

Community of Practice

Financial institutions and Natural Capital (CoP FiNC)

Summary 12th November 2015

- Impact investing, eco-restoration & land-use -

Opening

Host ACTIAM invests 51 billion on behalf of insurance companies, mutual funds, pension funds and banks. The principles of [Global Compact](#) and [PRI](#) are for ACTIAM integral parts of the investment process. The impact of ACTIAM is mostly found in raw material suppliers (agriculture, mining, oil and gas), in manufacturing industries (chemicals, capital goods, utilities) and in investments in businesses with a complex (agri-)supply chain (food, beverage, clothing companies, et al).

ACTIAM is active at system level. Together with other financial institutions they map risks, determine what is going wrong and how to change it. Apart from CoP FiNC they contribute to / cooperate with: [Multi Stakeholder Dialogue land governance](#), [Pilot Circular Economy](#), Round tables about diverse subjects (for example [PRI palmoil](#)), the [FAIRR](#) initiative, the [Platform Carbon Accounting Financials](#) and [WRI](#).

ACTIAM is focused on natural capital via

- 1) Engagement (counteracting deforestation, stimulating usage of sustainable wood)
- 2) Real estate policy (new as well as existing buildings in the portfolio)
- 3) Green Bonds

Green Bonds; experience of members

ACTIAM strongly supports the development of the Green Bond market and is a member of the Community for [Green Bond Principles](#). Issues for development of this market are the governance, verification, ring fencing and what is green enough (cooperation with the [Climate Bonds Initiative](#)). These issues are resolved per sector with a focus on location and ecosystems. Starting point is 'one ecosystem thinking'.

FMO finances green projects via the issue of [sustainability bonds](#) mainly for mitigation and adaptation of climate change and inclusive projects (microfinance). The sustainable investments are made through an integrated ESG framework. FMO has, besides credit ratings, also sustainability ratings. FMO is a member and applicant of the Green Bond Principles.

Triodos Investment Management is one of the largest Green Bond players. There is no specific Green Bond for eco-restoration of land-use. Sustainable land use is included in the principles. Triodos Greenfunds is using the principle of 'dual use of land' (for example solar panels on contaminated soil). In the agriculture sector the market for organic food is growing. To achieve more impact Triodos wants to provide growth capital for organic food with for example Nestlé and Proctor & Gamble. Bankable project are not easy to find. Triodos uses ESG themes to describe business cases and less for measuring the impact on biodiversity or reporting.

Discussion

- What do you do when investing in a windmill project of a nuclear energy company? Do you take the whole company into account or just the green project?
- Green Bonds can play an important role in enhancing green SMEs (and thus the transition to a green economy) when small projects are brought together in packages for investors.
- Via Green Bonds, financial institutions can have a facilitating role in bringing together green financial needs and financial resources.
- For Green Bonds certification is needed (to judge and measure the risks and profits).

Framework for ecological restoration, Willem Ferwerda (Commonland)

The main question for [Commonland](#) is how to get a business case for eco-restoration in such a way that investors want to step in. In the past 4 years director Willem Ferwerda has developed the [4 Returns from landscape restoration](#) framework:

1. Inspiration (goal, hope, pride and culture recovery);
2. Social capital (work, education and safety)
3. Natural capital (restoring biodiversity, soil and water quality)
4. Financial capital (achieving long-term sustainable growth)

The model consists of three zones for eco-restoration: natural, economic, and combined zones. They cannot be seen as separate. For landscape restoration a period of 20 years (one generation) is chosen. This gives farmers time and perspective to think and act differently. It also calls for other investors than the one with a short-term focus.

Biodiversity is the resilience of our economy so a shift is needed in business from a degradation to a restoration industry. Willem was inspired by the eco-restoration work of John Lui on the Chinese Loess Plateau (the size of France) and is working with him since 2009. It is not so easy to get financial institutions to invest due to the high-risks, low profitability, no exit strategy and lack of a track record. Investors in London said: "we do not understand it and there is no toolbox or framework".

Willem founded Commonland and invested in the needs (and language) of investors. When he went back to them he started the conversation by asking what the investors wanted as a future for their children. They preferred ecological functionality and a landscape able to facilitate green growth instead of business as usual where nature is not taken into account (leading to deforestation, overfishing, monocultures for food). For ecosystems to function you need to work from the ecosystem concept, with a holistic approach and a common interest for landscape recovery. "Restoring the soil restores the soul" said an Indian farmer.

Questions and answers

- Institutional investors are subject to supervision by DNB. The question is whether this strict due-diligence is carried out with respect to alternative investments. Commonland is not ready yet for institutional investors. 'Transition money' is needed from family offices and equity funds. Diversity in the funding model is needed.
- The three zones have different return and risk profiles. Finding the right investor for a particular zone could be a way forward.
- On a system level the question is what is the role of government? The mentioned options are: act as a guarantee for alternative investments in eco-restoration; work with market operators from an ecosystem perspective; develop 'blended' finance strategies, or go for the pricing of the risk.
- Support and change can be accelerated by the 2% experimentation space of institutional investors.
- There is a paradigm shift from excluding to engagement and long-term goals. The question is how the supervisor (Central Banks etc.) will handle current barriers for this shift.
- Let's make a new biodiversity fund together.