Scaling Partnerships for Investment in Sustainable Food Systems, Forests, and Nature

Insights from a series of case studies

In collaboration with the Good Food Finance Network and the Forest Investor Club

World Business Council for Sustainable Development

Just Rural Transition

UKaid from the British people

Good Food Finance Network

Table of Contents

Background

The World Business Council for Sustainable Development (WBCSD), as a founding partner of the Good Food Finance Network (GFFN) and the secretariat of the Forest Investor Club (FIC), has developed a set of case studies through desktop research and key expert interviews to showcase examples of innovative investment strategies that are directing private capital towards sustainable food systems, forests, and nature.

These case studies highlight how collaborations between public and private investors (e.g., development agencies, climate funds, development finance institutions, foundations, asset managers, asset owners, and corporates) offer a critical pathway to transform the financing of sustainable food and land use systems. More specifically, these examples focus on how innovative investment partnerships can be a powerful solution to create value, scale investments, and deliver impact. They also illustrate the catalytic role that corporates increasingly play in helping to set up and scale these types of investment partnerships. In addition, the case studies identify key trends in the market, and explore promising avenues to scale this investment partnership approach, including through strategic initiatives like the FIC and the GFFN's Co-Investment Platform.

A brief overview of the cases studies conducted is presented below:

- **Lestari Capital (Rimba Collective):** A natural capital asset management company that partners with corporates to deliver robust, verifiable nature-based solutions at scale. Case study here.
- **New Forests (African Forestry Impact Platform):** A global investment manager of nature-based real assets and natural capital strategies that partners with DFIs and private investors. Together, they invest in sustainable forestry operating companies and related assets in Sub-Saharan Africa with the aim to deliver commercial returns alongside conservation and sustainable development outcomes at scale. Case study here.
- **SAIL Ventures (& Green Fund):** An investment manager that partners with development agencies, climate funds, DFIs, foundations and corporates to finance the delinking of major commodity supply chains from deforestation in a way that is commercially viable and replicable. Case study here.
- **South Pole (Landscape Resilience Fund):** An impact-driven, independent foundation co-developed by South Pole and the World Wide Fund for Nature (WWF), that partners with climate funds and corporates to create a scalable way to support meaningful climate adaptation in rural landscapes. Case study here.
- **Livelihood Venture (Livelihoods Funds):** A social business that partners with corporates committed to generating positive impact by compensating for their annual unabated emissions and transforming their supply chains through sustainable and transparent agricultural models. Case study here.

While each case study is unique, with its own investment strategy, geographic and sectoral focus, and investment partnership approach, there are several emerging themes and key takeaways that can be extracted to inform future efforts in facilitating investment partnerships. The document below summarizes these main learnings and recommendations.

Emerging themes from the case studies

1. Innovative investment partnerships can play a critical role in transforming food and land use systems and efforts to facilitate these can accelerate collaboration and ensure their effectiveness

The importance of multistakeholder partnerships and the need for more effective collaboration across public and private organizations was highlighted in all case studies. These types of investment partnerships include a wide range of potential investors, such as development agencies, multilateral development banks (MDBs), development finance institutions (DFIs), asset managers, asset owners, and corporates that can help design innovative investment structures and connect pools of capital with different risk-return profiles to deals. Such partnerships with investors can help raise investment capital, as well as mobilize much-needed capital for technical assistance. To ensure effective implementation, however, the experts interviewed also mentioned the need for more strategic collaboration with partners on the ground, such as local governments, private project developers, Small and Medium sized Enterprises (SMEs), non-governmental organizations (NGOs), indigenous groups, and farmer organizations.

In addition, there was consensus that partnerships are essential not only to mobilize and deploy capital effectively, but also to share learnings and design bespoke solutions that can provide a comparative advantage, increase competitiveness, and ensure stakeholder satisfaction. A significant amount of time and effort is needed to establish strategic and long-lasting partnerships, especially with the limited number of organizations/agencies available to help arrange them. Owing to these factors, the parties emphasized how partnership building comes down to organizations having the necessary soft skills and time, the ability to identify the right individuals to work with, and the capacity to build personal rapport over, quite often, extended periods.

Accordingly, initiatives such as the GFFN and the FIC can play a catalytic role in helping set up strategic multistakeholder partnerships that can accelerate collaboration and ensure its effectiveness.

Recommendations

- Conduct a market segmentation of key actors (e.g., corporates, public and private investors, project developers, etc.) and map out promising opportunities to establish innovative investment partnerships among them.
- Leverage the convening power of leading initiatives, such as the FIC and the GFFN and its Co-Investment Platform, to broker investment partnerships among corporates, public and private investors, and project developers to accelerate the deployment of capital, technology and expertise in sustainable food and land use systems.
- Initiatives facilitating investment partnerships, such as the FIC and the GFFN, should focus on leveraging opportunities to connect diverse types of expertise, such as sustainable supply chains, climate change, nature markets, impact finance and risk management.
- Efforts to catalyze investment partnerships should consider how best to engage partners on the ground, such as local governments, private project developers, SMEs, NGOs, indigenous groups, and farmer organizations to ensure effective implementation.

2. Catalytic capital is needed to mobilize private sector investment at scale, but it is still difficult to access

Mobilizing private capital at scale will be critical to meet the UN Sustainable Development Goals (SDGs), the targets of the Paris Agreement, and the Kunming-Montreal Global Biodiversity Framework.

Private investment in the food and land-use sector is limited due to several factors. These include a lack of sector understanding, a discrepancy between actual and perceived risks, insufficient data on potential financial returns, and the high transaction costs that sustainable food and land-use systems represent in frontier and emerging markets. Furthermore, the risk-return profiles of large private investors, who tend to prefer bigger ticket sizes with lower risk and more stable returns, do not align with most of the deal flow available in these markets. Hence, raising private capital, specifically institutional investor capital, continues to pose a significant challenge for most asset managers. This is challenging even for asset managers with a solid track record raising institutional investor capital in developed and emerging markets who want to execute innovative investment strategies in frontier markets. The perceived lack of consolidation and scale poses another significant challenge to attracting private capital to the food and land-use sector in frontier and emerging markets.

The parties interviewed emphasized the need for more catalytic capital to de-risk investments and crowd-in private capital, specifically from institutional investors. However, they also highlighted the complex and time-consuming process of identifying and raising catalytic capital for the sustainable food and land-use sector. This becomes specifically acute if the provider is a development agency, climate fund, development finance institution and/or a multilateral development bank, and the recipient is a private investor. Luckily, many corporates are stepping in to provide capital to support investments that increase the resilience of their own supply chains and that generate attractive social and environmental returns (such as equity improvements, Greenhouse Gas [GHG] reduction and biodiversity gains).

Interestingly, several of the experts interviewed highlighted that deploying catalytic capital to generate positive social and environmental returns (alongside attractive financial returns) at landscape level requires a different skillset, higher risk appetite, and a more diverse network than some asset managers tend to have.

Recommendations

- Map out existing catalytic capital/blended finance windows that private investors and corporates can access to deploy capital at scale in sustainable food and land use systems, with a specific focus on opportunities in frontier and emerging markets.
- Leverage initiatives focused on catalyzing investment partnerships, such as the FIC and the GFFN, to engage catalytic capital providers, such as development agencies, foundations, and corporates interested in transitioning to sustainable food and land use systems.
- Develop strategic roadmaps and business cases for institutional investors that showcase concrete and profitable investment partnership opportunities in both developed and emerging markets.
- Strategically match pools of capital with different risk-return profiles so that initiatives focused on catalyzing investment partnerships can enable a wide range of actors (e.g., development agencies, MDBs, DFIs, asset managers, asset owners, corporates, and project developers) to invest at scale in sustainable food and land use, including in the Global South.

3. To attract private investors, investment in "readiness" is needed to develop a high quality pipeline

The number of sustainable food and land-use deals available in frontier and emerging markets that meet the risk-return profile of most commercial (and even impact) investors is often limited due to the perception of low returns, high-investment risks and transaction costs, unclear impact potential, and lack of investment readiness. Coupled with these, the insufficient understanding of the sector by some investors, their lack of physical presence and reliable partners in those geographies, and the limited data available on past transactions results in private investors shying away from the sector, as the available deals often do not meet their risk-return profile.

Similarly, there is a scarcity of capital available for technical assistance that can be used to increase investment readiness, as well as to support businesses overcoming the "valley of death" - a crucial phase for new enterprises when substantial work has begun but no sufficient revenue has been generated. This severely limits the ability of indigenous groups, farmer organizations, SMEs, NGOs, and private project developers to build a pipeline of deals with sufficiently attractive risk-adjusted returns. Furthermore, many of the existing incubators and accelerators, which are often focused on seed and early stages, tend to struggle to raise the necessary capital to help businesses grow and attract further private investments. Hence, more work (and capital) is needed to help aggregate smaller deals and consolidate businesses, specifically in frontier markets.

In addition, several parties raised the need to increase the capacity of partners on the ground to help them better understand the needs and expectations of private investors, and to further develop their business acumen, so they can help develop a pipeline of deals with attractive risk-adjusted returns. Luckily, much innovation is happening in this space as more private consulting firms, project developers, asset managers, and corporates partner with international and local actors to transfer knowledge, skills, and, in some instances, catalytic capital. This is particularly the case in the nature-based solutions space, specifically with carbon-based transactions, where upfront capital is increasingly more available and where more rigorous standards and methodologies are being developed for defining high integrity principles and how to assess them (e.g., Integrity Council for the Voluntary Carbon Market [ICVCM]).

Despite all these challenges, most parties interviewed are optimistic due to the numerous opportunities that exist in frontier and emerging markets, especially given the increasing number of organizations interested in establishing strategic partnerships, providing catalytic capital, designing disruptive business models, and leveraging innovative technologies. To that end, initiatives with a strong convening power that are perceived as neutral brokers can help accelerate the pipeline origination and matchmaking process.

Recommendations

- Increase government support towards market building interventions and redirect and increase market incentives for new investment opportunities in sustainable food and land use systems in the Global South.
- Increase and strategically redirect the volume of official development assistance (ODA), development finance and catalytic capital deployed to support pipeline development and aggregation of deals in the Global South.
- Support matchmaking platforms to effectively connect deals to pools of capital with different risk-return profiles. Similarly, leverage digital solutions to facilitate aggregation of deals to help meet the large ticket size and risk-return expectations of private investors.
- Initiatives focused on catalyzing investment partnerships, such as the GFFN and the FIC, can use their networks to identify pipeline throughout their members' corporate supply chains (specifically Scope 3), and use their convening power and neutral broker status to support matchmaking.

4. Growing interest in nature markets can drive investment towards sustainable food and land use systems

The parties interviewed showed strong interest in all types of nature markets , with the largest focus on markets for both carbon credits and biodiversity credits. Even though some of these markets are still unregulated and nascent, private investors and corporates see them as an opportunity to increase the resilience of their supply chains, compensate for their annual unabated GHG emissions, and positively affect climate and biodiversity, while large financial institutions are exploring how they too can leverage them to compensate for their own annual unabated GHG emissions.

Different forms of Nature Markets[1]

There are three key forms that nature markets (e.g., carbon, biodiversity, water) can take, highlighting their breadth and diversity.

a. **Intrinsic markets** - the trade of nature itself e.g., food, nature-based medical products, wood products, the sale of sand, earth and minerals, the nature value of tourism
b. **Credit markets** - investments and/or trade in aspects of nature to compensate for unabated impacts, e.g., emerging biodiversity credit markets
c. **Derivative markets** - trade instruments that reflect the value of nature embodied in the underlying economic assets and enterprises e.g., nature-related risk markets, non-fungible tokens (NFTs)

This reflects a broader trend. While the most common investment strategy in the natural capital space remains an exclusive focus on intrinsic markets, the last five years have seen an overwhelming increase in investment strategies exclusively focused on credit markets, spearheaded by corporates, although accessing high-quality pipeline remains a critical challenge, especially regarding additionality, permanence, leakage, and benefit-sharing arrangements.

[1] Taskforce on Nature Markets: Home | Taskforce on Nature Markets

While nature markets represent an excellent opportunity to increase investment in nature-based solutions, work is needed to introduce more transparency for high-integrity markets to drive further investment. Similarly, more work is needed to ensure that all businesses monitor, assess, and disclose their risks, dependencies, and impacts on nature. To that end, it is critical that public and public-private initiatives working in this space develop the science-based knowledge and tools needed by private investors and corporates to increase confidence and scale investments in high-integrity nature-based solutions.

Recommendations

- Develop strategic nature-positive roadmaps and guidance for corporates and public and private investors engaged in the transition to sustainable food and land use systems.
- Initiatives focused on catalyzing investment partnerships, such as the GFFN and the FIC, can leverage their expertise and networks to generate and share knowledge, as well as accelerate the adoption of standards and tools on nature markets.
- Originate and/or support the development of a high-integrity and high-quality pipeline of nature-related projects that can be scaled by corporates and public and private investors.

5. Impact-linked compensation structures could help achieve impact at scale

As the global impact investing market continues to grow, reaching USD $1.164 trillion[2] in 2022, achieving measurable impact is slowly becoming a key consideration of many investment strategies. This is increasingly reflected in the agreements between the partners managing the investment fund (the General Partners [GPs]), and the partners investing in that fund (the Limited Partners [LPs]). For example, 47% of the impact investors working with BlueMark – a leading provider of independent impact verification and intelligence for the impact and sustainable investing market – use impact-linked compensation structures, which tie a portion of the financial compensation that the General Partner receives to the social and environmental performance of the companies they invest in. Most commonly GPs are financially rewarded if they meet previously agreed impact targets, but in other instances the GP could lose a percentage (or all) of its financial incentives if one, several, or all the impact targets are not met. In either case, the percentage of carry linked to impact sends a strong signal of the fund's priorities.

[2] Global Impact Investing Network (2022): GIINsight: Sizing the Impact Investing Market 2022 | The GIIN

Common approaches to impact-linked compensation[3]

a. Linking GPs' staff performance reviews to the achievement of impact performance goals (23% of BlueMark clients use this approach).
b. Linking annual bonuses to the achievement of impact performance goals (17% of BlueMark clients use this approach).
c. Linking carry (carried interest) to the achievement of impact performance goals (3% of BlueMark clients use this approach). This approach can be designed in many ways, though some of the most common are:
    i. The base carry can be adjusted upward if the financial hurdle and one, several, or all impact performance targets are met.
    ii. The base carry comprises two components, one tied to financial performance, and another tied to the direct proportion of the percentage of the impact achieved.

Incorporating well-designed impact-linked compensation structures, with the flexibility to adapt as the investment strategy evolves, into investment partnerships, constitutes a powerful mechanism to align investors' financial incentives with the creation of transformative social and environmental impact.

Recommendations

- Develop strategic roadmaps and guidance on how to design impact-linked compensation structures to provide guidance to GPs and LPs, promote best practice and avoid perverse incentives.
- Strategically use (traditional) catalytic capital (e.g., development agencies, climate funds, and foundations) to design robust impact-linked compensation structures that can help drive accountability for impact and avoid impact washing, and incorporate these when designing investment partnerships.
- Design clear and standardized impact management and measurement frameworks, including quantifiable impact metrics, that can provide reliability and transparency to investors willing to engage in impact-linked compensation structures.

Conclusion

The research and key expert interviews conducted for these case studies has highlighted a clear need for initiatives with extensive networks and robust convening power to accelerate the development of innovative investment partnerships in the sustainable food and land use systems space. These initiatives, such as the Good Food Finance Network and the Forest Investor Club, can help increase access to catalytic capital and pipeline, share knowledge and tools on nature markets, and provide strategic guidance on prioritizing positive equity, climate, nature, and nutrition security action in corporate and private investors' operations.

[3] BlueMark (2001): BlueMark: Making the Mark, The Benchmark for Impact Investing Practice, May 2021

About WBCSD

WBCSD is the premier global, CEO-led community of over 200 of the world's leading sustainable businesses working collectively to accelerate the system transformations needed for a net zero, nature positive, and more equitable future.

We do this by engaging executives and sustainability leaders from business and elsewhere to share practical insights on the obstacles and opportunities we currently face in tackling the integrated climate, nature and inequality sustainability challenge; by co-developing "how-to" CEO-guides from these insights; by providing science-based target guidance including standards and protocols; and by developing tools and platforms to help leading businesses in sustainability drive integrated actions to tackle climate, nature and inequality challenges across sectors and geographical regions.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than USD $8.5 trillion and 19 million employees. Our global network of almost 70 national business councils gives our members unparalleled reach across the globe. Since 1995, WBCSD has been uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability, united by our vision of creating a world in which 9+ billion people are living well, within planetary boundaries, by mid-century.

www.wbcsd.org

About JRT

The Just Rural Transition initiative (JRT) brings together food producers, governments, businesses, investors, civil society, rural and indigenous peoples to champion people-centered solutions to food systems challenges. They aim to transform food systems by catalyzing policy reform, encouraging investment partnerships, and mainstreaming food, land use, justice, equity, and rural livelihoods at the center of efforts to realize sustainable development goals and the Paris Agreement.

JRT is a partnership of Meridian Institute and WBCSD with funding from the UK Department of Foreign, Commonwealth and Development Office and ClimateWorks Foundation.

www.justruraltransition.org

About the Good Food Finance Network

The Good Food Finance Network (GFFN) is a network of high-level leaders, technical experts and agropreneurs from finance, business and public sector combining their resources and intellectual capital to promote investment and provide finance solutions for sustainable food systems.

GFFN is a partnership between WBSCD, Access to Nutrition Initiative, EAT, and UN Environment Programme Finance Initiative, working in close collaboration with strategic supporting partners.

https://goodfood.finance/

About the Forest Investor Club

Launched by the U.S. Department of State and led by WBCSD, the Forest Investor Club is a network of public and private financial institutions, companies and investors committed to accelerating the deployment of capital into the protection, restoration, and the sustainable management of forests and nature. It catalyzes investments that reduce emissions and enhance carbon sequestration by supporting members through additional access to investment pipeline, facilitating complementary partnerships to de-risk and increase access to capital, and developing solutions to overcome investment barriers.

www.wbcsd.org/Focus-Areas/Forest-Investor-Club

World Business Council for Sustainable Development

Geneva | Amsterdam | London | New York City | Singapore