Leveraging Finance for a wood-based bioeconomy

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Outline

• Rationale
• Facts and Figures
• Challenges and opportunities to finance sustainable forest value chains
• Markets and finance in the SW4SW initiative
• Open questions
Why work on forest finance?

• “Nature-Based Solutions could provide over one-third of the climate mitigation needed between now and 2030 to stabilize warming to below 2°C”

• Sustainable forest value chains present multiple opportunities to contribute to local development, SDGs and climate change mitigation

This potential is only partly realized because of lack of finance

Source: United In Science; IPCC (2018); WBCSD (2019)
Facts and figures

• FLR annual requirements estimated to meet the Bonn Challenge and NYDF targets: $35-49 billion (FAO and GM 2016)

• Climate finance annual requirements estimated: $350-640 billion (Climate Focus 2019)

• Less than 3% of climate and conservation finance is for AFOLU sector (Climate focus 2019)

• Forest Finance: $2-3 billion/year
Estimates of green and grey finance flows captured in report (USD billions since 2010)

Public International Finance
- Finance for agriculture in deforestation countries: 49
- Climate mitigation finance for all sectors: 256
- Mitigation finance for forestry in deforestation countries: 3

Public Domestic Finance
- Finance for agriculture and forestry in deforestation countries: 126
- Government investment plans of 13 REDD+ countries: 10

Private Finance
- Capital in agriculture, forestry, and fishing in deforestation countries: 1320
- Sustainable commodity production and conservation investments in developing countries: 3

Source: Climate focus 2019. pp. 67-73
Avenues to mobilize finance for sustainable forestry value chains

• Sources: Revisit/expand role of public finance to more effectively play a catalytic role (de-risk, besides provision of public goods and services, capacity development, and demonstration)

• Instruments: Match supply/selection of instruments (type, scale, timeframes) and risk appetite of different investors with demand
Sources and instruments along the value chain (fund perspective)

<table>
<thead>
<tr>
<th>Phase</th>
<th>Sources and Instruments</th>
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<tr>
<td>P1: Proof of concept</td>
<td>Management competence, Land security, Tree planting started, Value chain strategy</td>
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<td>P2: Plantation expansion</td>
<td>Scale-up of planting, R&amp;D; proven growth, Smallholder expansion, Market visibility</td>
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<td>P3: Industrial development</td>
<td>Value chain development, Markets, products, Infrastructure, Processing facilities</td>
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<td>P4: Industrial expansion</td>
<td>Significant investments to industrial processing (vertical integration or JVs?), Sales and marketing</td>
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Critical phases with insufficient funding:
- Development financing
- Impact investors
- (Climate funding, Private funding)

Source: finnfund

Graph: Plantation company → Forest industry company
- Cash-flow negative → Cash-flow positive
Avenues to mobilize finance for sustainable forestry value chains

- Enabling conditions for investments (tenure, markets, infrastructure, policies, information, governance, etc.)
- Capacities to develop and implement bankable projects (human and organizational) + guarantees/collateral, informality
- Address perceptions of forestry as a high-risk business
- Fragmented value chains (weak links along chain and to end market)

With right approaches and partnerships it is possible to overcome these obstacles
What’s needed to catalyse private finance for inclusive and sustainable forestry value chains?

• enhanced communication among the forest and the finance sector,

• processes and instruments to match needs and reduce the risks associated with these investments,

• increased availability and transparency of information regarding forestry value chains, and

• an improved investment environment (also for local investors/entrepreneurs)

• Strengthen capacities of value chain participants (esp. SP, SME, POs, IPs)
Markets and Finance for SWVC

**Capacity building and mentoring**
- How to prepare bankable projects
- The due diligence in investment projects
- Contractual arrangements
- Understanding, adapting and selecting financial instruments
- Assessing the investment environment
- Understanding product and sustainability standards

**Tools, information and analysis**
- Finance intelligence briefs (VC specific)
- Investment decisions support tools
- Value chain assessments
- Outlook studies
- Business models
- Success stories/case studies
- Guidelines
- Datasets

**Dialogues and partnerships**
- Dialogues: Cameroon, RSA, China, national
- Partnerships: WB, WWF, CIFOR, ITTO, TBI, IIED (external); FFF, FLR, REDD+, PSP, CBC (internal)
- Communication (Webinars, articles)

Forest Investments Resource Centers at national/regional level supported by HQ coordination, KS, mentoring and support
How to increase the attractiveness and competitiveness of sustainable wood-based bioeconomies?

- Avoid a development trajectory dependant on non-renewables and unsustainable?
- Increase demand for sustainable products in low income countries (e.g., sustainable fuelwood)?
- Promote investments that reduce/transform waste, improve efficiencies?
- Improve the narrative around wood products, reframe perceptions (e.g., Australia’s “ultimate renewable” campaign)?

- What policies, incentives can promote a sustainable bioeconomy in developing countries?
Thank you

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