLU LEDS focussing on assets such as sustainable agricultural commodity production given the uncertain future of carbon markets.

² Climate Bonds Initiative (2014). Bonds and Climate Change: The State of the Market in 2014. <http://www.climatebonds.net/files/post/files/cb-hsbc-15july2014-a3-final.pdf>.

- Requirements needed to expand financing for AFOLU LEDS include: supportive governance frameworks, training/capacity building, awareness-raising and engagement of domestic private sector, de-risking instruments, identification and aggregation of bankable projects, and sustainability standards.

Achieving sustainable financing will require action from all actors. The meetings brought forward actions for different actor to advance the financing and implementation of AFOLU LEDS, as follows:

Development Finance Institutions (DFIs)

- Provide risk guarantees and credit enhancement to make investments in developing markets more attractive to the private sector;
- Look into aggregating AFOLU projects to provide an attractive portfolio to the bond market;
- Provide support to facilitate development of appropriate sustainable local investment opportunities.

Donors

- Work with governments and NGOs/CSOs to conduct AFOLU LEDS feasibility studies and identify investment needs and opportunities;
- Develop a summary of AFOLU financing options, including definitions of financial terms, to help bridge the communication gap between the financial sector and AFOLU LEDS developers;
- Train governments on climate financing including green bonds; develop a decision support document to help government identify financial gaps and appropriate financing options;
- Train financiers on what constitutes a green investment (other than the number of staff participating in tree planting which is currently used by some banks as an indicator of a company's commitment to sustainability);
- Document approaches to risk sharing to attract private investment in AFOLU projects;
- Develop good practice guidelines for communicating with banks and bank regulators.

Government

- Continue to work on enforcement so as to increase the perceived cost of environmentally destructive behaviour;
- Work with donors and NGOs/CSOs to conduct AFOLU LEDS feasibility studies to identify investment needs and opportunities;
- Review incentive mechanisms for banking/local finance in the context of green growth/ climate policies.
- Consider reducing capital gains tax or other appropriate incentives for companies and local institutional investors/banks investing in sustainability standards, or increasing levies on companies that do not implement sustainability standards;
- Build policy, institutional, and regulatory frameworks to increase private sector investment in AFOLU LEDS.

NGOs/CSOs

- Act as conveners to help large companies engage with smallholders and SMEs. This will help foster trust between parties and address the large companies' concern with potential increased scrutiny from opening up their data

Next Steps

USAID LEAF will work with partners to organize a “Regional Forum on Developing and Financing Low Emissions Land Use Plans (LEDS) in the AFOLU sector,” July 7-9, 2014 in Bangkok, Thailand.

USAID LEAF will also continue to support the Asia LEDS Partnership AFOLU Working Group in continuing to support AFOLU LEDS financing work both in relation to USAID LEAF regional landscapes and AFOLU LEDS supported by USAID and other donors.

Expert meeting participants

1. Justine Leigh-Bell, Climate Bonds Initiative, Manager of Standards & Certification Scheme.
2. Tanja Havemann, Clarmondial, Director.
3. John McGinley, Managing Partner at Mekong Strategic Partners, former Head of Strategy & Business Development at ANZ Greater Mekong Region.
4. Pieter van Midwoud, The Gold Standard Foundation, Director of Business Development Land Use and Forests.
5. Tiur Rumondang, Indonesia Business Council for Sustainable Development (IBCSD), Secretary General.
6. Tantri Beekelaar, PT Triputra Agro Persada, Head of Corporate Communications & Sustainability.
7. Aniela Maria, Asia Pulp & Paper, Deputy Director for Sustainability and Stakeholder Engagement.
8. Moray McLeish, PWC Indonesia, Technical Advisor, Sustainability & Climate Change.
9. Reuben Blackie, IDH Asia - The Sustainable Trade Initiative, Palm Program Officer.
10. Tim Mac Hansen, Embassy of Denmark in Jakarta, Counsellor on Development & Senior Trade Adviser.
11. Daniel Whyner, USAID/RDMA, Deputy Director of Regional Environment Office.
12. Todd Johnson, USAID Asia Bureau Forestry & Climate Change Specialist.
13. David Ganz, USAID Lowering Emissions in Asia's Forests (USAID LEAF), Chief of Party.
14. Jeremy Broadhead, USAID LEAF, Senior Forestry and Land Use Policy Advisor.
15. John Costenbader, USAID LEAF/Climate Focus, Senior Consultant on Forestry and Carbon Markets.
16. Pham Hong Luong, VNFOREST, Deputy Director, Department of Planning and Finance.
17. Pham Thanh Nam, USAID LEAF/UN-REDD, Field Coordinator in Lam Dong Province.
18. Stanley F. Sinjal, PT Harfam Co., Indonesia, Public Relations Manager.
19. Ken Andrasko, Director of Ecosystem Services, Winrock International.
20. Thuy Phung, USAID LEAF, Junior Forestry and Land Use Policy Advisor.
21. Orestes Anastasia, USAID Regional Development Mission for Asia, Senior Regional Climate Change Advisor / Regional LEDS Advisor.
22. Joe Pokana, PNG Office of Climate Change and Development, Manager, REDD+ and Mitigation Division.
23. Ron Benioff, LEDS Global Partnership, Green Growth Best Practices Initiative Partnership, Director.
24. Caroline Chapman-Uriarte, National Renewable Energy Laboratory, International Energy Analyst.
25. Sebastian Koch, GIZ Lao PDR, REDD+ Development Advisor.
26. Thongsoune Bounphasaisol, GIZ-CliPAD Lao PDR, National Technical Coordinator.
27. Limchhun Hour, Forestry Administration, Deputy Director.
28. Lohia Hekwa, PNG Department of National Planning & Monitoring Manager REDD+.
29. Adelaine Tan, Global Environment Center, AFOLU WG Secretariat.
30. Shafinaz Shabudin, Global Environment Center, AFOLU WG Secretariat.