

Case Study: Catalyzing Private Sector Foreign Direct Investment (FDI) through Payments for Environmental Services (PES) from Farmer-led Landscape Restoration (FLR)

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## KEY MESSAGES

- **Locally-based actions** that address local priorities can result in lasting solutions to local challenges with global benefits like climate change. A partnership-based approach is essential to bring together the local farming community, technicians and country-based experts and the private sector to identify local problems and tailor the solutions to the socio-economic and cultural setting.
- **Aggregation of community – led action** supported by an intermediary enables the attainment of scale through aggregation, facilitating the utilization of public financing to leverage Foreign Direct Investment into smallholder-led conservation actions across multiple landscapes.
- **Multi-Sectoral non-carbon benefits:** Trees for Global Benefits (TGB) demonstrates that besides income from carbon trading there are significant non-carbon benefits such as employment, tenure, poverty reduction, ecosystem and biodiversity conservation, sustainable forest management, tourism, trade and wood energy.
- **Predictable long-term funding** is critical for farmers to adopt new technologies, for de-risking smallholder farmers and to enable management of natural systems like forests and agroforestry systems. Performance-based strategies like PES ensure transformation of the smallholders' investment horizon

## Background

The post-2020 Convention on Biological Diversity Framework (CBD, 2020) calls for transformative actions to create regenerative economies that serve humanity and steward the integrity of the Earth's ecosystems. The COP 14 decision on resource mobilization for transformation highlights the need to: (i) explore options and approaches for mobilizing and providing additional resources for biodiversity conservation from all sources; and (ii) considering ways to strengthen the engagement of a wider range of financial and private sector institutions at all levels and from all levels.

Trees for Global Benefit (TGB) is an example of an innovative market-driven model for catalyzing private sector driven foreign direct investment (FDI) to off-set their carbon footprints through thousands of community-based biodiversity protection solutions aggregated under the Trees for Global Benefit (TGB) program (ECOTRUST, 2003-2020) across key landscapes in Uganda with global biodiversity significance: the Queen Elizabeth and Murchison landscapes in Albertine Rift and the Mt. Elgon landscape.

It creates opportunities for diversified income generation aligned with the long-term gestation period of sustainable forestry. Each small house holding is treated as an economic unit that retains the rights to land, trees and carbon credits. The cooperative nature allows for aggregation to achieve scale, manage risk and access carbon financing under a set international standard (Plan Vivo) as a group scheme – which individual households would find too expensive to access.

### **Key stake/shareholders:**

- **Private Sector Partners:** Private sector willing to off-set their Carbon Footprint provide ex-ante FDI for community biodiversity solutions
- **Partner Communities & Landscapes:** Smallholder farmers, Multiple landholdings; Reforestation; Agroforestry; natural regeneration; pristine forests; Community land associations; collaborative forest management
- **Conservation Finance & Aggregation Intermediary Partner:** International standardization, Mobilization, Recruitment, Monitoring, Aggregation, Marketing, Financial Transfers

### **Key outcomes**

*i) Reduced forest degradation:* TGB reduces forest degradation by creating multiple income streams and helps farmers to adopt longer-term planning horizons (15 to 25 years) on the understanding that at given intervals (and subject to independent verification and certification), they can access carbon financing to kick-start forestry enterprises and increase per capita income from carbon credit sales and jobs provided directly by the project and tenure security. This model also allows farmers to generate income from enhanced land productivity currently at a per capita income of USD623, providing jobs for 22 full time and 90 part time employees. TGB supports 23 VSLAs, 24 community owned commercial tree nurseries as well as strengthening tenure for 10 community forests covering 1,173ha

*(ii) Sustainable financing model:* This financing model delivers money where it matters in form of performance – based payments for environmental services. In the past 16 years over US\$9.3 million in FDI for smallholder conservation solutions was mobilised of which over US\$3,020,916 has already been disbursed as a conservation financing incentive to over 8,996 smallholder households. The success of the model requires an intermediary to aggregate individual farmer carbon credits. Finally a partnership between smallholder farmers, private sector buyers the intermediary is essential to make the model work.

(iii) *Sustainability Model Balancing Restoration, Conservation, and livelihoods*: The TGB model provides a financial incentive for poor households to engage in biodiversity conservation. Reducing poverty among rural households and protecting ecosystems on which these households depend for subsistence agriculture, safe drinking water and forest products is one of the biodiversity conservation challenges faced by many countries in sub-Saharan Africa. This model is summarized in figure 1.

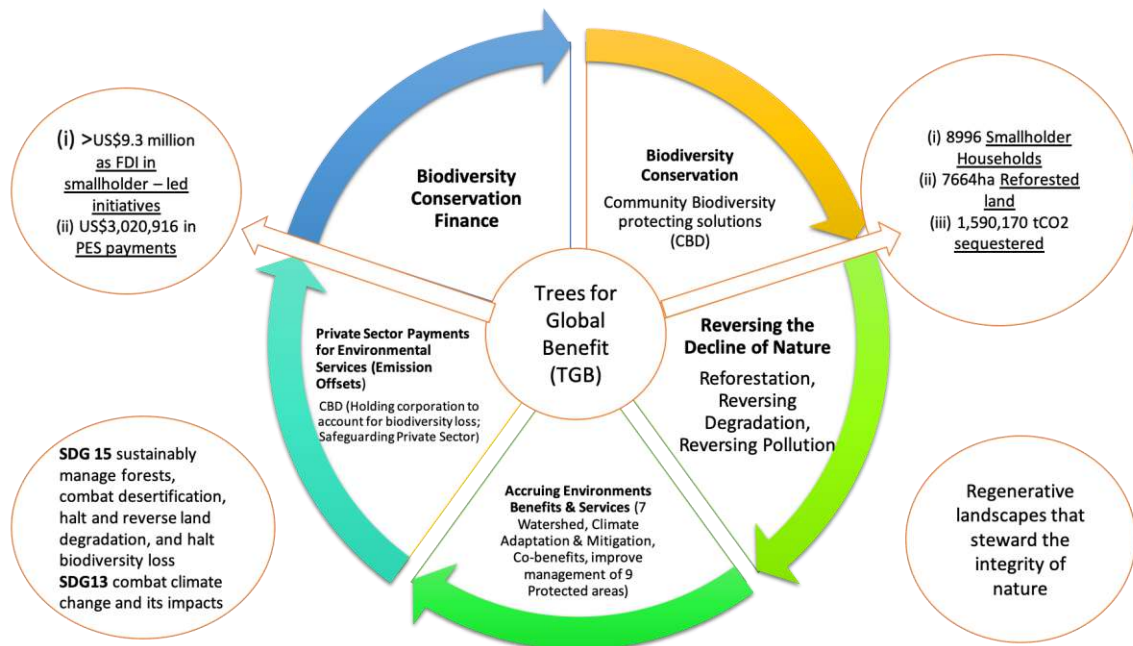


Figure 1 Framework for catalyzing Private Sector FDI as an incentive for farmer – led landscape restoration (FLR): The case of Trees for Global Benefit (TGB), ECOTRUST, Uganda

### Key challenges

(i) *Short-term investment horizons and short-term project cycles* of the landowners are not in sink with long-term forestry investments. This was addressed through the blended financing model where public, private & internally generated revenue are introduced at different stages of the investment lifecycle.

(ii) *High transactions costs arising from* smallholder farmers being geographically scattered, particularly in mountainous terrains of Mt. Rwenzori and Mt. Elgon regions. This has been resolved through an aggregation model that brings in economies of scale linked to a mobile application for recruitment and monitoring.

(iii) *Oil and gas infrastructure developments* have created fear and uncertainty among some farmers of losing their land. ECOTRUST has partnered with other Civil Society Organizations to advocate for farmers’ rights, including fair and timely compensation should the farmers lose their land.

(iv) *Environmental risks* such as floods, prolonged droughts, landslides, pests, and diseases can undermine the expected environmental benefits. These have been managed through a buffer of unsold credits as well as the creation of a self-managed risk fund that is used to support farmers that may be disproportionately affected by natural disasters to recover the lost environmental services

## Lessons

**Efficient Financing Models** TGB demonstrates that through a combination of effective participation and efficient financing models, it is possible to address the combined challenge of poverty, ecosystem degradation and climate change.

**Business Partnerships** TGB demonstrates that to support the smallholder farmers cost-effectively, collaborative tripartite partnership linking resource providers to intermediaries that can deliver the resources to partner communities and landscapes will be critical

**Negative Financing Models:** The current donor funding cycles have in some cases facilitated a cross-over from indigenous forest to plantations where Indigenous forest patches are cleared in favour of fast-growing tree species.

**Market Solutions:** With careful design, market solutions such as Payment for Environmental Services can create incentives to deliver tangible long-term sustainable resource utilisation.

### What is the main insight for strengthening the Post-2020 Framework

Financing in general and specifically the flow of real investment capital is one of the critical leverage points that will enable the shift to regenerative economies that serve humanity and steward the integrity of earth's ecosystems (Lovins et al, 2020). This case study brings out the following insights:  
*(i) Special focus of supporting smallholders and natural resource users:*

Considering that 75% of the SSA's population is involved directly or indirectly in farming, the strategic role of family farms in negative impacts on nature is increasingly being recognized by key actors (FAO 2013; 2014). As this case study demonstrates it will be difficult to deliver on new commitments for biodiversity if smallholder farmers are not appropriately targeted for transformational change, including packaging financing to them.

*(ii) A long-term and predictable financing instrument for biodiversity:*

The post-2020 biodiversity framework's financing mechanism will have to adopt a long-term and preferably blended model of financing to allow many players to benefit financially from conservation efforts through *performance based payment systems into biodiversity financing models*. Farmer efforts need to be backed by training and advice.