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1. Introduction
RSCF enables more private fund managers and investment advisors to set up dedicated investment vehicles that focus on forest and landscape restoration, develop and build strong investable pipelines and ensure that more of these investments reach financial close. This is achieved by providing co-funding for fund, pipeline and project development support through a combination of outright and reimbursable grants.

The Restoration Seed Capital Facility (RSCF) was launched in October 2020 to unlock private finance in forest and landscape restoration in ODA-eligible countries — with a focus on Latin America, Africa and Southeast Asia.

RSCF is implemented by UNEP and the Frankfurt School of Finance and Management.
After the first full year of operations, RSCF’s major achievements include:

**Partners**

- Onboarding of the Facility’s two inaugural partners in November 2021, Arbaro Advisors and Ecotierra
- Disbursement of the first pipeline and project development funding to the Facility’s partners
- Two new partners onboarded in December 2022, New Forests and the Shared Wood Company
- First Facility-supported projects reach financial close for the Arbaro Fund, leading to investments of over USD 50 million, as well as the first reflows to the Facility.
- Undertook a site visit to Arbaro Advisor’s projects in Ecuador and Paraguay in October 2022.

**Outreach and knowledge management**

- Held the project’s first in-person knowledge exchange event, gathering 75 participants from the industry to discuss the challenges and opportunities for private investment for nature in Cambridge, U.K.
- Held two knowledge exchange webinars on overcoming the obstacles and constraints to raising capital in this sector, and on scaling up the development of a pipeline of investable opportunities in nature-based solutions and sustainable land use.
- Launched a dedicated LinkedIn channel to inform and exchange knowledge with others active in the field of private investment for nature.
- Presented RSCF at the World Forestry Congress’ private investment summit in Seoul, at the Business and Finance Hub at the United Nations Biodiversity Conference (COP15) in Montreal and conducted a series of bilateral investor conversations to gather useful market intelligence to inform RSCF’s knowledge products.
RSCF has committed pipeline and project development funding to the four signed partners. Recent developments and interest in the Facility’s support create a positive outlook for 2023.

**Impact of RSCF supported projects at financial close**

- **USD 56 m private capital mobilized**
- **3 supported projects have reached financial close**
- **2,500 ha of natural habitat has been protected or restored**

**Projected impact of investments currently under support**

- **USD 130 m of forestry and carbon projects under development**
- **7 sustainable forestry and carbon projects currently under development**
- **1,803,00 ha of natural habitat to be protected and restored**
2. Update on the Facility
RSCF’s first two partners, Arbaro Advisors and Ecotierra, are actively reinforcing their investment pipeline with the Facility’s support. Arbaro Advisors have finalized the development of three investments that have been approved for investment by the Arbaro Fund. Ecotierra is using the Facility’s support to expand efforts in developing new investments for its Urapi Sustainable Land Use Fund.

**Arbaro Advisors**

**Support Line 2: Pipeline Development Activities**
Funding from RSCF has been used to further investigate the market and jurisdictional conditions to support the development of new investment opportunities, including in countries where there have not been any prior investments by the fund manager.

**Support Line 3: Project Development Activities**
RSCF has supported the project development of three successfully closed investments for the Arbaro Fund in Peru, Ecuador and Guatemala, resulting in investments on the ground of ca. USD 40 million. The successful outcome of the project development process has also led to the first reflows to the Facility, as RSCF’s project development support is reimbursable when projects reach investment.

RSCF’s project development support has enabled Arbaro Advisors to undertake deeper and more detailed due diligence to develop stronger Environmental and Social Action Plans (ESAPs) and achieve strengthened E&S outcomes for each investment.
Maderas Prosperidad, Peru

In Peru, an investment in Chilean family-owned forestry company, Maderas Prosperidad, will ensure the integration of sustainable forest management practices across the project, including replanting harvested plantation areas with pine, the reforestation of unforested areas and the conservation of 400-600 ha of natural forests and vulnerable ecosystems, which make up 15-30% of the total project area.

The Maderas Prosperidad project targets to sequester up to 0.6 million tons of carbon, provide formal employment and training opportunities for up to 180 direct and 450 indirect full-time employees (FTE) from local communities, some of whom are dependent on informal employment or subsistence agriculture, and establish a benefit-sharing model with the local community in the form of an off-take arrangement for the harvested wood.

The 3,750 ha greenfield and brownfield plantation lease, incorporating a value-chain investment into sawmilling, box making and pallets has a horizon of ~7-11 years.

The RSCF supported investment will enable improvements to forest management practices across the project including seeking FSC certification; establishment of greenfield operations and protection of valuable habitat; the introduction of E&S standards both for plantation operations and processing facilities; and the implementation of a benefit sharing model with local communities to support livelihoods.

The project required several development stages from drafting a full business plan, sourcing strategies for the land and forest acquisition and the assessment of land productivity and E&S impact potential. RSCF support was essential to undertake these assessments in a timely manner.
In Ecuador, an investment in local forestry company, Ecua America Teak, will lead to the implementation of a robust E&S framework to ensure unforested and previously harvested areas are reforested with teak trees and up to 20% of the project area will be set aside to conserve natural forest and vulnerable ecosystems.

The project will sequester up to 0.2 million tons of carbon, provide formal employment and training opportunities for up to 62 direct and 93 indirect FTE from local communities, some of whom are dependent on informal employment or subsistence agriculture, and provide local communities with an off-take arrangement for wood production.

The 1,400 ha greenfield and brownfield teak plantation, which incorporates an existing sawmilling and pallets business, has a horizon of ~10 years.

The support from RSCF will enable the implementation of best practice E&S standards, including biodiversity monitoring, which would otherwise not take place in brownfield areas under previous management, and the planting of nitrogen fixing plants, which will significantly improve wildlife habitat quality. With the E&S structures in place, the project is now moving to FSC certification.
In Guatemala, Arbaro has established the Forestal del Caribe company to supply FSC certified timber to the local market. On the acquired land in the Izabal region, ca 1,000 ha of pasturelands and a former rubber and eucalyptus plantations will be reforested with gmelina trees and ca 600 ha or >35% of the total area of natural forests and vulnerable ecosystems will be set aside and conserved. In additional, an area of 600 ha of protected natural forest will be put under permanent protection through the division of land titles in cooperation with FundaEco, a local NGO.

The project will apply a best practice silvicultural approach. The project is expected to sequester up to 100,000 tons of carbon and provide formal employment and training opportunities for up to 40 direct and 60 indirect FTE from local communities, some of whom are dependent on informal employment or subsistence agriculture. The 1,700 ha greenfield project, which incorporates an offsite sawmill and pallet production, has a horizon of ~10 years.

The RSCF support will enable Arbaro to develop and finance a greenfield forestry project in a country, which is characterized by an underdeveloped timber market with low investment levels and lack of finance for forestry projects. The project will achieve strong additionality and have significant impact through the establishment of best forest management practices, educating the workforce and generating formal employment opportunities following a gender-sensitive approach. The project will also introduce FSC certification and develop a processing industry for plantation timber.
Ecotierra

**Support Line 2: Pipeline Development activities**

Ecotierra is using the Facility’s pipeline development support for early-stage scoping of potential investment opportunities in countries and/or commodities it has not previously invested in.

**Support Line 3: Project Development activities**

Ecotierra is developing further investments in coffee and cocoa value chains with local cooperatives in Latin America for its Urapi Sustainable Land Use Fund.

RSCF has approved Ecotierra’s proposal to develop a project in Peru under Support Line 3.

**New partners onboarded in 2022**

RSCF approved New Forests and The Shared Wood Company (SWC) as two new partners under the Facility’s pipeline and project development support in December 2022.

The Facility will provide New Forests and SWC with financial support to accelerate their efforts in identifying and developing a strong pipeline of investments in nature-based solutions that contribute to the protection, sound management and restoration of forest ecosystems across Central, South America, Southeast Asia and Africa.

**New Forests**

New Forests is a global investment manager of nature-based real assets and natural capital strategies with USD 7.3 billion of assets under management. New Forests manages a diversified portfolio of sustainable timber plantations and conservation areas, carbon and conservation finance projects, agriculture, timber processing and infrastructure.

RSCF will support New Forests to develop a pipeline for its Tropical Asia Forestry Fund 2 (TAFF 2), which targets a total of USD 300 million worth of investments and focuses on sustainable forest management in Southeast Asia. Through a dedicated impact tranche, the fund will further invest in activities that will enhance its positive climate, biodiversity and livelihood impacts.

**The Shared Wood Company**

SWC is a French investment management company that sources, develops, and operates large-scale nature-based solutions (NBS) projects in Africa, Latin America and Europe to tackle biodiversity loss, climate change and rural poverty.

RSCF is supporting SWC to finance USD 500 million worth of investments by 2028 focusing on forest & biodiversity conservation, restoration of degraded lands and sustainable forestry and agroforestry value chains.

Through their operations, SWC aims to sequester or avoid carbon emissions equivalent of at least 40 million tons of CO2. SWC further aims to restore a minimum of 40,000 ha of land and protect 500,000 ha of endangered ecosystems. In addition, their operations will improve the livelihoods of an estimated 30,000 farmers.
Interest in the Facility’s support is increasing; however, the nature of the pipeline is shifting from project development support to a rising interest in fund development support with an increasing focus on carbon-based strategies. The Facility has been in contact with nearly 40 fund managers interested in becoming partners with several of these fund managers progressing through the RSCF application process.

Some of the key challenges to onboard new partners have been:

**Fund establishment support line**

- **Dedicated carbon vehicles**: applications to support the development of dedicated carbon vehicles often lack market testing and a well-defined strategy with fund terms that are often backed by corporate net zero commitments or CSR budgets
- **Commercial funds**: fund managers developing purely commercial funds often face more capital raising challenges compared to fund managers with backing from corporates with access to concessional finance or CSR budgets
- **Timing**: it is often challenging to align fund establishment timelines with the RSCF engagement process
- **Mobilization of private capital**: mobilization is still challenging but there are increasing commitments from corporates seeking off taking opportunities

**Project and development support line**

- **Additionality**: fund managers with access to large institutional investors are less dependent on RSCF support but there remains potential for these funds to go beyond business as usual
- **Scarcity of fund managers**: few established fund managers in the sector limit the partner pool
- **Fund size mismatch**: increasing commitments from corporates and institutional investors create a mismatch between project needs and fund investment sizes
3. Partner profile: Ecotierra
A Community-First Approach to Landscape Restoration

Ecotierra places communities at the heart of its approach to landscape restoration. Founded in 2011, Ecotierra works directly with small-scale producers to support sustainable land use practices that drive local economic development, combat climate change and reverse land degradation. However, in order to expand this approach, firms such as Ecotierra need more financial de-risking tools to reach the scale required to close the nature financing gap.

In 2021, RSCF approved Ecotierra as one of its first two partners, providing support in the form of grant finance for pipeline and project development. To date, the grant funds have been used by Ecotierra to support its Urapi Sustainable Land Use fund for early-stage pipeline development in countries where Urapi has not previously invested. Support has also gone towards project development of a coffee and cocoa agroforestry project in Peru, which has the potential to rehabilitate or restore 6,500 ha and generate up to 150,000 tons of CO2 equivalent in avoided and sequestered emissions.

The Urapi Fund invests directly in community-based sustainable agroforestry projects in Latin America, providing technical assistance and microfinancing through long-term debt and equity instruments to deliver market returns along with significant environmental and social impacts. Achieving a final close at USD 51 million in 2021, the Urapi Fund aims to triple the household incomes of its partner cooperative producers. The fund anticipates that 200 jobs will be created and 400,000 ha will be reforested or conserved through Urapi’s investments. Overall, the impact of the funded projects will lead to over 7 million tons in captured and reduced CO2 emissions.
Community-First Model

Relationships are central to the business model of each of Ecotierra’s projects. Working with an in-country team, Ecotierra develops deep partnerships with local community groups and cooperatives. This community-first model focuses on empowering producers and strengthening their economic resilience by increasing product transparency and traceability, creating local jobs and working to increase household incomes while contributing to global climate and biodiversity goals.

For over 20 years, Ecotierra has been active in the South American coffee and cocoa markets, allowing them to form deep connections with co-ops and facilitate project identification and development opportunities. “Co-ops see us as a strategic sales partner. We engage with co-ops on the sale side, as we sell 6,000 tons of coffee and cocoa per year, and through this entry point, we talk with them about sustainable land use or gender or governance,” says Étienne Desmarais, CEO of Ecotierra. Developing intimate knowledge of the market allows Ecotierra to recognize gaps in the value chain and identify where they can create the most impact, whether that be through increasing yields of climate resilient crops, ensuring more land is dedicated to restoration activities, expanding forest coverage or supporting the diverse ecosystems of Central and South America.

“The pipeline is there but the gap needs to be bridged between investment ready projects and the resources required for the investment process itself,” says Desmarais, “the challenge is to develop a project within a reasonable timeframe that’s attractive to the co-ops, usually a 2-year project design process is too long.”

Ecotierra’s investment model is shaped by having an on-the-ground presence. This in-country partnership approach removes the dependence on external consultants to undertake arm’s length due diligence assessments and instead allows Ecotierra to invest in teams in Colombia, Peru and Central America. For Desmarais, it is faster and more cost-efficient to support in-house teams who can create real value by developing local relationships and building institutional knowledge throughout the project development phase. “It takes time to form the team, but it’s a long-term strategy that pays off,” says Desmarais.

This holistic approach equally supports interdisciplinary collaboration between the internal sales, governance and carbon teams. “Each of our internal teams are working with different stakeholder groups who often don’t share the same goals. Small-scale farmers and big investors often don’t understand each other. The in-house team acts as a translator between those worlds.”

Beyond project identification, partnerships with local co-operatives are central to Ecotierra’s business plan. “We don’t want to operate all the components of the project ourselves. We create joint ventures between the fund and the co-op so that these businesses develop their own capacity, we just provide the tools,” Desmarais explains. This is also key to scaling up, with Ecotierra being able to use the resources of existing projects to support future project development.
How public finance can scale up private investment

RSCF enables Ecotierra to better support co-ops through the project design phase, however according to Desmarais, guarantees are the key to incentivizing increased private investment and scaling up sustainable agroforestry projects.

According to Desmarais, “grants to develop project pipelines are great, but what we really need are de-risking tools and there’s not enough available. For us to really scale, our investors need more de-risking tools.”

“We know there are funds that buy land as the easiest strategy to scale up activities. But that’s not our approach. We want to work with local farmers, we want to preserve small-scale agriculture because it provides some livelihood to thousands of families, but it’s not easy. It’s risky.”

For Desmarais, the lack of de-risking tools presents a real challenge to engaging with the full cross-section of co-ops. “For us, it’s not about pilots or proof of concept projects anymore, we proved the business case ten years ago. Now there are a lot of people who know how to develop good projects and the problem is, when our investors evaluate the risk, they expect gross returns of 12-14% and that’s too much for small communities to deliver and still support decent livelihoods. We cannot work with a lot of potential projects because the return expectations of our investors are too high.” Guarantees or other de-risking mechanisms would “increase investor comfort and, in turn, reduce their rate of return expectations so we can scale up and work with more projects.”

Yet, the time and costs associated with seeking public finance support can present further roadblocks for groups such as Ecotierra to scale. Often development finance institutions charge the same rates for finance as the private sector and require their investment to be repaid first. This, on top of the additional requirements for data and reporting leads to the question, what additional value is public finance providing and how can this be improved? For Desmarais, “the most helpful guarantee is a second loss mechanism, where public finance absorbs 20% of losses after the first 10% is absorbed by the fund or similar.”

Convergence’s State of Blended Finance 2021 report identified the challenges in deploying public finance, noting that the flow of blended finance had dropped by 50% in 2020 compared to 2019. While 2020 was impacted by COVID-19, the finding suggests that ongoing issues such as long timeframes and high transaction costs continue to be major roadblocks for public finance to provide the catalytic solutions the sector requires to scale. As the climate and biodiversity crises worsens, the time government donors or multilateral funds take to make a funding decision is increasingly at odds with the demand for support and the limited window that remains to ensure global warming remains within two degrees.
The Emergence of New Carbon Credit Income Streams

Ecotierra is actively engaged in the voluntary carbon market, however for the first fund, carbon credits were not considered a product but as a risk management tool instead. For Desmarais, carbon credits support project Key Performance Indicators (KPIs) as they can be a tool to measure and communicate impacts on the ground. Carbon credits generate a new income flow, however, according to Desmarais, the income isn’t enough to generate a significant return. “For the first fund it was less than 1% of the value over the entire fund. For the second fund, we’re talking about seeing carbon credits as a product, but it’s hard for investors to strongly believe in the current carbon credits market due to regulatory uncertainty. The money is there, the potential for the market is there, we’re just waiting for governments to provide the enabling environment.”

What’s next for Ecotierra

Ecotierra’s relationship-based approach was inevitably disrupted by COVID however, Ecotierra’s pipeline is growing and they are currently fundraising for a second fund. Challenges and opportunities to scale up private investment in nature-based solutions
4. Challenges and opportunities to scale up private investment in nature-based solutions
On 24 May 2022, RSCF held a virtual knowledge exchange webinar with guest speakers, Susie Shuford-Lazarz of FMO, Edit Kiss of Revalue Nature and Sylvain Goupille of Octobre on the challenges of scaling up private investment in nature-based solutions (NbS) and the opportunities to overcome them.

The panelists discussed the importance of concessional, risk-taking capital sources to catalyze further funding, the emergence of new types of investors in NbS that can bring the sector to a larger scale, innovative financial vehicles to attract new sources of capital to NbS, and the risks and opportunities associated with the rising interest in nature-based carbon credits.

**Key opportunities**

Susie Shuford-Lazarz spoke of new approaches to overcome challenges in developing investment opportunities in restoration for blended finance vehicles, "We’re finding jurisdictional approaches to investment to be a really promising trend as it provides stable returns coupled with environmental and climate impacts, [providing] a lot of confidence to investors to invest in the sector."

Edit Kiss spoke of the opportunity to engage new corporate actors in NbS investment, "Corporates are now entering the impact space, blending capital with institutional investors complemented with philanthropic funding. They’re looking for high impact and financial return and can provide patient capital." The €50 million L’Oréal Fund for Nature Regeneration launched in 2020 and managed by Mirova Natural Capital is one such example.

Sylvain Goupille emphasized the opportunities in mainstreaming NbS investment across the financial sector: "The name of the game is to push private retail funds, high net worth individuals and institutional investors to go into NbS. If you’re looking at the current investors in the space we’re talking about 50 firms, that’s nothing, that’s not enough. We need to go much broader than that."
Key challenges and how to overcome them

The panelists outlined some of the key challenges to mobilizing finance focused on NbS, noting that many of the challenges are found in the earliest stages of fund development, where much of the risk is concentrated: “If you speak with [restoration] projects on the ground they will say the first $100k is more difficult to raise than the next $10m because no one wants to take the risk at the early stage,” said Edit Kiss.

“One of the challenges that remains is still the need to raise enough public funding to meet the return expectations of commercial and institutional investors,” said Susie Shuford-Lazarz. According to Susie, investors see the benefits that NbS investments provide but are still looking at it with a very narrow view, what is the IRR? When am I going to get the return? “We need to see a shift in mindset and we’re still not there, which is why we still need public investments to leverage private investment into funds.”

Yet for Edit Kiss, “often [concessional public finance] comes with a lot of preset conditions that slow down the process, rather than being flexible and saying [to fund managers], use it in a way that you can crowd in the most investment from the private sector.”

Managing risk profiles and attracting investors to new landscape restoration funds is a delicate balance. For Sylvain Goupille, one of the key challenges is the long-term horizon for nature-focused funds.

“When fundraising, one of the key messages from would-be investors is, we love your fund, we love the impact, the team, the track record, we even love the return expectations, but you want us to invest for 10-15 years and we want to invest for 3-4 years. It is a big mismatch. If you do want to deliver impact on the ground you need patient capital. You need to be here for 10 years, trees take time to grow.”

Market innovations linked to carbon credits

Edit Kiss highlighted how carbon credits provide a great opportunity to bring investment for nature. Edit outlined ways in which the market is innovating and thinking of new solutions to accelerate the flow of capital to landscape restoration activities, for example, the London Stock Exchange Voluntary Carbon Market aims to provide a new capital market solution for financing projects that mitigate carbon emissions, including landscape restoration activities. The initiative is envisaged to provide a platform to raise climate focused capital at scale and offer primary market access to a long-term supply of high-quality carbon credits for corporates and other investors.

The NYSE in collaboration with the Intrinsic Exchange Group has also launched a new investment vehicle called Natural Asset Companies (NACs) that enables governments, landowners and farmers to establish a specialized corporation structure that holds the rights to the ecosystem services produced on a given piece of land. The NAC is able to raise funds through an IPO in order to invest back into landscape management.
5. Land use finance knowledge exchange event
On 22 and 23 November 2022, the Restoration Seed Capital Facility team hosted an in-person Land Use Finance Knowledge Exchange Event in Cambridge, U.K. together with the AGRI3 Fund and UNEP-WCMC’s Environmental and Social Knowledge Exchange Network (ESKEN) community.

The two-day, peer-to-peer learning event brought together 75 fund managers, investors and environmental and social practitioners to recognize common challenges, share solutions and identify new opportunities to scale up the deployment of private finance for forest restoration and sustainable land use activities.

Under Chatham House Rules, the event convened discussions on biodiversity credits and natural capital markets; the challenges and opportunities of fund establishment and pipeline development; implementing E&S impact monitoring systems; speeding up investment flows including deal origination, investor engagement, fund deployment and impact assessment; emerging regulatory frameworks; and the risks and opportunities of voluntary carbon credit markets.

Closed-door discussions provided participants with space to be open and frank about the challenges they face and share opportunities to collaborate on future solutions. The value of connection and peer-to-peer learning were key takeaways from the sessions and will continue to be incorporated into future knowledge exchange events.
Key messages on the challenges and opportunities of mobilizing private finance for sustainable land use

Investment in nature-based solutions must double by 2025 and triple by 2030 for global climate, biodiversity and land degradation targets to remain in reach according to the United Nations Environment Programme’s State of Finance for Nature report. Accounting for only 17% of current investment, private sector finance must rapidly scale up to close the nature finance gap, yet sustainable land use investment remains an emerging sector.

To reach the scale of investment required to close the nature finance gap, public finance must strengthen its capacity to catalyze and de-risk transactions as the sector develops.

Among the many challenges still being faced by fund managers investing in nature, the following were highlighted by participants:

The role of concessional finance providers in blended finance vehicles:

• Raising concessional capital for blended finance vehicles: rising interest in nature finance from private investors is reducing the need for public or quasi-public entities such as Development Finance Institutions (DFIs) to act as senior investors in dedicated investment vehicles. However, DFIs still have a crucial role to play in providing capital on terms that will help to crowd in private investment. In particular, DFIs are most valued for providing first-loss capital or other forms of de-risking, which remain crucial in attracting private investment.

• Another clear ask from the participants was for the various institutions providing concessional capital to better harmonize their processes and requirements, particularly related to E&S issues. These requirements are too often idiosyncratic, complex and mutually contradictory, greatly increasing the burden of compliance for fund managers.

• The length of the process of negotiation, due diligence, and approvals with major financial institutions was also highlighted as increasingly out of step with both the expectations of private investors and the urgency of the climate and ecosystem degradation crises that need to be addressed.

Challenges in the development of investment opportunities with local partners

• Another challenge highlighted by participants was the lack of capacity of stakeholders on the ground, particularly with respect to the E&S requirements of impact investors. This lack of capacity leads to increased time and resources that the fund managers need to dedicate to developing potential investment opportunities and carrying out due diligence.

• While the increasing interest of investors leads to more capital flowing to nature-positive projects, a concern was raised that the drive towards larger ticket sizes of investments would leave the more impactful smallholder farmer or community-led projects behind.
Pre-eminence of carbon credit revenue-based strategies

• Much of the current interest in this area of investment is being driven by the demand for voluntary carbon credits. Strategies based on voluntary carbon are not always easy to blend with other strategies based on sustainable land use and there is a risk that highly impactful strategies with less of a carbon credit generating angle suffer as a result.

The following potential initiatives for increasing and improving private investment in nature were discussed:

• Sources of concessional finance were invited to be more responsive and creative in the way they deploy their capital to achieve impact. In particular, focusing more on providing risk cover, grants or highly concessional capital to enhance the E&S impacts of the investments.

• Liquidity guarantees could help to attract new types of investors who are currently put off by the long-term commitments required to participate in funds or other vehicles investing in nature-based solutions.

• Investors should seek out opportunities to collaborate more. Sharing due diligence materials or other information, for example, could shorten the process for other investors considering a common investment.

• Dedicated technical assistance provided to local stakeholders, particularly on E&S requirements of impact investors, could ease and accelerate the investment process.

Next steps

RSCF will continue to engage with practitioners across the public and private finance sectors to identify key barriers to unlocking investment for landscape restoration and work towards shared solutions. The key messages that emerged from the discussions will inform the development of new knowledge products that support the sector to close the nature finance gap.
6. Current state of the market
As part of its ongoing efforts to promote private investment in nature-positive activities that contribute to the protection and restoration of forests, RSCF has been conducting a series of discussions with investors and asset owners in this area to gauge the current state of the market and main trends that define it. One important focus of these conversations is on where the main barriers to accelerated investment lie and what can be done to alleviate these obstacles.

All of the investors RSCF talked to in this series of discussions agreed that there is considerable momentum behind the interest in nature-based solutions and other nature-positive activities as opportunities for investment. The topic has steadily been rising in the agendas of financial institutions for a number of years and reached a pinnacle in 2021-22 with the international attention given to nature in the Climate COPs and the UN Biodiversity Conference in Montreal.

This rise in interest has also been evidenced through the growing attention given by corporates, particularly in Europe but also in other OECD countries, to net zero carbon pledges, biodiversity-related commitments, and other environmental and social impact-related announcements.

The most visible effect of this so far has been the development of the voluntary carbon market (VCM). The increased focus on the VCM has led to a dramatic rise in investment vehicles targeting carbon revenue as a major or single source of revenue. While this is underpinned by high demand for nature-based carbon credits, many of the investors highlighted the high risks associated with such strategies. Prices for carbon credits remain volatile and recent public allegations have questioned the integrity of several prominent nature-based carbon
projects. Changes to voluntary methodologies and government regulations have the potential to dramatically affect the VCM.

Several investors however highlighted the potential that carbon revenues create for investment vehicles targeting mixed revenue models, where sustainable land use activities are combined with carbon credit generation. These investment strategies have the advantage of not relying solely on the VCM for revenue, but still have the potential to benefit from significant upside from this revenue, adding to the moderate returns from sustainable land use activities to make them more attractive.

While investors recognized the potential for such strategies, they highlighted a number of obstacles that constrain the supply of such investment opportunities. These constraints are the same constraints that affect the supply of sustainable land use investment opportunities more broadly.

**Market barriers**

The most often cited barrier to investment is the lack of on-the-ground expertise needed to develop and implement sustainable land use projects and other opportunities. In particular, the investors have pointed to the lack of developers and operators that combine these land use skills with the business, environmental and social risk management, and reporting skills that are sought by international investors.

Other barriers that have been identified by many of the interviewees relates to the small pool of dedicated and experienced fund managers in this space, and the mismatch between what is currently on offer in terms of investment opportunities in this space with their expectations and mandates, particularly in terms of risk/return profiles and liquidity.

When addressing the slow rate of deployment of investment capital to sustainable land use and nature-based solutions, investors have highlighted the high potential for environmental and social risks to manifest in such investments, leading to long and complex due diligence processes to identify and mitigate such risks.

In addition to this issue of potential E&S risk, private investors all agreed that there were still significant hurdles to be overcome before private capital could be deployed at scale in such strategies, particularly in developing countries. They highlighted the conjunction of country risk and sector risk, in addition to small ticket sizes and lack of liquidity as still putting many private investors off. It was however, also recognized that this area of investment was new to many investors and that there may be some unreasonable expectations from private investors when it comes to investing in nature.
Market opportunities

Investors were asked what elements could help in alleviating some of the constraints highlighted above to drive more investment into sustainable land use and nature-based solutions. With regard to risk in particular, many of the interviewees called for better risk cover. Given the high, and sometimes still poorly understood, risks that characterize land use investments in developing countries, investors still see a key role to be played by concessional sources of capital to better de-risk investments to attract private investment. Guarantees, first loss capital, and other forms of risk cover are seen as highly catalytic in this regard.

Aligning due diligence standards, particularly on environmental and social risks, and promoting the sharing of information among potential investors were also highlighted as having the potential to accelerate the investment process.

Another important element cited by many investors was the role of regulation. Regulation can help to promote more investment in this sector. Among the examples that were highlighted are corporate and financial disclosure standards, as well as trading standards such as the emerging EU Regulation on Deforestation-free Products. Similarly, the countries in which the investments take place can also help to promote such investments by providing clarity on regulation of sustainable land use activities and carbon trading.

Finally, it was also noted that for many private investors, this is still a very new area of investment, and that investor education on the complexities of land use is still needed to align expectations with the realities of implementing high integrity sustainable land use operations on the ground in developing countries.

Putting in place these measures, among others, to accelerate the deployment of capital to this sector is all the more important and urgent at the current moment, as many of the investors highlighted the significant headwinds caused by challenging conditions in the financial markets. There are already clear signs that the investor interest in nature-based solutions and sustainable land use has waned over the past year.
7. Looking ahead
RSCF remains on track to realize its goal to unlock private capital for investments in Forest Landscape Restoration. In the next twelve months RSCF has the following key priorities:

- **Diversify prospective partner groups and regional representation**
  Currently, the bulk of new partner interest comes from traditional forestry investors moving into the NbS sector or from dedicated carbon players. RSCF plans to diversify the discussions with prospective partner groups with targeted virtual and in-person regional outreach events.

- **Develop new knowledge products**
  RSCF’s ongoing market scoping interviews will inform the development of new knowledge products to advance the sector.