HLPF Thematic Review of SDG 15
Statement on Sustainable Land Bonds, The Nature Conservancy
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Sustainable Land Bond: 'Greening' Green Bonds

WHY DO WE NEED SUSTAINABLE LAND BONDS?

- Without **urgent changes to land management systems** we will simply not be able to reach the targets set out in the Paris Agreement target of keeping global warming below 2°C this century and meeting the Sustainable Development Goals (SDGs).
- The adoption of sustainable land-use practices at scale will require **substantial investment** over decades. A significant part of this can be funded through **climate finance** – investment which connects sustainability, economic development and the reduction of carbon emissions to help deliver on the Paris Agreement.
- The challenge that the SLB is trying to solve is as follows: how to reconcile capturing carbon mitigation potential with **rapid rural economic development**. This challenge is greatest for developing countries with large areas of tropical forest and significant agricultural sectors.
- Research, led by The Nature Conservancy, indicates that **natural climate solutions** can deliver more than a third of **cost-effective emissions reductions** needed to hold global warming below 2 degrees Celsius by 2030. This adds up to around 11 billion tons per year by 2030, that's equivalent to halting the burning of oil. Natural climate solutions are proven ways of storing and reducing carbon emissions in the world's forests, grasslands and wetlands – or sustainable land management. More than one-third of cost-effective reductions through natural climate solutions could cost less than $10 per ton of CO2 equivalent saved.
- More than 140 countries reference land-use mitigation in their **Nationally Determined Contributions (NDCs).** Indonesia, for example, has set an unconditional target of reducing emissions by 29% against a business-as-usual scenario by 2030 and estimates that it can contribute an additional 12% with external assistance. To date 38[1] out of 160 who signed the Paris agreement have specific targets for the land sector in their commitments to curb greenhouse gas emissions. (Forsell et al)

HOW DOES THE SUSTAINABLE LAND BOND WORK?

- By issuing a Sustainable Land Bond, governments can access large amounts of **inexpensive long-term capital in the mainstream capital markets** and link them with results-based payments

[1] These are mainly countries in Africa, as well as Brazil, India, Indonesia, Japan, Norway, Australia and others.

agreements. These pay out annually based on achieved emissions reductions (or negative emissions). The key is that SLBs secure funding up-front to finance large scale land management interventions, while lowering the cost of borrowing significantly (potentially to zero) if the results are achieved.

- By linking bond issues and results-based payments, governments can strengthen their **climate change policies** linked to the land – for example, halting deforestation or improving agricultural management. At a national level, SLBs bridge environmental and economic development policies. Because they are tied to results-based payments for sustainable land-use, SLBs encourage governments to draw up sector programs, rather than simply focus on individual projects. This should **encourage coordination between relevant ministries** such as finance, agriculture, forestry, planning and environment, and between central and local government.
- For governments issuing SLBs, **borrowing costs are cheaper** and additional to what might be raised in a regular issuance program. From an investor's standpoint, **risks are no greater** than normal and the SLB will be serviced as a regular sovereign or government agency bond.
- There are parallels with **early-stage development of renewable energy** projects, where many governments enacted adopted policies specifically designed to help attract private capital such as tax incentives and other subsidies. SLBs can most effectively promote climate-friendly investment in land-use when supported with measures such as grants, tax incentives, subsidies, payment for ecosystem services, enforcement and policy support, etc.

WHAT IS A SUSTAINABLE LAND BOND?

- The **SLB differs from regular bond issues** in two important respects: one, the issuer commits to use the proceeds for sustainable land management initiatives to reduce greenhouse gas emissions. And two, governments or agencies issuing a SLB simultaneously enter into a long-term Results-Based Payment Agreement (RBPAs) with a third party that will reduce or even entirely offset the SLB's interest cost, provided that pre-agreed levels of land-based emission reductions are achieved.
- **Results-based payments agreements** for land-use are already established and have been made bilaterally or through multilateral programs, such as the World Bank's Forest Carbon Partnership Facility Fund. Country donors include the UK, Norway and Germany, which together have pledged $5 billion in 2016-20, mainly from ODA budgets. Norway has signed $1billion Letters of Intent with both Indonesia and Brazil, as well a number of smaller agreements with other countries such as Guyana, Liberia and Peru.

WHAT ARE THE ADVANTAGES/BENEFITS OF A SUSTAINABLE LAND BOND?

- For **investors**, there are a number of similarities between SLBs with conventional investments. Backed by the full faith and credit of the issuing government, an SLB will have the same credit ratings as other comparable bond issues by the same issuer. Cash flows to investors do not depend on results-based payments; and bond yields will be broadly in line with the market and the transparency of use of proceeds should qualify an SLB as a Green Bond.

- **For asset managers**, SLBs will represent the 'greenest of green' and thus be highly sought after for dedicated Green Bond funds or for many ESG managed mandates. Green bonds have been consistently and significantly oversubscribed and are in high demand amongst investors.

- **For Providers of results-based payments**, such as Norway, UK and Germany, can meet development and environmental goals and help advance the international agenda for combating climate change.

- **For borrowers**, SLBs can be used to raise finance at a far lower net cost that through regular bond offerings, because they can unlock results-based payments. With flexible amounts and maturities, SLBs can complement an existing debt issuance calendar whilst attracting additional investors seeking 'green' features in their portfolios. The SLB structure maximizes the availability of capital up-front (SLBs like other sovereign bonds can be arranged, underwritten and distributed in just a few weeks). Scaling-up improvements in sustainable land-use can mobilize further investment capital, for example foreign direct investment (FDI) and Overseas Development Assistance (ODA). SLBs will involve government departments such as finance, environment and agriculture and forestry working together thus strengthening inter-departmental cooperation.

- SLBs will send a strong signal of commitment of how governments could meet **NDCs** through all the ways needed - and will likely enhance the country's standing in capital markets more generally. Rating Agencies are taking into account countries commitment to sustainable land use and meeting Paris Climate contributions when evaluating the rating on all that country's sovereign debt. The result can be a virtuous cycle of more investment, higher productivity, stable long-term GDP growth, as well as increased climate mitigation.

- Investment in better land management improves **soil health, water and air quality and biodiversity.** Healthier soils and more sustainable land management make it possible to produce higher yields on the same area of land, raising rural incomes, GDP and tax revenues. Environmental benefits in turn strengthen the land's resilience to the increased intensity and frequency of extreme weather events, such as storms or droughts.