

A Tropical Forest and Agriculture focused fund

Driving deforestation free agricultural production in tropical forest countries, jurisdictions, and landscapes by directly linking commodity production to forest and peat land protection. The tropical forest and agriculture focused fund* aims to trigger 1,6 billion USD private capital investments with a 400 million USD de-risking capacity. An ambitious investment agenda with social inclusion and environmental safeguarding as central pillars, delivering public and private sector economic growth. Production, Protection, Inclusion.

The fund will be launched in mid-2017 with an initial committed capital of 100 million USD from the Norwegian governments' International Climate and Forest Initiative (NICFI), based on a 2020 capitalization target for the Fund of 400 million USD, to be drawn from bilateral and multilateral public donors as well as private sector partners. By 2020, more than 20 production and forest protection projects should be funded globally, while leveraging private capital investments more than 4 times the Fund's own investment.

The Fund will be an incentive for governments of countries with tropical forest areas to reduce deforestation and related greenhouse gas emissions, by driving enhanced, high productivity investments in countries and jurisdictions that have policies to that regard in place.

The Fund has several distinct features that make it complementary to other financial mechanisms targeting forest and land use:



- 1) Production and protection activities are linked through the Fund's financing, with explicit indicators and measurement;
- 2) Community engagement, and small scale producer inclusion, is recognized as a fundamental component of sustainable landscape development - the Fund is able to accept additional financial risk to support an inclusive development approach;
- 3) Jurisdictional Eligibility Criteria will guide investments to transact only in countries and provinces with proven commitment to reduce deforestation;
- 4) Flexible, long-term and typically below market pricing will leverage commercial investments to the same production, protection, inclusion agenda - the Fund will aim to be a collaborator not competitor with existing commercial programs and funds already in the market.

In effect, the Fund will bundle political, commercial and financial efforts to deliver impact on forest and peatland protection as well as inclusive rural socioeconomic development. It will work with complementary funds and instruments to realize deforestation free supply chains.

Investment strategy

The Fund will catalyze private capital into forest protection-production that:

- Focus on scalable production projects that are able to generate significant forest protection and/or restoration;
- Attract private investors (predominantly financial institutions) by partly mitigating their credit risk, by subordinating its own financial position, and the environmental risk, through sustainability safeguarding;
- Support supply chain companies in embedding deforestation free sourcing strategies;
- Promote the inclusive growth of smallholders into supply chains.

Opportunities

The Fund will measure the eligibility of investment opportunities by assessing their link to forest and peat protection and restoration. However, there will be a clear origination strategy focused on palm oil, soy, pulp & paper, livestock and forestry, as these sectors/commodities are clear drivers of deforestation. Moreover, the supply chains of these commodities have sustainable sourcing commitments from frontrunner companies (i.e. members of the Consumer Goods Forum).

The Fund will only finance scalable and replicable projects, starting from an investment size material enough to the private sector actor involved (typically larger than 20 million USD). In doing so, it will trigger private capital investments and thus scalable proof-of-concept example projects. It is expected that this will deliver production-protection projects typically ranging from 50,000 -250,000 hectares. Projects will typically be required to protect 4 ha of forest for every 1 ha of production land, equating to over 5 million hectares of tropical forest under protection.

Market analysis suggests that a large demand for such deforestation free production projects lie in long-term investments into capital and biological assets of land-users, such as planting and replanting to increase productivity on existing lands rather than encroachment into forest areas. The Fund thus expects to provide mainly long-term (5-15 years) debt, matching the expected cash flows of the project to its repayment schedule.

Geography

The Fund will initially target key sourcing jurisdictions in Brazil and Indonesia. It will further test its approach in Liberia where forests face pressure of an overriding economic growth requirement, partly expected to be driven by newly-created export of commodity sectors. In the longer term, the Fund will expand its geographical scope based on a combination of opportunities and jurisdictional eligibility. Eligibility criteria will include strong and quantitative political commitment to reduce deforestation, backed by a realistic plan and steady progress towards set goals.

The Fund aims to protect over 5 million hectares of forests and peatlands directly through projects secured by 2020, in addition to incentivizing a much broader environmental agenda in the jurisdictions where it invests. By doing so the Fund and its investors will positively contribute to a number of Sustainable Development Goals such as poverty reduction (1), zero hunger (2), decent work and economic growth (8), climate action (13), sustainable water management (14) halting land degradation, and biodiversity loss (15).

Example Project

\$12.5 million participation in syndicated loan to an Indonesian palm oil agribusiness company to support the funding of their independent smallholder replanting program

- The Fund provides a junior debt position alongside a specialist debt fund manager, and local Indonesian bank, covering 25% of a new USD-denominated 50 million term loan;
- Total capital requirement of the project is 60 million USD to replant over 12,000 ha of independent smallholder crops with improved genetic material to boost yields; The company invests 10 million USD of its own funding through in-kind plant material and technical assistance;
- Debt covenants stipulate the producer and the smallholder's protection and restoration plan for several adjoining off-concession areas of HCV (High Conservation Value) and HCS (High Carbon Stock) currently under threat from unlicensed mosaic deforestation, including an adjacent national park (75,000 ha);
- An international NGO is advising the producer at a corporate level on its conservation strategy, with local consultants/NGOs supporting on-the-ground implementation of an engagement plan with communities around forest protection.
- [the jurisdiction is eligible]

Partners and supporters

The Fund will be launched with an initial insertion of capital from NICFI. Other public and private organizations such as the Global Environment Facility (GEF), in partnership with UN Environment, and Unilever have also committed to invest.

A number of donor countries have demonstrated serious interest in the concept and are in a process of considering contributions. A wide range of companies and civil society organizations welcome the Fund and have expressed their support, such as a number of Consumer Goods Forum (GCF) member companies including Carrefour, Mars, Marks & Spencer, Metro, Nestlé and CSO's such as: WWF, UNEP, the World Resources Institute and The Nature Conservancy.

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*formal name of the Fund still pending