

DEFORESTATION-FREE PORTFOLIOS

Roles and opportunities for
institutional investors

DECEMBER 2022

Protecting and restoring forest ecosystems makes business, as well as climate, sense.

Deforestation represents a major physical and transition risk for investors and businesses, threatening to leave those who fail to address it financially exposed. Over half of global GDP relies on nature, making our environment the most productive asset in our economy.¹ Studies in France and the Netherlands found that 36% and 42% of financial institutions' value respectively were "highly or very highly" dependent on one or more ecosystem service.² Addressing deforestation is not only important for meeting our climate goals; it is a fiduciary duty to act in the best long-term interests of the investors, beneficiaries and clients.³

There is no net-zero if we can't end tropical deforestation. Over 500 financial institutions, including leading global banks, insurance companies and investors representing more than USD 130 trillion in assets under management, have committed to aligning their portfolios with science-based targets for net-zero GHG emissions by 2050.⁴ Tropical deforestation related to 'forest-risk' agricultural commodities alone (palm oil, soy, beef, pulp and paper) accounts for 8% of all CO2 emissions, more than the emissions of the entire EU.⁵ Achieving zero deforestation across investors' portfolios this decade is key to meeting these net-zero commitments.⁶

This will require a significant shift in what and how we invest. It means moving away from financing short-term, capital-intensive, high-input business models which are inherently exposed to climate risk, as well as major drivers of it. In the UK alone, pension funds and their asset managers continue to invest over GBP 300 billion in companies and instruments whose value could be at risk due to exposure to deforestation.⁷ Instead, we need to invest in more resilient solutions which are knowledge-based, regenerative and driven by value instead of volume.

Investments in deforestation-free and forest-positive economic models present new commercial opportunities. Today, some of the most convincing opportunities for growth and returns come from a transition to a more sustainable economic model that both harnesses and preserves nature.⁸ This brief provides examples of highly effective intermediaries that are working to attract institutional capital into this new economy. It shows how intermediaries can help to overcome the barriers that currently limit the scale of funding for nature: weak risk-return profiles; a lack of data; limited project pipeline; and high transaction costs. By engaging with, and investing in, high-impact funds, solutions providers, project developers, capital market instruments and market access players, early movers can capitalize on this largely untapped investment opportunity.

This brief was developed as part of the "Roundtable discussion on emerging opportunities for investors in forests and sustainable land use" held during UN Climate Week on the 21st September 2022 in New York.⁹ The roundtable was facilitated by Partnerships For Forests (P4F) and Mobilising Finance for Forests (MFF), two UK government funded programs to de-risk and unlock private sector investments in forests and land use.

¹ World Economic Forum (2020) [Nature Risk Rising: Why the crisis engulfing nature matters for business and the economy](#)

² Greer, Jimmy, Bérengère Sim and Remi Koplinski (2022) [Biodiversity: new approaches to bridge data gaps and address requirements.](#)

³ Race to Zero (2021) [Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation.](#)

⁴ Based on Glasgow Financial Alliance for Net Zero (GFANZ) membership.

⁵ Gatti, Luciana V, et al (2021) [Amazonia as a carbon source linked to deforestation and climate change.](#)

⁶ Global Canopy (2022) [Why net zero needs zero deforestation now](#)

⁷ Make My Money Matter, Global Canopy, and Systemiq (2022) [Cutting Deforestation from Our Pensions](#)

⁸ Climate Champions (2021) [Leading financial institutions commit to actively tackle deforestation.](#)

⁹ [Deforestation-free portfolios: opportunities for institutional investors](#)

1. Forests: untapped economic opportunities

Investing in deforestation-free and forest-positive business models can drive economic returns as well as climate impact. The Blended Finance Taskforce identified over USD 750 billion in new business opportunities in agriculture and forests that a transition to more sustainable food and land use systems could create.¹⁰ We are already seeing signs of this potential. Demand for deforestation-free commodities is growing, driven by increasing regulatory pressure, heightened consumer

awareness, and company sourcing commitments. Timber prices have surged as sustainable supplies struggle to keep pace with new sources of demand, including as a substitute for high-emissions construction materials.¹¹ Nature-based solutions, as some of the most cost-effective mitigation solutions available, continue to increase their share of the rapidly growing voluntary carbon market.

Deforestation-Free and Forest-Positive Revenue Models¹²:

	REVENUE DRIVERS	CARBON MITIGATION IMPACT	MARKET SIZE (INDICATION)
Sustainable commodity production (i) Plantation & natural forest timber products (ii) Non-timber natural forest products (iii) Agricultural commodities & livestock	Variable per supply chain: • Climate-smart inputs • Sustainable commodity sales • Increased yield	(i) Low-medium (ii) High (iii) Low (higher if preventing deforestation)	USD 75B for certified forest products (2020); USD 135B for certified agricultural products (2020)
Carbon credits Voluntary and compliance carbon markets for Nature based solutions (i.e., forest restoration, avoided deforestation, soil carbon sequestration)	Public and private off-takers to meet regulatory or voluntary commitments	High for forest conservation and restoration	USD 2B voluntary carbon market (2021), projected USD 10B-50B (2030)
Payments for ecosystem services Payment for watershed services, air quality, biodiversity, conservation	Performance-based payments by downstream actors or governments	High for forest conservation and restoration	USD 30B for watershed and biodiversity payments (2018)

Capitalising on these new business opportunities requires significant investments. Through their investments, institutional investors can play a strategic role in unlocking the hundreds of billions of new business opportunities. Currently, most of the USD 133 billion invested in nature, including forests and land use, comes from public sources. This number needs to be tripled by 2030 and to increase four-fold by 2050.¹³ Investing USD 500 billion annually in nature is a significant challenge, but also presents huge investment opportunities for investors to take advantage of.

"I see lots of investment opportunities to halt the damage we are doing to nature. Where we have a gap still is opportunities to reverse nature decline and regenerate it."

Impact investor

"I am really optimistic about these opportunities. I work for a straight private credit firm funding SMEs in this sector for over 20 years. We have been able to pull from different stacks of capital to deliver a really innovative fund."

Fund manager

"We have decided to transition our forest investments from traditional markets to Latin America and Southeast Asia. Our management is very impressed by the opportunities. They want us to do private equity investments in local developers throughout the value chain, as well as project finance."

Asset manager

¹⁰ Blended Finance Taskforce (2020) *Better Finance Better Food: Investing in the new food and land use economy*.

¹¹ Gresham house (2021) *Global Timber Outlook 2020*

¹² Adapted from KOIS and BFT (2018) *Financing Sustainable Land Use: Unlocking business opportunities in sustainable land use with blended finance*. Systemiq analysis based on updates to The global status and trends of Payments for Ecosystem Services. Nat Sustain 1, 136–144; Ecosystem Marketplace (2013) *Innovative market and market-like instruments for ecosystem services*.

¹³ UNEP, WEF, ELD, Vivid Economics (2021) *The State of Finance of Nature*

Innovative instruments and partnerships are helping to de-risk investments. The catalytic use of development and philanthropic capital are crucial to overcoming various investment risks (both real and perceived), facilitating the flow of much needed private investment into deforestation-free and forest-positive investments. These innovations are essential to address four main barriers to private investment¹⁴:

1. Risk-return profile

There is a perception among some investors that deforestation-free and forest-positive businesses do not achieve market level returns. This partly reflects a lack of data and public information on realized returns and impacts, with transactions to date mostly occurring privately and without universal measures for comparison. Higher risks associated with remote project locations, operating in emerging markets, with often newly established businesses also contribute.

2. Transaction costs

Investing in “new” asset classes, designing appropriate deal structures, and building new investor knowledge and relationships increases transaction costs and discourages small ticket size investments. Increased standardization is key to bringing these down.

“It took 2 to 3 years to finalize our investment approach [for a new forest fund].”

Asset Manager

“There is a parade of ‘noes’ that really slows the process down, and we are a part of that. We have to run through rigorous due diligence. We’re very sensitive to reputational risk, and these are really pronounced in food and land use investments.”

Development Finance Institution

3. Data and metrics

While technology costs for remote sensing data have plummeted, high assessment costs and criticism over the robustness of impact metrics remain barriers for monetizing the ecosystem service benefits from forest-positive businesses.¹⁵ A recent poll finds that “70% of investors believe a lack of available data is a key barrier to making investments that support biodiversity”.¹⁶

“This market is still subscale. There aren’t a lot of developers out there that have a track record. This translates into a shortfall of investable projects. We’re very focused on how we can gin up the pipeline to create that track record which will get institutional investors comfortable with this asset class.”

Philanthropic investor

4. Pipeline

A lack of pipeline of truly bankable projects at an appropriate ticket size has historically limited private sector investment. Between 2004 and 2016, up to 30% of the capital raised for nature conservation remained uncommitted due to a lack of investment pipeline.¹⁷

“From our experience, throwing capital at something doesn’t necessarily create pipeline.”

Philanthropic investor



¹⁴ WWF (2022) Nature Based Solutions – a review of current financing barriers and how to overcome these

¹⁵ Carbon Market Watch (2018) The Clean Development System: Local Impacts of a Global System

¹⁶ Credit Suisse (2021) Unearthing investor action on biodiversity

¹⁷ Ecosystem Marketplace (2017) Retrieved from: <http://forest-trends.org/releases/p/sopic2016>

2. Investing in the future, investing in intermediaries

Effective investment in intermediaries can help scale up deforestation free and forest-positive portfolios. A range of financial products and structures are already on, or coming to, the market that could help deliver the investment profiles that institutional investors require, and address some of the major inefficiencies in the current system.

In this section, we profile several promising opportunities for institutional investors. By investing in, or engaging with, these intermediaries, early mover investors can position themselves

to capitalize on a growing wave of commercial opportunities that are also delivering on deforestation-free and net-zero commitments. High impact blended finance funds, capital market instruments, impact solutions providers, and project developers provide more direct investment opportunities for institutional investors. On the other hand, market access players – local aggregators that build integrated value-chains from farmer to market – provide opportunities for institutional investors to engage with clients and their portfolios to encourage shifts towards more sustainable supply chain approaches.

		Blended Finance Funds	Project Developers	Solutions Providers	Capital Market Products	Market Access Players
Barrier to Investment	Risk-return profile	✓				
	Transaction costs	✓		✓	✓	
	Data			✓		
	Pipeline	✓	✓			✓



BLEND ED FINANCE FUNDS

Funds are critical to aggregating individual investments to a scale that institutional investors can engage with. A growing cohort of funds provide equity or debt capital to projects that protect standing forests, promote sustainable agriculture practices and restore degraded forests, and are seeking further capital. In most cases, the funds provide a mechanism for ‘blending’ development capital to de-risk particular elements of the fund to provide attractive risk-adjusted returns to commercial investors, alongside high levels of additionality to both social and environmental goals.

“There is a huge need for working capital for farmers. Even large companies in many emerging markets can’t access it. Can we use this need for credit to encourage transparency and sustainable practices?”

Fund manager

<div> <div>ADM CAPITAL</div> <div> Asia Climate-Smart Landscape fund by ADM capital provides long-term senior secured loans to SME companies engaged in sustainable agriculture, land regeneration, and forest protection. The fund aims to generate strong risk-adjusted returns through the use of private-public blended finance, alongside environmental and social benefits, over a 10-year period. The DFC provides a partial first-loss guarantee, while the Partnerships for Forests (P4F) programme offers technical assistance. </div> </div>	
GEOGRAPHICAL FOCUS	Indonesia
SIZE (INDICATIVE)	USD 200M
ACTIVE INVESTORS	US International Development Finance Corporation (USD 100M of partial first-loss guarantee)
EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS	12Mt CO ₂ e over the fund lifetime; 8000 new or improved jobs with 30% for women; 125,000 hectares under improved agricultural practice.



&Green is a debt fund, incorporated by IDH in 2017, with the Norwegian Government as anchor investor. The fund's mission is to deliver inclusive, sustainable, and deforestation-free commodities/forest products such as palm oil, soy, livestock, rubber, and plantation forestry by providing long tenor debt. Projects need to be embedded in a Landscape Protection Plan that commits the investee to protect and restore critical areas. In 2021, FMO provided USD 25 million of long-term debt funding to &Green and supported an additional USD 31.5 million catalytic funding through the Mobilizing Finance for Forest (MFF) program. MFF also provided &Green with a USD 1.75 million development capital facility to support early-stage projects before they are investment-ready for &Green.

GEOGRAPHICAL FOCUS

Brazil, Colombia, Indonesia, Ecuador, Peru, Gabon, Liberia and the Congo Basin

SIZE (INDICATIVE)

Ambition for USD 1B portfolio; USD 185M of committed capital

ACTIVE INVESTORS

MFF, FMO, NICFI, Unilever, GEF

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

5M hectares of forests and peatlands under protection; 0.5M small holder farmers livelihoods improved



TIG Restoration Fund, with Conservation International as an impact advisor, will invest in timber markets and carbon projects. The fund is targeting a split between timberland and carbon, making up 80% of the portfolio, and manufacturing the other 20%. The fund projects a 13-15% return over 15 years.

GEOGRAPHICAL FOCUS

Brazil, Uruguay, Chile, Peru and Colombia.

SIZE (INDICATIVE)

Aiming to mobilize USD 1B to projects over the next year.

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

200M trees planted over 140,000 hectares of degraded land; protect and restore 140,000 hectares of biodiverse, natural forest; 35MtCO₂ removal offsets; support 2700 jobs per year



The Africa Forestry Impact Platform, developed by New Forests, is an investment platform for sustainable forestry, conservation and timber processing assets. The platform provides both investment and technical assistance, as well as providing concessionary capital for environmental and social activities aiming to improve the viability of the forestry asset class in Africa. Restoration close to commercial forestry will contribute to biodiversity and climate objectives. Projects are expected to include smallholder forestry, agroforestry, other agribusiness, supporting industry linked to forestry assets, downstream market development, as well as renewable energy.

GEOGRAPHICAL FOCUS

Africa

SIZE (INDICATIVE)

USD 210M, aiming to raise up to USD 500M

ACTIVE INVESTORS

British International Investment; Norfund; Finnfund

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

915,000 hectares of land under sustainable management



3J Sustainable Agro Brazil Fund, developed by 3J Capital Partners in partnership with Serez Capital, is a private equity sustainable agriculture production fund. It has been designed to cater for the Brazilian agriculture market and integrate environmental, social and governance through the soy and corn supply chains. Projects include conserving biomes of high ecological value, such as the Cerrado, by prohibiting any deforestation or native vegetation conversion after land purchase; restoring the Legal Reserve up to 35% in all purchased farmland; developing carbon projects according to international best practices; and offering free-of-charge training programs to local communities and farmers.

GEOGRAPHICAL FOCUS

Brazil

SIZE (INDICATIVE)

USD 200M (first close USD 50M)

ACTIVE INVESTORS

N/A, currently looking for anchor investors

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS1MtCO₂ per year



The Food Securities Fund provides an additional source of working capital to agricultural companies operating in emerging and development markets, generating financial returns and positive impact. It builds on companies' commitments to sustainable and traceable agricultural supply chains, which often increase the pre-harvest working capital requirements of aggregators that intermediate between farmers and larger agricultural traders and brands. Loans have enabled borrowers to develop sustainable supply chains by providing pre-harvest support to smallholders and farmer organizations, such as supporting certification processes, promoting agroforestry adoption, and improving product quality. The Fund focuses on deal size range between USD 1-5M, with a preference for loans of USD 2-4M.

GEOGRAPHICAL FOCUS

Emerging and developing markets globally

FUND SIZE (INDICATIVE)

Undisclosed

ACTIVE INVESTORS

A US family office, the Global Environment Facility and a Dutch bank.

**EXPECTED ENVIRONMENTAL
AND SOCIAL BENEFITS**

In its first year, the fund managed more than 50,000 hectares with sustainable agricultural practices, sequestering at least 0.1MtCO₂; supported 40,000 smallholder farmers.



PROJECT DEVELOPERS

Project developers are taking on the commercial opportunity of building new verified carbon projects, including nature-based projects in tropical regions. Investing in project developers will help to grow the project pipeline as well as providing exposure to the growing carbon asset class. Some project developers, such as Terrasos, are also pioneering new credit types such as biodiversity offsets.

"We've estimated we can channel more than \$200m in revenue through biodiversity offsets. We have already signed contracts with offtakers. And yet it's really difficult to find investors."

Project developer



Terrasos, founded in 2013, aims to be the market leader in compliance biodiversity offsets by operating "Habitat Banks" (biodiversity compensation projects) alongside consulting services. Habitat Banks propose a solution to current gaps in offset market offerings by creating 30-year projects with autonomous and guaranteed operation that channels multiple offsets in sales-ready biodiversity credits. Terrasos piloted the first Habitat Bank in Latin America and has already sold USD 1.8 million in biodiversity credits in the Colombian regulated market. They aim to mobilize USD 45 million into protecting nature through the sale of biodiversity credits spurred by pending environmental offset obligations.

GEOGRAPHICAL FOCUS	Colombia, Latin America and Caribbean
SIZE (INDICATIVE)	Targeting USD 45M of biodiversity credit sales from USD 8M capital raise
ACTIVE INVESTORS	Inter-American Development Bank Group Lab (project investment)
EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS	Protect 4,000 hectares and restore an additional 1,000 hectares of highly endangered ecosystems, while generating income streams for landowners; Generate 180 sustainable jobs





Treevive, a subsidiary of Form International, develops new forest carbon projects by offering forest managers pre-finance and hands-on technical assistance to reach certification (according to international standards such as VCS). Once established, it connects the project to the premium carbon market and its network of impact-committed investors and buyers. Treevive functions as a revolving fund, where profit from a developed project will feed the pre-financing and development of new projects.

GEOGRAPHICAL FOCUS

Global

SIZE (INDICATIVE)

Target size of EUR 150M project investment facilitated

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITSBy 2030 to restore and conserve 2 million hectares; remove 33Mt CO₂ emissions; generate 7,500 jobs.

Revalue Nature launched this year to develop nature-based solutions projects. Revalue aim to be a leader in producing high-integrity credits at scale. They set out to address two fundamental challenges in the market today: scale, and integrity. To achieve this goal they will build partnerships with project operators to manage the streamlining of development, certification and monitoring of projects. In addition, the Revalue platform will provide a marketplace to sell credits from the portfolio, where buyers will also be able to access real-world monitoring of the impact of their projects.

GEOGRAPHICAL FOCUS

LATAM, Africa and Asia

SIZE (INDICATIVE)

USD 75M annual credit revenue potential, pipeline covering 5M hectares

ACTIVE INVESTORS

Undisclosed. Announced partnership with Aon in September 2022

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS100MtCO₂ mitigated

SOLUTIONS PROVIDERS

Solutions providers support other players operating forest and sustainable land use businesses to scale effectively and operate efficiently, often through the development of technology solutions. This includes providing impact data on carbon and biodiversity values, improved traceability of supply chains, and platforms for connecting farmers and buyers. Some solutions providers are at a scale suitable for institutional investment. Others can be championed in engagements with portfolio companies to encourage their integration into supply chain practices, or used as tools to support investment decisions.

"We need discussions with solutions providers. As a bank we are advising our corporate clients on these kinds of solutions. They are willing to invest but don't know how to do it. Our role as a bank is to bring together solution providers and corporates, not necessarily for short term finance, but in an advisory capacity."

International Bank



Producing Right is a solutions provider for agribusiness that works to deliver transparent supply chains with verified standards of social and environmental commitments. The company has developed a cloud-based platform, which aggregates social and environmental information and connects farmers, companies, investors and consumers. More than 4,600 users have joined the platform through partnerships established with independent producers and companies such as Unilever, Bayer, PMI and ADM.

Producing Right has also partnered with TrAlve and GAIA Agro to deliver a solution that provides access to credit for sustainable commodity farmers via a tailored debt instrument for Brazilian farmers committed to a produce and protect approach.

GEOGRAPHICAL FOCUS

Brazil, Latin America and Caribbean

SIZE (INDICATIVE)

Undisclosed

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

2.4M hectares of protected area and an additional 3.2M hectares of productive area, equating to 1.55Gt of carbon stock; 22,000 people supported rurally under good health and safety conditions.



Nature Metrics use DNA monitoring to provide biodiversity assessments from water and soil samples that can be delivered to businesses at low cost. Working for WWF, Nature Metrics collected data on 675 species in the Peruvian Amazon for the same cost and effort as a river dolphin survey. The eDNA collection method allows Nature Metrics to survey for species together, where previous methods required a survey per species, a critical requirement if payments for biodiversity impact are to scale.

GEOGRAPHICAL FOCUS

Global projects

SIZE (INDICATIVE)

Delivered 573 projects, working with 480 clients

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Accurate biodiversity information to inform decision making.



Lestari capital are a market maker of natural capital assets, addressing the unfulfilled demand for far-reaching environmental, climate and social requirements across agri-commodities supply chains. Lestari Capital has developed three buyer-supplier platforms: "Solutions" enables individual producers to achieve certification status for agri-commodities; "Collective" is a USD 1 billion nature based solutions investment mechanism that enables agri-commodity supply chains to deliver nature restoration at scale, initially in the palm oil supply chain; "Carbon" develops a portfolio of high-quality nature-based carbon projects in Southeast Asia, providing environmental and social outcomes for clients.

GEOGRAPHICAL FOCUS

Indonesia, Malaysia and PNG currently

SIZE (INDICATIVE)

USD 3M previously raised for seed.
40,000 hectares under management as of Q3 2022.

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Pipeline of 500,000 hectares under screening with total estimated annual yield over 7.5 million voluntary carbon units.

CAPITAL MARKET PRODUCTS

Capital markets offering a wider spectrum of financial products will help to grow and standardize forest and sustainable land use investments. In addition, investors will need to work with existing and new initiatives to measure and create robust standards on capital markets to ensure continued integrity.¹⁸ Green bonds are supporting growth in investment strategies that promote sustainable land use. Other innovative models are emerging for forests, such as the Forest Resilience Bond, being used to protect watersheds and restore forests in California.¹⁹ Exchange traded futures are now also available with the launch of contracts for nature-based carbon projects.²⁰

"With my capital markets hat on, I think carbon credits have great potential to solve part of the deforestation problem. I see carbon credit instruments, particularly if there is a higher carbon price, playing a major role."

Asset Manager



FIRA²¹, Mexico's development bank has issued two green bonds to financing sustainable agriculture and forestry projects. The funds have been used for building 11 shade houses and 28 greenhouses with irrigation systems. The Climate Bonds Initiative (CBI) supported the certification of the bonds as 'green' and Sustainalytics acted as an external certifier of the bond.

GEOGRAPHICAL FOCUS

Mexico

SIZE (INDICATIVE)

USD 130M in 2018 and USD 130M in 2019

ACTIVE INVESTORS

Inter-American Development Bank (IDB) and FIRA

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Reductions in GHG emissions, use of water and chemical inputs

¹⁸ WWF (2022) Nature Based Solutions – a review of current financing barriers and how to overcome these

¹⁹ USDA (2021) Innovative Finance Models Accelerate Forest Restoration

²⁰ Intercontinental Exchange (2022) [ICE Launches its First Nature-Based Solutions Carbon Credit Futures Contract](#)

²¹ <https://www.tlffindonesia.org/wp-content/uploads/2020/11/BetterFinanceBetterFood-Casestudycatalogue.pdf>; https://www.climatebonds.net/certification/fira_fefa

MARKET ACCESS PLAYERS²²



Market Access Players (MAPs) are socially and environmentally conscious off-takers.

MAPs distinguish themselves from normal ‘middle-men’ by integrating the full value chain from farmer to market, which means that communities gain greater returns for their businesses as their products do not have to travel through long value chains to access markets. They also provide further value by providing equipment, access to capital, and capacity building for communities, and helping communities access high-value end markets. Institutional investors should engage with companies in their portfolio to integrate MAPs in their supply chain. MAPs may take longer to achieve sufficient scale to access institutional investment directly, but through engaging with such players and encouraging their integration in portfolio companies' supply chains, institutional investors can reduce their exposure to deforestation risk and support forest-positive alternatives.



Slow coffee is a vertically integrated coffee producer with full transparency, control and value capture of the entire coffee value chain. Slow regenerates agroforest plantations with large enterprise clients using long-term contracts to finance the purchasing and conversion of monocultural coffee plantations into biodiverse agroforests. Working with SMEs Slow connect clients with smallholder farmers peer-to-peer, preserving forests and improving livelihoods. Slow has secured contracts with clients such as the Danish hotel Brøchner and the international trader Volcafe. In July 2021, Slow signed a 7-year multimillion contract with Coor Denmark. Slow has expanded to Germany, closing a debt-financing to scale operations and has signed a regenerative conversion project with AP Moeller Maersk.

GEOGRAPHICAL FOCUS

Laos, Indonesia, Vietnam (sourcing), Europe (markets)

FUNDING ASK

USD 1.1M-5M

ACTIVE INVESTORS

Partnering with WWF, P4G

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Expected to involve 1000 farmers; targeting preserving 700+ hectares of agro-forest and regenerating 100 hectares of biodiverse agro-forest.



Forestwise produces unique, high quality organic and Fairtrade certified ingredients harvested from the Indonesian rainforest by local communities. Forestwise's main clients are in the international food and cosmetics industries. The company has successfully introduced organic and Fair for Life certified illipe butter to the global market, which is currently sold in four continents. This has resulted in strategic alliances with firms such as Lush, IMCD, DKSH and Premier Specialties. Forestwise also provides a high level of traceability and transparency throughout its supply chain. Its local presence allows the company to work closely with the communities and to guarantee the sustainability of its products.

GEOGRAPHICAL FOCUS

Indonesia (sourcing and markets), Europe (markets)

FUNDING ASK

USD 1M - 5M debt instrument

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Supports the protection of over 200,000 hectares of Indonesian rainforest; mitigate 20MtCO₂; Positive impact and increased income for 2,500 beneficiaries



PT Indobamboo Lestari (IBL) is a manufacturing company producing engineered bamboo products. The company is working with village-level bamboo communities in Indonesia to secure its sustainable bamboo supply. IBL is pioneering the use of bamboo in Indonesia as a rapidly renewable timber source through a unique engineered bamboo lamination process. The company has signed a 5-year offtake agreement with a global furniture manufacturer, and is raising funds to operationalize the capacity commitment. Over the last 2 years, the company has been working with a multinational off-taker to develop a production line designed to meet international standards of quality, price, and volume.

GEOGRAPHICAL FOCUS

Indonesia (sourcing and markets), Europe (markets)

FUNDING ASK

USD 5M-10M equity

ACTIVE INVESTORS

Undisclosed

EXPECTED ENVIRONMENTAL AND SOCIAL BENEFITS

Employ 840 people at the forest to factory semi-processing level; Restore 4000 hectares of degraded land; sequester 0.2MtCO₂

3. Moving from commitment to action

Ending the financing of deforestation-linked activities and investing into forest-positive alternatives was at the top of the agenda in New York Climate Week. Over 30 financial institutions with USD 8.7 trillion of assets under management have now joined the Race to Zero Tackling Deforestation campaign²³. As a first step, others should join these leading organizations in committing to eliminate agricultural commodity driven deforestation at the companies in their investment portfolios and financing activities by 2025.

Moving from commitment to action will require greater collaboration. As the list of opportunities in this brief indicates, the pipeline of deforestation-free and forest-positive investments is growing. Catalytic capital is beginning to be deployed to create favorable risk-adjusted returns. Nevertheless, participants in New York identified several areas where greater knowledge, coordination, and innovation could help driving greater investment. These included:

1. Structuring transaction

Structuring and executing first-of-a-kind transactions is always challenging, regardless of sector. It requires bringing together diverse actors to develop robust business and investment models, often with imperfect data. Participants identified the need to deepen understanding of how private sector players might mitigate risks – for example, by using insurance products, corporate off-takers, or novel financing structures – to minimize the need for concessional capital. Executing these first transactions would bring down the cost of replicating them at greater scale.

“It’s very difficult to create the perfect blended finance vehicle. Bringing the off-takers into these deals is a clever way of ensuring they have skin in the game and avoiding market distortion.”

Impact investor

2. Understanding investor requirements

There were calls for greater clarity about what investors are looking for. This is true for companies seeking equity investment that are keen to target their pitches, but also for those deploying catalytic capital keen to understand how best to structure investments to crowd in private investors. The lack of benchmarks or public data on transactions adds to the challenge for fund managers and companies to know what investors are targeting.

“I wish there was more clarity and transparency about what investors are looking for so that nobody wastes time. I feel like sometimes we get used to fill up pipelines but we aren’t seeing the money.”

Project developer

²³<https://climatechampions.unfccc.int/system/nature-and-tackling-deforestation/> The Race To Zero campaign is an investor-led initiative supported by a collaborative effort from leading organizations and individuals at the intersection of finance and conservation (Nature4Climate Secretariat, Conservation International, Global Canopy, Global Optimism, High-Level Climate Champions team, WEF Tropical Forest Alliance). Signatory financial institutions have committed to, among other things, assess their exposure to tropical deforestation through financing or investment in clients/holdings, disclose deforestation risk and mitigation activities in portfolios, and publicly report credible progress on milestones to eliminate forest-risk agricultural commodity-driven deforestation.

3. Accelerating due diligence

The rigorous due diligence that DFIs carry out on investments in the space is both regarded as a major contribution and a potential bottleneck. Several participants noted the value that having DFIs as investors when speaking with other sources of capital, especially for smaller or lesser-known fund managers. However, DFIs have limited capacity to do this work, particularly if it requires pre-investment support. Technical assistance or other solution providers could help to accelerate due diligence processes and reduce the burden on DFIs.

"We do very thorough due diligence and we have very strict environmental and social requirements. We hope this gives senior investors confidence that, when we are in, we have done a lot of work. But we have a major constraint on capacity, which makes it harder to do smaller ticket sizes."

Development Finance Institution

5. Creating producer incentives

In many value-chains, the financial benefits farmers could receive from making these shifts are modest, disincentivizing uptake. This lack of premium prices or other incentive structures was identified by those working on sustainable commodities as a collective challenge to be addressed. Long term offtake agreements may provide a solution for larger companies in some circumstances, but other mechanisms are needed for smallholders, particularly outside of tightly integrated supply chains.

4. Coordinating strategy

The explosion of initiatives, commitments and organizations addressing issues of nature investing is an undoubted positive, but it makes it more important for the sector develop a coordinated gameplan. This might include better coordinated policy asks at key political moments and engaging corporates around deforestation commitments in a more consistent manner. Helping those newer to the space to understand the importance and opportunities in forest positive investments and where to go for more information will also be key to the sector maturing.





CALL FOR COLLABORATION

As part of Mobilising Finance for Forests' technical assistance facility, several communities of practice are being formed to help address some of these issues together. Care is being taken to ensure they are complementary and synergistic with existing collaborations and initiatives. Investors interested in engaging in small group problem solving sessions refining forest positive investment models should reach out to Rob Campbell-Davis at Systemiq on rob.campbell-davis@systemiq.earth for more information.



About Partnerships For Forests

Partnerships for Forests catalyses investments in which the private sector, public sector and communities can achieve shared value from sustainable forests and sustainable land use. We do this by creating market-ready “Forest Partnerships” that offer an attractive balance of risks and benefits. The programme also supports demand-side measures that strengthen demand for environmentally friendly commodities, and activities to create the right enabling conditions for sustainable investment. The eight-year scheme is funded by the Foreign, Commonwealth & Development Office and the Department for Business, Energy & Industrial Strategy. It currently operates in Central, East and West Africa, South East Asia and Latin America.



About FMO and Mobilising Finance for Forests

FMO (Dutch Entrepreneurial Development Bank) manages the Mobilising Finance for Forests, a UK government-funded blended finance investment program aimed at combating deforestation and other environmentally unsustainable land use practices contributing to global climate change. A Technical Assistance Facility will gather ‘blueprints’ of successful sustainable land-use and forestry investment models to be disseminated to the wider investment community.



About The Blended Finance Taskforce

The Blended Finance Taskforce was established to unlock barriers to investing in the Sustainable Development Goals by modernising the development finance system, optimising the use of blended finance and mobilising private capital for emerging markets. Launched by the Business & Sustainable Development Commission in 2017; the secretariat sits within system-change firm Systemiq. The Taskforce works with governments, project developers, investors and other stakeholders to deliver tangible outcomes and act as an accelerator for local initiatives. With a unique peer network, the Taskforce also supports committed “champions” deliver workstreams, implement recommendations, share learnings & replicate proven models, drive operational synergies to reduce transaction costs & accelerate access to capital & pipeline.