Attracting Private Investments for Sustainable Landscapes: A Guide

MARCH 2022

WWF

the sustainable trade initiative

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Green investors and NGOs have shared interests in landscape finance, but often struggle to work together. This guide aims to inspire and enable people with an NGO background to step up as project organizers that can create and act on opportunities that attract private investments in support of sustainable landscapes.

Nienke Stam,
IDH Program Director Landscape Finance

Aaron Vermeulen,
WWF Director Green Finance Unit

This guide has been developed by

the sustainable trade initiative

WWF

With support from

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Glossary

Asset	in accounting, anything of value that a person or firm buys.
Bankable	an asset or project that is commercially viable, meaning that it is projected to generate sufficient cash flows against acceptable risks to secure debt obligations or to raise equity investment.
Blended finance	the strategic use of development finance or philanthropic/non-commercial funds to mobilize private capital flows to emerging and frontier markets.
Brownfield investment	when a company purchases or leases an existing facility.
Commercial investment	an investment that has the capacity to generate a risk-adjusted market rate of return, and therefore presents no need for concessional funds or grants.
Cash flow	cash and cash equivalents being transferred into and out of a business. Positive net-cash flow enables a company to settle debts, reinvest in its business and redistribute money to shareholders. Negative net-cash flow means that more money is streaming out of the company than coming in.
Commercial investment	an investment that has the capacity to generate a risk-adjusted market rate of return, and therefore presents no need for concessional funds or grants.
Concessionary capital	subsidy or capital provided by investors who accept a below-market rate of return to achieve more impact.
Deal	an agreement entered into by two or more parties to do business.
Deal flow	the number of investment opportunities available at a given time to a particular company or investor, or within a particular region or market sector.
Due diligence	the process through which a potential buyer or investor carries out in-depth analysis of a target company. Initiated only after a clear and serious interest has been demonstrated (due to the amount of work involved), due diligence must be completed before the transaction takes place.
EBITDA	earnings before interest, taxes, depreciation, and amortization (EBITDA) is a measure of a company's overall financial performance and is used as an alternative to net income in some circumstances.
Financial close	the stage during which the financing documents are signed, after the prior conditions for the availability of financing have been fulfilled.
First loss cover	an instrument, provision or agreement that is used first if a business encounters loss and cannot repay its debts. While there are various methods, in this sector the most used is when a percentage of the loan amount is provided to a reserve account (e.g. 10% or 20% of the loan amount), which can be drawn on to cover first losses.
Grant	a financial resource that does not have to be paid back. Typically, a grant is provided to facilitate a purpose or promote performance. In some cases, a grant can also be repaid if it successfully catalyzes a commercial activity.
Greenfield investment	when a company builds its own, brand-new facilities from the ground up.
Guarantee	a contract by a third party (guarantor) to back the debt of a second party (creditor) to ensure that the creditor can pay off its debt to the investor(s).
Impact investors	investors that target financial returns that range from below-market (concessionary returns) to risk-adjusted market rate. Impact investors invest with an underlying purpose to realize a desired social or environmental change. In this publication, also referred to as "investors".
Impact planning	the stage at the beginning of an investment process when the potential impact is identified, and plans are made to achieve it, by developing a theory of change.
Interest	the cost of money provided by a lender, usually expressed as an annual percentage of the outstanding principal amount.
Investable	an asset in which an investment can be made of which the risk-return ratio is acceptable to debt and equity investors.
Investment opportunity	the possibility for an investor to invest in a project or company needing capital for tangible or intangible assets, which can generate future income for the project or company.
Internal rate of return (IRR)	a financial metric used to estimate how profitable potential investments are. The IRR is calculated based on the future cash flows that an investment will generate. In general, the higher a project's IRR, the more desirable it is to invest in. External factors, such as cost of capital or inflation, are left out of the calculation.
Jurisdiction	a territory or sphere of activity under a common legal authority, such as a nation, province, state, county, etc.
Landscape challenge	social, economic and environmental challenges a landscape faces, such as an increase in erosion due to deforestation or low smallholder incomes.
Landscape finance	a holistic approach toward natural capital investments for the benefit of developing sustainable landscapes, in which all stakeholders are in agreement and investments are interlinked and strengthen each other.
Landscape finance portfolio	multiple landscape finance projects.
Landscape finance project	an investment opportunity in companies or projects in a landscape that have (the potential for) a bankable business case, and which contribute to sustainability of the wider landscape (e.g. protection and restoration of natural resources, sustainable production, and improved livelihoods).
Landscape project	a program or activity that is beneficial for the landscape but does not necessarily have a business model to attract private investment, such as an educational program on regenerative agriculture.

Longlist	a broad selection of potential investment opportunities that generally meet an investor's requirements. Typically, an investor conducts a preliminary screening of a longlist to identify and shortlist those opportunities that are most likely to meet their requirements. Shortlisted projects can then be assessed in more detail.
Mezzanine finance	a hybrid of debt and equity financing that typically gives the lender the right to a share in the profits or to convert to an equity interest in the company in case of default.
Organizational capacity	the financial, physical and human resources, skills, experience and abilities of a company or organization to undertake a specific project, function or initiative.
Philanthropic capital	capital from private sources invested as grants or at below-market rates of return.
Principal	the actual amount lent to a project or company, excluding any interest to be paid.
Private capital	capital from private sources that aims to generate risk-adjusted market rates of return.
Project developer	a person or entity who sets up or owns a business or project, taking on financial risks with the aim of making profit.
Project organizer	a person or entity responsible for organizing, coordinating, and overseeing the development of a landscape finance project.
Public capital	sources of capital provided by the public sector (governments), which is often invested in a concessionary manner to catalyze or realize broader public benefits.
Public-private partnership (PPP)	a contractual arrangement between two or more public and private parties, typically of a long-term nature and aimed at delivering public goods or services.
Risk-adjusted market rate of return	the return an investment should generate considering its risk, based on the risk-return profile of the market.
Red flag	a warning or indicator, suggesting that there is a potential problem or threat regarding a business – for example, affecting its stock, financial statements or other operations.
Subordinated loan	a loan (also called junior debt/loan) that has a lower priority than senior loans. In the case of foreclosure or bankruptcy, the senior debt will be paid down first before the subordinated debt. However, subordinated loans will still be repaid before shareholders, sitting between senior debt and shareholders.
Senior loan	a loan to a project or company that holds legal claim to the borrower's assets above all other debt obligations and shareholders. In the event of bankruptcy or foreclosure, it will be the first loan to be repaid before any other creditors, preferred stockholders, or common stockholders receive repayment.

Shortlist	a limited selection of investment opportunities, often selected from a longer list of potential opportunities, that best meet the requirements of an investor. The shortlist allows an investor to examine a smaller number of investment opportunities in more detail when selecting an investment.
Sourcing	the activity of seeking and identifying projects that have a fit with the landscape strategy.
Stage gate	a decision-point or moment, usually between major steps in the development and preparation of an investment opportunity, during which it is decided whether or not to continue with the investment.
Stakeholders	here used broadly as "all affected stakeholders" in a landscape, including end-beneficiaries, shareholders, staff, communities, vulnerable and marginalized groups, etc.
Technical assistance (TA)	assistance provided by local or international specialists. It can take the form of sharing information and expertise, instruction, skills training, transmission of working knowledge and consulting services, and may also involve the transfer of technical data. In the context of investments, it is typically referring to advisory, assistance or training that is provided to (potential) investment projects, to improve technical quality, and strengthen environmental and social impacts, so that the investment project meets funds' investment criteria and can achieve positive impact.
Technical Assistance Facility (TAF)	a grants-based facility managed by an individual organization to provide technical assistance to (potential) investees with positive development impact. A TAF can operate independently from impact investors, as a linked facility to an impact investment fund, or integrated into an impact investment fund.
Tenor	the length of time remaining before a financial contract expires.
Ticket size	the amount of money to be invested in an investment opportunity by a single investor (i.e. the size of their contribution or participation).
Transaction costs	the expense of carrying out transactions, such as due diligence, legal expenses, tax advice, travel costs, etc.

Contents

How to use this guide

What is the aim of this guide?

This guide aims to provide project organizers with a clear approach and guidance on how to identify landscape finance projects, and how to support project developers in making landscape finance projects investment-ready.

More specifically, the toolkit helps you:

- Identify and conceptualize landscape finance projects with the potential to be commercially financed
- Develop a project business model, structure, impacts and financing strategy
- Identify financing needs and suitable investors
- Structure landscape finance projects in alignment with investor requirements
- Stop landscape finance projects at an early stage if they are unlikely to be successful or meet investor requirements at later stages, to avoid wasting scarce time and resources.

Using this toolkit should result in bankable landscape finance projects that are designed to meet the expectations and requirements of fund managers, banks and other commercial investors. While this toolkit has been developed by IDH and WWF, its general purpose is to support other conservation and development organizations involved in landscape finance.

Who is it for?

This toolkit has been developed for project organizers (for example, in-country teams from organizations such as IDH, WWF and their partners). It aims to provide guidance in identifying landscape finance projects and supporting project developers to attract investments. In this process, the project developer carries the responsibility for driving the entire development process, with support from the project organizer.

When and where to start with this toolkit?

In using this toolkit, it is assumed that the following elements are already in place:

Landscape strategy: a landscape strategy has been developed and adopted by key stakeholders, or is generally recognized as a suitable strategy for improving the landscape.

List of indicative investors in landscape: a set of (local or international) investors who could potentially invest in landscape finance projects consistent with the landscape strategy. A brief introduction to identifying investors in landscape finance is provided on page 12.

All users of this toolkit are recommended to start with the introduction, as it provides a useful overview of the overall process, as well as some key overarching considerations when identifying, incubating and designing an investable landscape finance project.

ADDITIONAL RESOURCES

For building a landscape strategy

- The Little Sustainable Landscapes Book
- Public-Private-Civic Partnerships for Sustainable Landscapes: a practical guide for conveners
- Public-Private-Partnership Landscape Compact Guidance: a step-by-step guide for local stakeholders willing to initiate a compact (i.e. landscape-based multi-stakeholder agreement with shared targets) and/or a landscape initiative under the SourceUp platform

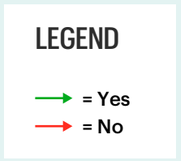
ADDITIONAL RESOURCES

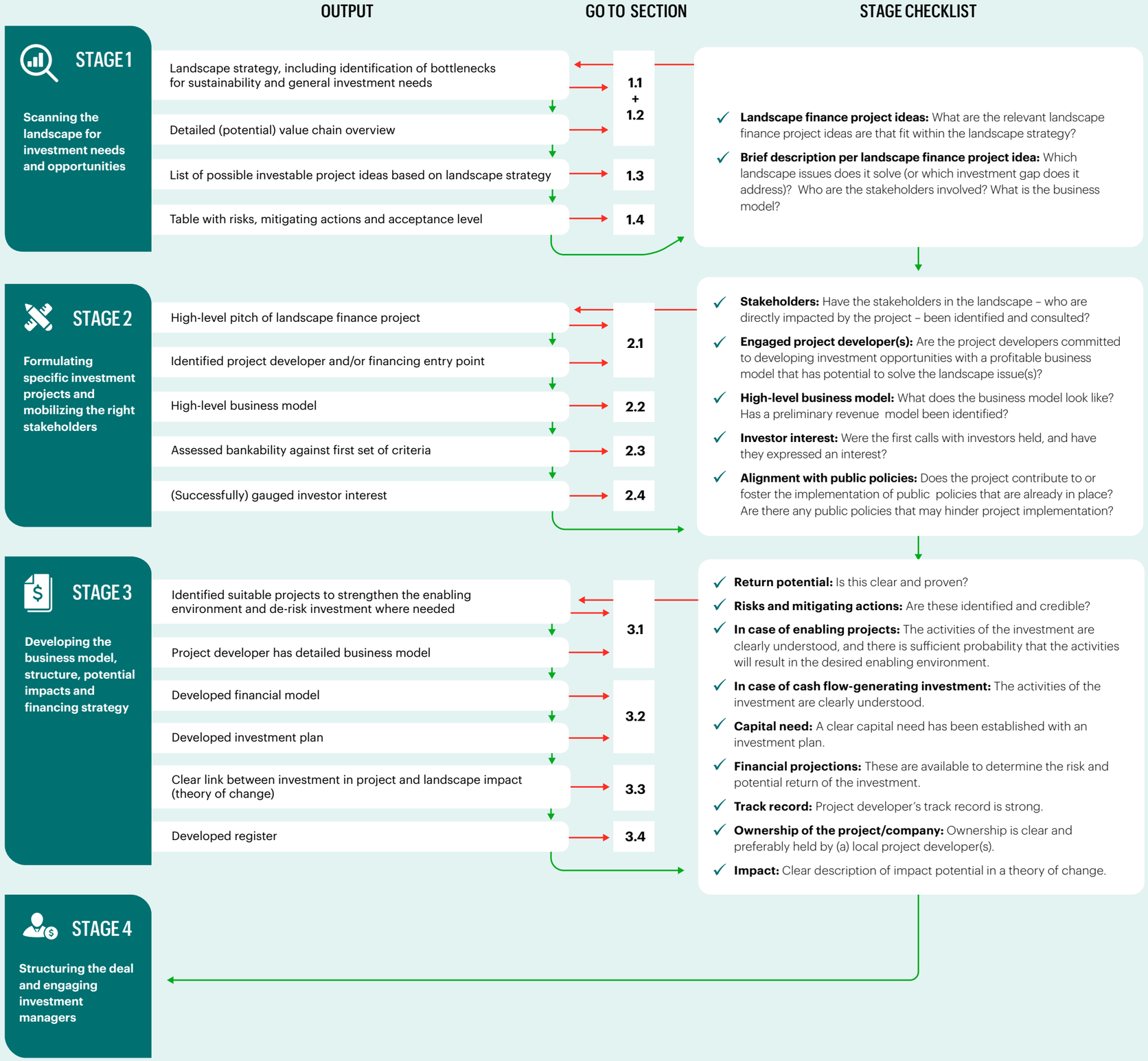
For finding suitable investors

- ISF Advisors (sfadvisors.org/fund-database/) manages a useful free database for identifying investors.
- The Global Climate Finance Architecture
- Convergence Blended Finance (convergence.finance) also manages a useful paid database of previously financed investment deals.

Quick-start guide

You may not have the time, nor the need, to read the entirety of this document. The four stages introduced in the next section are broken down into smaller steps, each described by an action and an output. The figure below presents an overview of all outputs of this toolkit, and allows you to quickly identify the best place for you to start.





How is the information presented?

Main text: Introduces theory, key principles and concepts related to identifying and incubating investable landscape projects aimed at practical implementation.

SKILLS CHECK

A brief summary to assess the skills and capacity needed for successful implementation of this phase.

CASE STUDY

Real-world examples are included to illustrate the guidance and practices described in the main text.

ADDITIONAL RESOURCES

Links to additional (non-exhaustive) resources are provided for further reading on the topic presented.

TIPS AND TRICKS

Additional considerations are shared to further support the guidance provided in the main text on key topics.

CHECKLIST

Every stage ends with a checklist that can be used to assess whether the next stage can be achieved.

Context

Globally, the investment need and appetite for sustainable agriculture, protection and restoration of natural resources and rural livelihoods is growing. Investment practices in this field are currently being led by a small number of landscape-focused investment funds that can invest in specific projects and companies to make a contribution to meeting sustainable landscape ambitions. The work of this small number of pioneering funds is valuable: the knowledge and experience gained has the potential to enhance the reputation of landscape investments. They are often perceived as too risky and overly complex by investors, but with the right structuring they are bankable.

Organizations like IDH and WWF play an important role as project organizers, helping to manage and support project developers in getting landscape projects off the ground. However, developing landscape finance projects that meet investor expectations has proven to be a challenge. Project developers and sponsors lack a uniform approach to developing projects, often losing time and energy preparing projects that could have been identified as un-bankable at an earlier stage. To assist project developers, this toolkit provides guidance on the design of landscape finance projects and investment proposals that take into account the needs of investors.

The toolkit focuses on designing investments in landscape finance projects that are driven by a committed project developer, and that support biodiversity, sustainable land management, and climate change adaptation and/or mitigation (e.g. sustainable forestry, agriculture, sustainable aquaculture and ecotourism).

A distinction is made between *landscape projects*, and *landscape finance projects*:

- **Landscape projects** are programs or activities that benefit the landscape but do not have a bankable business model, such as an educational program on regenerative agriculture;
- **Landscape finance projects** are investment opportunities in companies or projects in a landscape that have (the potential for) a bankable business case, such as a loan to a regenerative agriculture farm.

This toolkit focuses on landscape *finance* projects specifically. Guidance and tools are provided for project organizers to identify such projects: supporting landscape actors in transforming landscape projects into landscape finance projects, and supporting project developers in making them investment-ready.

What to consider before getting started

There are several general considerations for readers to take into account:

- **Time and perseverance:** although the purpose of the toolkit is to make the project development process more efficient, landscape finance projects require time and patience. The involvement of multiple stakeholders, who in turn have their own stakeholders and decision-making processes, can mean project development cycles can take from 1 year up to 5 years.

- **Accurate and realistic information:** project organizers and developers should avoid overpromising (e.g. projecting unrealistic revenues) or "making up" missing data. During the due diligence process, these information gaps will show up. This can damage trust and make investors more suspicious, which can negatively affect further discussions and cause delays.

- **Leapfrogging:** for some projects, one or more of the development process stages can be accelerated. For example, if a project has an existing and creditworthy industry partner, the investment opportunity could leapfrog to later stages.

- **Dynamic roles of project organizer teams:** the role that the project organizer (e.g. a non-profit) needs to play may differ between projects. For projects with high commercial interest (highly profitable), the project partners will probably take the lead, and the project organizer can play a coordinating or supporting role. Projects with a lower level of commercial viability, high complexity or high risks may require project organizers to take a leading role. The project organizer should assess frequently whether they are best positioned themselves to take on a particular role, or if they should instead involve an advisor/consultant, investment team, or other type of support. The "skills check" sections included in each stage chapter also provide some guidance on this.

- **Commercial viability:** project developers, such as NGOs, often do not consider the project's commercial viability. Such projects may be in line with the organization's impact objectives, but typically rely on continued subsidies from the NGO. In order to successfully raise finance for landscape finance projects, the business case needs to be commercially viable. It is therefore important to gain insight on potential revenue and profitability early in the project. This allows project developers to involve partners on a risk-adjusted basis, based on their commercial and impact requirements, and to ensure certain parties within the project bear the required level of risk and accountability.

- **Classification of growth stages and risk profiles**: developing investment opportunities in landscapes, especially in lower capacity regions (e.g. LDCs, fragile states), when these are greenfield, long-term and/or at an early stage of development, have a high initial risk of failing. As such, a balance needs to be struck between the time and resources invested in the development of an investment opportunity versus the chances of a successful deal closure several years down the line. It is recommended to regularly allow for go/no-go decision points before proceeding to a next stage of development – for example, by starting with a pre-feasibility assessment before completing a full feasibility assessment.

> "For organizations like IDH, it's important that we can guide our colleagues in a simple way to help develop an investment opportunity. This requires a good understanding of some key financing terms and a good grasp of how a potential project can match various investors' requirements, including a solid project narrative, baseline and clarity on potential impacts."
>
> **Aris Wanjaya, Senior Program Manager and Investment Coordinator Landscapes Asia, IDH**

> "This investment toolkit aims to be a practical asset to anyone on a mission to leverage commercial finance for conservation purposes. Whatever a project's development stage, this collection of basic terminology, concrete steps and real-life examples will prove a helpful guide to bankable project development regardless of the reader's level of expertise."
>
> **Arthur Muller, WWF Advisor Bankable Nature Solutions**

> "The transition to sustainable and low-carbon development in the landscapes requires different kinds of investment. While IDH is able to provide grants for innovative business models and to leverage private-sector investments, return-based investments such as those from impact investors can help landscapes access the capital required to overcome major sustainability challenges.
>
> Currently, these projects face a huge gap in accessing public and commercial finance. Therefore, incubating such projects requires a series of steps that are not always self-evident, from assessing the landscape for investment opportunities, to mobilizing the right stakeholders around a project, to eventually developing the business model and deal structure."

Marcela Paranhos, Senior Investment Manager Landscapes Latin America, IDH

> "A bankable nature-based solution is an initiative that mobilizes private sector investment into sustainable development. It provides a win-win outcome to build more climate-resilient ecosystems for people, nature and economies, while simultaneously providing a financially viable project that is able to be scaled up and replicated."

Nachilala Nkombo, WWF Country Director Zambia

Investors and project types

When compiling an initial list of potential investors for a landscape, there are several sources that can be scanned to identify an indicative set of potential investors.[1] This preliminary scale should consider the investors' sector focus and alignment with the landscape strategy, their geographical focus, and their match with the required investment size and tenor.

This guide focuses primarily on investments with a possible role for impact investors, who typically look for opportunities that have the potential to absorb between €500,000 and €20 million in total investments in the five years after the initial engagement with the project developer, with varying return expectations (direct contact with a targeted investor is advisable here). Other types of investors (ranging from philanthropic funds to banks) can, however, also be considered to attract a funding mix that is appropriate to the project's risk, return and impact profile.

Some examples of impact investors who cooperate directly with IDH and WWF include:

- **Land Degradation Neutrality (LDN) Fund** – invests long-term capital in profit-generating sustainable land-use projects to reduce or reverse land degradation, mostly in the field of sustainable agriculture and forestry. Examples of investments made by the LDN Fund (www.ldninsights.org) are also illustrative of the type of landscape finance projects that this guide focuses on.

- **&Green Fund** – provides credit or guarantees to invest in commercial projects in agricultural production value chains to protect and restore tropical forests and peatlands, and to make agriculture more sustainable and inclusive.

- **IDH Farmfit Fund** – takes the highest risk positions in farmer-related transactions, thereby reducing the farmer risk currently born by borrowers and lenders. By doing so, it catalyzes commercial capital to co-invest in this sector and allow agri-commodity traders, agri-SMEs, and/or financial institutions to expand the services they provide to smallholder farmers.

- **Dutch Fund for Climate and Development** – invests in agroforestry, sustainable land and water use, climate-resilient food production projects, and environmental protection.

- **AGRI3 Fund** – provides guarantees to commercial banks and other financial institutions, as well as subordinated loans to value chain clients, to mobilize financing by de-risking and catalyzing transactions that create sustainable, deforestation-free agricultural supply chains.

Other investors and funds (e.g. C4D partners, the Landscape Resilience Fund, Tropical Landscape Finance Facility), as well as some local and international banks, are also active in landscape finance and could provide finance in cooperation with the aforementioned funds. In addition, there are some investment opportunities for conservation – for example, Rimba Collective[2], facilitated by Lestari Capital, aims to provide US$1 billion to protect or restore 500,000 hectares of forest, supporting 32,000 individuals in forest communities in Southeast Asia, over 25 years.

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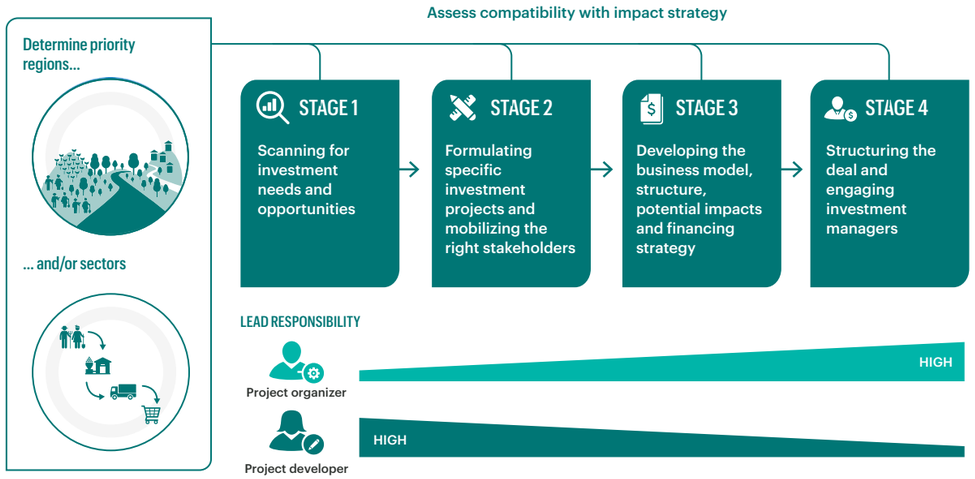
1 ISF Advisors (isfadvisors.org/fund-database/) manages a useful free database for identifying investors; Convergence Blended Finance (convergence.finance) also manages a useful paid database of previously financed investment deals.

2 For more information on Rimba Collective, visit: lestaricapital.com/mechanisms/rimba-collective

Process for landscape finance projects: how is this guide structured?

The landscape finance project development process covers two main phases, namely the *project origination phase* and the *project development phase*. The phases are further divided into four stages that make up the project process.

FIGURE 1. From origination to investment-readiness: the process



During the origination phase, potential projects are identified (stage 1) and formulated (stage 2). Subsequently, projects with a bankable and investable business case are developed further during the project development phase, when they are made investment-ready to meet the expectations of investors (stage 3) and an investment manager is engaged (stage 4).

Two key roles are the project *organizer* and the project *developer*. Where the project organizer is typically a person or entity responsible for organizing, coordinating, and overseeing the development of a landscape finance project, it is the project developer who actually sets up or owns a business or project, taking on financial risks with the aim of making profit (for more information on these roles, see the section on parties involved). Stages 1 and 2 of this guide are primarily aimed at the project organizer, whereas stages 3 and 4 are primarily aimed at the project developer.

While the four stages are numbered, they are not always followed sequentially. For example, a project can be fast-tracked from stage 1 to stage 3, or even directly to stage 4 when a project with a clear business model already in place has been identified early on.

Introducing the four stages

STAGE 1

Scanning for investment needs and opportunities

Stage 1 is a rapid assessment of the landscape to efficiently identify the investment needs and potential landscape finance projects that can contribute to sustainability in the landscape. Firstly, the toolkit covers how to assess all the issues and their (root) causes, key baselines, landscape actors and potential interventions. Secondly, it looks at how project ideas can be formulated, and how potential investors that fit the landscape strategy can be identified.

STAGE 2

Formulating specific investment projects and mobilizing the right stakeholders

Stage 2 is about engaging with the right stakeholders and mobilizing their commitment. The toolkit covers how to translate project ideas into landscape finance projects that have the potential to become bankable or investable according to general investors' requirements.

STAGE 3

Developing the business model, structure, potential impacts and financing strategy

Stage 3 provides guidance and tools to detail out all the information and analyses investors require before considering the bankability of a landscape finance project. This includes financial projections, risk assessment, impact potential and more.

STAGE 4

Structuring the deal and engaging investment managers

Stage 4 provides guidance and tools to work towards a successful investment deal by engaging with investors. The deal is structured to align stakeholder interests and mitigate investment risks. It involves close engagement and negotiations with the investor(s) to reach an agreement. Guidance is given on determining the type of capital required (e.g., debt or equity), and which conditions are typically negotiated. The investment structure is then finalized to meet both investor and project needs.

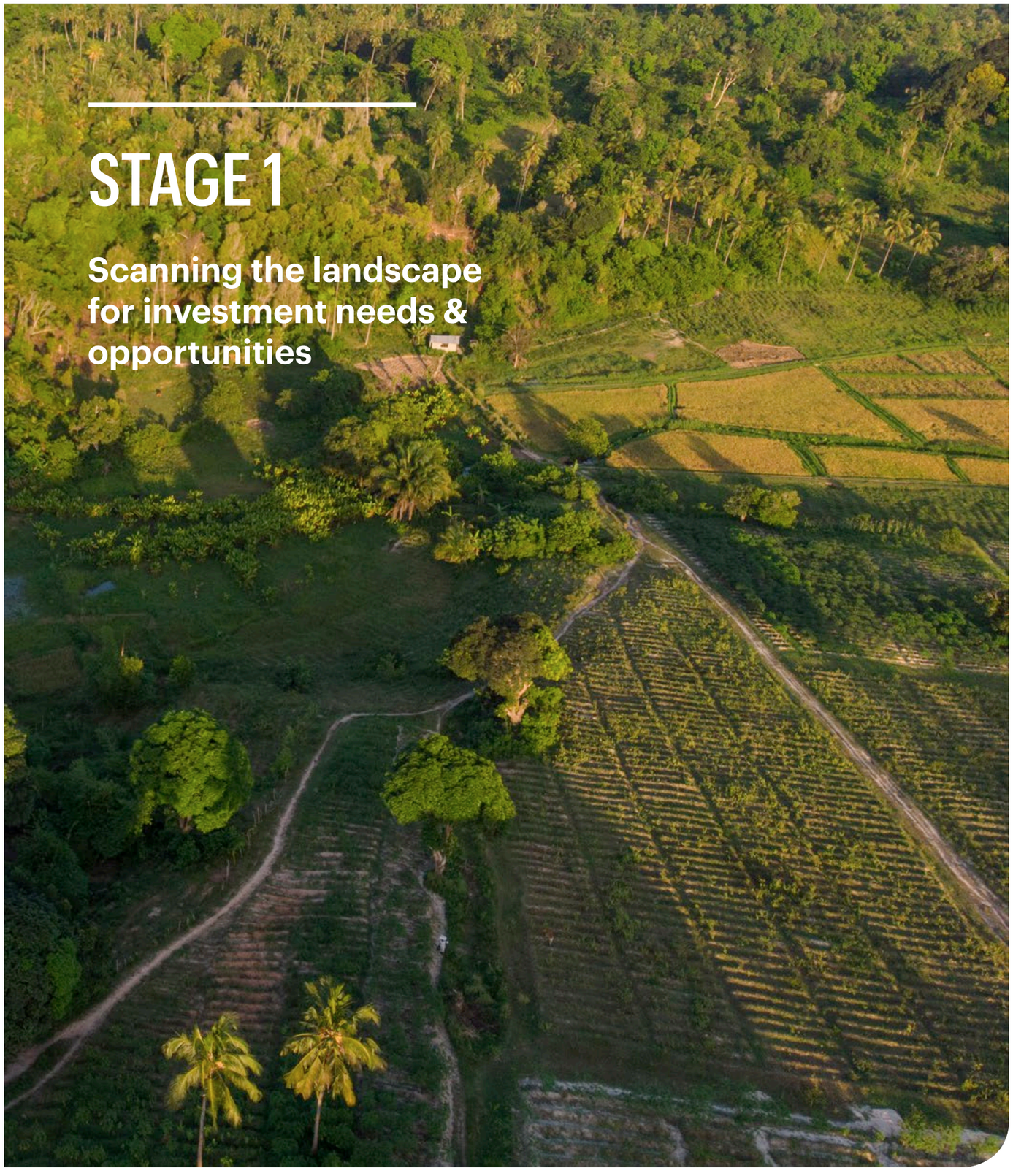
Parties involved

The parties typically involved in a landscape finance project, and the roles they play, are outlined below.

FIGURE 2. Which role are you taking on?

	WHO	WHAT	EXAMPLE
Project organizer	Person or entity responsible for organizing projects	Convenes, coordinates, and supports project design	Organizations such as IDH and WWF
Project developer	Person or entity who sets up or owns a business, taking (financial) risk	Main risk taker and project driver, most likely receiver of finance	Supply chain company, farmer cooperatives, concession owner, service provider
Investor	Organization that provides capital as debt (loan) or equity (ownership) with ROI expectations	Provides capital so that project developer can realize project ideas, thereby creating impact	Impact investors, banks, development finance institutions
Project stakeholder	All other stakeholders (to be) involved in the project	Incurs positive or negative impact, supports or hinders investment success	(Smallholder) farmers, buyers, government, suppliers

	Project organizer	Project developer	Project stakeholder	Investor
Description	A person or entity responsible for organizing, coordinating, and overseeing the development of a landscape finance project	A person or entity who sets up or owns a business or project, taking on financial risks with the aim of making profit. Sometimes, the project developer is also referred to as a "project operator".	All affected stakeholders, including those directly and indirectly impacted - i.e. beneficiaries, customers or shareholders, staff, community, vulnerable and marginalized groups, etc.	Organization that provides capital in the form of debt (loan) or equity (ownership) with the expectation of generating a return on investment.
Role	Leads the landscape finance agenda, convinces project developers to transition to more sustainable practices, brings project developers and stakeholders around the table	The central and most important party for the development and implementation of the landscape finance project. The main risk taker, driver and investor in the project, willing to take risks to raise additional financing	Incurs positive impact (downstream farmer enjoys benefits of upstream water treatment plant) and/or negative impact (farmer experiences drought problems caused by deforestation) of issues and interventions in the landscape	Provides capital so that project developers can make the necessary investments to realize their project plans. The cash that is generated by the project needs to be sufficient for the investor to receive the expected return on investment
Example	Officers from IDH or WWF, external consultants	Farm or plantation owners, smallholder farmers and their groups (e.g. cooperatives), farmer associations, fintech platform owners, supply chain partners (e.g. processors, input providers), downstream private-sector players (e.g. offtakers, logistics, etc.), public bodies (e.g. development agencies, local governments, etc.)	Depending on role: local community offtakers, suppliers, public sector, farmer associations	Local or international banks, investment funds, development finance institutions, philanthropic investors



STAGE 1

Scanning the landscape for investment needs & opportunities

SKILLS CHECK

See also Appendix II

This stage can largely be completed by the project organizer, assuming there is sufficient knowledge and experience with the landscape or value chain(s) in scope. However, when engaging directly with existing companies operating in and/or sourcing from the landscape, or when trying to bring a new project developer to the landscape, it is advisable to include financial and business expertise in the project organizer team. Assessing how a landscape project could be commercially interesting to a company requires a good grasp of business operations, and the ability to develop a (high-level) business case, including costs, benefits, risks and opportunities. It is also possible to bring this expertise on board temporarily by tendering for additional capacity and expertise. For more on the specific skill sets required, it is also helpful to review information provided in later sections of this toolkit.

After drawing up a landscape strategy, the main priority is to develop landscape finance projects that are in accordance with the strategy and that meet the expectations and requirements of the investors identified. This first stage provides guidance on how to originate landscape finance project ideas.

Objective of stage 1

The objective of this stage is to efficiently identify or assess landscape finance project ideas that have the potential to become bankable and that comply with the expectations of the investors. In coming up with landscape finance projects, two main approaches can be followed:

1. Project origination based on a landscape strategy;
2. Project origination based on the market.

In the sections that follow, the workings of these two sourcing approaches are discussed.

Project origination based on a landscape strategy

Starting with a landscape strategy but a blank canvas when it comes to landscape finance projects, the initial rapid assessment is often experienced as one of the most challenging parts of the development process. Where to start? Who to talk to? What kind of projects to look for? These are basic but difficult questions at this stage. Since landscape finance takes a new and quite broad approach, narrowing the landscape strategy down to specific investment opportunities can be challenging.

Following a step-by-step approach is a more manageable way to determine the high-level landscape strategy:

Review landscape and/ or value chain needs & challenges → Review key stakeholders → Formulate solutions (project ideas) → Determine early project risks

1.1 Review landscape needs and challenges

ACTION

Review the current state of affairs in the landscape and familiarize yourself with:

- **Landscape challenges, risks and opportunities:** what are the main challenges that this landscape is currently facing? What is the current focus of public local / national / regional development policies in solving these landscape issues? Which public organizations can provide support in developing landscape (finance) projects, and what would their role be? Which public commitments are already in place, covering this landscape (e.g. NDCs, SDGs, net-zero commitments, etc.)?

- **Past projects:** what landscape (finance) projects have been initiated in the past? Who initiated them? What can be learned from these projects? Why were they successful or unsuccessful? Can you get in touch with the project partners for a short interview? How can successful projects be scaled up or replicated?

- **Existing projects:** are there already (pipeline) projects in the landscape being prepared or developed? Who initiated them? What is their current state? What challenges are these projects facing? What are the bottlenecks to further growth? Is there space for cooperation to increase their ambition or scale them up?

OUTPUT

Create a brief summary of the landscape review described above.

Review the landscape issues

ACTION

Review the issues that have been identified in the landscape strategy. What are the main causes of these issues? And what impacts can be generated?

Issues

What are the most prevalent issues and how can they be resolved? For example:

Landscape issues	Examples of causes
• **Deforestation and forest degradation** • **Land degradation** • **Biodiversity loss** • **Human-wildlife conflict**	Unsustainable farming practices, resulting in land degradation and soil erosion. To get access to new farmland, farmers cut down forest area (or slash and burn, an unstainable practice in its own right).
Water scarcity	Overuse of water for irrigation purposes.
Flood risks	Flooding resulting from regular or extreme weather events. Sometimes caused by soil erosion and poor absorption of water by the soil due to unsustainable farming practices.
Droughts	As a result of climate change, weather patterns shift causing more extreme weather events.
Water pollution	Agri-processors do not treat wastewater. As a result, farmers irrigate water with polluted water, resulting in a negative spiral of pollution.
Food and income insecurity	Staple crops are seasonally scarce and have a high cost, farmers lack access to markets and offtake agreements.
Gender constraints	Uneven access to opportunities (e.g. education), sociocultural
Low incomes	Low productivity, soil quality, lack of agricultural and business skills, lack of access to finance, climate change, unequal bargaining positions.
Other issues	Etc.

Actors

What type of landscape actors / businesses are causing these issues (large-scale farmers, smallholders, processors, factories, etc.)? Who can provide solutions, and what would be their role in doing so? What type of investors or financiers are already active in the landscape?

Key baseline
What is the situation in the field that gives a baseline of where the landscape stands right now (e.g., number of farmers, land legality status, production volumes, deforestation rates and supply chain analyses)?

Bottlenecks
Which bottlenecks do local actors face when developing projects to address landscape issues (e.g., access to capital, infrastructure, policy, knowhow, awareness, etc.)? Do project developers have access to funding? What funding sources are available and where are the major gaps?

OUTPUT
Brief summary of the issues, actors, key baseline and bottlenecks within the landscape.

1.2 Review key stakeholders

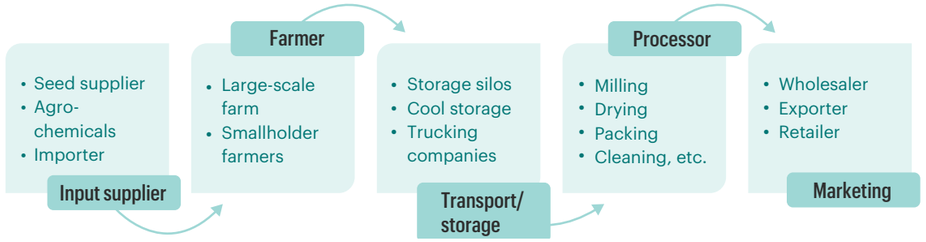
ACTION
Identify the key landscape stakeholders that have been involved or identified in the landscape strategy and review their respective roles. A useful approach is to map the relevant value chains in the landscape to review the position of stakeholders (see below). In turn, these stakeholders can be involved in scanning the landscape for investment opportunities.

OUTPUT
The output of this key stakeholder review consists of both a *general stakeholder overview* and a more detailed *value chain overview*.

The general stakeholder overview is a table of all key stakeholders with the following descriptions:

Name	Type of entity	Location	Current role in landscape	Potential future role in landscape
Example: ABC Farm	Privately held company	Village X in landscape Y	Conventional farm owner	Agroforestry farm owner, convener of stakeholders in the landscape
...				

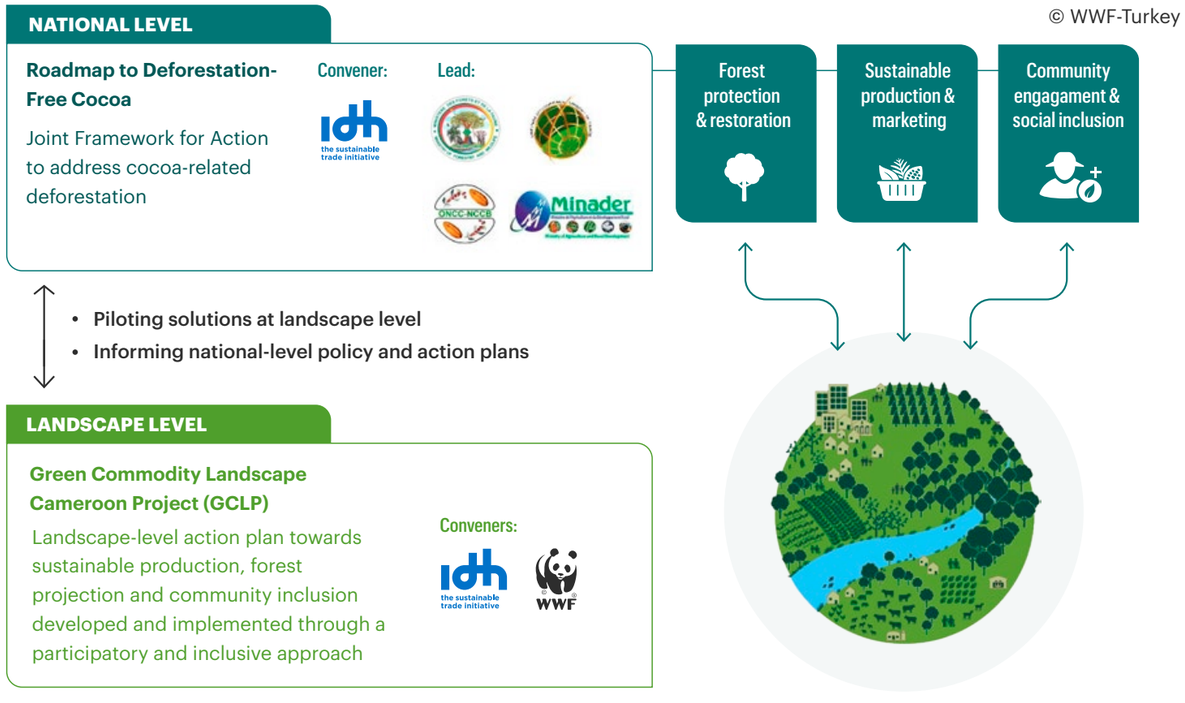
If multiple stakeholders are expected to be identified within a value chain, it is advisable to draft a value chain overview that includes all actors in the chain. The overview below is an example of typical actors in the agricultural value chain. Current funding stakeholders or providers of capital are not included in this overview, but it is a good idea to understand whether these stakeholders are self-funded or reliant on grant funding, as well as which type of financiers are involved in which part of the value chain.



A clear view on the value chains, their actors and their interrelationships is relevant when formulating a landscape strategy and identifying projects. This helps to identify interventions that can create the most impact while also seeing where commitment from multiple stakeholders may be required. The table below presents an overview of the typical stakeholders that are relevant in landscape finance, with their potential role in landscape finance projects.

	Stakeholder	Role in landscape finance projects
Market	**Smallholders**	Implement more sustainable practices
	Mid- and large-sized farms	Implement more sustainable practices
	Farmer associations	Engage smallholder farmers to implement more sustainable practices
	Input providers	Provide finance to (smallholder) farmers – for example, through barter operations and/or service delivery models (SDM)
	Marketeers and processers	Secure offtake, pricing principles, and project sponsor in early stages
	Implementation agency	Ensure implementation of project (can also be integrated with marketeer / processor, if existing capacity is available)
	Equipment providers	Provide equipment for project implementation
Public actors	**Multilateral-led initiatives**	Provide grants or technical support to strengthen the enabling environment
	Regional initiatives	Provide grants or technical support to strengthen the enabling environment
	Traditional or community-led initiatives	Provide technical support for implementation and support to engage local stakeholders
	National government	Provide grants or technical support to strengthen the enabling environment
	Local government	Provide policy support for implementation through rules and regulations
	NGOs	Provide technical support for implementation
Investors	**Banks**	Provide debt for implementation, and support with development of tailored financial products
	Investment funds	Provide debt/equity for implementation
	Non-bank financial institutions	Provide tailored financial products, such as working capital facility, bridge loans or insurance

FIGURE 3. What's the link to the Roadmap to Deforestation-Free Cocoa?



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CASE STUDY

Green Commodity Landscape Program in Cameroon

→ More information about this case study

Cameroon is the fourth largest cocoa-producing country in the world, yet the Cameroonian cocoa sector has become characterized by poor-quality, low yields leading to a decrease in farmer incomes. As such, many farmers expand their land into forest areas, leading to increased forest degradation. As cocoa-related deforestation is expected to have a negative impact on the cocoa sector, an increasing number of companies have committed to certified and deforestation-free cocoa.

Building on these commitments, IDH and WWF are co-creating the Green Commodity Landscape Program (GCLP) that brings together key (cocoa) stakeholders to co-design and implement actions that help protect forests, improve sustainable production of cocoa, and enhance livelihoods for farmers and surrounding communities in three selected landscapes. In addition to cocoa, commodities like rubber, timber, oil palm and cassava are included in the program.

The landscape strategy includes industry partners (from cocoa and other sectors), public partners, financiers, Civil Society Organizations (CSOs), and knowledge partners. They are working together, strengthening governance, setting joint targets in land-use plans to protect forests, addressing the needs of local communities, and helping to make cocoa farming a sustainable livelihood option. This will create a favorable environment to attract new sources of funding and point to key investment opportunities in line with overall landscape goals.

1.3 Formulate solutions: landscape finance project ideas

What interventions may lead to the desired impacts in the landscape?

ACTION

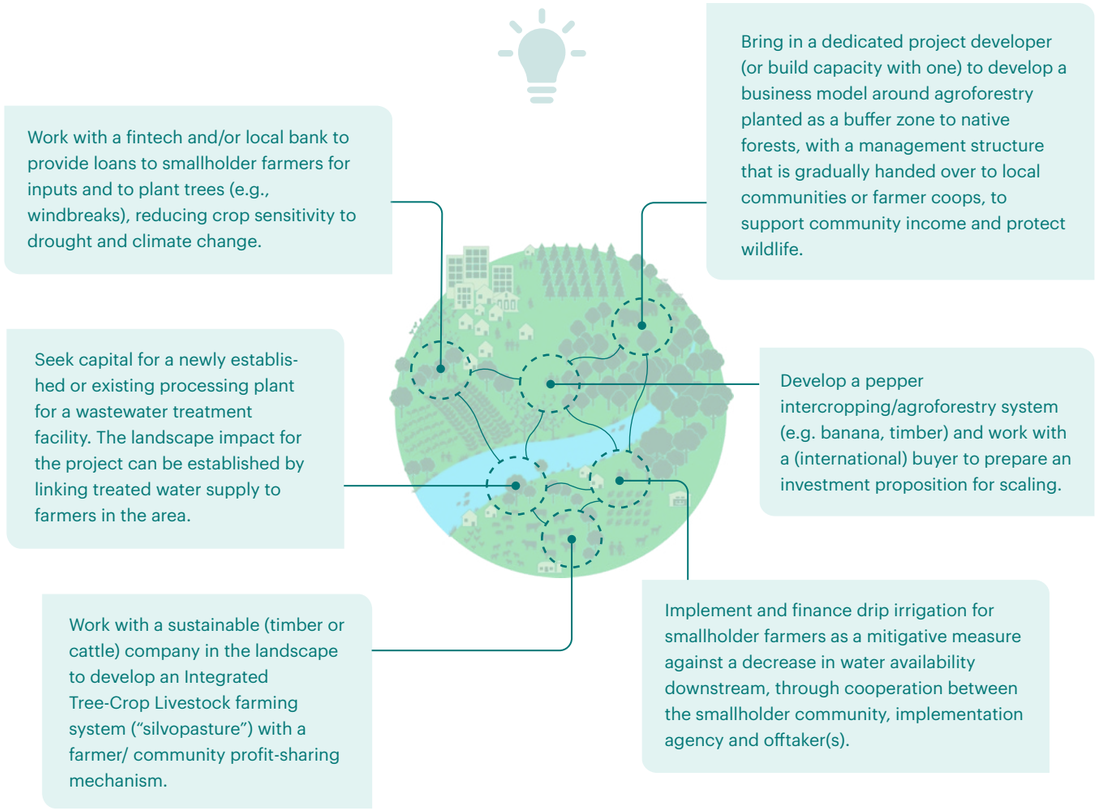
Identify and gather projects that have been covered in the landscape strategy. Formulate landscape finance project ideas, briefly describing (i) the business model, (ii) the relevant landscape aspects it contributes to, (iii) the landscape issues it solves, and (iv) the relevant stakeholders involved (e.g. who the project developer could be).

Determine the scope of these potential projects based on their current presence. What is the expected revenue-generating capacity of the project idea? Does a local or international market exist, and are there existing landscape actors that already serve these markets? For example, in the case of a sustainable palm oil project idea: are there already landscape actors farming, processing, and selling palm oil, and what is the scale of these activities?

OUTPUT

The output of this stage could look like figure 4.

FIGURE 4. Landscape sustainable development agenda: investments contributing to long-term, interlinked goals



TIPS & TRICKS

Directly engaging with companies and (possible) project developers in the landscape

Not all landscape finance projects are necessarily greenfield projects that need to be developed from scratch. Landscape finance projects (or ideas) may already exist (brownfield) and may be ready for implementation or expansion. It is useful to actively identify these projects through engagement and meetings with smallholders or companies that are active in the landscape.

The goal of these meetings should be to identify and assess existing projects plans, the potential role of the project for the landscape strategy, and whether financing needs exist. Doing this may allow the project to move directly to stage 2 or 3, depending on the progress already made by the project developer.

Requirements to assess whether a landscape finance project can fast-track to stage 2 are mentioned at the end of this chapter. Before moving to stage 3, check whether the criteria mentioned in at the end of the next chapter (stage 2) are met.

1.4 Assess risks and possible red flags

Every project comes with risks, some more obvious than others. The risks of project ideas should be assessed to identify any "red flags" that render the project idea unfeasible. It is therefore important to understand the risks that may impact the (financial) outcomes of the project. Projects with high risks, few mitigative measures, and limited earning potential are unlikely to receive financing.

ACTION

A risk assessment, including project partner financial capacity and the environmental and social impacts, can be performed by developing a high-level risk register in which risks are identified and mitigating actions are formulated. If a risk cannot be mitigated, it is designated as a red flag.

OUTPUT

High-level risk register – for example:

Risk	Mitigating action	Risk acceptance level
Agriculture in the project area is sensitive to climate change, causing more frequent droughts, fires and floods	Irrigation from a nearby water source is adequate, which can be financed	Acceptable
Water from a nearby source is polluted by local industry, requiring water treatment before irrigation	Water treatment prior to irrigation would mitigate this risk, but the investment and operational costs are deemed too high, considering the cash flows the project is expected to make	Red flag

CHECKLIST

Final checklist before moving to the next stage

Landscape finance project ideas: What are the relevant landscape finance project ideas that fit within the landscape strategy?

Brief description per landscape finance project idea: Which landscape issues does it solve? Who are the stakeholders involved? What is the business model?

ADDITIONAL RESOURCES

Additional resources for learning to scan landscape finance opportunities:

if your aim is to look more broadly at landscape finance, consider looking at:

- Landscape Finance & Investment Toolkit (LIFT) developed by EcoAgriculture Partners;
- Massive Open Online Courses (MOOCs) on landscape finance and restoration as a business. Organizations that have developed such courses include: Commonland, Rotterdam School of Management and Wageningen University.

Project origination based on the market

Project sourcing can also be done through market-based approaches. These approaches can be used in a landscape where a landscape strategy is in place, but they can also potentially be used to source projects in landscapes where there is no such strategy or where it is still under development.

Traditional sourcing approaches

Investment fund managers have traditionally used sector leadership and networking with industry players to build their capacity to source opportunities. These approaches involve:

Establishing visible sector leadership
The goal of sector leadership is to visibly establish yourself as an expert in your chosen sector, thereby becoming the go-to investor when companies are seeking capital. Some channels that are typically utilized by fund managers to establish sector leadership include marketing of investment cases, publication of research and thought leadership pieces, realization of projects, speaking at relevant conferences, networking at events or through relevant associations, and cooperation with relevant sectors players, such as investors in smallholders, agroforestry, forestry, or conservation.

Building networks with sector stakeholders
There are various ways to build a network with sector stakeholders: through participating or representing at relevant conferences and networking events, and through direct contacts with other investment managers within other organizations or funds.

Direct contacts are established by investment officers using their broad professional network. An organization may consider recruiting an investment officer with such experience and network, or may decide to build these relationships themselves through focusing on bilateral meetings with other investors and value chain actors. The latter approach is considered to be more time consuming and resource intensive.

Proactive sourcing approaches

Instead of (or in addition to) traditional sourcing, there are also more proactive approaches. Namely:

Issuing a call for proposals
To issue a call for proposals, the organization needs to indicate the types of projects sought, eligibility criteria for investment opportunities, and a selection process. In situations where a landscape strategy is in place, the call for proposals can be tailored to this strategy. Where no such strategy is in place or where it is still being developed, the call for proposals can invite projects that will generally improve the landscape or parts thereof. In these cases, some guidance should be provided on project types, although space should be allowed for project developers to innovate and propose various project types.

The eligibility criteria describe the requirements that an applicant should meet and therefore functions as an initial filter. Typical eligibility criteria may include:

Preferred criteria for the project developer:

Minimum years of business operations
- Minimum annual turnover (e.g. US$500,000)
- Diverse management / staff (e.g. gender, skills)
- Clear and transparent ownership structure with strong management team
- Successful track record in setting up landscape finance projects
- Minimum ESG management

Criteria for the landscape finance project
- High social / environmental impact (e.g. agroforestry or conservation program)
- Commercially viable business case
- Proven additionality role in the landscape (is it something that will happen with or without the required support?)

TIPS & TRICKS

Note
A good proposal may not always have all these elements yet in place. For example, it could be that there is not yet a long track record when starting out. As such, do not necessarily be discouraged from responding to an applicant. Make sure there is at least clear alignment: that it is applicable to the key terms/scope of the project developer, and demonstrates sound business practices and a viable model, with a clear pathway towards meeting all criteria.

An application form usually requires a serious time investment for both the applicant and the reviewer. In general, the number of applications to a call for proposals can be very high. To make this process more efficient, it is advised to split this into two phases in which the expression-of-interest stage functions as a filter. However, depending on the nature of the call, only one phase may also suffice.

Example

The selection process for a call for proposals could look like this:

Phase 1: Expression of interest (four deadlines per year)

Interested participants should first scan the landscape strategy that has been developed, go through the eligibility criteria and look through our website to fully understand what we do, then send an email formally introducing your company/project and expressing interest to [insert email address]

Phase 2: Submit proposal

On receipt of your expression of interest, we will send you the application details and conditions along with an application form and guidelines for preparing your proposal and pitch deck.

Phase 3: Selection

The selection process will be carried out in three distinct stages:

1. Selection of longlist with 10-20 ideas from all proposals received.

2. Evaluation of the applicants selected, and interviews with the project owners. A shortlist of 5-10 projects will then be announced.

3. Final evaluation of shortlisted applicants. Further documentation to support the project appraisal are required at this stage.

Phase 4: Agreements

Relevant agreements will be drawn up with the shortlisted companies. Selected applicants will be included in our pipeline and are eligible for investment

Organizing a collaborative platform

Organize an annual platform meeting to which selected stakeholders from the landscapes are invited. This platform serves as a networking and knowledge-sharing event. Project owners get the opportunity for “speed dating” with an investment officer, and to pitch their business plan.

A pool of external consultants (Financial Advisory Service (FAS) providers) can provide support to source deals. These FAS providers are incentivized on a pay-for-results basis to identify, package and present investment opportunities. FAS providers are paid fees on meeting specific targets for deal identification, and when this opportunity has been taken over by an investment manager. See Appendix III for the steps to implement this.

STAGE 2

Formulating specific investment projects and mobilizing the right stakeholders

SKILLS CHECK

See also Appendix II

At this stage, you may want to consider bringing in additional expertise: either as a long-term position or through a short-term specific assignment (e.g. a consultant to support on the investment model development). Towards the end of this stage, there should be a clear project developer involved; the role of the project organizer is preparing to shift towards enabling environment projects. The project organizer should have good convening and communication skills, while also understanding the perspective of businesses and project developers, as well as investors. The latter is important in the final step of this stage, when you will be checking early interest with potential investors. As such, the project team should have a good grasp of what investors are looking for in projects.

This stage covers the next steps in developing the project ideas that were identified under stage 1. The main challenge for the project organizer here is to ensure that the landscape finance project structure and return-generating potential meet the requirements of the investors identified. In this stage, guidance is provided on how to develop a landscape finance project concept note that can be shared with investors for review.

Objective of stage 2

The objective is to formulate clear concept notes for landscape finance projects, in cooperation with project developers, that meet the expectations of potential investors. With the use of the concept note, the initial investor interest can be gauged. The steps in this process are as follows:

Identify entry points and stakeholders to engage → Define revenue model → Assess investment potential → Check early investor interest

2.1 Identify entry points of the landscape finance project

ACTION

The first step in formulating a concept for a landscape finance project is to make a preliminary description of the project using the formula below.

Preliminary formulation of landscape finance project		
1	**Issue**	Description of the landscape issue(s), causes and scale
2	**Proposed intervention(s) to address issue**	Description of proposed intervention(s) to solve landscape issue(s), including which challenge will be addressed, and the potential impacts
3	**Impacts**	The environmental and social impacts that arise from the proposed interventions. Impacts can be described in both qualitative and quantitative terms. Some key metrics often applied and considered by investors are the number of farmer livelihoods supported through the investment, number of hectares covered, and climate impact (tons of CO_2 equivalent reduced)
4	**Entry point**	Description of the investment entry point (see also next section)
5	**Identification of relevant landscape actors**	Description of landscape actors involved and their respective roles: 1. Medium- and large-sized farms operating under conventional farming practices 2. The farming community predominately consists of smallholders, aggregators/cooperatives and a few processing facilities. Smallholder farmers are best reached through local farmer associations 3. Involvement of aggregators or cooperatives could be necessary to reach farmers, but also to reach international offtakers who may pay a premium for Fairtrade-certified products 4. An implementation agency will be required for awareness raising, training and monitoring of sustainable farming practices 5. Input suppliers may need to be involved for supply of good-quality agricultural inputs 6. Offtakers in the form of processors, exporters, retail organizations or trading companies Optional stakeholders at this stage are listed below, and are dependent on the requirements and level of development of a project: 7. Local government – for permits or implementation and enforcement of legislation 8. Financial partners – for provision of finance or risk-mitigating products: grants, loans, insurance (to reduce risk for farmers)

The specific entry points for investment can be made more concrete by creating a project model. Below are six examples of typical entry points for landscape finance projects that can be considered. It should be noted, however, that other configurations or combinations of those included, may also be possible.

ACTION

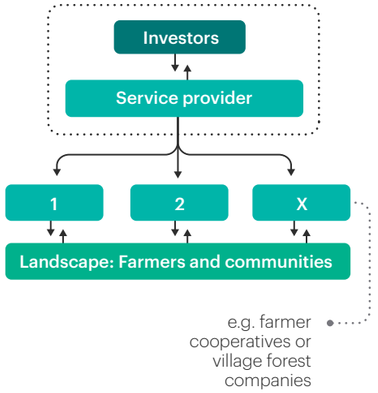
Below is a list of possible entry points for finance to support landscape projects. This list is non exhaustive, but serves to provide inspiration and guidance. Check which of the entry points best fits the landscape finance project. If none fit, then skip directly to *Preliminary formulation of landscape finance project* table.

ENTRY POINT 1: FINANCING EXISTING COMPANIES TO BECOME MORE SUSTAINABLE, OR TO EXPAND/GROW EXISTING SUSTAINABILITY INITIATIVES

Financing (typically debt, as these established companies are generally not looking for additional equity) the significant investments to be made by medium / large companies to transition their conventional business model to a more sustainable approach. For example, a plantation company shifting to integrating on-concession conservation and improved water management. This business model has indirect landscape benefits because it helps reduce fire risks, protect natural resources by acting as a buffer zone, or limit overuse of watershed, etc.

Type of financing involved	Long-term (patient) debt
Challenges for landscape financing resolved	Resolves the challenges encountered by businesses in attracting financing to improve their sustainability
Appropriate context	Best suited for financing of medium / large businesses that have existing cash flows and are able to take on debt
Examples	• A large rubber concession holder in Indonesia seeking capital to protect HCV/HCS forest on- and off-concession and provide community livelihood support, while intensifying rubber production for a global market • A timber company with forestry concessions in West Africa seeking capital for new planting, and to develop a smallholder outgrower scheme • A large cattle supply chain company operating in Brazil, seeking capital to green its supply chain, including increased traceability, farmer restoration support to comply with local laws and policies, and low carbon agriculture

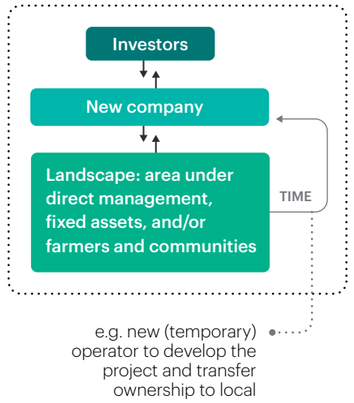
ENTRY POINT 2: FINANCING SUSTAINABILITY VIA SERVICE PROVIDERS



Financing intermediaries (such as fintech companies or value chain service providers) to support multiple small-scale farmers, farmer cooperatives or communities to transition to sustainable farming practices. For example, financing the transition towards fewer and higher quality fertilizers and seeds by channeling capital or in-kind agricultural inputs through service providers, fintech companies and farmer cooperatives to efficiently reach smallholder farmers and/or other landscape stakeholders.

Type of financing involved	Working capital finance, long-term debt (farm level) or equity (fintech level)
Challenges for landscape financing resolved	Smallholder farmers often lack the knowledge and financial capacity to make the transition towards sustainable farming practices
Appropriate context	Where farmers are organized in organizations, such as cooperatives, which can facilitate financing and efficient communications with the farming community
Examples	• A service provider in Kenya offering a range of bundled services to small timber growers, including inputs, technical advice, harvesting and offtake, thereby acting as an aggregation point for market access as well as finance • A service provider in Indonesia allowing for aggregation of coconut sugar supply from smallholders, as well as providing support to building a coconut sugar processing plant • A service provider operating a cassava block farm in Nigeria: a large and contiguous plot of land leased or owned by the provider, which is divided into smaller sub-plots of several hectares that are individually farmed by smallholders

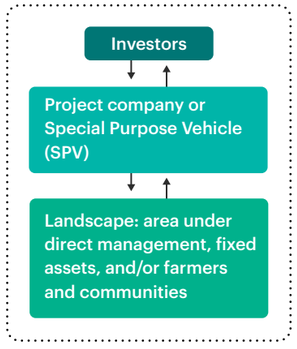
ENTRY POINT 3: NEW COMPANY OR VEHICLE, POTENTIALLY WITH LOCAL OWNERSHIP STRUCTURE OVER TIME



Financing of (newly established or scale-up) greenfield project to address a landscape need (e.g. greenfield plantation, either privately owned or with smallholder farmers, to restore land and protect other natural resources). Due to the newly established, greenfield nature of the project, equity is the most suitable financing instrument.

Type of financing involved	Equity / debt
Challenges for landscape financing resolved	Model can help in situations where local context (climate, soil, etc.) offers development opportunity for nonexistent local business practice
Appropriate context	Where local initiatives are too small or lack the knowledge and financial capacity to develop a project, and the project developer is able to train the community over time, whereafter the ownership of the project is sold to a local landscape actor
Examples	A newly established processing plant to allow for offtake of coffee farmers transitioning to agroforestry systems, of which shares are transferred over time to participating farmer cooperatives receiving investment A newly set up 'buffer zone management company' supporting groups of communities along at-risk forests, based on secured land rights, to develop cocoa agroforestry systems that act as a buffer zone to native forest. They can establish partnerships with the company, which in turn can attract capital and act as an aggregator for offtakers

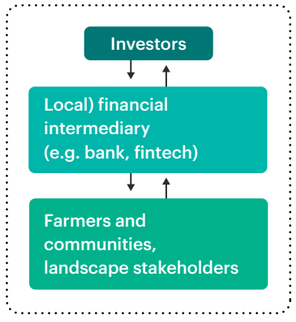
ENTRY POINT 4: PROJECT FINANCE



Financing through a dedicated project vehicle to enable the transaction of a landscape project.

Type of financing involved	Debt
Challenges for landscape financing resolved	Financing of projects that consist of multiple components, such as capital to cooperatives, development of new fixed assets (e.g. processing plant), and the need for dedicated local currency, therefore requiring a point of aggregation for investors to step in
Appropriate context	Created for a specific objective, often to isolate financial risk. As it is a separate legal entity, if the parent company goes bankrupt, the Special Purpose Vehicle can continue
Examples	A non-profit organization supporting setup of a local Special Purpose Vehicle that can supply term loans in local currency to eligible farmer cooperatives, who can subsequently on-lend to members to allow them to transition to coffee agroforestry systems

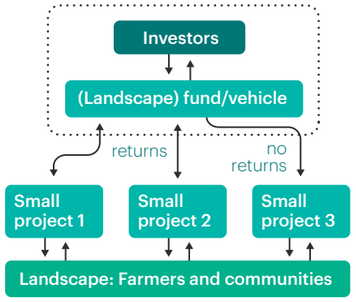
ENTRY POINT 5: (LOCAL) FINANCIAL INTERMEDIARIES



Financing of landscape projects through local financial intermediaries such as a bank, which can be locally based, or a fintech provider.

Type of financing involved	Debt
Challenges for landscape financing resolved	Servicing landscape stakeholders that can normally not be directly financed by larger (international) impact investors, and investments that involve a need for local currency and/or existing local infrastructure and know-how.
Appropriate context	Presence of a (local) financial intermediary with a (willingness to establish) a client portfolio of key landscape stakeholders (such as smallholder farmers directly or through cooperatives, mills and other aggregators), and which has the infrastructure/network, know-how and risk appetite to develop loan products that address key landscape needs.
Examples	A local bank providing a loan product with a long tenor through support from an international impact investor in local currency for farmers to restore land in line with local rules and regulations.

ENTRY POINT 6: LOCAL FUND STRUCTURE



A dedicated landscape finance fund to finance multiple projects within the landscape. This can take multiple forms including, for example, an endowment fund type of structure that allows returns generated from investments to be used as grants for non-return-based landscape needs such as conservation activities (surveillance, patrolling, etc.).

Type of financing involved	Debt and, depending on the type of fund, grants
Challenges for landscape financing resolved	Multiple landscape projects with investment needs that cannot normally be met by international (impact) investors due to the investment size in relation to the transaction costs, some projects may also not generate financial returns at all (such as conservation of natural forests).
Appropriate context	Landscapes of significant size (or a combination of landscapes with similar characteristics) to justify the operational and management costs of a dedicated landscape fund, with sufficient potential project pipeline to generate healthy financial returns.
Examples	A landscape fund/vehicle that attracts investment from larger capital providers such as international (impact) investors providing debt (e.g. micro-finance, value chain finance and climate finance) to smaller projects such as in agriculture, and which can also support several lower to no-return based projects that are generally higher risk.

Engage with potential project developers

Once a suitable investment entry point has been identified, a potential project developer needs to be hired and onboarded by the project organizer to further develop the project idea. This relationship is a result of earlier years of partnership, identifying common interest, and being able to make a strong enough business case. The project developer has a role in attracting finance and executing the project.

ACTION

Generally speaking, the project organizer first has bilateral meetings with the prospective project developer, explaining the business case, their potential role, and how the project idea can be further developed. This can be challenging, especially if the project developer has no prior experience, or if interests do not align. Engagement and building alignment with project developers may prove to be challenging.

Key to creating alignment with project developers is to provide a clear explanation of the business case and additional benefits of the project, as well as the risk of taking no action in the landscape. Experienced project organizers highlight that engagement at the right time and at the right level is key, and that jointly building the business case through a co-funded project while already planning ahead to scale up the project with a third-party investor helps. Examples of benefits that can be used to convince project developers include:

- Reduced operating costs;
- Competitive advantages in fast-developing markets;
- Broader client base;
- Higher long-term viability of the business;
- Improved reputation;
- Ability to attract the best talent;
- Access to (cheaper or structured) finance;
- Product premium through certification;
- Volume advantages through economies of scale.

TIPS & TRICKS

Engaging downstream players

One approach to finding and engaging with potential project developers is through the market. For example, by engaging global brands that source commodities from landscapes. These brands have a desire to green their supply chains, and can be instrumental in identifying local suppliers and providing incentives (e.g. offtake agreements) for these companies to invest in sustainable production and/or transition their own factories/ plantations to greener/cleaner production.

CASE STUDY

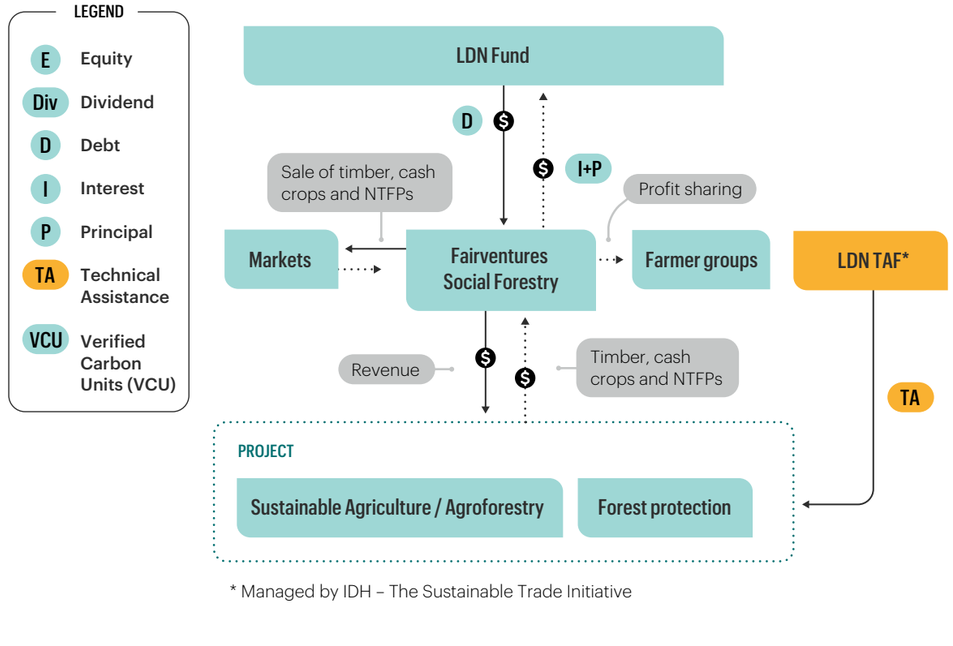
Preparing community agroforestry for investment in Indonesia

→ More information about this case study

A project by Fairventures Social Forestry, supported by the Land Degradation Neutrality (LDN) Technical Assistance Facility (TAF) linked to the LDN Fund managed by Mirova, aims to initially rehabilitate 4,000 hectares of degraded lands through planting fast-growing tree species and cash crops in agroforestry systems, and increasing the value of secondary forests through enrichment plantings with non-timber forest products (NTFPs).

This project is a good example of a potential innovative restoration finance case that was initiated by an NGO and turned into a for-profit social venture. The operation is currently looking to secure financing to implement a successful showcase at significant size, followed by initial private investment for scaling up impact on LDN and creating income opportunities for local communities.

FIGURE 5. Flow of finance and services



* Managed by IDH – The Sustainable Trade Initiative

OUTPUT
Once a landscape finance project seems promising, a Letter of Intent (LoI) can be signed between the project organizer and project developer, outlining the intention of both parties to invest resources in developing the landscape finance project with the aim of attracting financing.

2.2 Develop high-level business model

While a complete business case will be developed during stage 3, at this stage a high-level business model of the landscape finance project should be developed to assess the bankability of the project. It is crucial that the landscape finance project is of sufficient scale, and will be able to generate adequate revenue streams to realize a profit. Assessing the profitability potential is essential, as investors (both impact and commercial) will ultimately require a return on their investments.

In the following action points, general guidance for preparing a high-level business model is provided (there are also several useful studies and guidance notes referenced at the end of this section). As the following action points involve the estimation of financial figures, they are best calculated in a spreadsheet. Please be aware that this merely serves as an illustration of the main components required in a business model.

ACTION 1: DEFINE A REVENUE MODEL, including direct and indirect revenues. Examples of revenue-generating routes for various types of landscape finance project are described below to illustrate the possibilities.

1. **Direct revenues** (i.e. cash flows to the project directly from sale of the services, products or other activities), such as:

Type of landscape finance project	Potential (improved) revenue streams
Climate-smart agriculture	Increased crop yields due to sustainable farming, higher quality produce, product premium with certification, carbon credits through healthier soils, lower costs due to decrease in use of fertilizers, pesticides and water
Agroforestry	(Diversification of) crop sales (e.g. coffee, rubber), product premium with certification, carbon credits through healthier soils and forestry
Forestry (conservation)	Sales from lumber, FSC or RSPO certification premium, carbon credits through forestry and potentially eco-tourism
Water treatment facilities	Sales of clean drinking and/or irrigation water, cost savings due to reduction of water usage, feed-in tariff of government
Environmental protection through renewable energy	Renewable energy (non-biomass) is often cheaper compared to many carbon-heavy, polluting energy alternatives, such as coal, wood, oil, etc.

2. **Indirect revenues** (i.e. cash flows to the project that do not come directly from the sale of services, products or activities) can support the business model but will not form a major part of the revenue stream. Examples include:

a. **Carbon credits**

- Public and private offtakers purchasing credits to meet regulatory or voluntary commitments
- Key to success are regulatory markets, voluntary international markets, and jurisdictional approaches to REDD+
- Standards, proper MRV systems and strong reference levels
- Benefit-sharing mechanism

b. **Payment for ecosystem services**

- Performance-based payment by downstream actors for the preservation of upstream ecosystems
- Key to success is the presence of committed offtakers

ACTION 2: QUANTIFY THE REVENUE STREAMS by making a revenue projection based on a number of high-level assumptions. In estimating the project revenues, there should be a general idea of the scale of the project.

For example, in an agricultural project, the revenues can be estimated by making an assumption of the number of smallholder farmers (5,000), the average farm size per farmer (2 hectares), and the average crop yield (10 tons per hectare). Yield per hectare should be based on historical production yields or what is common for the area. Based on these figures, the total production volume of the project is 100,000 tons.

Based on product pricing, the total project revenue can then be estimated. In determining the product price, it is best to use market prices that are regularly published publicly. If farmers are able to sell their produce at the farm gate (without transportation) at a price of US$20 per ton, the project is projected to generate US$2 million in revenue annually, or US$400 per farmer or US$200 per hectare.

ACTION 3: DETERMINE PROJECT COSTS. In order to assess whether the project is profitable, the annual operating costs (OPEX) should be estimated. The operating costs can be projected by creating a high-level overview of the inputs and activities that are required to generate revenue. Using the example from before, the following projection can be made:

Cost item	Cost per hectare
Seeds	*US$10*
Fertilizer and pesticides	*US$30*
Labor	*US$50*
Water license	*US$10*
Irrigation equipment (depreciation)	*US$20*
Electricity for water pump	*US$30*
Total costs per hectare	*US$150*
Total project costs (x10,000 hectares)	***US$1.5 million***

In determining the production costs, it is important to document how these costs are derived/ calculated. What is the information source used in determining the costs?

ACTION #4: DETERMINE THE PROFITABILITY of the project by subtracting the project costs from the project revenues. What is the projected profit and percentage of profit margin (profit divided by revenue)?

Revenue	US$2 million
Production costs	US$1.5 million
Profit	US$500,000
Profit margin	25%

ACTION 4: DETERMINE THE INVESTMENT REQUIREMENT of the project by assessing what resources (that are currently unavailable), are required to realize the project. In the case of smallholder farmers, working capital may be required. Farmers need to plant seeds and tend to their farmland (costs) before crops (revenues) can be harvested. Often smallholder farmers lack the resources to make these upfront investments, and as a result use inefficient and ineffective farming practices, resulting in low yields, low-quality production, and loss of income.

In the example above, the working capital requirement is US$1.5 million per year, and in this case would be the investment requirement of the project. Another important investment requirement may be the capital expenditure (CAPEX) for the purchase of land.

Projects may also require capital to expand the business or integrate value chain activities in the business model. In these cases, the total investment costs can be determined based on what it would cost to acquire the assets to expand the business and the extra working capital that may be needed.

ACTION 5: DETERMINE PROJECT NEEDS FOR TECHNICAL ASSISTANCE

OUTPUT

Generate a brief overview of what the business model looks like.

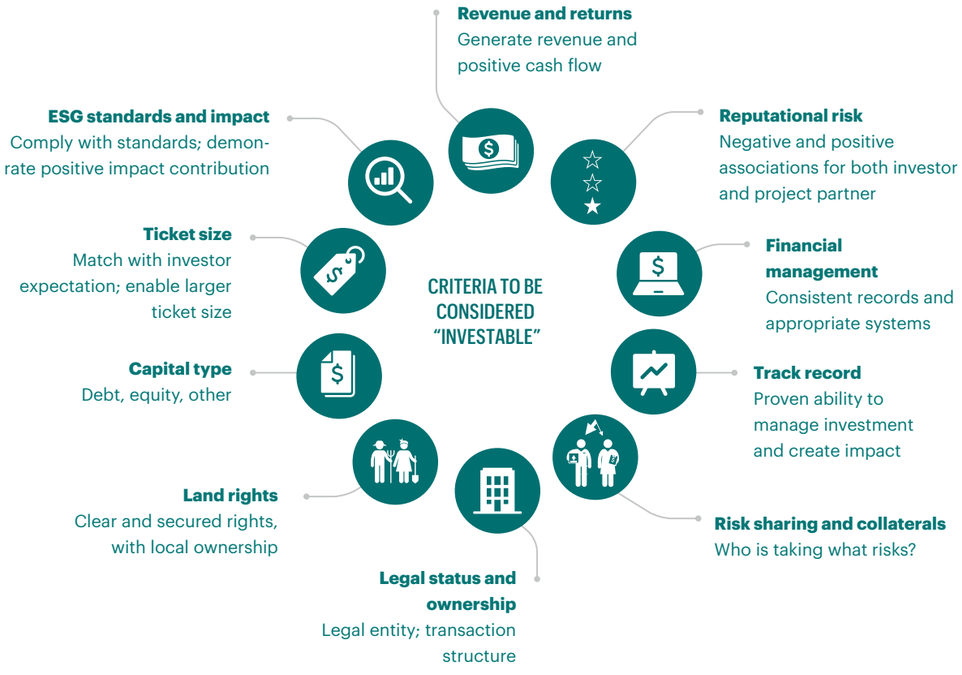
How will the project generate revenue?	Describe how the project will generate revenues. For example: sale of agricultural crops and carbon credits
Quantification of revenue	Quantify, to the extent possible at this stage, the revenues expected from the project. For example: US$2 million per year, assuming that 5,000 farmers will be involved in a total area of 10,000 hectares, with a yield of 20 tons per hectare and price of US$10 per ton
Quantification of costs	Quantify, to the extent possible, the costs expected from this project. For example: US$1.5 per year
Profitability	Reflect on profitability of the project, once in full production
Investment costs	Describe the nature and amount of investments needed to realize the project (e.g. due diligence costs, legal fees, etc.)
Technical assistance needs	Describe what and how additional support may be needed to reach project maturity
Financial and technical additionality for technical assistance	Describe where the activities to be covered by the technical assistance will address challenges and gaps in the project, and why it cannot be funded by other parties involved

2.3 Ensure that bankability requirements can be met

While landscape finance projects offer tremendous opportunities to make an impact on landscapes, their success relies on their bankability – and hence on their revenue-generating model, financial structure and ESG requirements. Typical requirements for bankability are outlined in the table below, with examples of ways to improve the investment opportunities to meet each requirement.

ACTION

Assess bankability of the landscape finance project against the following criteria.



Criteria	Description	Way to improve
Revenue and returns	Investors want to invest in companies that generate revenue and positive operational cash flows.	Develop business model that generates revenues in the relatively short term (preferred but not always required). If the business model is not able to produce direct revenues and positive operational cash flows, refer to section 2.4 in which revenue-generating models are covered.
ESG standards and impact	Investment opportunities need to adhere to certain ESG standards, contributing to specific Sustainable Development Goals (SDGs).	Secure sustainability commitments from the project stakeholders with time-bound milestones for improvement; conduct an ESIA with the use of a grant from DFCD's Origination Facility; follow the ESG performance standards of the IFC.
Ticket size	Financing of any ticket size below US$1 million is not considered to be cost effective by most investors. For large investment funds, the minimum starts at US$5 million.	Investigate how project size can be increased – for example, through bundling more smallholder farmers. If increasing the project size is unfeasible, bundling different projects is also an option, as long as these are housed within the same legal entity. Sometimes the forecast that an investor can grow with the business and expand its position in the business (staged approach) can also increase the investment appetite. Alternatively, identify other potential investors that accept smaller ticket sizes, especially in the early project assessment stage.
Capital type	Landscape finance investments typically have insufficient capacity to service debt payments. Therefore, seek investment opportunities that can absorb equity, long-term debt or any type of mezzanine financing (also called quasi-equity: anything in between debt and equity), as this suits the long payback period better.	Investigate whether the potential investor(s) can provide structured debt according to the capacity of the project to service the debt. This can often be achieved through conditions such as grace periods, profit warrants, alternative draw-down conditions, etc. Another form of long-term capital is equity. Equity is most suitable for investments in growth companies or in assets that are high risk and take considerable time to pay back. Due to the illiquid nature of equity in landscape finance, it is not a feasible option in most cases.

Criteria	Description	Way to improve
Land rights	Depending on the nature of the project, a secure land title and land rights are a prerequisite for some investors. Furthermore, a land title will provide local landowners with security to initiate long-term activities.	Focus on investment opportunities with secure land titles. Depending on the local context, however, this may not be a very strict investor requirement. There are various standards available that can contribute to land rights and titles, such as FPIC and VGGT.
Legal status and ownership	Investors require a legal entity in the form of a privately registered company in which they can invest. Few investors consider investing in other legal entities such as producer organizations or cooperatives. Furthermore, it must be clear who owns the company, what their background is, and who takes decisions ("Know Your Customer"). This is to prevent money laundering or financing of terrorism.	Crucial for the investor is to have an accountable representative who has full decision-making authority. It is advised to establish this privately registered entity in the country of operations. But in some cases, it can facilitate fundraising to set up a holding structure in a country that is more similar to the source country of the investment.
Risk sharing	There are various ways to optimize risk sharing in a project. One of the more popular is through the provision of collateral. If debt is the preferred form of investment, lenders generally want to see collateral of at least the value of the investment.	Ensure in an early stage that risk appetite of key project partners is clearly understood and work to address potential challenges, e.g. if it's clear that there is no key off-taker involved this would be a main focus of a development/TA phase. Additional expertise can be sought in case of a need for further advice on (innovative) risk sharing models from the project perspective.
Track record	Most investors seek investment opportunities with at least two years of track record, and are less willing to invest in a company that is pre-revenue or at concept stage. Furthermore, the extent of the experience of the company and its management is often key in successfully raising capital.	Focus on investments with a proven track record of preferably two years, or work with the project developer to develop this proof of concept (e.g. by accessing grants and TA) with a concrete investor in mind. The management team should have an extensive and relevant background in the activities of the landscape finance project.
Financial management	During the due diligence phase, investors will look in detail at the financial management records of the landscape finance project. It is of the utmost importance to have clear and consistent financial records for all financial years.	Make sure that the landscape finance project has all financial data ready to be shared during the due diligence phase.
Reputational risk	In the last decade, an increasing number of impact investors and DFIs have incurred reputational risk due to impact investments that turned out not to have the expected impact. This is partially due to unclear ESG criteria, and partially due to the complexity of an Environmental and Social Impact Assessment (ESIA). As such, investors might be fairly reluctant to invest when there are reasons to suspect a reputational risk.	It is advisable to go through all potential reputational risks that could become a red flag with the Investment Committee during the due diligence phase. Examples of such red flags are the use of child labor, forced labor, dumping of chemical waste, illegal deforestation, or disrespecting land rights of indigenous people and local communities.

OUTPUT

Completed table, as presented above, briefly assessing the landscape finance project on all criteria.

CASE STUDY

Preparing for investment to improve the resilience of the Mekong Delta

→ More information about this case study

WWF and the Dutch Fund for Climate and Development (DFCD), together with their corporate partner Minh Phu Seafood Corp, initiated the Mekong Delta Sustainable Rice and Aquaculture Project in Vietnam, to build a more sustainable & climate-resilient food production model for people and nature.

Landscape challenge: The main food production in the Mekong Delta consists of rice and aquaculture. The high use of chemical fertilizers, pesticides and antibiotics degrades the environment and puts biodiversity at risk. Diseases threatening aquaculture can spread rapidly. Meanwhile, farmers are increasingly vulnerable to droughts and the intrusion of salt water into their land.

Investment solution: The solution is a model seeking to support sustainable mixed rice and shrimp farming. The objective is to produce responsible premium food for the growing international markets. The use of chemical intrants will be avoided. The project aims to optimize sediment deposits in the paddies and fertilize naturally the soil. Planning at the commune level will allocate specific canals to bring clean intake water while other canals will evacuate dirty discharged water. This will prevent spreading pollutants and contaminating shrimps with harmful diseases. As access to clean water will be facilitated, farmers will not have to pump underground water from the depleted aquifers. These new practices are expected to allow farmers to increase by 2.5 times their shrimp production, resulting in significantly higher income for poor communities. This model will therefore increase the reliance of food production, and it will also improve the physical resilience of the wider landscape by enhancing the sedimentation process to counterbalance the subsidence of the fast sinking Mekong Delta, thereby building with nature to strengthen climate change adaptation.

How to get there? Implementation is made possible through grants provided by WWF under the DFCD, complemented by grants from Minh Phu, its partners and the provincial authorities. The project will start Q4 2021 with implementing three pilot sites on 110 hectares to demonstrate the merits of the concept under varying conditions and build proof of concept for the business model, as well as test the anticipated ESG impacts for the landscape. The model will then be put forward to scale up to 30,000 hectares by 2028, for which seafood company Minh Phu will receive a €35 million ten-year loan from the DFCD. Technical advice on the project is provided by Professor Xuan of the Nam Can Tho University, a leading expert in sustainable farming in the Mekong Delta, as well as the Dutch NGO Deltares, renowned experts in fluvial systems and adaptative delta planning.

WWF Consultant group visit Soc Trang

2.4 Check early investor interest

Incorporating the information developed in the previous steps, a landscape finance project concept note can be used to gauge the interest of potential investors. At this stage, it is useful to check whether investors are interested in the concept of the landscape finance project, to ensure that no resources are wasted in developing the project in more detail if there is a lack of interest.

ACTION

Informally gauge the interest of potential investors using the concept note template below.

OUTPUT

The concept note should be no more than two pages and should contain the following information:

Topic	Action
Project description	Describe what the project is about.
Financing need	Describe why financing is required, how much is required, and how this is distributed among project partners.
Project partners	Describe all partners involved in the project.
Project structure	What is the structure of the project and how do the project partners fit into this?
Business model	How will the project generate revenue? Is the project able to generate a profit?
Investment costs	What are the estimated investment costs of the project?
ESG impact	Brief description, with quantitative data, of the potential ESG impact of the project, with a focus on how the project connects to, catalyzes and/or enables wider positive landscape impact. For example, by restoring land at scale, or including smallholder farmers in the value chain and providing them (new,

CHECKLIST

Final checklist before moving to the next stage

- **Stakeholders**: Have the stakeholders in the landscape – who are directly impacted by the project – been identified and consulted?
- **Engaged project developer(s)**: Are the project developers committed to developing investment opportunities with a profitable business model that has potential to solve the landscape issue(s)? Did these project developers provide written commitment to their involvement in the landscape finance effort, preferably through a Letter of Intent?
- **High-level business model**: What does the business model look like? Has a preliminary revenue model been identified?
- **Investor interest**: Were the first calls with investors held, and have they expressed an interest?
- **Alignment with public policies**: Does the project contribute to or foster the implementation of public policies that are already in place? Are there any public policies that may hinder project implementation?

ADDITIONAL RESOURCES

- **Detailed guidance on bankable project development specifically for forest producers:** Boscolo, M., Lehtonen, P. and Pra, A. 2021. Developing bankable business plans – A learning guide for forest producers and their organizations. Forestry Working Paper No. 24. Rome, FAO.
- **Examples of revenue/business models:** WRI The Business of Planting Trees (2018); EIB Investing in Nature (2019); Vrahnakis, Michael, et al. "A conceptual business model for an agroforestry consulting company." Agroforestry systems 90.2 (2016): 219-236.
- **On risk and ESG standards:** IFC performance standards.
- **Blueprints:** Bankable Nature Solutions, WWF (2020); Inclusive Investments in Sustainable Land Management to Help Achieve Land Degradation Neutrality at www.ldninsights.org. IDH as manager of the LDN TAF (2021); Coalition for Private Investment in Conservation – Blueprints, at www.cpicfinance.com.

STAGE 3

Developing the business model, structure, potential impacts and financing strategy

SKILLS CHECK

See also Appendix II

At this stage, the project developer should be more in the lead than the organizer. The project developer should have a good understanding of business and enterprise development, in order to develop a detailed business model, financial projections, and risk planning. The project organizer will focus more on addressing key bottlenecks that inhibit the project from launching and attracting investment. One such role is connecting the project to the impact objectives that are part of the landscape strategy. This requires not only the skills to assess socio-economic and environmental impacts, but also what these mean for a business developer, including opportunities and limitations. Some business case development skills in the project organizer team are therefore recommended.

Before continuing engagement with potential investors identified before, or approaching new investors with whom there has been no engagement yet, the landscape finance project plan needs to be developed in more detail. A clear understanding of the business model, risks, projected cash flows, impacts, and financial structure is needed to engage investors, and for them to properly assess whether the investment is suitable for them. In stage 3, guidance and tools are provided to prepare quality investments for potential investors, and on the appropriate stage to approach certain investors.

De-risking projects with enablers → Financial projection and investment plan → Impact planning → Business and impact risks

Objective of stage 3

To develop landscape finance projects that meet the expectations and requirements of potential investors and present them to the best suited set of investors. As a project organizer, continue to influence the design of the project in such a way that it has maximum positive impact on the landscape. Preparing the detailed business model, theory of change, risk register, investment structure and financing strategy is an iterative process that also carries over into stage 4 activities.

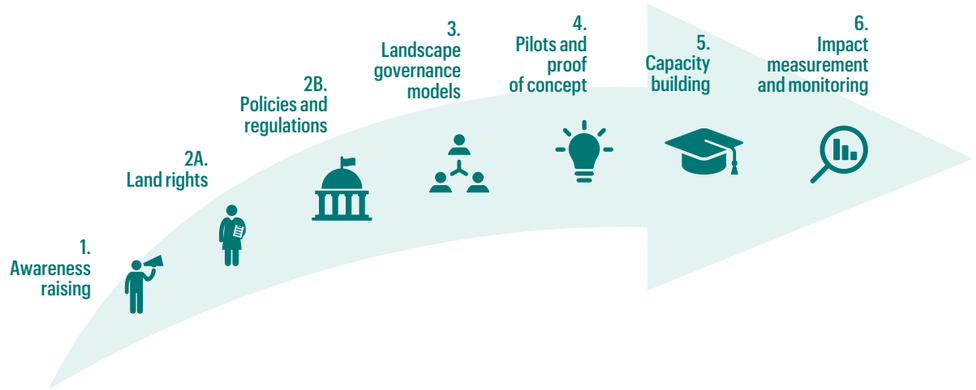
3.1 De-risking landscape finance projects with project-specific enablers

The basic revenues of landscape finance projects were identified in stage 2. To further support investment, enabling projects (which do not directly generate project revenues) can help to further de-risk landscape finance projects. At this stage, you can determine which enabling investments are present or needed to de-risk the project.

Many emerging and frontier economies where landscape finance is relevant generally have weak business enabling environments, limiting the capital that can be raised from private investors. It is important that an enabling environment is established in order for investors to feel comfortable enough to invest. Enabling projects, which typically generate no or limited cash flows and are often grant financed, act to improve the general investment environment.

ACTION

Determine which of the following enabling projects can support the landscape finance project and as such de-risk the project, while designing for maximum impact. The figure below illustrates the typical enabling projects that can be implemented if needed, and in which order.



Six categories of enabling projects

Enabling projects can be categorized into six main types, as illustrated below:

Category	Enabling project	Example
Category 1 Awareness raising	Awareness-raising campaigns, making target stakeholders and communities aware of issues that the landscape program aims to solve	Awareness that deforestation leads to increased risk of floods and droughts
Category 2 Policies, regulations, and land rights	Support in realizing or implementing regulatory or policy change, such as land ownership/ tenure or natural resource rights	Support in land formalization processes for farmers to gain ownership over their land, which will bring more security towards their investment
	Anti-pollution / clean water regulation or tax policies	Implementation of regulations for clean water to incentivize water polluters to invest in water treatment systems
	Implementation of incentives for following a desired sustainable practice	Fairtrade or organic farming premiums, incentives for forest and biodiversity conservation
Category 3 Landscape governance models	Fostering the implementation of landscape governance models	Support for local multi-stakeholder coalitions with a common vision on the long-term development of landscapes
	Landscape governance pipeline	Investing in the implementation of commitments and long-term targets under landscape governance models
Category 4 Pilots and proof of concept	Development and operationalization of utilities (small-scale infrastructure) to strengthen position of the project developer	Development of irrigation infrastructure for smallholder farmers to connect to
	Proof of concept through pilot project	Intercrop yields and local stakeholder ability to deliver
	Development and operationalization of missing value chain links	Development of warehousing facilities to prevent post-harvest losses and strengthen position of farmers
Category 5 Capacity Building	Training in sustainable business / farming practices / governance / forest conservation / other	Training of smallholder farmers in sustainable farming practices to improve long-term farming yields and gather lessons learned for scaling up
	Data collection projects	Data collection for smallholder lending, insurance, impact monitoring, training and service design
Category 6 Impact measurement and monitoring	Training in impact measurement and monitoring	Training for project developer in how to create metrics that show impact to investors
	Environmental and Social Impact Assessment (ESIA)	External consultant contracted to conduct an ESIA

A project organizer is typically well-positioned to decide whether and which enabling projects are required to de-risk the landscape finance project. The project organizer should discuss this assessment with the project developer. It is very important that this enabling project is demand-driven, and that the project developer has a vested interest in making this enabling project work.

CASE STUDY

Enhancing the resilience of wetlands in Peru

The Datem del Marañón province in the Peruvian Amazon is of high biodiversity value. About 25% of the area is covered by peatlands, holding a total carbon stock of around 3.78 billion tons of CO_2e. But these peatlands face a range of threats, including large-scale (illegal) logging, hydrocarbon extraction and expansion of the agricultural frontier. The project goal is to enhance the climate resilience and livelihoods of 120 indigenous wetlands communities in Datem del Marañón, while reducing greenhouse gas emissions from deforestation. Strengthening private-sector participation is key, through:

- Strengthening institutional capacity in government organizations – facilitating better land-use planning and management of the region's wetlands;
- Strengthening the capacity of community-based institutions – entrusting resource management to indigenous communities and empowering women;
- Strengthening and expanding sustainable, commercial bio-businesses of non-timber forest products (78 by 2025) – incorporating solar energy and providing sustainable economic activities;
- Developing science, technology and knowledge management to enhance the knowledge base through technical assistance, workshops and training.

Challenges experienced due to lack of enabling environment: Including indigenous people in the management process is crucial. This involves a risk element, as multiple ethnic groups in the area have not been able to formalize titles to their communal lands. They have also had experiences in the past when they have not been adequately consulted. It is therefore of great importance to conduct a proper process of free and prior informed consent. Studies suggest that this risk has not been sufficiently mitigated, and the project lacked the required support and endorsement as a result.

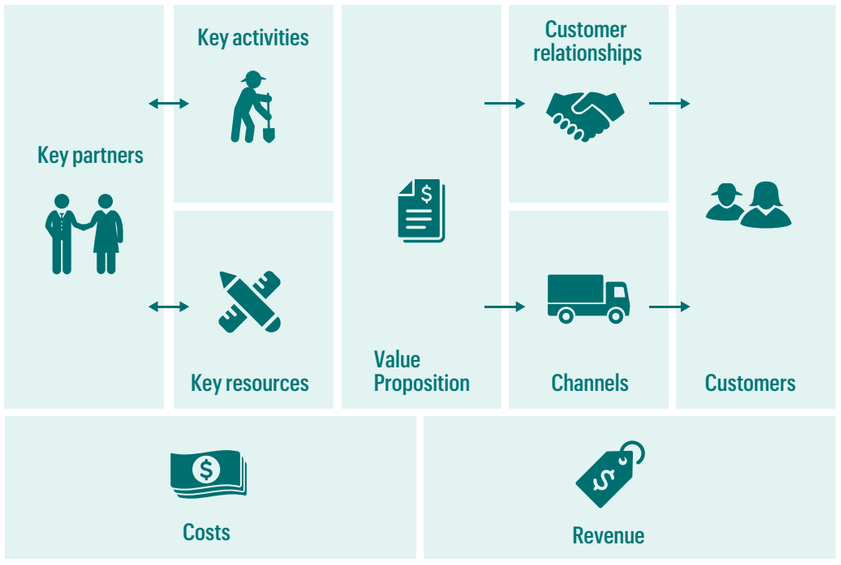
Business model development and financial projections

An essential element of successfully developing landscape finance projects is to obtain solid insights into the financials. Presenting a landscape finance project with a clear financial plan and projections – based on a business plan – will attract investor interest. The first step is to develop a clear business model; one way to do so is presented below.

ACTION
Develop one or more versions of a "business model canvas" of the landscape finance project.

When first preparing the business model for a landscape finance project, it is useful to develop a business model canvas. This is a visual overview of the core business model. It describes the basic value proposition, infrastructure, customers, and finances involved. The business model canvas is an excellent tool to ensure that project developers think about all aspects of the business model, and later serves as a quick and practical snapshot of the business model for potential investors. Please refer to the study developed by Joyce & Paquin (2016)[3] for tips on drafting a sustainability-oriented business model canvas.

OUTPUT
One or more versions of a business model canvas describing one or more scenarios of the business case.



3 Joyce, Alexandre, and Raymond L. Paquin. "The triple layered business model canvas: A tool to design more sustainable business models." Journal of cleaner production 135 (2016): 1474-1486.

3.2 Financial projections and investment plan

Based on the business model, financial projections can be made. The model shows how much revenue will be generated, what activities are needed to generate this revenue, the costs of these activities, key resources required, target customers, key partners, and how the product(s) will be delivered to the market / customers.

ACTION
Following the high-level business model that has been created in the previous stage, a detailed financial model (in spreadsheet format) should be developed. The dashboard of such a model typically showcases all major input and output indicators, such as interest rate, tenor, EBITDA margin and IRR.

This financial model can be put together either in-house by the project developer or with the help of external consultants. At this stage, this financial model does not need to be extensive and can be based on assumptions, as long as these assumptions are clearly stipulated. The process for drawing up a financial model is as follows:

Step	Item	Metric	Example
Step 1: Take stock of financial information	**Financial information:** Before diving into the new investment plans, collect and analyze all available financial information describing the current situation.	**Annual accounts:** What were the results over the last three years? Was the company EBITDA positive? Is the overall trend of the sales figures positive? **Absorption capacity:** Is the project developer capable of absorbing the funding? Are the financial records in good order? Can the project developer answer all the project organizer's questions?	Usually this is a collaborative step in which the project developer and organizer work together to get all financial data ready to process into a financial model.
Step 2: Determine revenues	**Products or services:** How is the investment expected to generate income? What products or services will be sold?	**Volume:** How much is expected to be sold? How will the investment be able to deliver this volume? **Price:** At what average price will the products or services be sold? What is the basis of the price assumption?	The volume is usually assumed based on the average yield of the number of hectares minus any losses. The price is based on local or international market prices.

Step	Item	Metric	Example
Step 3: Determine COGS	**Costs of goods sold (COGS):** What are the direct costs for producing the goods sold?	**COGS:** Cost of input materials, labor, etc.	Direct costs include seeds, fertilizer, water, energy and labor.
Step 4: Determine FOC	**Fixed operating costs (FOC):** What are the indirect costs that are needed to run the operations?	**FOC:** Indirect fixed costs, such as rent, insurance, property taxes and depreciation of assets.	Property taxes, crop insurance, depreciation of farm equipment and leasehold.
Step 5: Determine VOC	**Variable operating costs (VOC):** What are the indirect costs of operations that fluctuate based on the volume that is produced or sold?	**VOC:** Distribution, transport, administration expenses, maintenance and repairs.	Transportation of goods to market and maintenance and repairs of machinery.
Step 6: Determine capital requirement	**Capital requirement:** refers to all costs that are made to implement the investment plans.	**Assets:** What are the main costs of the assets that need to be procured? **Human resources:** What are the main costs of the human resources required? **Costs of capital**: What are the main costs of capital that need to be raised?	**Assets:** €5 million to build a factory to process cassava into chips. **Human resources:** €100,000 for external consultants to conduct technical feasibility study on factory location. **Costs of capital**: Annual interest payment of 5% on the capital raised.

Depending on the maturity and predictability of the cash flows under the business model, projections of the income statement are made for a period of five-ten years. This financial model provides useful insights into investment plans of the project developer. Since a financial model is dynamic, it allows for easy exploration of different scenarios: what if we cut the investment plan into two sequential parts? Does the first part have a standalone business case? Does this make it easier to raise investment since the risks are less? Answering these questions allows the project organizer and developer to progress to the next step of drafting an investment plan.

OUTPUT

A clear financial model providing insights into both the current financial situation and the financial projections based on the business model.

Investment plan

Stage 4 covers the detailed investment plan and the exact amount of capital that needs to be raised. It is nonetheless important to draft an investment plan at stage 3, which will then be refined in stage 4.

ACTION 1

Draft an investment plan through describing the *investment requirement* and the *investment schedule*.

- **Investment requirement**: total investment costs that are required to realize the landscape finance project.
- **Investment schedule:** timing of the investments that need to be made – for example, upfront or spread over time, or a combination of both.

The type of capital to be raised typically depends on the phase the landscape finance project is in, and what the capital is going to be used for.

TIPS & TRICKS

Importance of 'ticket size'

Apart from the type of project an investor may finance, one of the main criteria the investor may have relates to the "ticket size", which is the amount of capital that can be invested in a project. Investors often have limited resources to process investments, and therefore need to be selective. The smaller a project, the higher the failure rate. More importantly, transaction costs tend to be the same if not higher for smaller projects. A high ticket size is required to earn back the transaction costs out of the return that the project will generate. As such, investors tend to focus on larger projects, with an investment need of between €5 million and €30 million.

ACTION 2

Determine the type of capital required based on the investment need and financial projections of the landscape finance project. Questions to consider include: where is the landscape finance project in terms of its maturity? What is the primary use of the capital requested? What can the financial fundamentals of the company support? What is the cash-generating capacity to service the capital requirements? Is there a need for permanent capital? In determining the type of capital that is needed, the following capital sources may be considered:

- **Equity:** Equity is applicable when there is a need for permanent capital, and in cases where investments need to be made in capital-intensive assets that take a long period of time to earn back. Another possibility for equity may be to share in the ownership with a strategic partner that can bring specific experience or skills to support the business model of the landscape finance project.

- **Debt:** Debt is capital used to finance an organization that is subject to payment of interest over the life of the loan, at the end of which the loan is normally repaid. Senior debt, which is money that a company must repay first when it goes out of business, is used for financing of assets or activities that generate cash flow in the short term that can service the payments of the loan. Raising too much or costly debt may quickly cause bankruptcy. Debt investors always provide capital with the intention of getting it back with interest. As such, it is important that the landscape finance project is able to generate sufficient operational cash flow to pay the interest as well as repaying the loan during its tenor.

- Generally, investment opportunities that generate positive operational cash flow can finance up to three–five times the general annual EBITDA. This leverage, however, is highly indicative and dependent on specific characteristics of the company and sector. Potential investors will look to the assets of the company or some other way to seek reassurance that they will get their money back. If the landscape finance project has a strong balance sheet (e.g. low level of debt and high level of assets) or has the ability to provide assets as collateral, senior debt may be applicable.

- **Mezzanine:** If the future cash flows of the landscape finance project are more complex (e.g. cash flows are limited during the first two years), attracting mezzanine finance may be more applicable. Mezzanine is able to accept higher forms of risk compared to senior debt, and is therefore able to offer more flexible payment terms (grace periods, longer tenor, etc.), but with the same expectation of receiving the capital back. Furthermore, the security of mezzanine financing (and other forms of financing) can be further improved by project developers who can offer offtake contracts with minimum payment terms, for example.

- **Results-based finance (RBF):** RBF is a form of debt financing used in carbon finance or finance of ecosystem services. In RBF, payment obligations are not based on an interest rate, but on the realization of certain pre-agreed results. If a landscape finance project offers high environmental impact, RBF may be a suitable means of financing.

ACTION 3

Insert the investment requirement and investment schedule into the financial model, to check whether the landscape finance project can generate sufficient cash to service the debt, and to see how sensitive the financial model is to risks (e.g. what happens when market prices drop by 10% or personnel costs increase by 20%). With equity, this is less of a concern as there are no fixed payments to be made. However, the existing owners will own a smaller percentage as more equity is raised.

OUTPUT

A clear description of the amount of capital that is needed, when this is needed, what type of capital is needed, and what this is to be used for. This will help potential investors quickly gain a deep understanding of the financing needs of the landscape finance project. The example below illustrates an investment plan:

Type of capital	Debt	Over the long term, the landscape finance project generates sufficient operational cash flows to service the debt
Currency	US$	The project is expected to generate revenues in US dollars
Amount	US$	Based on investment needs and servicing capacity of the project
Tenor	Long term (>5 years)	The project is expected to generate sufficient cash flows to service and repay the debt after five years, not earlier
Interest	5–8%	Based on financial projections, the project can service an interest rate of 5–8%, based on the shareholders yielding a modest return on capital of ~10%
Ranking / Security	Senior	No existing lenders
Soft conditions	Grace period of 2 years	The project is expected to generate insufficient cash flows to make any debt repayments

3.3 Impact planning

Investors need clear insights on how a project will achieve the desired impacts in the landscape. A **theory of change** is a good tool for this purpose. The theory of change describes how and why an intervention (project) is assumed to lead to a desired end-result. Often, a theory of change is defined as the connection between activities and outcomes. It defines the problem that a project aims to solve, the overall objective, and the wider context. Assumptions about behavior, causal relations and contexts are made explicit and are, as much as possible, supported by evidence.

In addition, the theory of change must be coupled with certain standards such as IFC performance standards, VCS, Plan Vivo, etc. that can help ensure the impact is delivered and justified.

CASE STUDY

Connecting investment in a Zambian cane sugar grower to facilitate a shift to climate-smart practices that deliver at a landscape level

→ More information about this case study

The towns of Kafue and Mazabuka are a densely populated region that is of major, industrial, ecological, and socio-economic significance for Zambia. The Kafue Flats is estimated to directly support the livelihoods of more than 2 million people and the Kafue River also supports and sustains vital environmental systems like wetlands, national parks, and bird sanctuaries. But over-abstraction of water and more severe droughts because of climate change are threatening this important economic region and ecosystem.

The sugarcane cooperative Kaleya Smallholders Company Limited (KASCOL) is seeking to replace its current irrigation system of furrows with drip irrigation to improve the climate resilience of the sugar cane fields. With the better management of water and the conversion of existing fields to drip irrigation, the cooperative can improve its economic resilience and ensure that the investment will pay itself back within two years.

Financing this landscape intervention requires a loan of up to €5 million. However, to be considered investable for most impact investors, such as the Dutch Fund for Climate and Investment (DFCD), KASCOL will first need to conduct the necessary environmental, social, technical, and financial assessments. These studies will also build off regional data and resources to understand the water availability in the region and how it can be best allocated. One of the key outputs of the development stage will be to develop the tender to select the installation company for the drip irrigation. Grant and Technical Assistance from the DFCD Origination Facility is currently being provided by WWF to support this project, and the landscape, to ensure that it gets to a stage where it can receive investment from commercial investors.

ACTION
Develop a theory of change behind the investment plan and select the most appropriate impact standards. Appendix I provides a step-by-step explanation of how a theory of change should be developed.

OUTPUT
An overview of the various elements that a theory of change should cover is presented below. The project organizer or developer should start by drafting all the elements for the targeted landscape finance project. Most often, the problem statement is at a landscape level (e.g. increasing erosion causing drought).

Element	Description
Problem statement	What we want to solve: the problem statement describes the problem, why it is a problem (including root causes), and whom it affects.
Context	The situation in which the project takes place, including stakeholders, power relations, other relevant projects, etc.
Inputs	What will be used: resources required for a project, program or policy (funding, staffing, equipment, curriculum materials, etc.).
Activities / interventions	What will be done: activities can be expressed by a verb (“market”, “provide”, “facilitate”, “deliver”).
Outputs	What will be produced: outputs are the tangible products as a result of the activities. They are usually expressed as nouns, are tangible and can be counted (e.g. 15 training sessions, five market entry activities, 20 technical assistance missions).
Outcomes	What will be achieved: outcomes are the behavioral changes that result from the project outputs (e.g. giving up smoking, providing boiling water, using bed nets). Outcomes can be increased, decreased, enhanced, improved or maintained.
Impact	Why we do it: long-term changes are the results that derive from an accumulation of outcomes. These can be similar to strategic objectives.
Assumptions	Assumptions are the necessary conditions for change, or the underlying conditions or resources that need to exist for planned change to occur.
Unintended negative consequences	A theory of change describes the theory behind realizing positive impact, but positive intended actions can also result in negative results. These are identified as unintended negative consequences.

3.4 Business and impact risks

Project developers can significantly enhance the quality of their investment opportunities by setting up a detailed risk management system (RMS), which allows the potential investor to get a clear insight into the risks that are associated with the investment, how this may impact the investment, how risks are mitigated and, if they do occur, how they are managed. Getting clear insights into the business and impact risks improves investor confidence. One example is currency risk – i.e. the losses that an international financial transaction may incur due to fluctuations between the currency of the investment (often hard currency such as US dollars) and the currency in which revenues are generated (often soft currency such as Kenyan shilling).

A clear risk mitigation plan is a tool to gain investor confidence in your ability to identify, manage and mitigate risks. In many landscape investments, the risk/return ratio is perceived as too risky. Coupled with a lack of proven experience in developing successful (scalable) landscape investments (investors cannot use their own risk assessment tools), this limits investors. A clear overview of the business and impact risks is therefore relevant in the field of landscape finance, which is relatively new for most investors.

ACTION
Develop a risk register of the investment plan. A risk register is a commonly used tool in many financial institutions that allows for efficient and comprehensive mapping of potential risks that may impact the business. It also helps project developers in strengthening their business case. For example, if there is a high drought risk, project developers could mitigate this with climate insurance. Or if there is a market risk, they could mitigate it by contracting an offtaker at a predetermined price.

CASE STUDY

Investing in Coffee Agroforestry in Peru

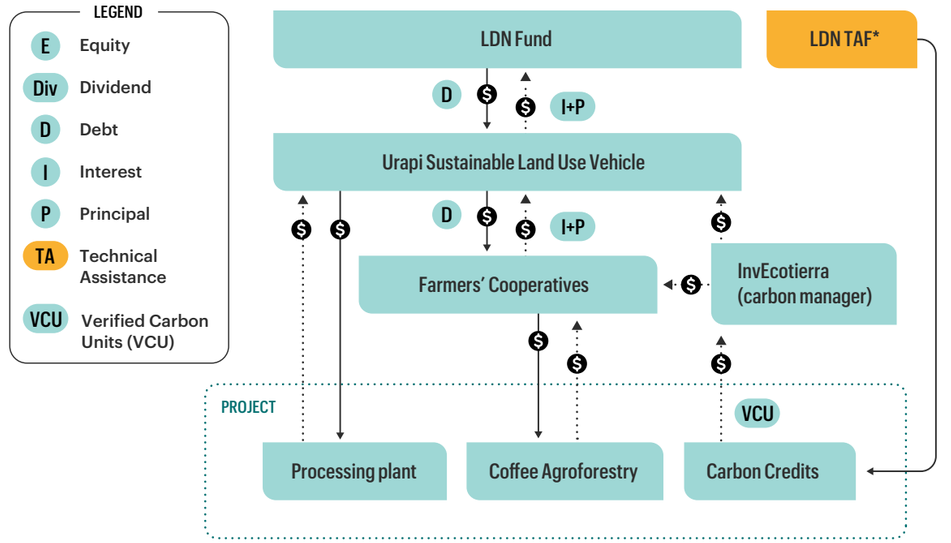
→ More information about this case study

An example of a project that ticks all boxes of the checklist for stage 4, and as such has been able to overcome typical landscape finance barriers addressed in stage 3, is the Café Selva Norte by non-profit organization ECOTIERRA in Peru. The US$14.5 million project is financed through the URAPI Sustainable Land Use Vehicle which received a capital injection from the Land Degradation Neutrality (LDN) Fund and Technical Assistance from the LDN Technical Assistance Facility (TAF) managed by IDH.

The URAPI vehicle, managed by ECOTIERRA, is a good example of a mechanism that enables financing of several activities in this landscape project, and which allowed an international impact investment fund such as the LDN Fund to participate at their preferred ticket size. Through this vehicle long-term financing with a 15- year investment strategy is provided with up to two one-year extensions. URAPI provides debt to farmers' cooperatives whereas equity is directly invested in the processing plant. The cooperatives also own shares from the processing plant from the start. URAPI's exit strategy is to gradually transfer 100% of the processing plant's ownership rights to the cooperatives and have the carbon credits paid for. Financial returns are being generated by providing commercially viable activities and strengthening the economic models of cooperatives. More specifically, returns arise from:

- Sales of coffee and timber – improved agricultural systems leading to increased productivity and quality of coffee, against a premium through the Eleva Finca certificate. Timber revenues will be generated later in the project;
- Processing plant - fees for delivering processing and commercialization services to cooperatives;
- Avoided carbon emissions – monetizing the positive environmental impacts of newly planted forests through carbon credits.

FIGURE 5. Flow of finance and services



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Risk register
A risk register tool provides a comprehensive overview of the business risks, how these risks impact the business, and how risks will be managed. A risk register can be developed by covering the sections below:

Section	Description
Description of risk	Provide a short description of the risks that may negatively impact the business, such as pollution, no supply of input materials, shutdown of marketing channel, droughts, strikes, power cuts, theft, wildfire, etc.
Impact of the risk on the business	Provide a description of what effect the risk will have on the business if it is not mitigated or eliminated. For example: droughts will likely decimate the harvest; shutdown of a marketing channel will limit the earning potential of the business.
Impact level	What is the level of impact on the business? Provide a rating from 1 (low) to 5 (high).
Probability	What is the probability that the risk occurs? Provide a rating from 1 (low) to 5 (high).
Priority level	Based on the scoring of the impact level and probability, the risk tool will calculate the priority level of the risk.
Control and mitigation strategy	Provide a short explanation of how the risk will be mitigated.
Impact level (after mitigation)	What is the level of impact on the business after the control and mitigation strategy has been put in place? Provide a rating from 1 (low) to 5 (high).
Probability (after mitigation)	What is the probability that the risk occurs after the control and mitigation strategy has been put in place? Provide a rating from 1 (low) to 5 (high).
Priority level (after mitigation)	Based on the scoring of the new impact level and probability, the risk tool will calculate the priority level of the risk.
Disaster management	If the control and mitigation strategy proves insufficient and disaster strikes, how will the situation be managed?
Owner	Identify who will be responsible for managing the risk.
Date	Indicate date of risk review.

OUTPUT

A clear risk register that the project organizer and developer can take to potential investors.

ADDITIONAL RESOURCES

- For a broader set of examples of how finance can be aligned with landscape goals (beyond project development for impact investors): Global Canopy Little Book on Investing in Nature (2020).
- For drafting a business model canvas: Joyce, Alexandre, and Raymond L. Paquin. "The triple layered business model canvas: A tool to design more sustainable business models." Journal of cleaner production 135 (2016): 1474-1486.
- For examples of how to look at nature or landscapes as investment opportunities: WRI and TNC the Business of Planting Trees; EIB Investing in Nature, Financing Conservation and Nature-based Solutions.

FIGURE 7. An example of an extract of such a risk register is provided below

			BEFORE CONTROLS				AFTER MITIGATION					
Risk Id No.	**Risk Description**	**Impact Description**	**Impact Level**	**Probability Level**	**Priority Level**	**Controls Or Mitigation**	**Impact Level**	**Probability Level**	**Priority Level**	**Disaster Management**	**Owner**	**Date To Be Reviewed**
	Description of the risk	Effects if the risk is not mitigated or eliminated	Rate 1 (LOW) to 5 (HIGH)	Rate 1 (LOW) to 5 (HIGH)	(IMPACT X PROBABILITY) Address the highest first	How will risk be mitigated?	Rate 1 (LOW) to 5 (HIGH)	Rate 1 (LOW) to 5 (HIGH)	(IMPACT X PROBABILITY) Address the highest first	How will situation be managed if risk occurs?	Who is responsible?	00/00/00
1	Drought	Crop / harvest will go to waste	4	3	12	Project will seek to install irrigation systems or ensure crop insurance	2	3	6	Assist smallholders in livelihoods, develop LT recovery plan	Smallholder farmer & implementation agency	1/1/2021
2	Product marketing risk	Produce does not find an offtaker in time	3	3	9	Project will seek to contract an off-taker and pre-agreed pricing	2	1	2	Project will seek alternative marketing channels	Sales department / manager	

YELLOW medium risk **GREEN** low risk

CHECKLIST

Final checklist before moving to the next stage

- ✓ **Return potential**: What commercial investments could be developed? How will such investments generate revenues?
- ✓ **Risks**: What are the main risks of these commercial investments? How will risks be mitigated? Have any risks been identified that can't be mitigated?
- ✓ **In case of enabling projects**: The activities of the investment are clearly understood, and there is sufficient probability that the activities will result in the desired enabling environment.
- ✓ **In case of cash flow-generating investment**: The activities of the investment are clearly understood, and have been generating a consistent or growing revenue stream for the past three years (cash flow-positive revenue model for the potential investor).
- ✓ **Capital need**: A clear capital need has been established with an investment plan.
- ✓ **Financial projections**: Financial projections are available to determine the risk and potential return of the investment.
- ✓ **Track record of project developer**: The management has a relevant background and/or education in the field in which the investment is active.
- ✓ **Ownership**: Ownership of the company is held by local project developer.
- ✓ **Impact**: Clear description of the impact potential in a theory of change.

If an investment meets these criteria, it is entered on the shortlist which is discussed in the next stage.

STAGE 4

Structuring the deal and engaging investment managers

© doan tuan

At this point in the process, the lead in the financing process shifts from the project organizer to the project developer, which may be supported by its treasury department and/or by an external financial advisor. During this part of the process, a clear understanding should be created of the following elements of the project:

- **Business model** – how will the landscape finance project generate revenue, and when will the business model break even?
- **Funding sources** – what are other (existing) sources of funding to the project, and which subsidies exist?
- **Transaction partner and risk share** – who is going to manage the investment, and what level of risk do they take? If there is an on-lending component (e.g. to farmers or cooperatives), who is going to manage the loan portfolio, and is the company willing/able to take the loan portfolio on its balance sheet? What is the capacity to do this? If no internal capacity, who else can do this?
- **Structure** – who are the project developers and how will they cooperate with each other?
- **ESG screening** – does the potential investment meet basic ESG screening criteria commonly applied by impact investors, such as the IFC performance standards, as well as specific ESG screening criteria of the targeted investors? (Impact funds often make their ESG screening criteria publicly available on their websites).
- **Impact** – what is the projected impact, how will impact be generated, and what are the risks? Does the project's impact align with the impact criteria of the targeted investor?
- **Financial track record and projections** – what is the financial track record of the company, and what are the projections of future financial outcomes?
- **Risks and mitigating actions** – what are the risks that can impact the financial projections and how can they be they mitigated?
- **Capital requirement** – how much capital is required and when?
- **Tenor** – based on the projected cash flows of the project, what is the required tenor (time period) of the loan?

- **Grace period** – based on the projected cash flows, does the project need a grace period (period of time at the beginning of the loan during which no interest and/or repayments are made)? A grace period is usually required if there is a lack of cash flow during a period of time, such as when an orchard is replanted and only starts producing after a number of years.

- **Scale** – how will scale be achieved and what are the barriers to scaling up?

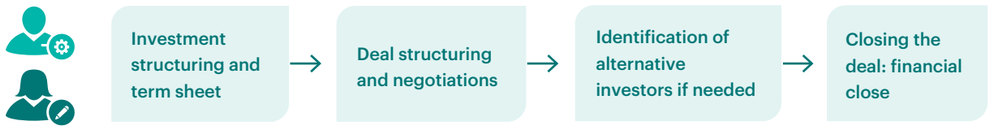
- **Synergies and competition** – what are the possible synergies with other organizations and initiatives, and who are the main competitors for the business model proposed?

Important: It's not always necessary for all these criteria to be fully in place. When a project is at this stage, it is a good moment to start discussing the possibilities with potential investors, some of which may even be able to provide pre-investment technical assistance through integrated or linked facilities, to help the project make the final stretch towards a successful deal.

Once the landscape finance project is fully developed into an investment opportunity,[4] project developers and organizers can start to engage with potential investors. Typically, this is a process in which high-level information is initially shared, followed by more detailed due diligence by the investor(s). The deal is also negotiated and further structured. The work done in stage 3 is very important here, since this information impacts the negotiation and deal-structuring process.

Objective of stage 4

To find interested investor(s), to negotiate a deal structure with them that meets both the project's and the investor's needs, and to close the investment deal.



4 This toolkit assumes that a landscape finance project turns into an investment opportunity when all the preceding steps have been followed, and all required outputs are ready to share with potential investors. For the sake of clarity, this toolkit will continue with the term "landscape finance project" instead of "investment opportunity", but in stage 4 these terms can be used interchangeably.

4.1 Investment structuring and term sheet

Assuming that all relevant investment procedures with the investor are followed and they are interested in investing, the investment structuring process begins. The investor will share a preliminary term sheet, which is an initial offer of the terms and conditions of the financing that the investor is willing to provide. Following further investigation (due diligence) by the investor and discussions, the term sheet will be negotiated.

ACTION

The investor develops a term sheet to which the project developer can respond, with all their targets in mind, and prioritize which terms and conditions are most important

The preliminary term sheet details the pricing and conditions of the financing that the investor is willing to offer. During the investment process, the term sheet serves as a tool to negotiate the terms and conditions of the deal. Furthermore, the final term sheet serves as input for the final investment agreement. Term sheets can be very elaborate, but also very simple.

OUTPUT

A preliminary term sheet that is agreeable to all parties involved. The most basic terms and conditions and their negotiation considerations include:

CASE STUDY

Supporting the Büyük Menderes River Basin Landscape in Turkey through Investment

→ More information about this case study

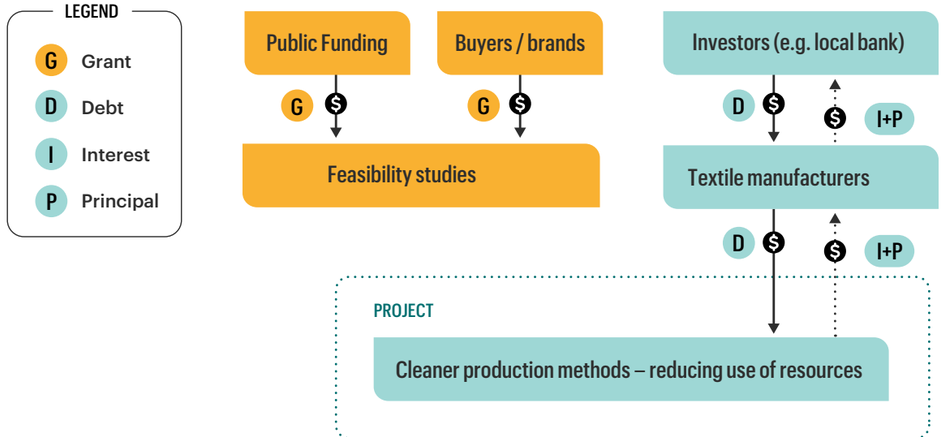
A successful landscape investment program has been set up in the Büyük Menderes River basin in southwestern Turkey, that is a good example of connecting bank financing to landscape goals. Historically, the textile manufacturing industry in this region caused severe water pollution, threatening flora and fauna and local livelihoods. As such, a landscape finance facility supports a group of small and medium-sized textile (dying) companies to adopt cleaner production processes that use less water, chemicals and energy and reduce solid waste and wastewater. These interventions range from small alterations such as changes in chemicals and improved water management, to large investments in equipment. Investing in "grey infrastructure" helps to minimize the impact of the industry on "green infrastructure", i.e., freshwater resources and the health of the basin.

Among others through initial pre-investment support by WWF, participating banks enabled disbursement of loans worth €3.6-8 million - €90-200k per facility - for cleaner production processes. Seven textile manufacturing companies have since already invested €6.5 million in cleaner production methods and 12 other producers are committed to invest an additional €3 million. The business model is built upon cleaner production processes that help to lower cost of production and sustain the business, e.g. compliance with environmental legislation and regulations, alignment with the demands of international brands, and increased brand value. Financial returns are specifically generated through:

- Reducing the use of water (1.5 million cubic meters), chemicals and energy – cutting production costs.

Feasibility studies point out that the interventions resulted in significant savings –€4-10 million/year through an investment of €5-12 million - with payback periods ranging from six months to two years.

FIGURE 8. Flow of finance and services



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Terms and conditions	Considerations
Currency	Financing is best raised in the currency in which revenues are received. If another currency is used, the company runs the risk that the debt will increase if the currency devalues (often the case in emerging markets when financing is extended in US dollars).
Amount	Negotiated amount that is needed and can be served during the tenor of the loan.
Purpose	Description of what the funding can be used for.
Interest rate or dividends	Price of the financing that is provided, highly dependent on the risk profile. Together with the payment terms, you should consider whether the landscape finance project can generate sufficient cash flow to service these.
Tenor	Period that the loan will be outstanding, which should be aligned with the ability of the landscape finance project to repay the loan plus interest.
Amortization	How the loan will be paid back, which can be structured in a linear, amortized or bullet (full payment at the end of tenor) manner. Earlier payments mean that cash flow capital is taken out of the company.
Grace period	Period of time during which no interest or repayments have to be made on the financing due to lack of cash flow generation by the project during this time.
Ranking	How the finance will rank against other existing forms of finance, and against any future finance that the company may attract. Typically, the company may not take on new financing that is more senior without the prior consent of the existing senior lenders. In case of bankruptcy, senior lenders are the first to get repaid out of the liquidated assets, and as such are protective of their senior position.
Covenants	Standards and activities that the company is required to uphold, usually associated with maintaining the quality of the company's financials. If covenants are too restrictive, this may result in the project developer not able to uphold them, and the financier enforcing early repayment of the loan.
Conditions precedent	Certain conditions that the landscape finance project must meet before the financier transfers funds. These typically include approval from local authorities or the central bank, or the provision of collateral as security to the loan, in the form cash or assets.
Events of default	Formulation of events of default which, in addition to non-payments, may include issues such as misrepresentation, unlawfulness, etc.
Fees	Financiers typically charge fees for extending financing. These are generally administrative and maintenance fees, which are charged for extending the finance and monitoring the performance of the company respectively.
Governing law and jurisdiction	In case of any disputes, which law is applicable and the location of the court.

Blended finance

In some cases, it may prove difficult to raise financing from a single commercial source. In these instances, the business may be perceived as too risky compared to the return that can be generated. Raising capital from a combination of commercial and concessional capital investors may be a solution here. Unlike commercial investors, concessional investors can take on more risk and provide more risky financing terms, such as tenor extension or subordination (junior loans), thereby improving the risk profile of the commercial investor. Concessional finance, in combination with commercial finance, is called "blended finance".

ACTION

Investigate whether blended finance is necessary, and how financing can be blended.

If business models are unable to service commercial levels of financing, funding the project through a combination of commercial and concessional financing may be a better approach. Concessional financing is invested to align the risk profile of the commercial financier with the risk-adjusted market rate of return. Various types of concessional finance exist, and each serve a different purpose:

- **Grants** – are used for investments in assets or activities that do not generate a return on capital but are key to the success of the landscape finance project. Typically, these are enabling investments, such as training of farmers.

- **Guarantees** – are used to generate creditworthiness, so that another lender is willing to extend financing. Guarantees are often extended by highly creditworthy companies or institutions, thereby lowering the cost of financing.

- **Junior debt** – is a type of debt financing that ranks behind senior debt in case of bankruptcy. It can take on higher risk, often accompanied by higher costs.

- **Equipment finance or leasing** – is used when a loan is secured against a specific asset, which can serve as collateral and be seized in case of non-payments.

OUTPUT

Proposal for blended finance structure and identification of potential sources of concessional capital.

4.2 Dynamics of deal structuring and negotiations

Engaging with investors to structure a deal is not a straightforward process, and involves negotiations and problem solving. Investors and investees often have differing opinions, which means negotiations are required to reach a mutual understanding.

ACTION

The project organizer and developer should prepare for deal structuring and negotiations.

During the process of negotiating, challenges may come forward that need to be resolved – many of which are about limiting the risk exposure of the investor. A non-exhaustive overview of challenges and possible solutions or responses are presented in the table below:

Challenge	Solution / response
The investor is not willing to provide the full ticket size without capital participation of the project developer.	Check whether the project developer is able to participate with capital or seek an additional (local or international) investor that is willing to fund the remainder of the investment ticket. Investigate whether certain parts of the project can be financed with higher risk sources of capital such as grants, equity or junior debt.
The investment ask is for equity, but the investor is only willing to provide long-term debt.	Using the financial model, check whether the landscape finance project is able to service the debt obligations during the tenor of the loan.
The proposed terms and conditions of the investor do not meet the investment needs (e.g. the project is not able to service the debt).	Consider revising the business model by downscaling, and/or removing some operational costs.
The investor seeks additional security in the form of collateral, guarantees or insurance.	Additional collateral can be provided in the form of assets (cash, property, equipment, vehicles, inventory, debentures), personal guarantees or anything else that is liquid and of value. Check whether insurance can be taken out to decrease the risk of the investor. Costs of insurance should be lower than the decrease in cost of debt.
The investor seeks additional security from the project developer.	Check whether the project developer or a supply chain partner is willing to provide supply or offtake agreements with fixed volume and pricing in order to ensure future cash flows.
The investor values the landscape finance project at a lower amount and seeks a larger ownership percentage (shareholding).	Discuss how the investor determined the valuation, and ensure that the investor has a correct understanding of the business model. Furthermore, check the assumptions that were used and discuss the fairness of the assumptions.

OUTPUT

A well-prepared strategy for deal structuring and negotiations, including a clear risk-mitigation strategy. Anticipate all challenging questions that could be asked about the investment plan.

4.3 Identification of alternative investors if needed

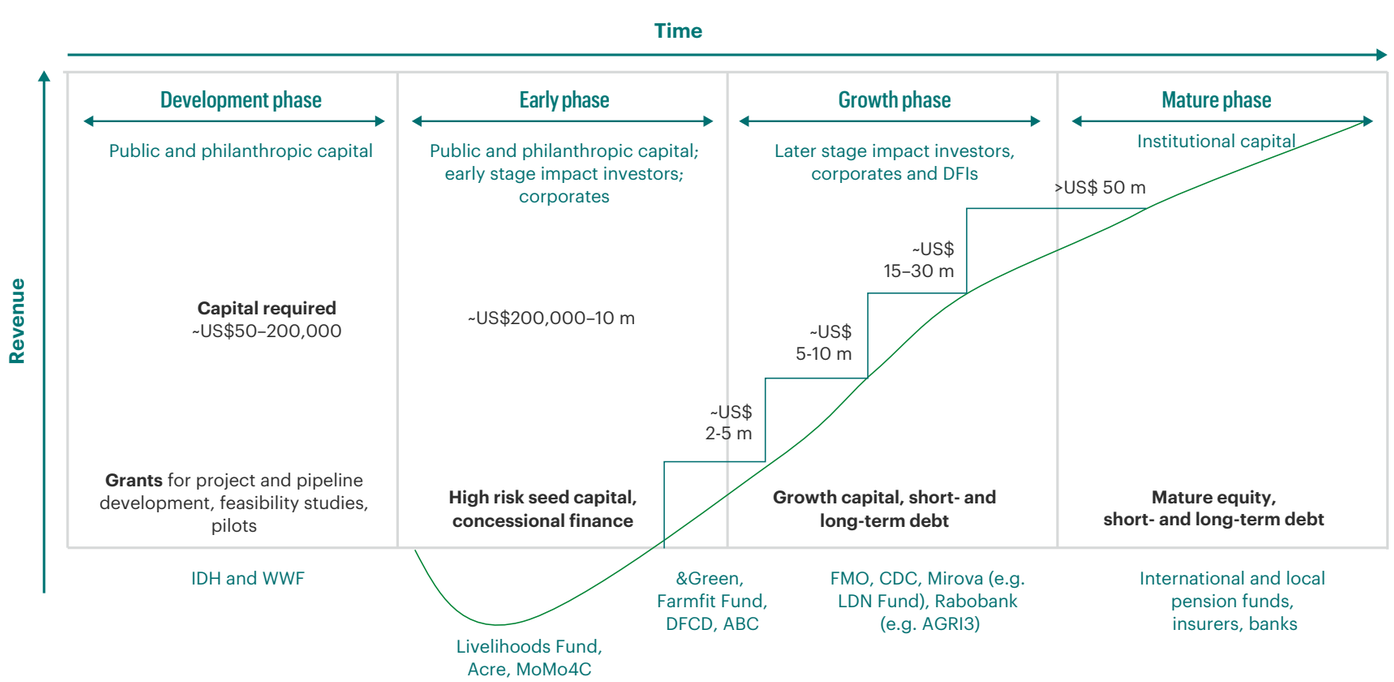
The design of the landscape finance project may not sufficiently comply with the investment requirements of a target investor, or an investor may be unable to finance the full investment ticket. In these cases, new or additional capital sources need to be identified. Investors typically invest in companies depending on the level of maturity and ticket size.

ACTION

Identify potential alternative investors that fit the maturity and ticket size of the landscape finance project.

The maturity of an investment depends on two factors: revenues and runtime of the project. The following overview illustrates the four development phases of landscape investments. The financial figures in the overview are illustrative for investments that aim to grow from small-scale development towards large-scale operations.

FIGURE 9. Overview of typical financing environment for landscape investment at four phases



The environment of capital providers in landscape investing for enabling projects and cash flow-generating investments is detailed in the following overview. Governments, donors (foreign governments), and in some cases philanthropic capital (private donations) tend to focus on investments that are for the public good or generate public / widespread economic value. Whereas capital that originates from private sources or is earmarked to generate risk-adjusted returns is focused on making investments in private companies.

	ENABLING INVESTMENTS		CASH FLOW-GENERATING INVESTMENTS				
Investor(s)	**Government**	**Donors/ philanthropy**	**Philanthropy/ high-risk capital**	**Private-sector companies**	**Impact investors/DFIs**	**Banks and insurance**	**Institutional and private equity**
Vehicle	Projects, policy, campaigns	NGOs, research and policy institutions	Small businesses and intermediaries, pilot projects	Capital expenditure, R&D	(Concessional) capital investments	Senior financial products	Risk-adjusted return on capital
Mechanism	Public expenditure: infrastructure, fiscal reform, regulatory reform, subsidies	Grants: organizations and policy development, institutional reform	Enterprise philanthropy grants and seed funding: high-risk pilot projects	Purchase of capital assets and working capital finance	Impact investment via guarantees, equity and loans	Loans secured against assets and crop insurance	Large investments via equity or loans
Output	Public goods			Private investments			

OUTPUT

List of alternative investors that can be brought in to support the deal structuring and negotiations with the investors with which discussions are ongoing.

4.4 Bringing landscape finance projects to financial close

The final step is to bring the landscape finance project to financial close, in which all documentation has been executed and drawdowns of loans are permissible, or equity has been injected.

ACTION

Bring the landscape finance project to financial close, which involves executing all documentation.

OUTPUT

Signed agreements of the financial arrangements.

CHECKLIST

By the end of stage 4, the deal has been structured and investment managers have been engaged. This means that the project developer, project organizer and investment manager are in an intensive process of screening, due diligence, answering detailed questions, discussing the implications of different scenarios on the business case, and negotiating the terms and conditions of the financial agreement.

Generally speaking, this is a lengthy and iterative process taking somewhere between three and 24 months. With this toolkit, a project organizer should be well-equipped to go from ideation to investment-readiness of landscape finance projects. If information describing the landscape finance project is missing during the due diligence phase, you can go back to the relevant stage in this toolkit to find the gap in information.

FOR EXAMPLES OF SUCCESSFUL INVESTMENTS IN LANDSCAPE FINANCE PROJECTS, VISIT:

- **WWF's Bankable Nature Solutions blueprint book**
- **The IDH Landscape Finance website**

Appendix I:
Developing a theory of change

Key points: how to develop a theory of change

1. **Define the problem, including the root causes and stakeholders**
2. **Define the desired end-goal**
3. **Define long- and short-term results needed to achieve the desired end-goal**
4. **Map activities that could lead to the short- and long-term results**
5. **Identify the main assumptions: how valid or uncertain are they?**
6. **Identify unintended negative consequences**
7. **Write narrative**

STEP 1 PROBLEM DESCRIPTION

In developing a landscape finance project, it is important to have a clear understanding of the need for it.

In defining the problem, the following questions should be asked:

What is the problem that needs to be addressed? Who is the target group? What is the scope of the problem? What are the root causes? Who are the main stakeholders?

To keep a clear overview of the problem description, an overview can be made in the following table that includes an example.

What are the main problems in the landscape?	**What is the direct effect of these problems in the landscape?**	**What is the long-term impact on the landscape?**
Climate change due to deforestation	Less wildlife	Loss of tourism and income, which affects livelihoods
	Increased flood risk and soil erosion	Loss of arable land, which leads to demand for new farmland
	Loss of arable land	Unsustainable farming and lower income, which lead to demand for new farmland

STEP 2 DEFINING THE DESIRED IMPACT

The impact goals of the investment are defined by answering the following questions:

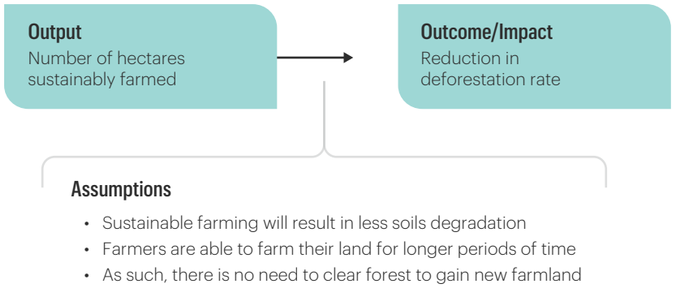
- What is the end-goal that the investment aims to contribute to?
- What needs to be changed in order to solve the problem?
- When will the investment be considered a success?
- Who should benefit from the end-goal?
- When defining the end-goal, what conditions need to be in place to achieve it? These conditions can serve as sub-results that need to be achieved first before the end-goal can be reached.

STEP 3 DEFINING LONG- AND SHORT-TERM RESULTS NEEDED TO ACHIEVE THE END-GOAL

After the problem and end-goal have been defined, the long-term and short-term results that are needed to achieve that goal are defined. In other words, what needs to change in order to achieve the end-goal? Who and what can be influenced in order to achieve change?

The relationships between the different (sub) results and the problem statement will contain a number of assumptions. Making these assumptions explicit helps you to understand and clarify why and how interventions are expected to work. During the implementation, monitoring these assumptions helps you understand why something works or not. Assumptions are always time- and context-specific: often you might not be aware at the beginning that they do not hold true everywhere.

It is therefore important to make these assumptions explicit, so that you can check later whether they are valid. The figure below shows an example of a set of assumptions and their place within a theory of change:



Assumptions

There are three types of assumptions here:

1. Causal links between outcomes at different levels – e.g. sustainable farming practices will enable long-term farming and therefore reduce the need to gain new farmland by cutting down forest;

2. Drivers behind a change – e.g. agroforestry is the best sustainable farming practice in comparison with forestry;

3. Context in which the project will operate – e.g. local government is supportive in realizing landownership for smallholder farmers.

STEP 4 DEFINING THE INPUTS AND ACTIVITIES OR INTERVENTIONS

Once the short- and long-term results have been defined, you can start defining the activities that are needed to achieve those results. The inputs, activities or interventions can be determined by answering the following questions:

- What are the current constraints of landscape actors implementing these activities without external resources? (e.g. lack of market access, lack of capital, knowledge restrictions, etc.)

- Which activities or interventions can solve the landscape problems? (e.g. sustainable agriculture, training in sustainable farming practices, united farmers in farmer associations, obtaining Fairtrade certification, etc.)

- What inputs would be required to successfully deliver these activities? (e.g. labor, capital, technical assistance / consultancy, sustainable farm inputs, etc.)

STEP 5 IDENTIFY AND VALIDATE MAIN ASSUMPTIONS

The assumptions are the "theories", not facts, behind the working of the theory of change. In order to strengthen the theory of change, these assumptions require validation. Firstly, the assumptions that are critical to success should be prioritized for validation. Subsequently, the assumptions should be validated as much as possible based on experiences, empirical evidence, case studies, literature, scientific evidence, etc.

STEP 6 IDENTIFY UNINTENDED NEGATIVE CONSEQUENCES

Summarize the potential unintended negative consequences the activities / interventions may result in. Describe the negative outcomes of activities: for example, an investment in sustainable agriculture to fight deforestation may result in higher demand for products, which could actually increase the rate of deforestation unintentionally.

STEP 7 WRITE NARRATIVE

Describe the pathways of how the input and activities will lead to the desired impact. Describe the context in which the investment will take place, including the relationships with relevant stakeholders in the landscape.

THEORY OF CHANGE CASE STUDY: CAFÉ SELVA NORTE

Problem and causes
Coffee cooperatives in the Amazonas and Cajamarca regions in Peru face significant barriers to realize sustainable growth. There is a lack of availability of processing facilities, and there are limited resources available to invest in the required infrastructure to ensure quality and traceability. In addition, thousands of hectares of coffee plantations are underutilized or degraded, and similar numbers are unprofitable. Farmers are poorly protected against the effects of climate change, and have limited means to rectify this.

Problem statement
The loss of productive land leads to continuous deforestation, soil erosion and loss of income.

Input
Capital, capacity building, consultancy

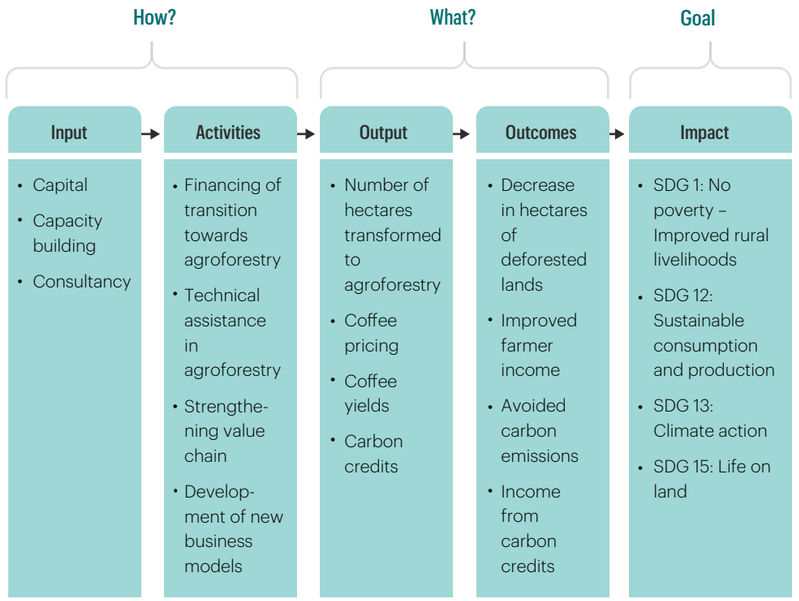
Activities
- **Providing micro-credit and technical assistance** for changing land use to sustainable, productive coffee agroforestry systems, forest protection and large-scale tree planting activities.
- **Strengthening and professionalizing the value chain** – capacity building, setting up a local Q-grading laboratory and state-of-the-art dry processing mill, and developing marketing tools to improve quality, traceability and marketing positioning.
- **Development of new business models to diversify revenue streams** through climate finance and strong monitoring systems – securitizing and trading carbon credits generated by the regeneration of degraded land through agroforestry systems and forest protection.

Outputs
The issue is unsustainable coffee farming, which can be resolved by facilitating and financing the transition toward agroforestry. In this case, a clear performance indicator is the number hectares transformed into agroforestry. Sustainable / agroforestry farming practices should result in improved yields. Furthermore, the project aims to improve the quality of the coffee, which should translate into higher coffee prices. Carbon credits should form a new measurable source of income as well.

Outcomes
The transformation to agroforestry production systems should lead to more sustainable farming systems, without the need to deforest new plots of land. Furthermore, sustainable farming practices and value chain quality should lead to higher crop yields, quality, and income diversification through carbon credits. These three elements together should result in improved farmer income.

Impact
- Improved income of rural communities leads to improved rural livelihoods as more income will be available to spend on food, education, housing, healthcare, etc.; this is mainly covered under **SDG 1.**
- Agroforestry systems lead to more sustainable production (and subsequent consumption) of coffee; this is covered under **SDG 12.**
- Agroforestry systems sequestrate and avoid CO_2 emissions; this benefit to the climate is covered under **SDG 13.**

Theory of change overview



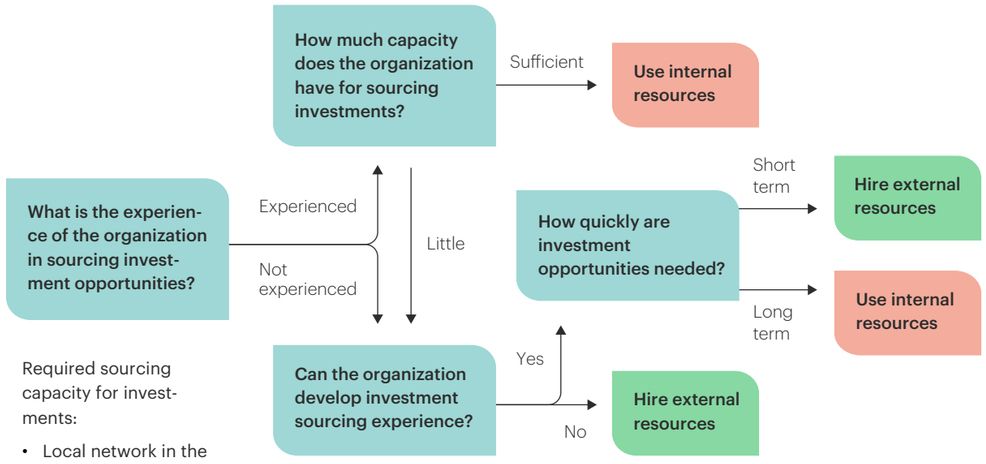
Unintended negative consequences
- Due to the improved quality of coffee, the demand for Café Selva Norte coffee increases, which results in an increased deforestation rate.
- As a consequence of the demand for coffee, demand for labor also grows. The increase in population puts more pressure on the local ecosystem, which results in environmental pollution.

Appendix II:
Assessing external resources required

The process of engaging and organizing stakeholders is often best self-managed, as this allows you to get to know the market and build relationships. However, research components, such as the identification of stakeholders, can be outsourced to external parties to speed-up the process or where there is a lack of expertise. The following section covers when and how to hire external resources.

External resources

Occasionally, organizations find themselves in a situation where they lack the experience and/or capacity to perform a specific task. In these cases, external resources or consultants can be very helpful – allowing rapid expansion of an organization's capacity and expertise. External resources are often more costly compared to internal resources, so hiring external expertise should be carefully considered. The following decision tree provides guidance to project developers considering hiring external resources.



Required sourcing capacity for investments:

- Local network in the landscape
- Market scoping experience
- Knowledge and experience in (project) finance, banking and/or (impact) investment

Types of external resources

There are various external parties that may have the expertise required to source investment opportunities:

- Consultants in market research
- Private equity managers or investors
- Investment advisors
- Corporate finance advisors
- Accounting firms
- Local financial institutions, such as banks, assets managers, etc.

Clear formulation of assignment

When hiring external resources, their involvement with the organization is limited to delivering on a specific task. It is therefore important to have a very clear and specific description of the assignment. This is to ensure that the external consultant can:

- Compile a team with the relevant expertise;
- Start the assignment quickly;
- Deliver the support and output sought by the organization;
- Provide an accurate cost estimate and avoid budget overruns.

Appendix III: Outsourcing origination to Financial Advisory Services (FAS)

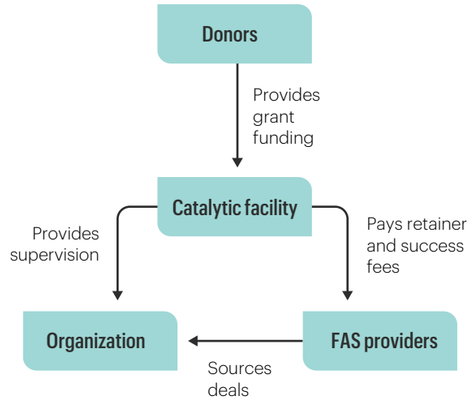
When deciding to outsource support on deal sourcing to FAS providers, the following steps are a useful starting point:

1. **Set up a catalytic facility**: Financing of FAS providers can be done through the establishment of a catalytic facility to raise sufficient funds. The total budget of a catalytic facility is largely dependent on local consulting fees. Assuming an effort of 100 hours per successful project, and assuming 10 projects at the various stages, a total facility budget of US$25–50,000 is estimated to be sufficient, and should give service providers a profitable business case. Depending on the local context, a facility budget can be generated based on the following example. In determining an hourly rate, it is reasonable if this is higher than the normal hourly rate of the consultant, to compensate for the risk to the consultant.

Project stage	Stage success fee	Hours of effort	Hourly rate	Number of projects	Total
Stage 1	US$100	1–4 hours	US$25–100	30	US$3,000
Stage 2	US$2,000	20–40 hours	US$50–100	6	US$12,000
Stage 3: Final	US$10,000	100–200 hours	US$50–100	3	US$30,000
Total					**US$45,000**

2. **Recruit FAS providers**: FAS providers need to go through a selection procedure before they are included in the pool. This selection procedure consists of CV screening and an exam taken at the premises of the organization. An FAS provider is expected to attend the quarterly training and a monthly online deal flow meeting. After the third absence at these events, the FAS provider risks having their access to the pool cancelled, which means they are no longer allowed to participate.

3. **Manage the pool of FAS providers**: One investment officer should be the appointed as contact person and manager of the pool of FAS providers. On average, the management of a pool of FAS providers requires 0.5 FTE.



CONTACT DETAILS

Thomas Duurland
Program Manager Landscape Finance
IDH the Sustainable Trade Initiative
Duurland@idhtrade.org

WWF

idh
the sustainable
trade initiative