



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG



MINISTERO DELL'AMBIENTE
E DELLA SICUREZZA ENERGETICA

UN 
environment
programme

Training: Environmental and Social (E&S) Risk and Impact Management in Land Use Finance

November 15th, 2023

UNEP and UNEP-WCMC



Training background

CONTEXT

Part of a series of **capacity building** modalities deployed by UNEP-WCMC, UNEP CFU and partners (E.g. deforestation risks for banks training)

AUDIENCE

Impact funds and facilities, as well as mainstream investors interested in getting involved in **impact funds and facilities focused on land-use systems**

LEARNING OBJECTIVES

Provide required **knowledge and tools** to develop impact strategies and risk management approach for sustainable land-use investments

Supported by:



MINISTERO DELL'AMBIENTE
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THE GOVERNMENT
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UNEP Climate Finance Unit

CHALLENGES

BUSINESS-AS-USUAL

<h3>FOOD CRISIS</h3> <p>FOOD CRISIS</p> <p>Expected economic and financial Costs if BAU:</p> <ul style="list-style-type: none">• Direct costs (physical losses)• Indirect costs (weaker growth, lower asset value)• Uncertainty (risk / volatility)	<h3>CLIMATE CRISIS</h3> <p>EARTH ON TRACK TO 3.4 – 3.9°C BY 2100</p> <p>Expected economic and financial Costs if BAU:</p> <ul style="list-style-type: none">• Direct costs (physical losses)• Indirect costs (weaker growth, lower asset value)• Uncertainty (risk / volatility)
<h3>LAND DEGRADATION CRISIS</h3> <p>2 BILLION HA OF DEGRADED LAND</p> <p>Expected economic and financial Costs if BAU:</p> <ul style="list-style-type: none">• \$231 bn / year• Potential loss of \$23 tn by 2050	<h3>BIODIVERSITY CRISIS</h3> <p>1 MILLION SPECIES AT RISK OF EXTINCTION</p> <p>Expected economic and financial Costs if BAU:</p> <ul style="list-style-type: none">• Ecosystem degradation at heart of Covid-19: massive economic, health & finance impact• 36% of total assets (EUR 51.0 bn) at risk from biodiversity loss

UNEP'S CLIMATE FINANCE UNIT (CFU) ADDRESSES THESE CHALLENGES BY:

- ### 1 DEVELOPING FUNDS AND FACILITIES

that scale up private finance in land restoration
- ### 2 CREATING ENVIRONMENTAL & SOCIAL IMPACT

by defining KPIs that stimulate monitoring & verification
- ### 3 COMMUNICATING

successful "proof of concept" deals & sharing knowledge through communities of practice
- ### 4 BUILDING COALITIONS & PARTNERSHIPS

that transform food systems by raising the ambition of businesses, finance institutions, and governments
- ### 5 COLLECTING DATA & ANALYSIS

on the state of finance for nature; business cases, and economic incentives

VALUES AND CO-BENEFITS of financing sustainable land-use



Training across 3 modules

1

Introduction to risk and impact management

Learners should be able to understand why sustainable land use investments are needed, what issues should be considered, and how to generate impact

2

Responding to key environmental and social risks

Learners should be able to understand the business case for risk management and how to develop a risk management and monitoring framework in screening and post-investment phases

3

Demonstrating positive impacts and leveraging monitoring capabilities

Learners should be able to understand positive impacts that can be generated in this space and which tools and capacities can help with identifying, assessing and monitoring them





POLL | Who do we have joining us today? Tell us what sort of organisation you work for.

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Introduction to risk and impact management

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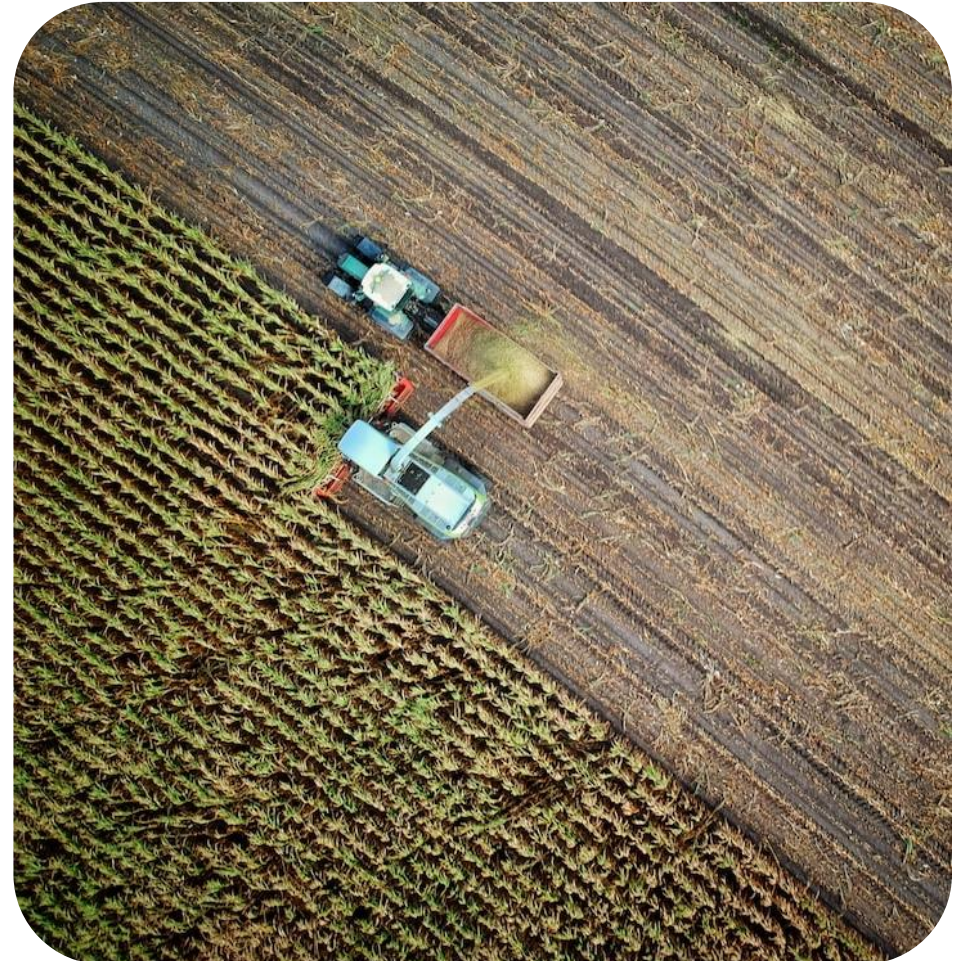
Land use systems link to environmental and social issues...

Contribute to triple planetary crisis of climate change, biodiversity loss, and pollution

1/3 of all GHG emissions come from food systems, mostly due to agricultural production (39%) and land use changes (32%)

Deforestation is driven mostly by agricultural expansion (75-95%) and happening primarily in the tropics (90%)

Nitrogen and phosphorus run-off from unsustainable land intensification; more than 400 ocean “dead zones” and repercussions for human health



...but can also drive positive environmental and social change

Investing in the **transition to sustainable land use** contributes to achieving the Sustainable Development Goals and aligns with the three Rio Conventions



United Nations
Framework Convention on
Climate Change



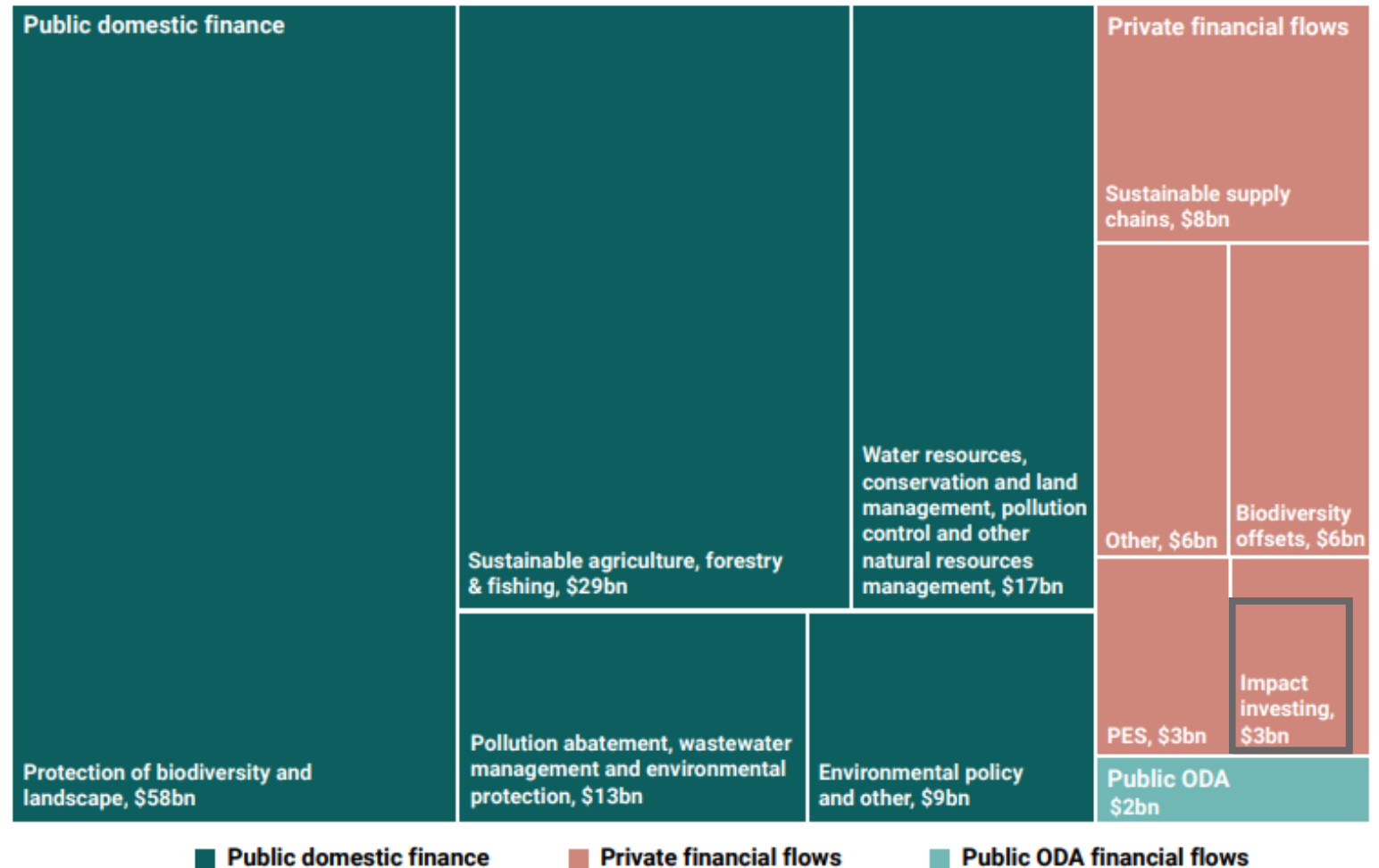
United Nations
Convention to Combat
Desertification



**Convention on
Biological Diversity**

Scale up of private finance is needed

- **Private investments** in nature constitute a **fraction** of total nature investments (17%).
- Impact investing – *a subset of private finance* – is carried out by a diverse range of investor types. Its scale up would contribute to increasing private funding into nature protection, restoration and sustainable management





POLL | What do you think are the main drivers to facilitate more private financial flows into sustainable land use finance?

The array of voluntary frameworks

Push for common definitions

ASSESS



NATURAL CAPITAL COALITION



KEY BIODIVERSITY AREA



protected planet



RED LIST



Biodiversity Risk Filter



Water Risk Filter



European Commission



Business @ Biodiversity

COMMIT



SCIENCE BASED TARGETS

DRIVING AMBITIOUS CORPORATE CLIMATE ACTION



Partnership for Biodiversity Accounting Financials



Partnership for Carbon Accounting Financials



Finance for Biodiversity Pledge



Central Banks and Supervisors Network for Greening the Financial System

NZ-AOA
NZBA
NZIA

DISCLOSE



DISCLOSURE INSIGHT ACTION



Global Reporting Initiative™



European Union

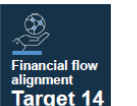
- ✓ Net zero
- ✓ Nature positive



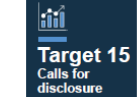
Convention on Biological Diversity



30 by 30



Financial flow alignment Target 14



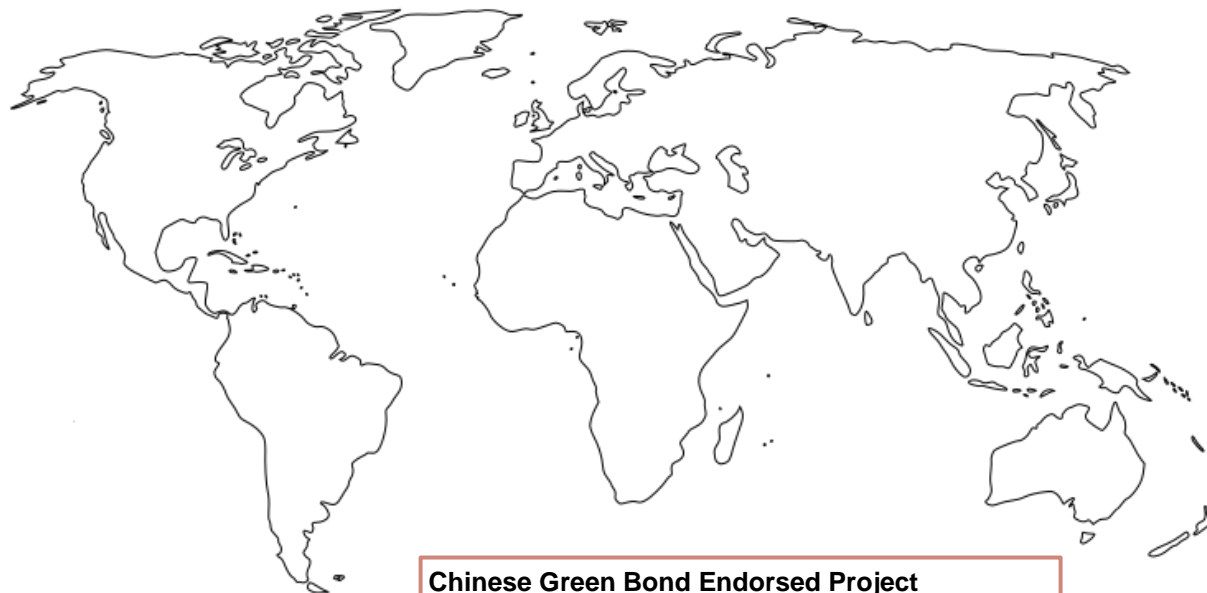
Target 15 Calls for disclosure



Reverse biodiversity loss by 2050

Regulatory changes increase pressure on financial institutions

Push for common requirements



UK Deforestation due diligence obligation

- Proposed in Dec 2021, requires businesses to conduct due diligence on their supply chains to prevent the use and importation of illegal deforestation-related commodities
- Banks are exempt

Proposed SEC Climate-Related Disclosures

- If implemented, would require all public companies to disclose Scope 3 emissions in their global supply chains starting in reporting year 2023

International Sustainable Standard Board

- Shared Value
- Net zero
- SBT-I
- Start reporting in 2024

As of July 2023, several countries including Australia, Brazil, Canada, Japan and South Korea have signaled support for ISSB

Chinese Green Bond Endorsed Project Catalogue

- Classifies green activities according to six key areas of activity
- Converges with international standards

Article 29, French Law Energy and Climate

- Biodiversity and climate risks
- All FIs

South Africa's Green Finance Taxonomy

State Bank of India's ESG Bond Framework

EU Sustainable Finance Disclosure Regulation

- Adopted in March 2021 and requires financial market participants to disclose the sustainability of their funds, including their involvement in deforestation-related activities
- Complying with SFDR is vital to protect reputation and attract investors who want to allocate their money sustainably

EU Regulation on Deforestation-free Products

- Adopted by the EU parliament in September 2022, requires due diligence procedures for operators that import or export commodities and traders at any level of supply chains associated with all types of deforestation and forest degradation-related activities
- FIs could be included in the future

EU Corporate Sustainability Reporting Directive

EU Corporate Sustainability Due Diligence Directive

European Sustainability Reporting Standards

- Sitting under CSRD, these are the first set of mandatory disclosures for all relevant sectors causing deforestation and forest degradation either directly or through their supply chain
- Double materiality
- Net zero
- SBT-I aligned

Proposed

Adopted

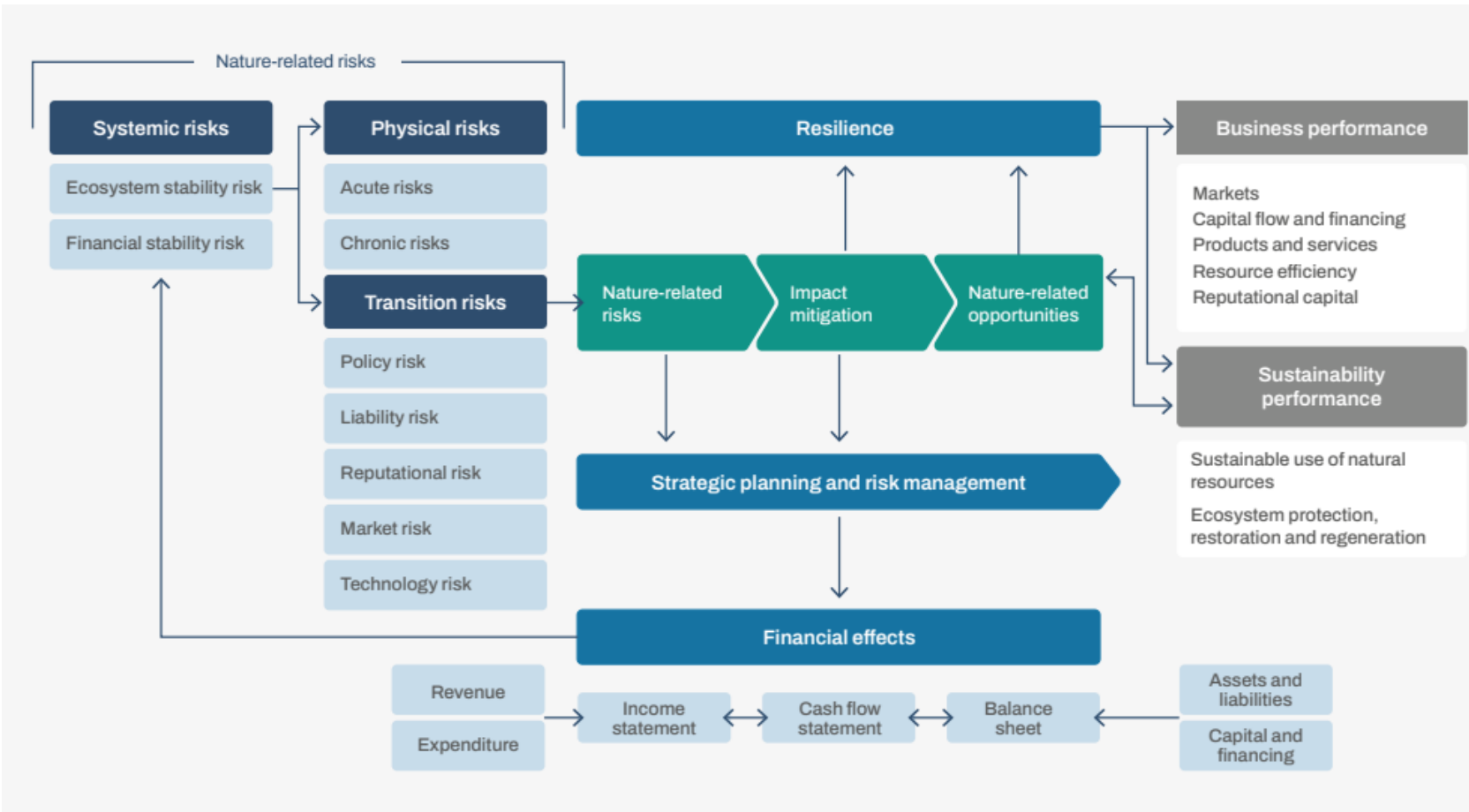
Spotlight on *ensuring deforestation-free products*

In the land use regulatory space, there is adopted and proposed legislation aiming at ensuring that imported commodities and products do not contribute to deforestation. This trend is emerging in consumer regions such as US, UK and EU.

Scope	FOREST Act (US)	Environment Act (UK)	Regulation on deforestation-free products (EU)	Potential implications
Status	Proposed on 6 October 2021	Passed on 9 November 2021	Proposed on 17 November 2021	UK was enacted in Nov 2021 and EU in April 2023. FOREST Act is uncertain.
Deforestation focus	Illegal	Illegal	Legal and illegal; forest degradation	EU proposed regulation is the most extensive as "deforestation-free" after December 2020 covers both legal and illegal deforestation.
Ecosystems	Forests and wooded lands (FAO definition)	Forests	Forests (FAO definition)	FAO "forest" definitions largely leave out other ecosystems, such as grasslands, wetlands, and peatlands.
Commodities and products	Palm oil, rubber, cattle, leather, cocoa, wood pulp, soy	Forest risk commodities (under consultation): beef, leather, cocoa, coffee, maize, palm oil, rubber, soy	Soya, cattle, cocoa, palm oil, coffee, wood, rubber, leather	Rubber is missing from UK list, coffee is only on EU list, maize only (tentative) on the UK list. EU broader on "wood products", compared to US "wood pulp".
Prohibitions apply to	Imports of foreign commodities	Commercial activities (e.g. production, processing, distribution, sales, purchasing); foreign and domestic commodities	Import, sale, ad export; foreign and domestic commodities	US most limited in its prohibitions on activities (only focuses on imports of foreign commodities).
Country risk assessment	Additional due diligence for high-risk countries; consultation with civil society	Act does not provide for different tiers of risk assessment	Additional due diligence for high-risk countries; inform countries of their risk rating status	Only UK does not require additional due diligence based on country risk assessment.

Source: [FAIRR 2023](#)

Overview of nature-related risks



Source: [TNFD 2023](#)

Physical risk

E.g. damage from catastrophic crop loss caused by loss of pollination services; reduced suitability of land for crop cultivation

Transition risk

E.g. changes in legal operational context due to legislation, changing in consumer preferences, new technologies, changes in perception concerning impacts

Systemic risk

E.g. tipping points are reached, aggregation of physical and transition risk, financial system disruption

Overview of social considerations

Investors should understand and integrate social considerations and stakeholder engagement practices into their investment strategies (e.g. respecting the rights of indigenous peoples and local communities). This is **especially the case for land use sectors**.



Main steps for defining stakeholder engagement:



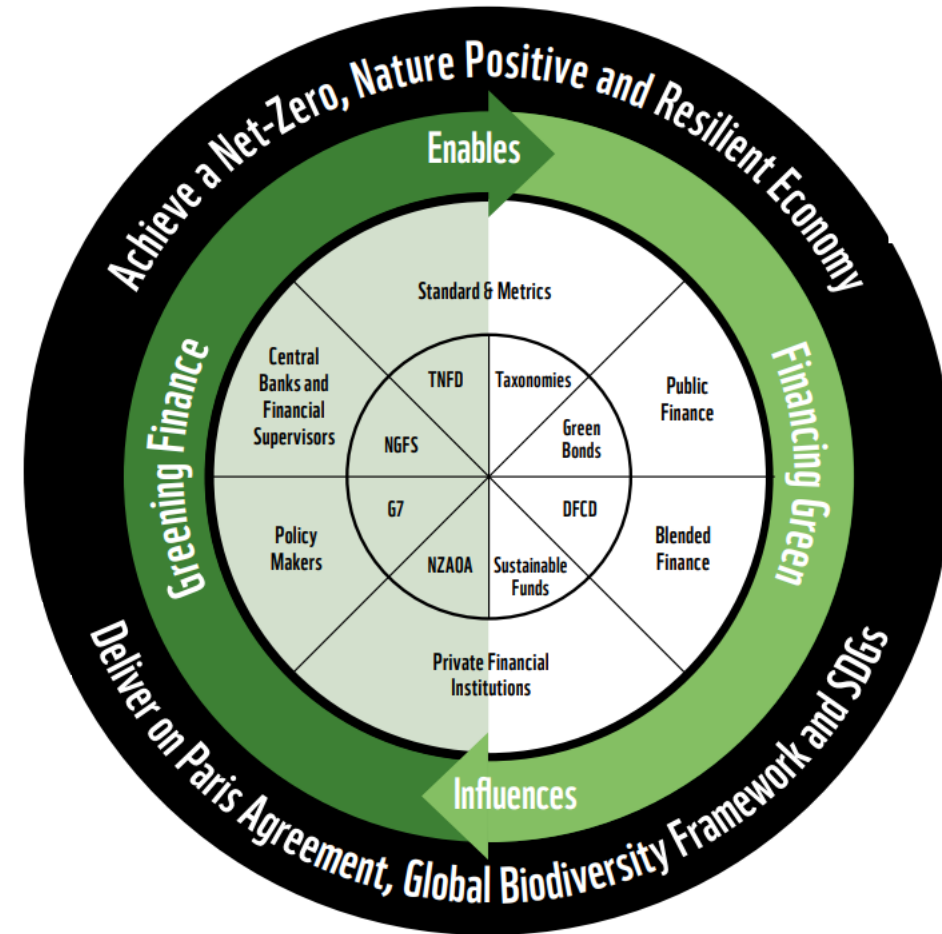
Changing the narrative: An introduction to sustainable finance and land use

Sustainability in land use investments can be framed as **greening finance** or **financing green**

- **Greening finance** means better incorporating ESG risks and opportunities into financial decision-making
- **Financing green** means increasing flow of funds to activities with a positive impact on the environment and society

Investments in land use come with a set of **specific risks and challenges**, i.e. political risk, exposure to natural disasters, competing interests for land

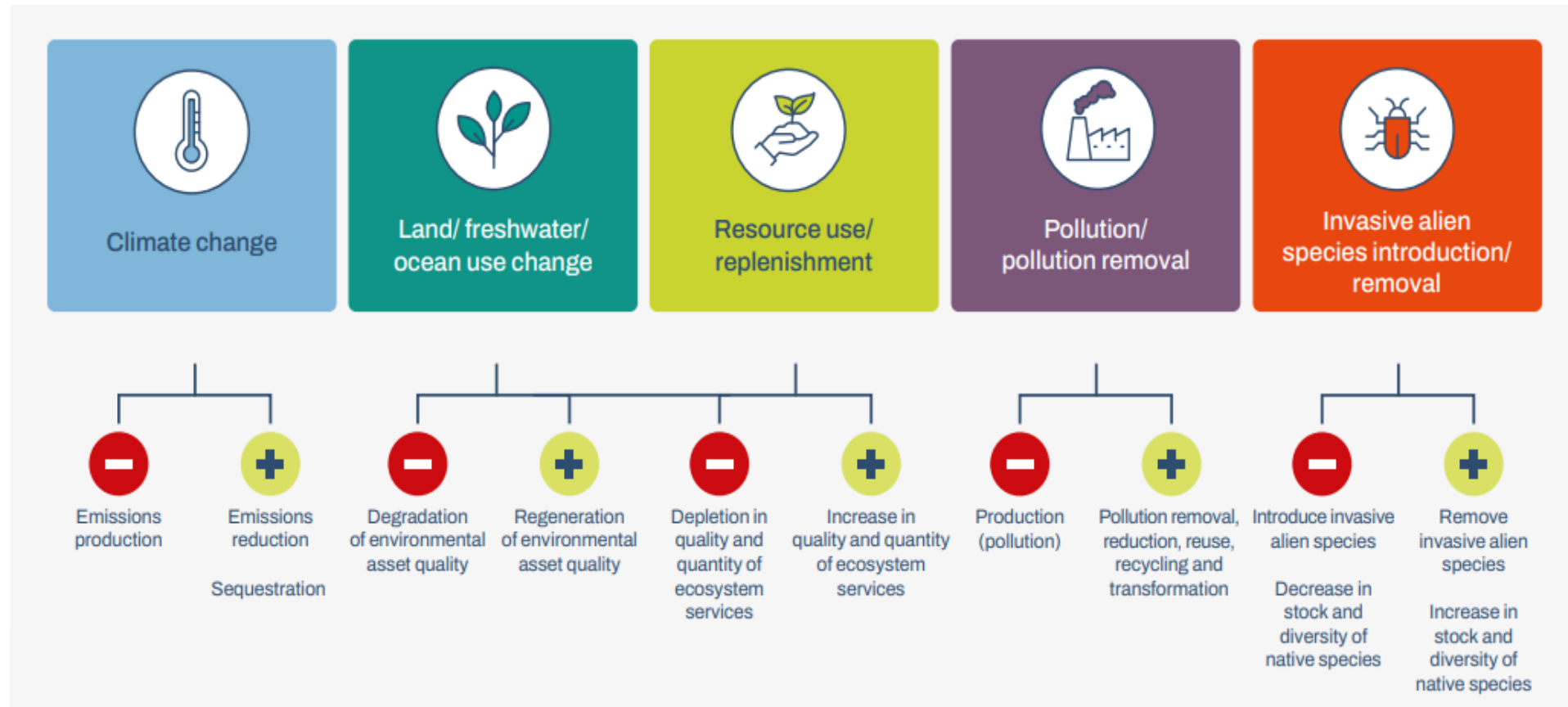
Landscape approaches and blended finance as potential solutions to achieve impact at scale



Source: [WWF 2023](#)

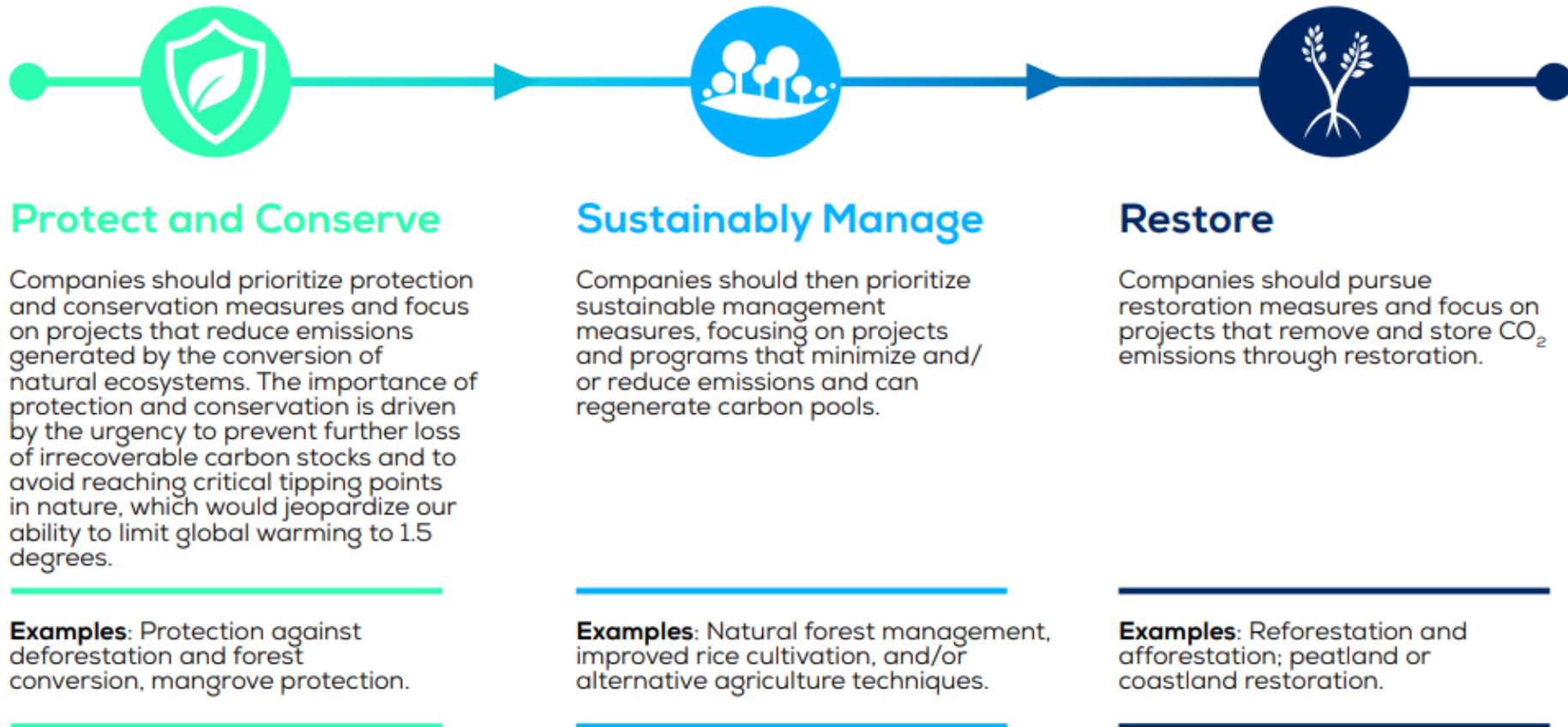
Changing the narrative: Impact drivers used for financing green

TNFD adapted the IPBES drivers of nature change to reflect **drivers of positive (and negative) impact on nature**. When looking to ground their 'financing green' strategy, investors can look to address IPBES drivers through positive impact interventions



Framing sustainable land use finance

Based on the mitigation hierarchy, WBCSD outlines a **series of nature climate solutions** to use as reference in the sustainable land use investing space



Source: [WBCSD 2023](#)

Examples of sustainable investments in agriculture

In the agriculture sector, actions include:

Protect and conserve

- **Prevent deforestation and land conversion**
- Practices that **protect soils** (e.g. cover crop coverage, crop rotation, crop diversity, minimum/no tillage...) and **reduce freshwater use**
- Protection of **pollinators**

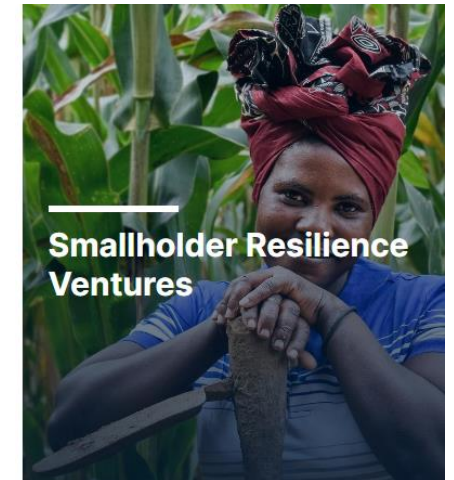
Sustainably manage

- **Soil preservation** through agroforestry and integrated crop-livestock farming systems
- Increase in uptake of **sustainably produced and certified** agricultural products through market access, premiums, and credits

Restore

- **Rehabilitation of degraded land** back to productive land

Examples



Reference: [UNEP-WCMC \(2022\). 'Nature-Related Opportunities in the Agricultural Sector; Lessons learned and way forward.' Cambridge, United Kingdom.](#)

Examples of sustainable investments in forestry

In the forestry sector, actions include:

Protect and conserve

- **Prevent deforestation and land conversion** of significant biodiversity and carbon value (e.g. through establishment of Protected Areas, buffer zones...)

Sustainably manage

- **Improve forest management, reduce water consumption and waste discharge** and minimise resource use
- Valuing **supply chain waste** in circular economy
- Increase in uptake of **sustainably produced and certified** products through market access, premiums and credits

Restore

- Regenerate and restore forests, **reintroduce native and endangered** tree species on degraded land, create **wildlife corridors**, and enhance soil carbon stocks

Examples



MOBILISING
FINANCE FOR
FORESTS



RESTORATION OF
FOREST LANDSCAPES

re.green

Reference: [WBCSD \(2022\). Forest Sector Nature-Positive Roadmap, Phase I: A shared definition of nature-positive. Geneva, Switzerland.](#)

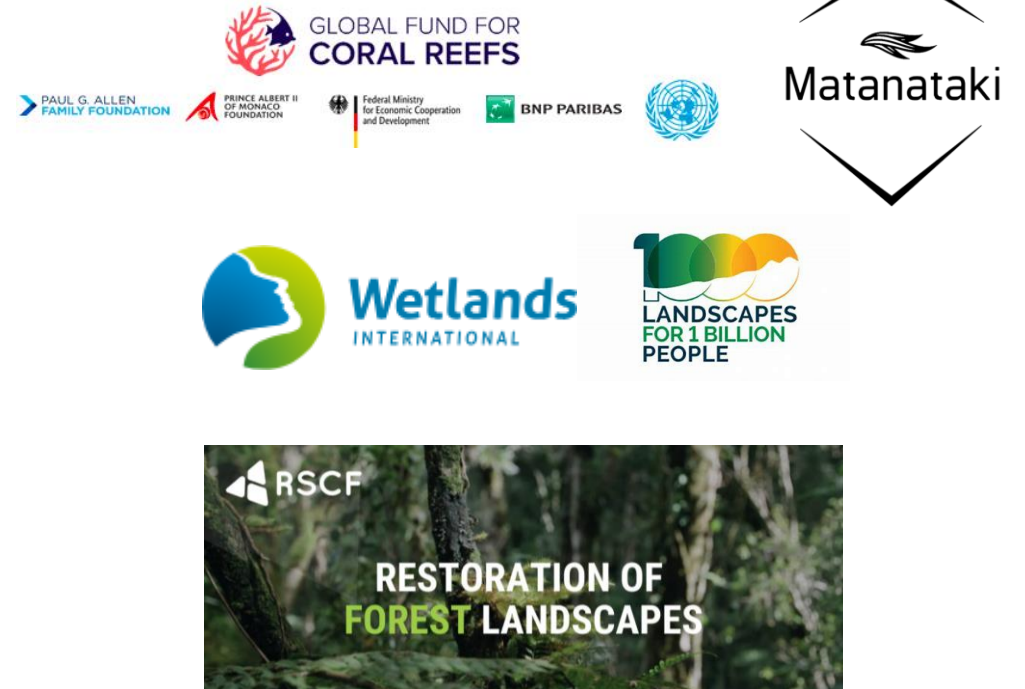
Examples of sustainable investments in ecosystem restoration

Ecosystem restoration encompasses actions that:

- **Reduce negative environmental and societal impacts**, such as pollution and unsustainable resource use and management
- Remove contaminants, pollutants and other threats (often known as **remediation**)
- **Rehabilitate ecosystem functions and services** in highly modified areas such as former mining sites and degraded production systems
- Aim at **ecological restoration**, removing degradation and assisting in recovering an ecosystem to the trajectory it would be on if degradation had not occurred, accounting for environmental change

Reference: [FAO, IUCN CEM & SER \(2021\). Principles for ecosystem restoration to guide the United Nations Decade 2021–2030. Rome, Italy.](#)

Examples



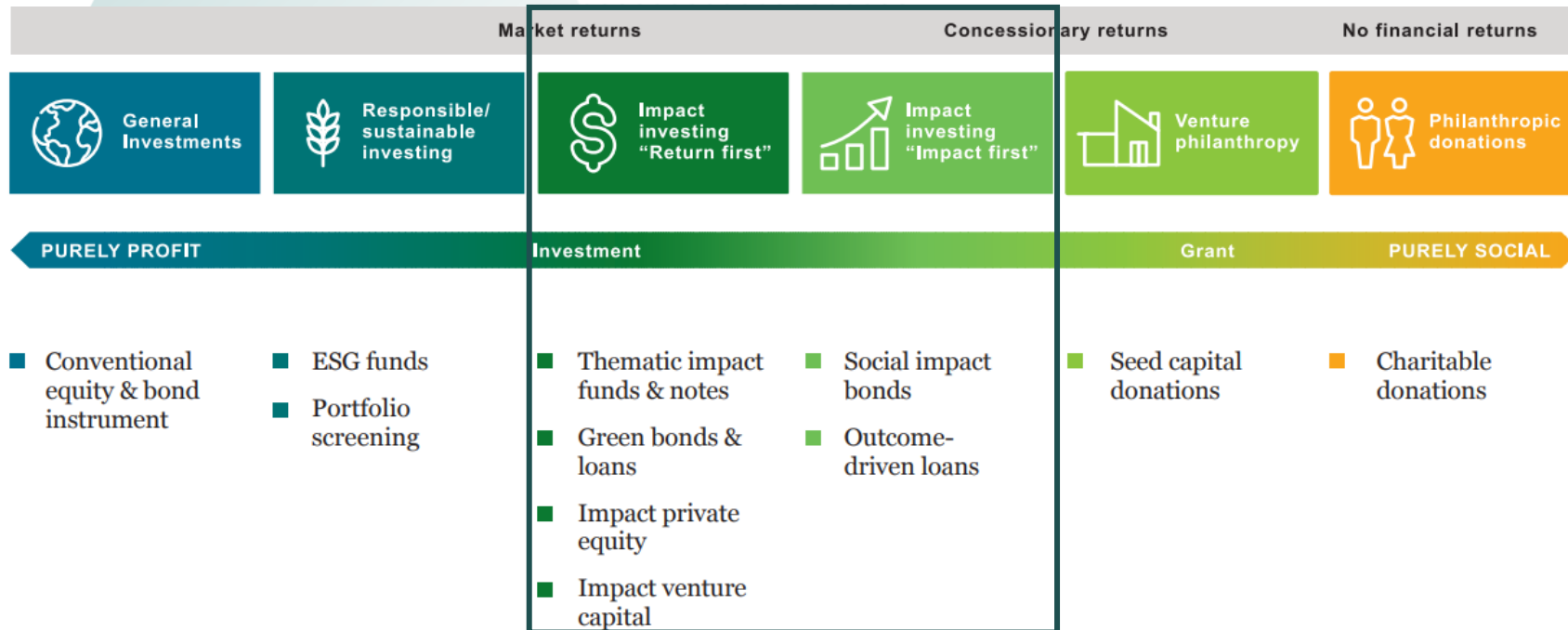
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Asset classes used for impact investing

Depending on its strategic objectives, impact investing in private markets can be applied across all asset classes (**debt, equity, or a combination of both...**)



Source: [WWF 2020](#)

Debt

Some funds offer loans to investees, often at preferential rate of interest to incentivize behaviour change » *lower risk/return profile*

Equity

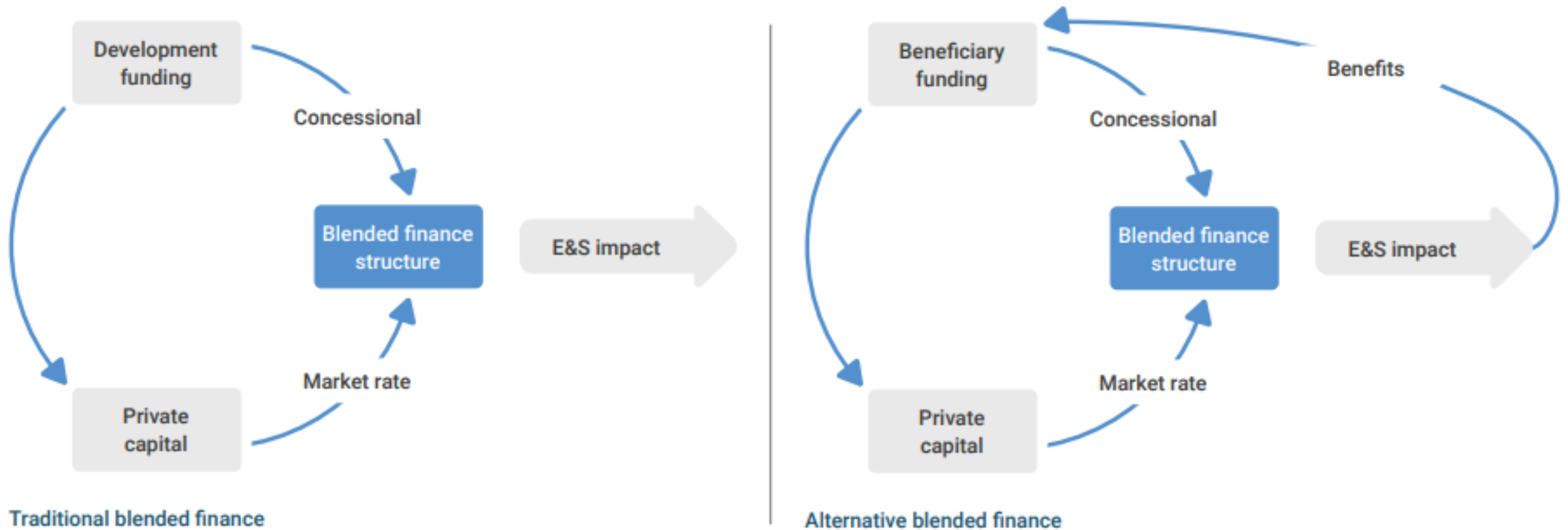
Other funds buy equity in their investee companies / projects to have better influence over investment outcomes » *higher risk/return profile*

Guarantees

Guarantee funds encourage commercial banks and other financial institutions to mobilize financing by de-risking transactions

Many impact funds use a blended finance approach

Blended finance is the strategic use of public and philanthropic funding to mobilize and de-risk private capital flows into impactful investments



Other de-risking mechanisms used by impact funds

RISK MITIGANT TOOLS	DESCRIPTION	TYPICAL BARRIERS OR RISKS IT CAN ADDRESS
ADDITIONAL EQUITY	Raising more capital from new and/or existing shareholders	Lack of equity overall or high financial leverage (e.g. relatively high debt compared to balance sheet size, potential risk that cash flows will not be sufficient to service debt)
GUARANTEES	Third-party that can step in to cover financial obligations in adverse scenarios	Can help to improve access to financing (and potentially reduce pricing / interest margin), overcome lack of credit history , novelty of concept or other risks (including lack of financial experience)
COLLATERAL	Pledging security for the payment of loans (e.g. property or land)	Same as above (guarantees). However, land tenure challenges can be a common reason that prevents land being used as collateral
OFF-TAKE AGREEMENTS OR SALES CONTRACTS	Entering into contractual arrangements with future buyers of products	Can help to improve credit profile and reduce demand risk (increase visibility and predictability of sales and cash flows)
TECHNICAL ASSISTANCE	Support programmes for capacity building and pipeline development (typically grants)	Support from external professionals (including mentoring, board advisors, consultants) or strengthening internal skills and capability to overcome lack of financial or project development experience
FIRST-LOSS OR SUBORDINATE CAPITAL	Subordinate capital layer in a fund acting as "buffer" for a portfolio	Having layers in a fund structure (with differentiated risk and return expectations instead of on equal terms) can help to increase access to risk-adverse investors
INSURANCE AND HEDGING	Standard or bespoke finance solutions to protect against specific risks or fluctuations in commodity prices	Can act to improve access to financing and potentially improve pricing / interest margin as certain risks are transferred to other parties. Adds complexity and costs. Standard "business as usual" insurance tends to be a requirement by lenders
RESULTS-BASED INCENTIVES	Contractual arrangement offering financial reward based on achievement of performance criteria	Additional (conditional) revenue stream by identifying partners willing to pay for impact or performance, which can strengthen credit profile and improve predictability of cash flows . Incentive mechanism which acts to compensate for the opportunity cost of alternative revenue options

Source: [European Investment Bank 2020](#)

Steps of setting up impact fund objectives



Once financial actors have considered the various asset classes and de-risking mechanisms that can be used in impact investing, there are three steps they have to keep in mind when setting up objectives for their impact fund or facility

1.1

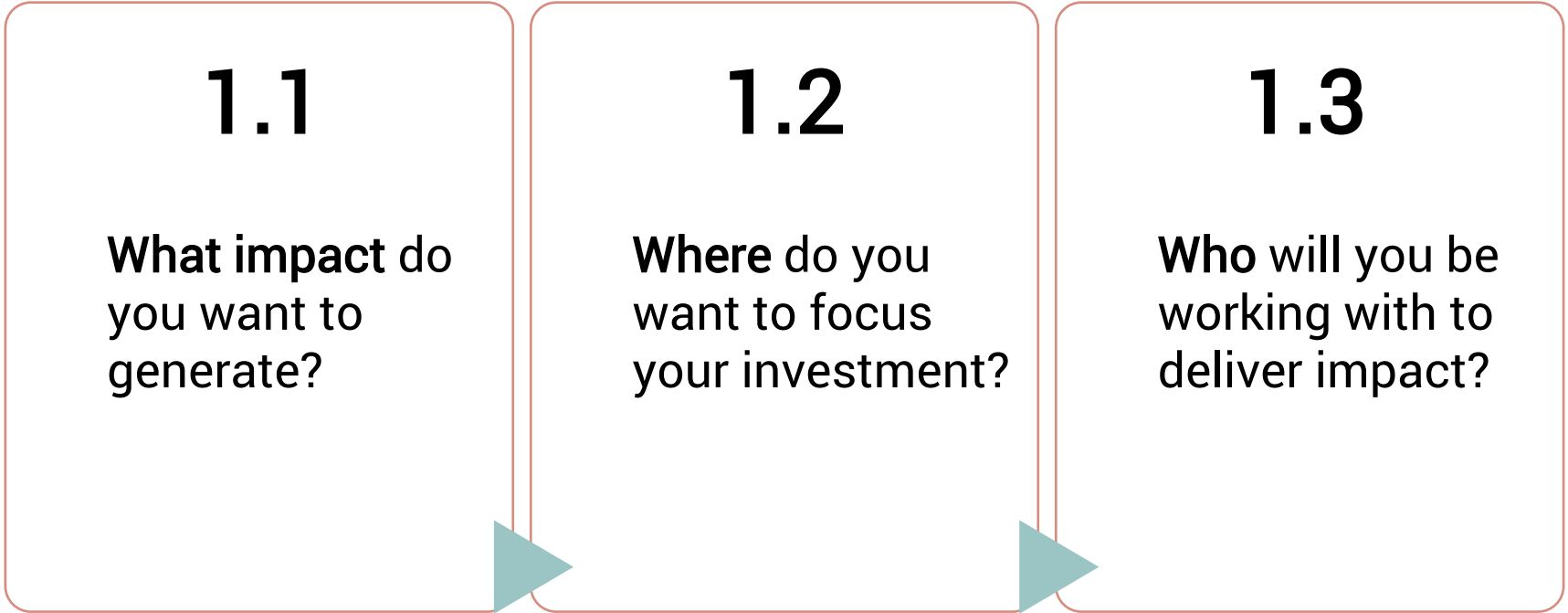
What impact do you want to generate?

1.2

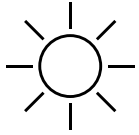
Where do you want to focus your investment?

1.3

Who will you be working with to deliver impact?

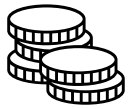


1.1 - Start by identifying which impact/s you want to generate



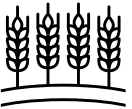
Climate Action

E.g. mitigation and adaptation



Livelihoods

E.g. Gender equality, income and jobs



Sustainable Production

E.g. reduced pesticide use, soil health



Biodiversity

E.g. habitats protected, restored



Forests

E.g. Protected, restored, sust. managed



Northern Kenya Rangelands Project – Kenya

Issued in 2022

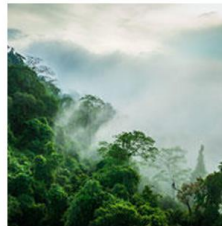
Removing and storing 50 million tons of CO2 over 30 years by implementing sustainable grazing management over nearly 2 million hectares of savannahs and grasslands in Kenya. More information [here](#).



Sumatra Merang Peatland Project - Indonesia

Issued in 2022

Restoring 22,934 hectares of peatland rainforest, improving livelihoods and promoting rural economic development. More information [here](#).



Southern Cardamom - Cambodia

Issued in 2023

Within one of the last unfragmented rainforests in Southeast Asia, the project protects this crucial ecosystem from illegal logging and poaching through enforcement and community development.



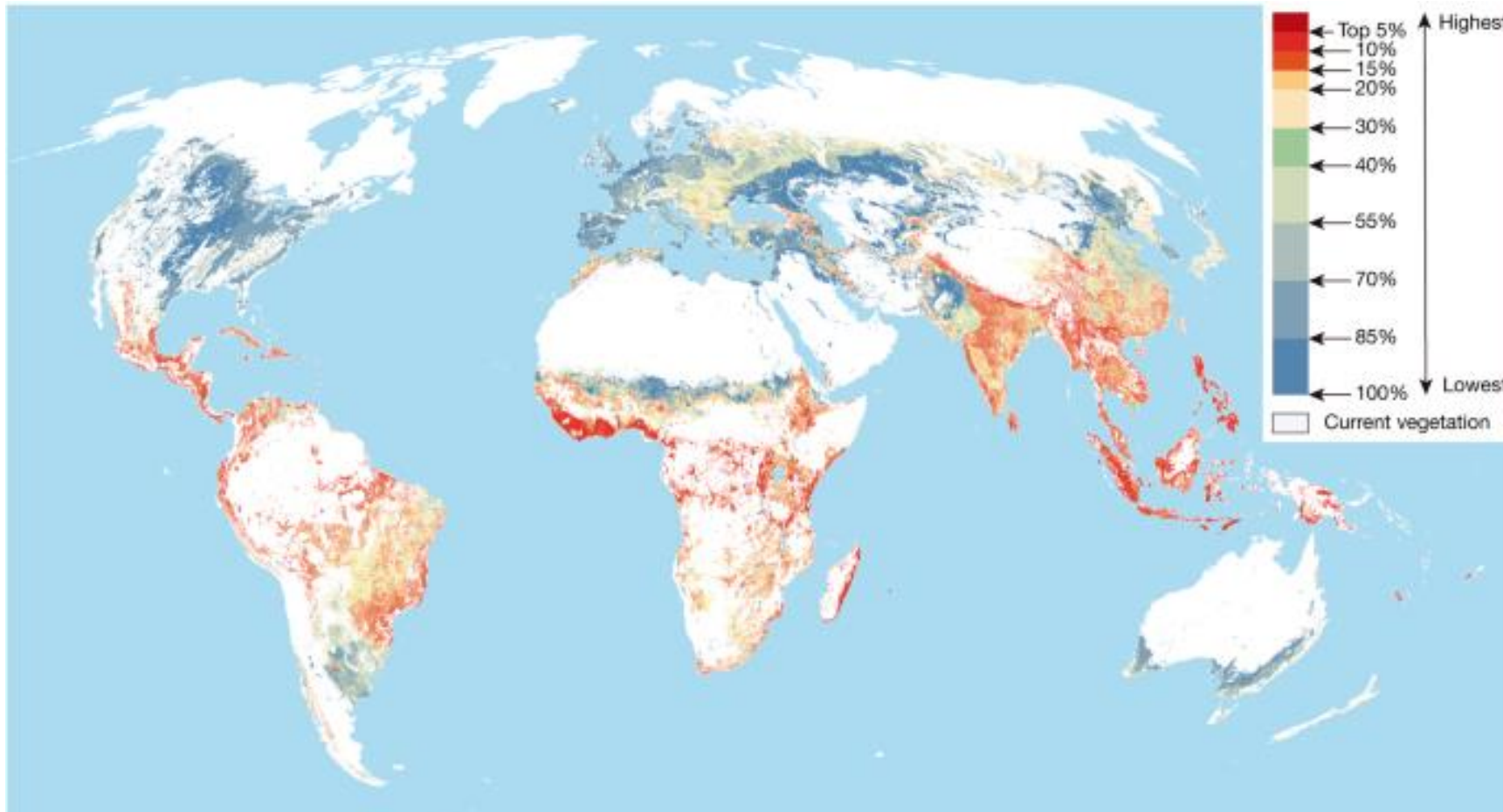
Lower Zambezi REDD+ Project - Zambia

Issued in 2023

Developing sustainable land-use practices in Zambia with local community involvement to conserve threatened forests and wildlife, supporting Climate-Smart Agriculture and bee-keeping while providing a vital buffer to the Lower Zambezi National Park.

Source: [WBCSD 2023](#)

1.2 - Decide where you want to focus your investments



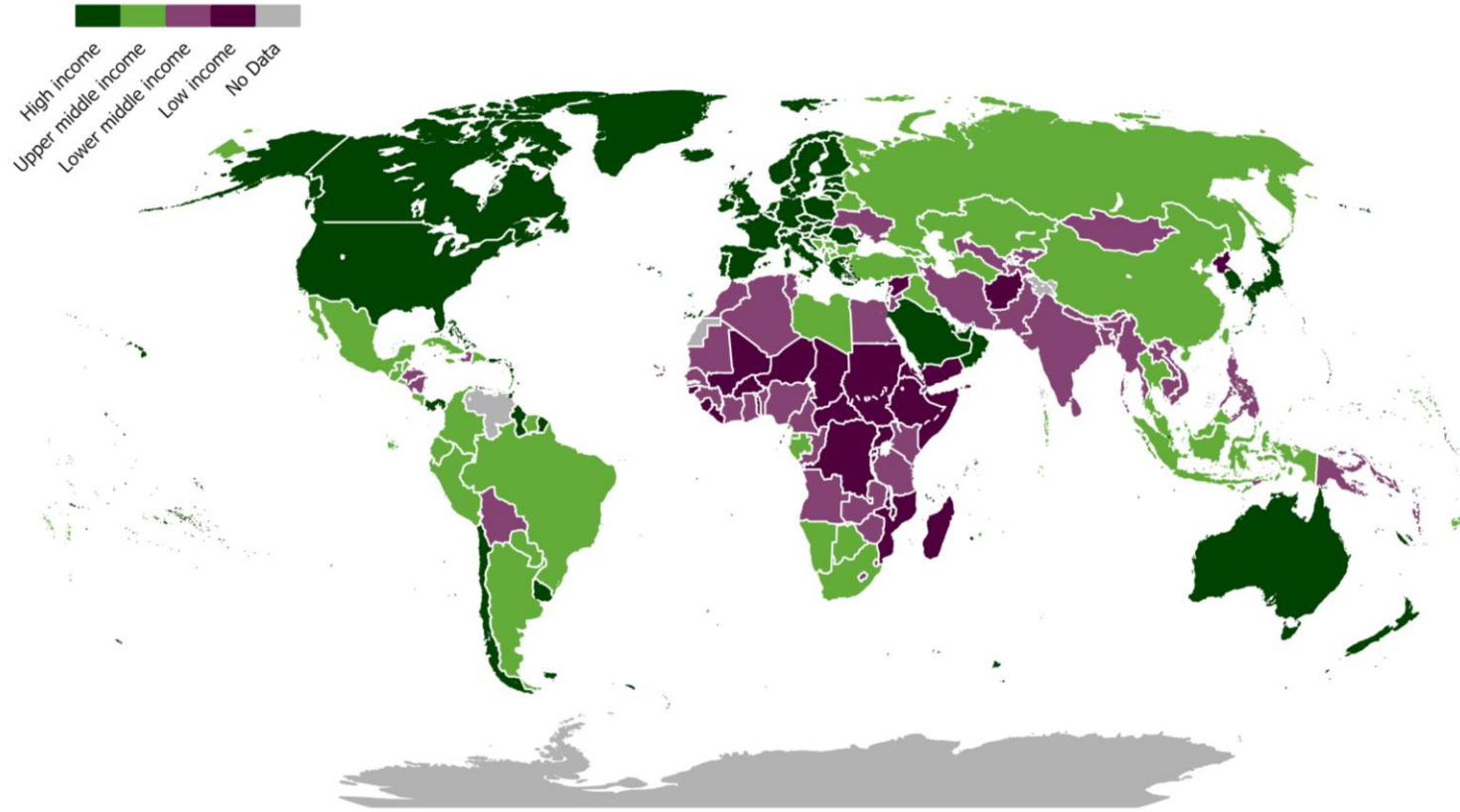
Map of priority areas for restoration, focused on biodiversity, climate change mitigation, and minimising costs. Source: [Nature 2020](#)

Defining a clear geographical scope should be linked to the selected impact focus

It allows to better identify, assess and respond to risks

It is likely to be guided by existing initiatives, expertise, and relationships

1.2 - Decide where you want to focus your investments



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Map of countries by Gross National Income (GNI) per capita in US dollars.

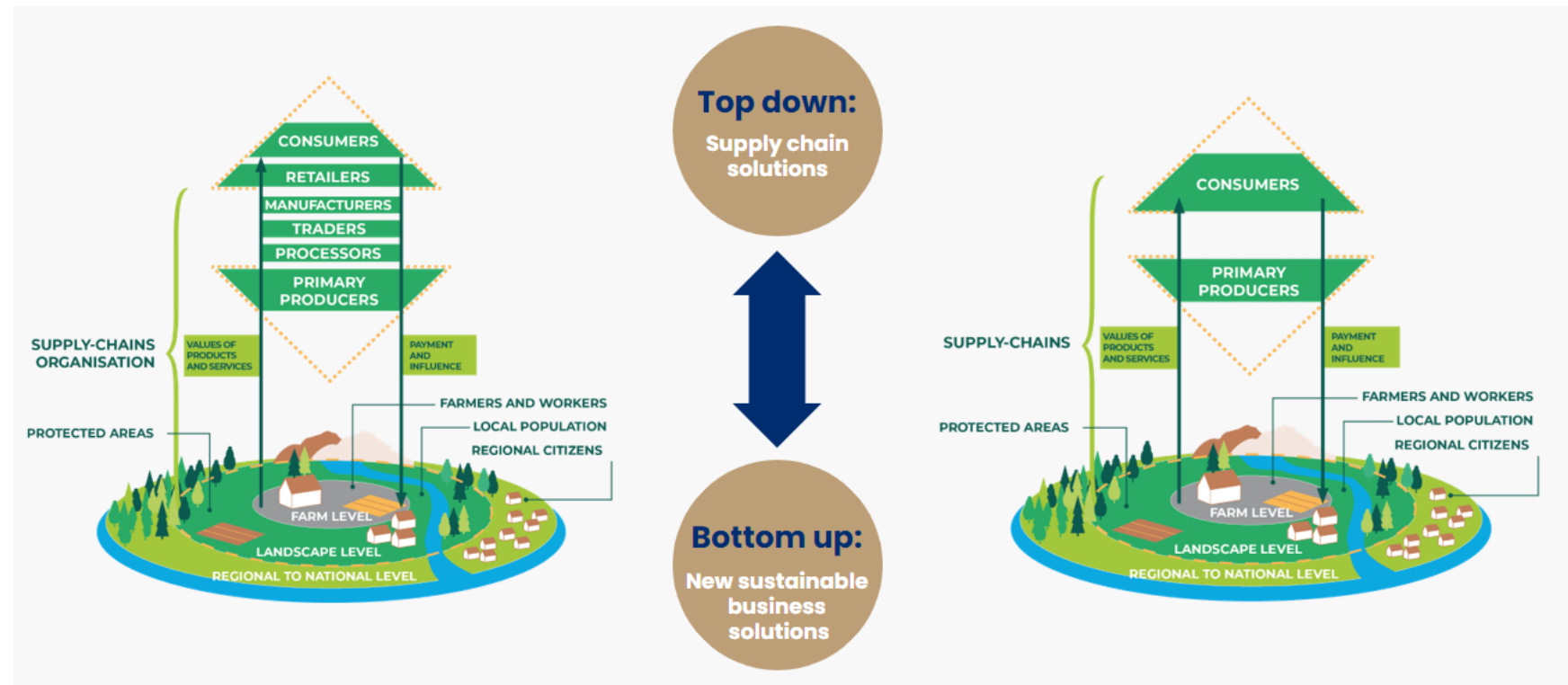
Source: adapted from [World Bank 2023](#); baselayer: United Nations Geospatial.

The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

1.2 - Decide where you want to focus your investments

Following a **landscape approach** when developing a fund focus can help achieve scale due to:

- Identification of threats and drivers at the landscape level
- Integration of action across stakeholders, value chain levels and governance
- Access to different streams of financing and partners to de-risk E&S



Source: [WWF 2016](#)

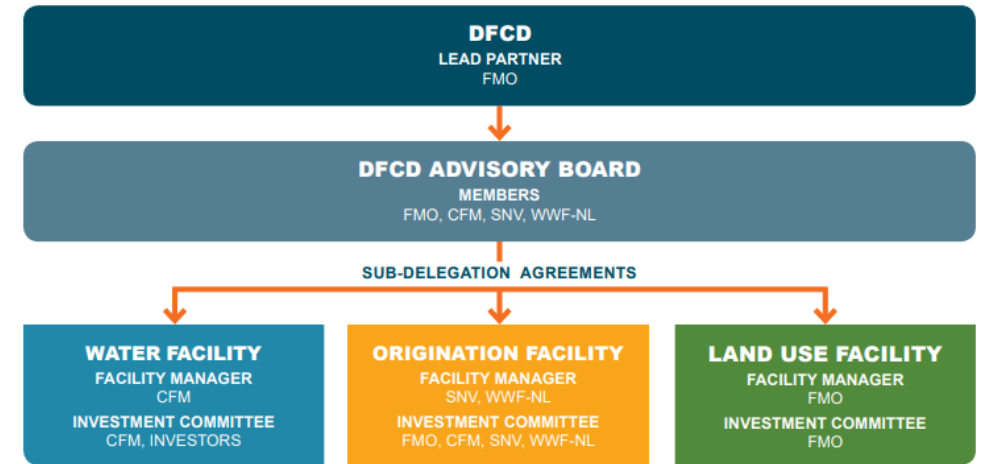
1.3 - Identify key strategic partnerships for impact

Securing a key investor might provide a **'watershed moment'** in a fund's development and crowd in more investments

Similarly, the same dynamic can be seen when securing investees

Trust is fundamental between all stakeholders in the fund:

- Investors need to build a common understanding of aims / shared theory of change
- Local partners and project developers can help build trust between investors and investees





Open to audience | Would anyone like to give an example of a fund they are involved in, or a partnership to facilitate investment?



5-min break

Module 1

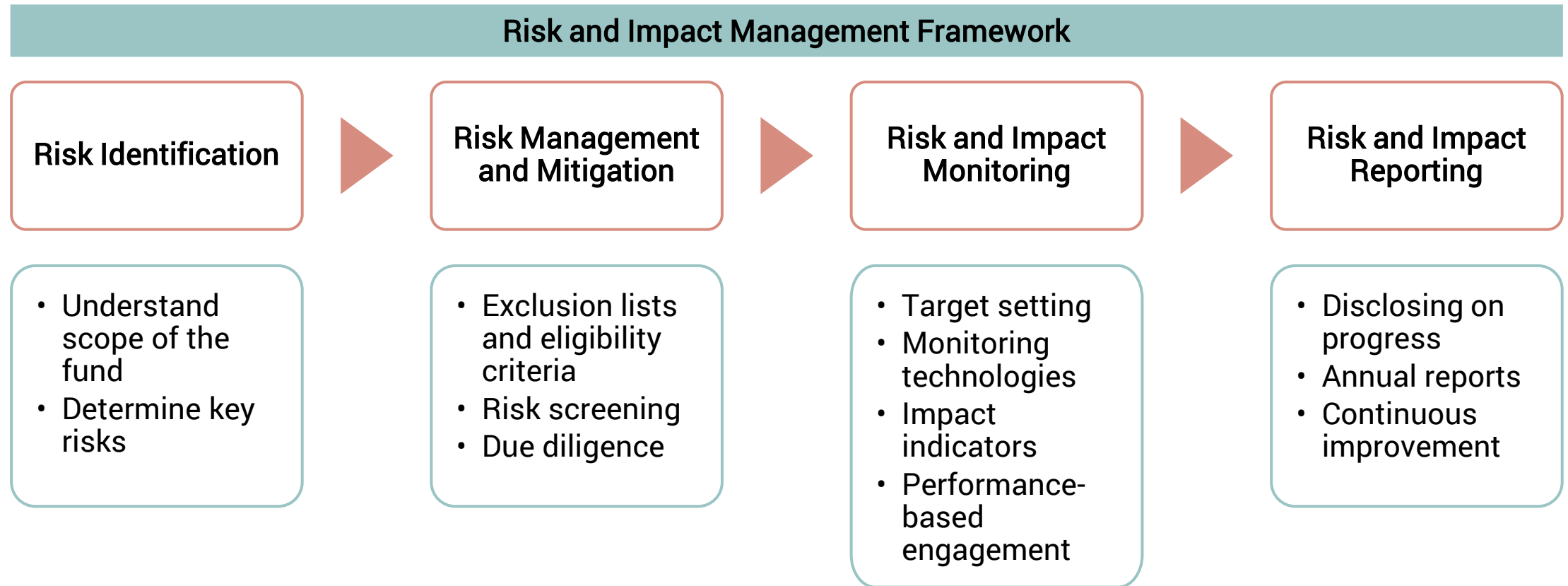
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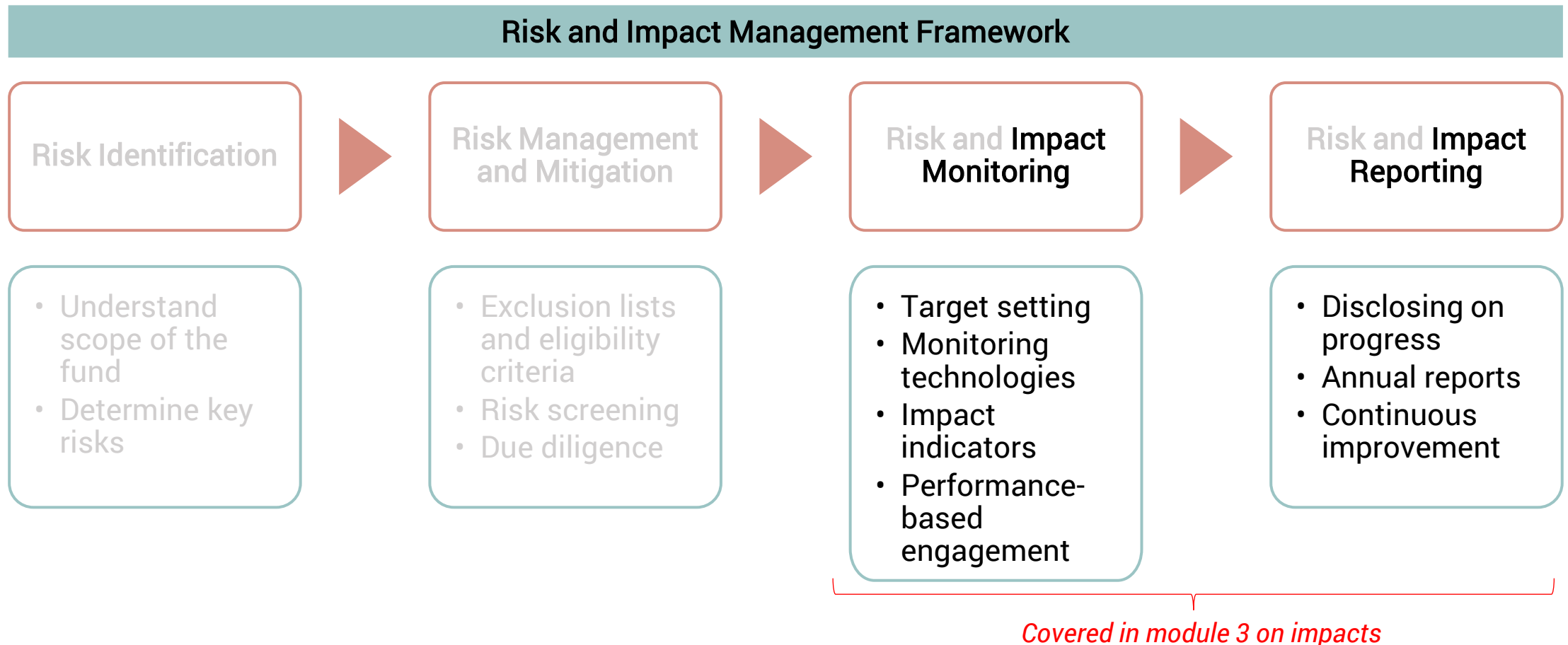
Building blocks of an E&S risk and impact framework

After defining impact objectives, funds should focus on setting up a risk and impact management framework:



Building blocks of an E&S risk and impact framework

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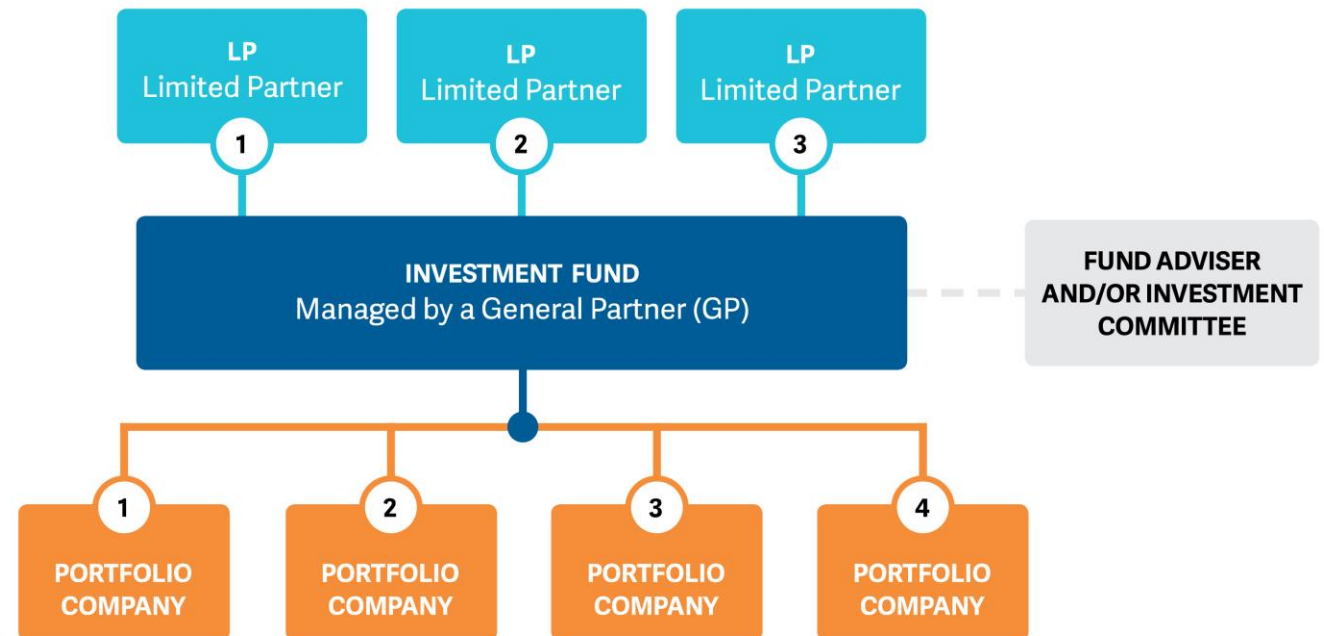


Definitions of impact fund structures

A **fund** is a pool of capital from many sources; can be layered to distribute risks and returns differently to commercial and concessional investors

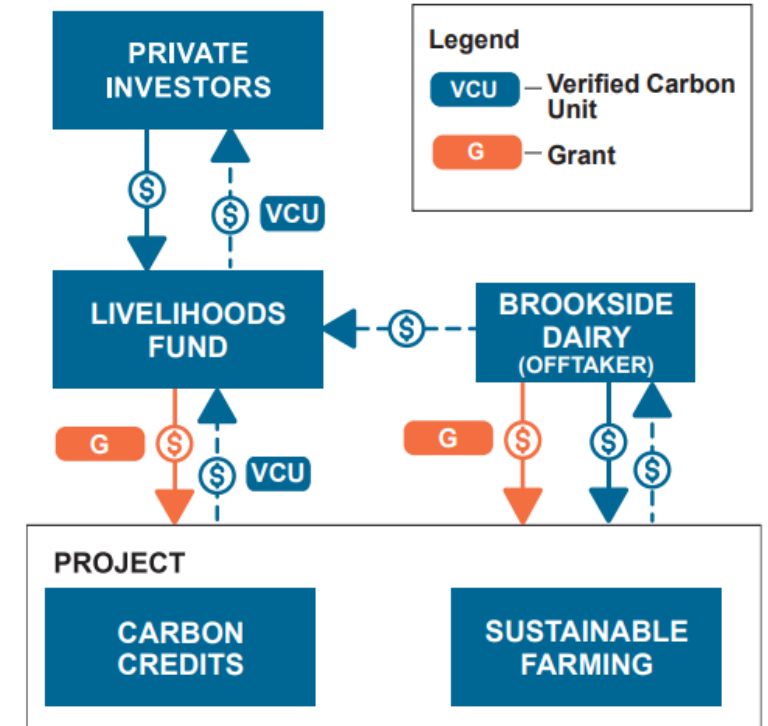
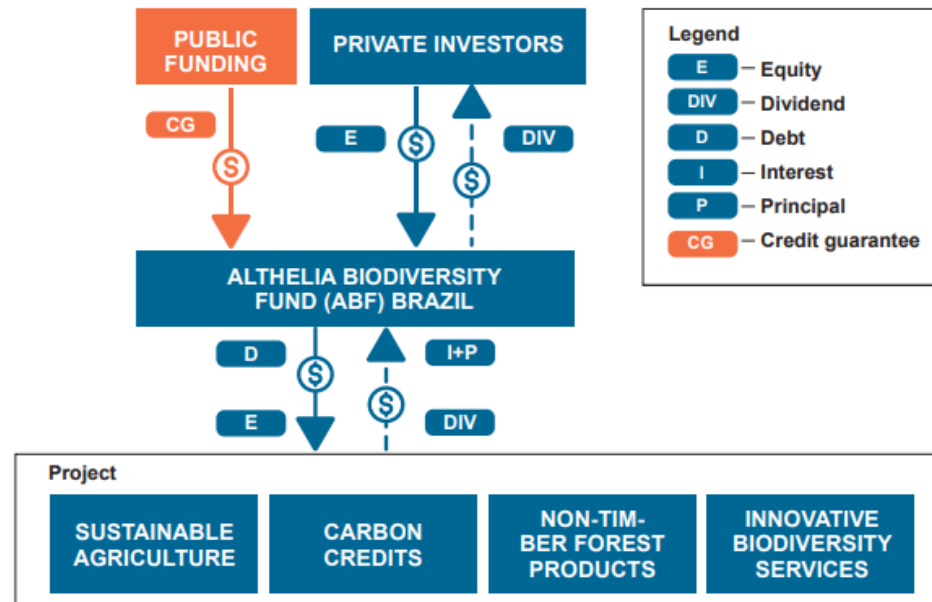
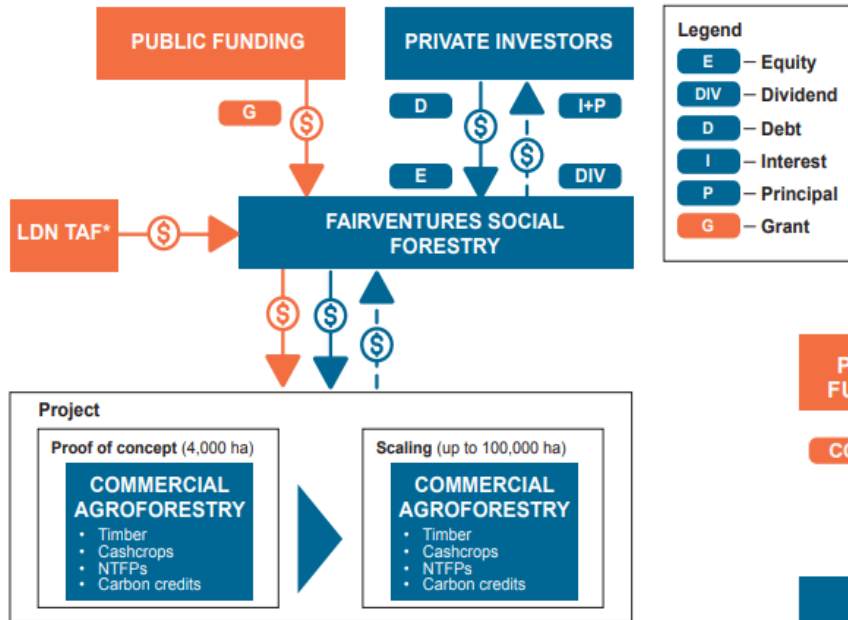
A **facility** is an earmarked allocation of public/philanthropic funding; can invest in projects to attract commercial investment to those same projects

Source: [earth.security 2021](#)



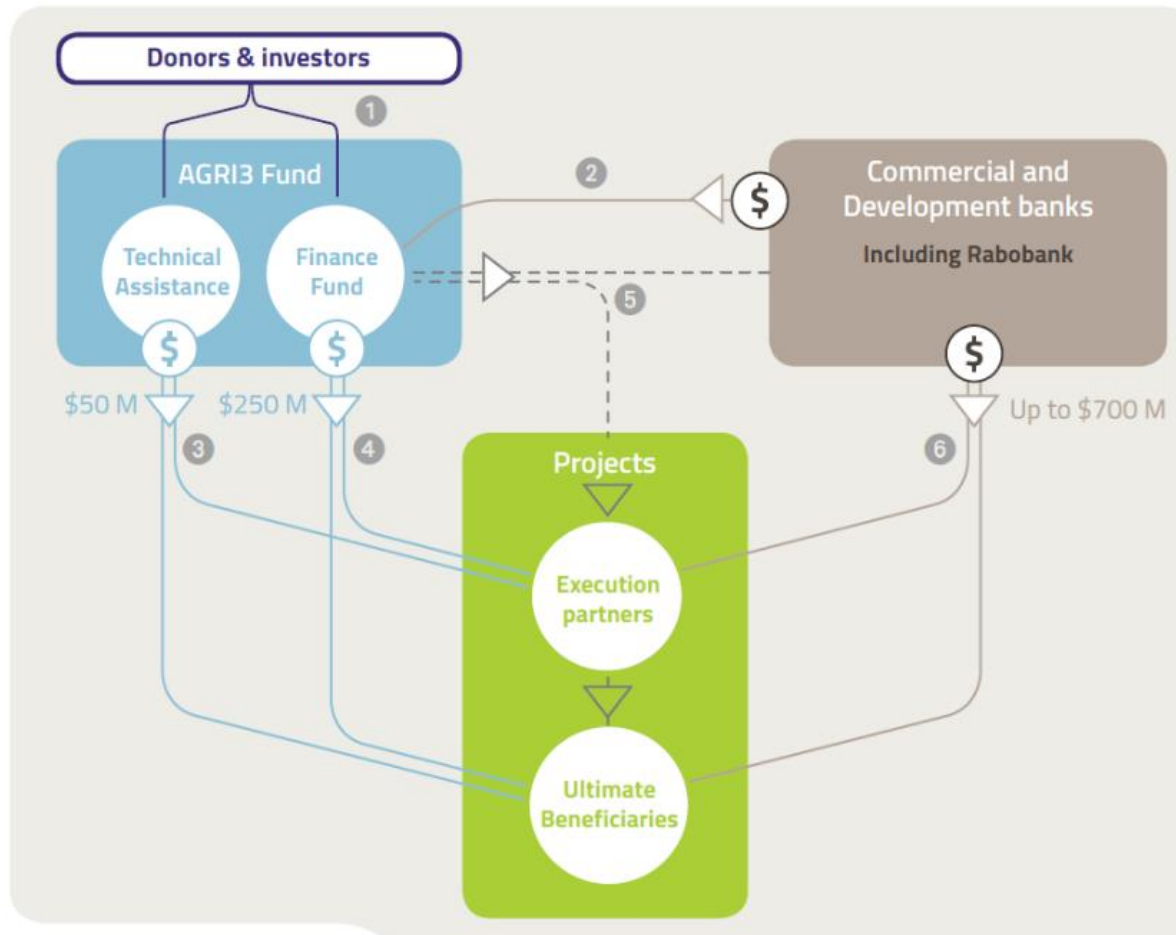
Source: [GIIN 2018](#)

Some blueprints for impact structures



Source: [WWF 2020](#)

Case study #1 – AGRI 3



Source: [IDH 2023](#)

Reference: [UN Environment Programme and UN Environment Programme World Conservation Monitoring Centre. \(2023\). Environmental and social impact framework development. Case study: Agri3 \(2023\)](#)



Developed by UNEP and Rabobank in 2017

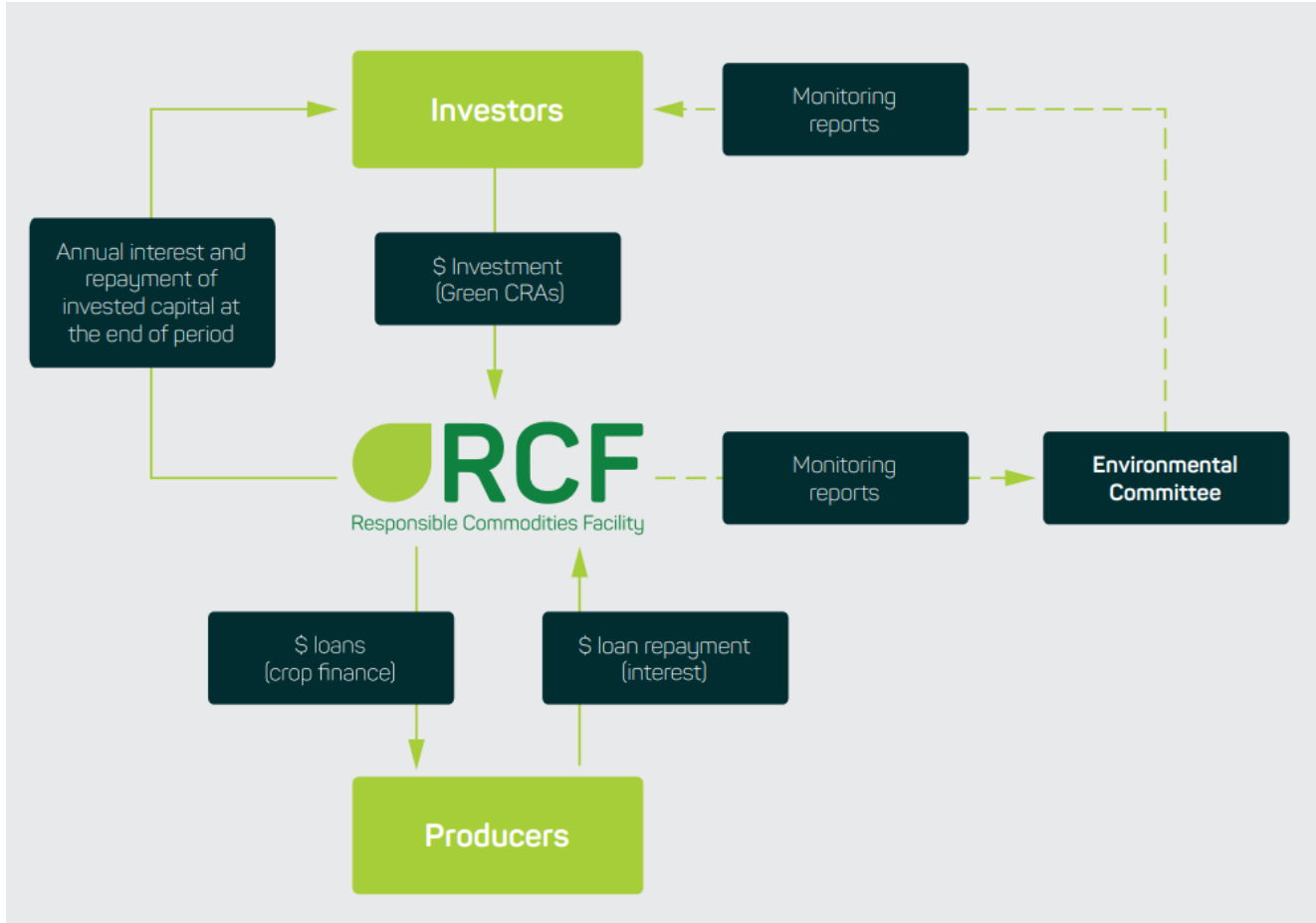
Impact focus areas include forest protection/restoration, sustainable ag., improved rural and women's livelihoods

Global reach, preference for low- or middle-income countries in forest risk areas. Current projects in Brazil and China, among others

Provides guarantees, loans and technical assistance to de-risk financing from FIs

A first version of its E&S framework was key in securing funding from Dutch government

Case study #2 – RCF



Source: [RCF 2023](#)

Reference: [UN Environment Programme and UN Environment Programme World Conservation Monitoring Centre. \(2023\). Environmental and social impact framework development. Case study: Responsible Commodities Facility](#)



Conceptualised by non-profit BVRio and now run by spin-off Sustainable Investment Management Ltd (SIM)

Impact focus area is the protection of native vegetation through production of DCF soy

Operates in the Brazilian Cerrado

Provides annual crop loans to farmers, with repayment happening after soy sale and possibility of revolving loans

RCF's E&S impact framework aims to ensure that loans are deployed in line with impact focus and gain traction with farmers

Case study #3 – eco.business fund

Eco.business fund aims to *promote business and consumption practices contributing to biodiversity conservation, the sustainable use of natural resources and climate change mitigation and adaptation, in Latin America, the Caribbean and sub-Saharan Africa*. It does so by **providing technical assistance, as well as direct and indirect loans** to target businesses and local financial institutions.

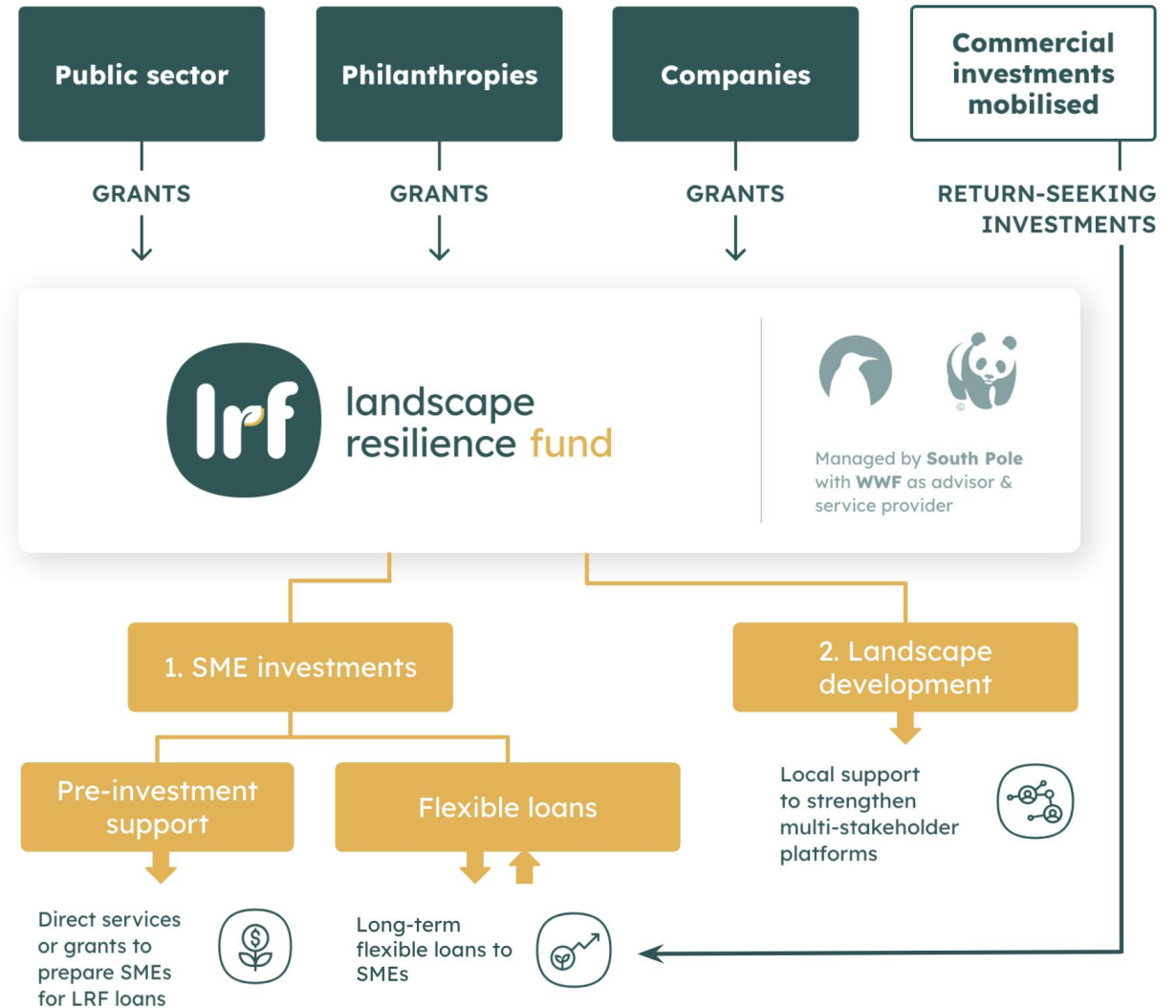


Source: [eco.business 2023](#)

Case study #4 – Landscape Resilience Fund

The Landscape Resilience Fund is an impact-driven, independent foundation that mobilises private and public climate finance for vulnerable smallholders and landscapes. Its mission is to *enable the most vulnerable people in rural landscapes to effectively adapt to climate change*

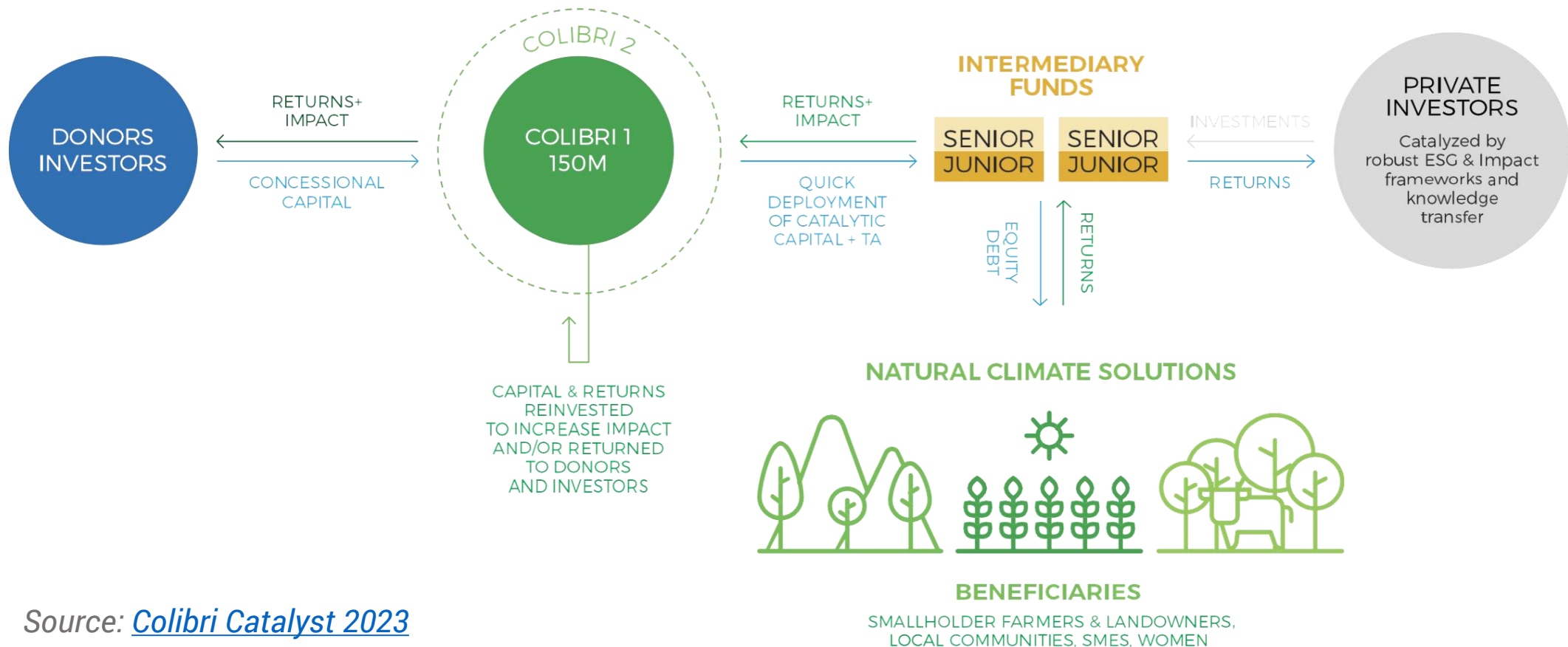
It provides **technical assistance, loans and grants to early stage small and medium enterprises** to help them scale and get to an investable point.



Source: [LFR 2023](#)

Case study #5 – Colibri Catalyst

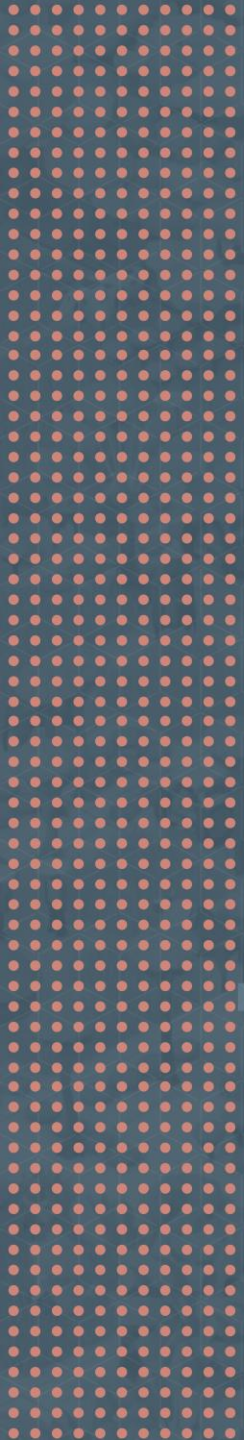
Colibri deploys **seed, anchor, patient and first-loss capital to vehicles** investing in natural climate solutions. Priorities will be given to *investments in emerging markets that contribute to climate mitigation and adaptation in the food, timber and fibre and conservation and restoration sectors*



Source: [Colibri Catalyst 2023](#)



Q&A



Summary and key messages

- Investing in sustainable land use helps address the triple planetary crisis, achieve the SDGs, and align with Rio Conventions and upcoming regulations
- Defining financial structure, impact focus, geographical scope, and key partnerships is necessary when setting up a sustainable land use fund
- A risk management framework encompasses identification, as well as management and mitigation through risk screening. Due diligence and reporting for both risks and impacts should be performed
- Existing funds/facilities operating in the land use finance space can be used as reference in the designing stage



Next module: Responding to key environmental and social risks



Environmental and social risks can be identified and assessed through various steps. In this module, we introduced some of the basic concepts related to risk identification and management in land use investments. Module 2 will deep-dive into them.



Module 2 will cover:

- How environmental and social risks **fit within** the traditional risk management framework
- Which environmental and social risks are **material** for investments in sustainable land use
- How to develop a **risk management framework** to manage and mitigate risks in potential investments

Module 3 will cover:

- Which **specific positive impacts** can be generated by investments in sustainable land use
- **Key tools** that can help identification, assessment and monitoring of land use impacts
- Considerations on **internal capacities and resources** that are needed to maximise outcomes



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Thank you!

Next Session: Module 2

When: November 22nd, 2023

