Landscapes for People, Food & Nature in Africa

TERRAFRICA
REGIONAL SUSTAINABLE LAND MANAGEMENT

Landscapes for People, Food and Nature
An International Initiative for Dialogue, Learning and Action

Financing Integrated Landscape Investments in Africa

Integrated landscape management (ILM) provides a context to spatially target and harmonize investments so that they can efficiently yield public goods and private financial returns while mitigating investment risks. In Africa, financing systems for ILM must support local, national, and regional development priorities and provide not only national food security, but also local food security, rural livelihoods, and healthy ecosystems. This brief reviews key features of ILM finance, the African ILM finance context, challenges and opportunities, and recommendations and springboards for action in support of improved financing opportunities for ILM in Africa.

State of Knowledge

Types of Landscape Investments

Sources of financing for ILM can be categorized into two classes of investments: enabling and asset. Successful ILM requires an appropriate blend of enabling and asset investment (Shames et al., 2014).

Enabling investments lay the institutional and policy foundation for asset investments by generating incentives to invest in a particular activity, usually with no immediate expectation of financial rewards. These investments support the development of enabling conditions within landscapes, including stakeholder engagement and cooperation, appropriate legal and regulatory frameworks, knowledge and capacity to plan and manage on a landscape scale, and incentive mechanisms to attract further investment to ILM activities.

Asset investments build on enabling investments to create tangible value that is returned back to the investor or land manager, ideally with a profit. Within the context of ILM, asset investments, which can be financed by either debt or equity, support on-farm and off-farm activities that can deliver ILM's multiple returns on investment, including financial, social, and environmental benefits. In some cases, financial and non-financial returns may be sought in the same investment.

Sources of Finance

ILM finance derives from the full range of public and private financial actors and motivations including purely financial returns to private investors and public goods supported by governments, non-governmental organizations, or intergovernmental organizations. In between these two ends of the public/private goods spectrum, there are actors with multiple priorities, including social and environmental impact investors and development finance institutions (see figure).

Enabling Investment → **Asset Investment**

Investor	Government	Donors Philanthropists	Rights-holders Product investors, Philanthropists	Private sector companies	Philanthropists	Banks	Private investors and equity funds
Vehicle	Projects, Policy	NGOs, Research & policy institutions	Small businesses Intermediaries	Capital Expenditure Research & Development	Capital investment	Financial services	Risk-adjusted return on capital
Mechanism	Public expenditure: Infrastructure Fiscal reform Regulatory reform Subsidies	Grants: Organisational & policy development Institutional reform	Enterprise Philanthropy Grants & seed funding to demonstrate validity of business model	Purchase of capital assets	Impact investment via equity, loans	Loans secured against assets	Investment via equity or loans
Output	Public Goods			Private Assets			

Source: Shames et al., 2014

Potential Sources of Finance for Integrated Landscape Management in Africa

In recent years, there has been both an increase in funds for rural development and an increase in the number of integrated landscape initiatives in Africa (Milder et al., 2014). As a result, the opportunities for financing ILM in Africa have become clearer. Leading organizations, particularly the Global Mechanism of the United Nations Convention to Combat Dessertification, have worked to support national integrated financing strategies for mobilizing domestic and international resources (UNCCD, 2008).

Increased public investment in agriculture is a major opportunity for generating the enabling investments needed for ILM activities in Africa. Countries seeking to meet the 10 percent national budgetary mandate under the Maputo Declaration on Agriculture and Food Security are coordinating with the Comprehensive Africa Agriculture Development (CAADP) processes that encourage countries to take a long-term agricultural development vision. In particular, CAADP's Pillar 1 (land and water management) recognizes the importance of integration through partnerships for sustainable land and water management.

Foreign direct investment (FDI) in sub-Saharan Africa has increased over 30-fold in the last 20 years, much of which is attributed to the commodity sector (World Bank, 2014). FDI in agriculture, when coordinated through an aggregator or intermediary, can serve to generate the types of asset and enabling investments that serve ILM needs.

As of January 2013, more than USD 1.13 billion was reportedly committed to impact investment funds dedicated to sub-Saharan Africa and South Asia (Impact Programme, 2014). Although considered niche investors due to their triple bottom-line emphasis, these funds can serve as a bridge to access different or larger types of financial institutions and sources. Impact investors tend to provide finance when deal size and risk tolerance are low, a crucial time for ILM, as in the early stages of an integrated landscape initiative.

Payments for ecosystem services are on an upward trajectory in Africa, illustrated by an eight percent share of the global carbon offset market, by regulations in Madagascar, Ghana, Guinea, Mozambique, Egypt, and Uganda that consider biodiversity offsets, and by over USD 64 million in transactions in the payments for watershed services sector (Ecosystem Marketplace, 2011). While climate finance has topped USD 350 billion globally and presents future opportunities, only four percent (approximately USD 15 billion) has so far been invested in sub-Saharan Africa. Only USD three billion of the total went towards agriculture, forestry, and livestock management (Buchner, 2013).

Conditional loans from public and private sources to farmers, agribusinesses, or local governments can create incentives for investments that are supportive of ILM, such as sustainable agricultural practices or 'green' infrastructure development.

Challenges for ILM Finance in Africa

- Public sector and donor 'silos' limit the ability for investments to be integrated. Government and development finance has long been delivered along sectoral lines and these institutions have not considered the inter-relationships and benefits arising from different land use options within a landscape.
- Coordination of integrated landscape initiatives is often underfunded. Institutional planning and stakeholder coordination is a necessary precondition for the tangible outcomes (e.g. water quality improvement, deforestation, and increased income) that investors and donors are seeking. However, investments in this essential coordination function are difficult to generate and do not align with the funding cycles of investors.
- Inadequate enabling investments, including those in market access, infrastructure, and agricultural research, are significant barriers to asset investments in Africa. The resolution of policy issues including land allocation, land use planning, and land tenure are also critical for attracting private sector investment.
- Over-dependence on donor funding can be a danger for some African countries as there is a disconnect between the need for long-term financing for ILM and the short-term cycles of donor funding.
- In addition to barriers within enabling investment, Africa has low levels of private sector asset investment. Short time horizons are required for returns by most investors. Due to the time needed to develop the enabling conditions for landscape-scale activities, this is a major barrier to raising funds.
- There is often a mismatch between investment stake and size of investment opportunities. Investments in landscapes are usually piecemeal, thus too small for traditional financing institutions.
- Investment risk is high compared to the return potential. A lack of demonstrated experience in making integrated investments generates uncertainty around the potential risks of investing in ILM activities.
- As private sector investment scales up, potential deleterious agricultural investment (i.e. private 'land grabs' for agriculture and biofuels) can pose serious concerns if proper free and prior informed consent and robust environmental and social impact assessments are not followed. Strong investment safeguards can help to incentivize additional investment in ILM.

Consensus Actions

Coordinate Public Sector and Donor Funds for Enabling and Asset Investments
Harmonized and appropriate policy and regulatory frameworks will encourage investments in ILM, as well as collaboration within government institutions. Additionally, coordinating funding across initiatives and sectors will help increase efficiency at the landscape level.

Prioritize Donor Coordination with National Governmental Institutions to Support ILM Finance
National governments and donors should continue to explore ways that investments can support multiple social and environmental objectives.

Define and Enforce Basic Guidelines on Foreign Direct Investment to Support Sustainability and ILM

There will need to be clear guidelines for the deployment of FDI within Africa to ensure that it is used wisely and contributes to landscape objectives.

Develop Innovative Investment Platforms and Mechanisms

To address the current fragmented flow of investment, public-private partnerships and platforms at regional and national levels could link resources from diverse sources to enable greater investment in integrated strategies. Furthermore, the capacity of national and sub-national actors, including those at the grassroots level, needs to be further developed to enable them to access and manage these new funding sources.

Optimize Existing Financing

Many sources of funding at the country level are deployed sectorally and are not being used efficiently in support of landscape programs. New approaches and mechnaisms for national and sub-national funding could be better take advantage of existing resources.

Design and Establish National Institutional Frameworks to Support Integrated Financing Programs

This is especially important in order for countries to take advantage of emerging integrated funding sources, such as those from the Global Environment Facility (GEF).

Link Microfinance and Local Investment to Landscape Management Processes

Microfinance and local investment can be important sources of landscape investment, and these links should be strengthened within integrated landscape initiatives.

Encourage Private Sector Investment in Integrated Landscape Management

A key component of this will be to build the business case for ILM, as well as to mainstream and facilitate access for investors into integrated landscape opportunities.

"Springboards for Action"

- National policymakers can spend funds more efficiently by working across sectors and strategically supporting the enabling investments required for ILM.
- The Global Mechanism can encourage cross-sectoral dialogue and the development of integrated financing mechanisms as it continues its work with national governments on sustainable land management.
- The organizers of agro-industrial investment corridors, such as those in southern Tanzania and Beira, Mozambique, could be leaders in developing investment guidelines to support ILM.
- Investment agencies within countries should be supported with appropriate knowledge and tools to allow them to screen FDI so that it supports ILM objectives.

- The GEF and other multilateral and bilateral donors can play a leading role in encouraging multi-sectoral investments through programs such as its new Horn of Africa initiative, which is designed to meet multiple objectives of climate change adaptation, biodiversity conservation, and land rehabilitation simultaneously and by providing incentives for integrated programming. For example, in the Integrated Approach Pilot Program to Foster Sustainability and Resilience for Food Security in sub-Saharan Africa, matching funds are provided for programs that take an integrated approach.

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