



INNOVATIVE FINANCING & INVESTMENTS IN FORESTRY

DEVCO Environment week 2018

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UNIQUE FORESTRY AND LAND USE

Who we are

- An international consulting and project management company with 20 years of experience
- Focus on forestry, agriculture, value chains and rural development
- > 70 employees: in-house technical experts (forestry, land use, agriculture), economists and policy experts and a broad network of associated experts
- Certified quality management (ISO 9001:2008)
- Clients & partners: technical & financial cooperation, financial institutions, ministries & administrations and forest owners
- Managing 15,000 ha of FSC certified forests in Paraguay: Natural forests, forest plantations and silvo-pastoral systems in partnership with local land owner and industry partner
- Advising and assisting a number of forest and land use funds

FOREST INVESTMENT MECHANISMS – 3 CASE STUDIES

Fit to purpose: Public - private forest investment mechanisms

Central
America



Forestry and Climate
Change Fund



L. America &
SS Africa



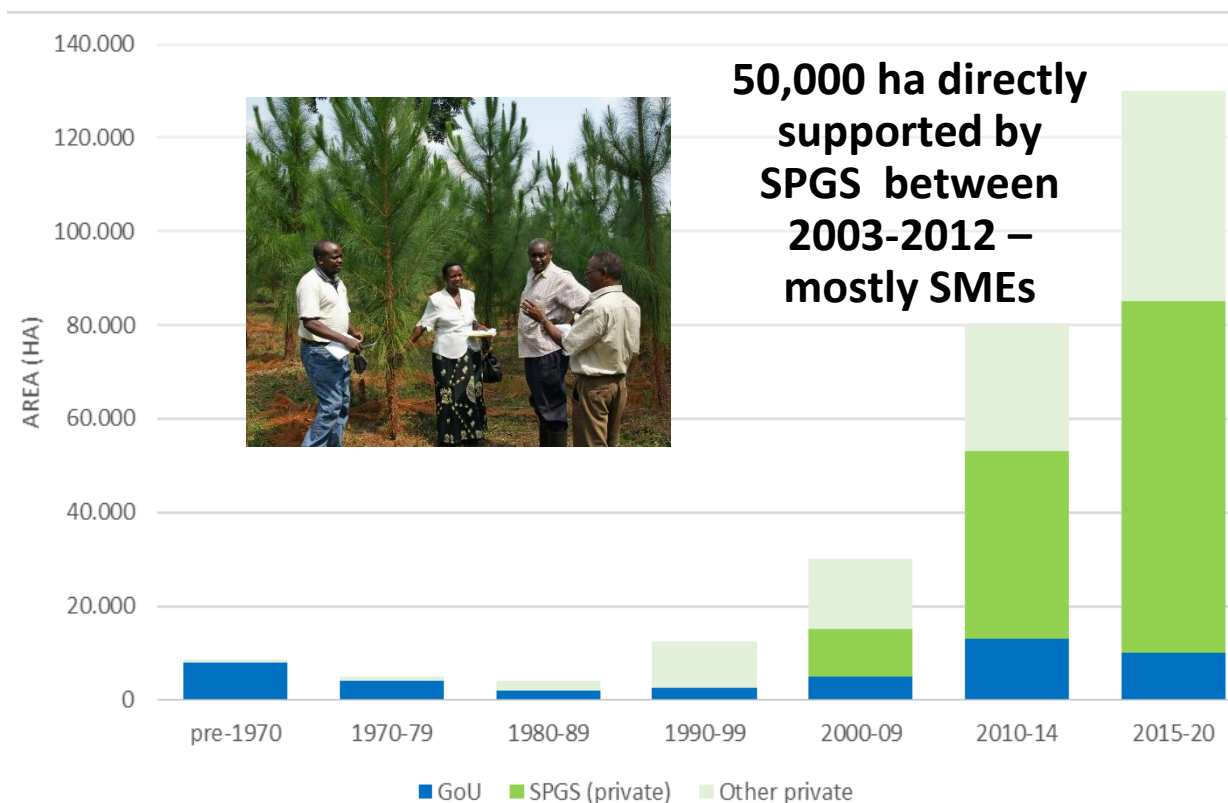
Uganda



SAWLOG PRODUCTION GRANT SCHEME



Successfull development of a national commercial forestry sector



Key features

- EU support to reduce forest degradation by developing sustainable alternative source of timber
- Attracting private investment by providing 50% grant (ca. €350 per ha) based on results;
- Technical Assistance and enforcement of standards
- Ring fencing from domestic & international distraction
- Best national commercial forestry programme in Africa

Source: SPGS, UNIQUE

FORESTRY AND CLIMATE CHANGE FUND



Innovative private finance to manage degraded/secondary forests

Forestry and Climate
Change Fund



Key features

- Launched in Oct. 2017 with €15 M from private/public investor
- **Investing in family and community forestry >1,000 ha** and strategic industry platforms
- **Structured fund**, first loss facility from the Lux. Gov.
- **Project pipeline and technical assistance supported by LUXDev**
- Transfer of **microfinance experience** to forestry
- First fund of its kind

Why investing in secondary and degraded forests

- **Creating employment** in the forest enterprise and the value chain (3-10 FTE/1,000 ha)
- **Road infrastructure and market access** often already available (saving €10-30 per ha)
- **Faster biological growth** compared to natural forests (3-12 m³/ha/yr vs 1-3 m³/ha/yr)
- **Investments** per ha lower compared to plantations, long term attractive returns and strong social as well as environmental impacts

Investing in sustainable forestry in emerging commercial forestry markets



Key features

- **First closing in July 2018 with \$60 M**, mostly from private investor. Target size \$200 M
- **EIB initial public cornerstone investor**
- **Investing \$15-25 M per project in commercial tree planting, sustainable forest plantation management and associated value chains**
- **Target impact: >20 M tCO₂, 5,000 qualified jobs created**
- **Strong combination of financial & forestry expertise**
- **Focusing on proprietary off-market transactions**

LESSONS LEARNED: ENABLING FRAMEWORK

- **Environmental**

- Site-species-market approach
- Enforcing Environmental Social Governance e.g. through FSC certification, IFC Performance Standards and EIB Environmental Guidelines

- **Investment climate**

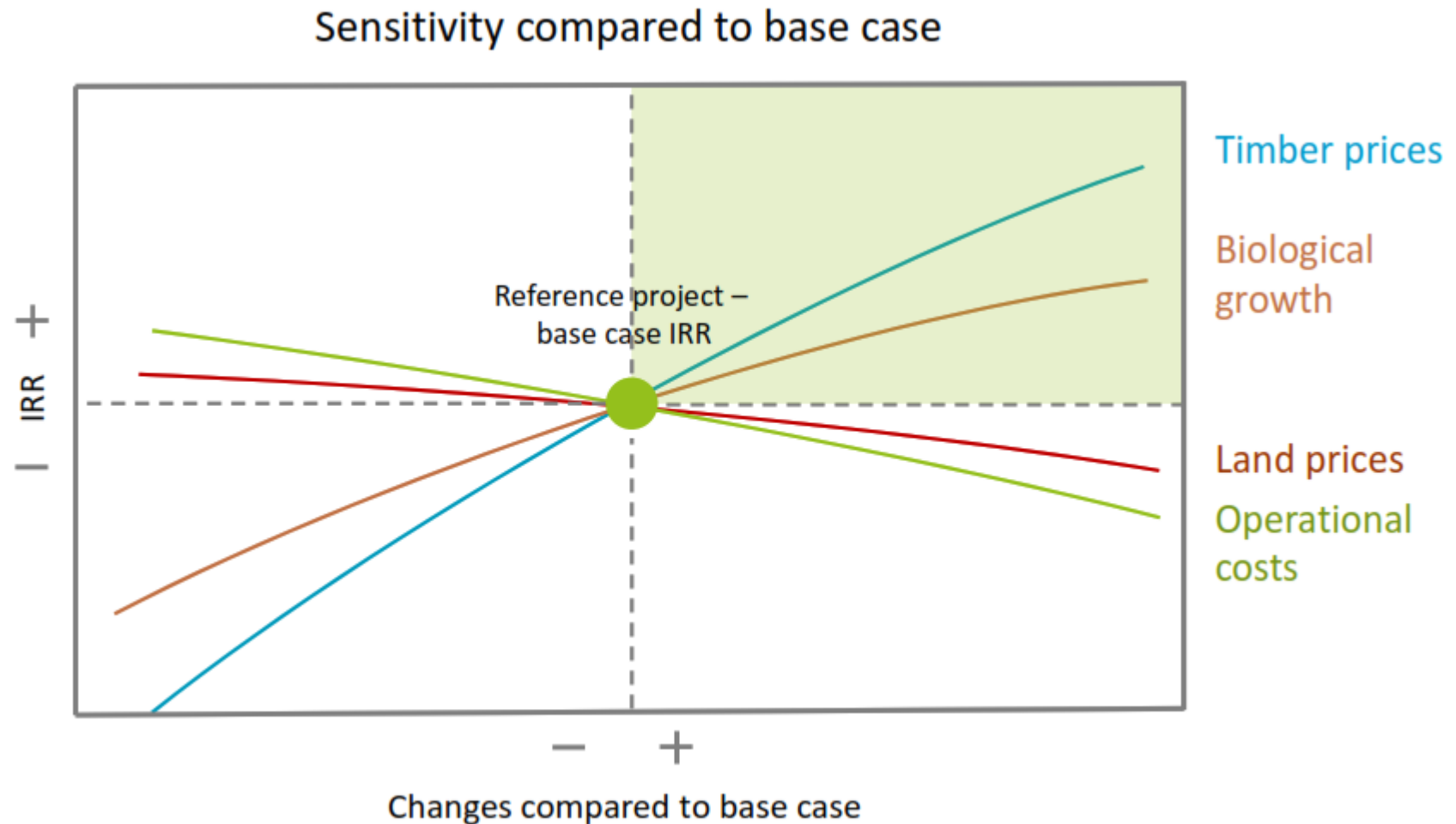
- Land tenure security important, but can be achieved in different ways e.g. land certification, strengthening community rights
- Market disturbance due to illegal logging
- Coping with restrictions, e.g. foreign currency access
- Law enforcement

- **Socio-economic**

- Inclusive investments generating local benefits
- Transparent and functioning markets
- Strategy for developing domestic market

LESSONS LEARNED: ECONOMIC FOUNDATION

What matters for private investors: Risk adjusted return



LESSONS LEARNED: STRUCTURING FINANCE

Attracting private finance

- **In-depth understanding** of forest enterprises, investor and value chains based on sector diagnostics is key
- **Catalytic investment** of limited public finance to attract private finance (e.g. public finance supports first time funds, first closing of funds, start ups or investment accelerator)
- **Risk** can be addressed through financial mechanism (e.g. first loss facility, guarantees) or capacity development (e.g. TA Facility providing targeted training partly financed through participants)

Blended finance a balancing act

- Ensure crowding in of private capital
- Provide concessional public finance when justified (e.g. SPGS provided grants only up-to 500 ha per client)

LESSONS LEARNED: TECHNICAL ASSISTANCE

Dedicated expertise required

- Forest enterprises often lack specific technical, management, business and/or administrative skills to attract private investments

Efficient use of Technical Assistance

- Technical Assistance Facilities are often separate from the investment vehicle for governance issues. However, as a result they can be self entertaining and not targeting capacity needs of the private sector.
- TA should target capacity support for forest enterprises and local service provider and support the investment climate
 - SPGS e.g. has developed a very efficient training programme, where training participants cover costs according to their capability and host peers for practical learnings

CONCLUSIONS (I)


Forest investment barriers for private finance

- Access to private finance is restricted often by the fact that forest enterprises:
 - are too small (requiring investments less than €5-10 M)
 - pay back periods too long, i.e. often 10-20 years or more
 - local commercial loans too expensive
 - collateral requirements too demanding
- Start-up and transaction costs for blended forest finance vehicles are very high. As a result only a few operate in emerging forestry markets
- Restricted upside potentials but also limited downside risk; IRRs beyond 15% are unlikely, but also most downside risks are manageable:
 - Risk/return profile is excellent
 - More and more European private investor recognize this
- ESG and impact monitoring requirements are evolving rapidly and compliance is costly. It pays back in the long run, due to reduced risks, but entry barriers exist to adopt them.

CONCLUSIONS (II)

To Europe Aid

- **Support national commercial forestry sector development programmes**, to leverage private finance and support REDD+ implementation.
 - EU is well positioned considering that it can employ various instruments and has a track record to manage large programmes that require long term commitment
- Closely **partner with EIB supported forest investment mechanisms** as an effective channel for technical assistance and developing “bankable forest enterprises” in the forestry sector.
- Strengthen investment climate for **forest based bio-economy development** together with the private sector, including chamber of commerce, forestry enterprises, timber processor and technology provider

A stylized, dark gray silhouette of the Earth, showing the continents of North and South America. The globe is positioned in the lower-left quadrant of the slide, partially overlapping the contact information.

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