FINANCING FOREST LANDSCAPE RESTORATION

“Blueprints”
Innovative Finance in action for FLR

From ROAM to Reality

IPR Report 2.0 | October 2016
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GLOSSARY (AND ABBREVIATIONS)

BLUEPRINT - In this report, “Blueprint” describes the unique combination of financial mechanisms and instruments identified for a given FLR finance solution. In reality, these are “developing Blueprints” because they are not fully developed. Strictly speaking a “Blueprint” is a final concrete solution, however, because the word has become a de-facto expression of the emerging conservation finance community, it is the correct word to use in this report.

BLENDED FINANCE - Is an approach to structured finance that enables development and philanthropic funding to mobilize private capital, by mitigating risk and/or ensuring commercial risk adjusted returns.

COMBINED FINANCE - Earmarked by the World Bank as one of the primary functions of a National Climate Fund (such as FONERWA), resources are allocated together side by side. Essentially, different types of finance (including grants, equity and concessional finance) are bundled within a particular project or program to make it more attractive to investors.

DEVELOPMENT FINANCE INSTITUTION (DFI) – Multilateral or bilateral funding agencies that utilize public money on investment terms targeting the private sector. Examples include IFC (USA), FMO (Dutch) and KfW (German).

EQUITY - Provides initial finance for a project/company in return for a share of ownership.

FINANCIAL MECHANISMS – The include; leverage, blending, combined finance, and; alternative sources of finance (such as crowd funding).

FINANCIAL INSTRUMENTS – These include grants, mezzanine finance, concessional debt, credit enhancement, equity, technology transfer, revenue enhancement, and technical assistance.

INNOVATIVE FINANCE – Typically characterized by enhanced efficiency of flows, additional funds generation, and linking flows to results, an innovative finance solution uses any one or combination of the financial mechanism: blending, combined finance, alternative finance or leverage with any number or combination of financial instruments. Importantly, a private equity investment in a company conducting FLR activities is not innovative finance, a concessional loan to a sustainable forestry company is not innovative finance, and a grant given to an NGO to achieve reforestation is not innovative finance.

LEVERAGE - How much private money could be mobilized on the back of public money usually as concessional lending, grants or equity.

LOCAL FINANCE INSTITUTION (LFI) – Examples include local national banks.

ROAD-TEST – The expression is used to describe the process of validating the Blueprints and ideas among other investors and finance professional and attaining wider feedback on them.

STRESS-TEST – An analysis or simulation designed to determine how robust a given financial instrument is, for example, to assess its ability to deal with economic shock.
OVERVIEW

The primary reference document for this “Blueprints” report is the accompanying Final Report. Rather than focusing on the specific TOR points, this report focuses on the bigger picture of the assignment and on charting ways forward. This report was not a requirement of the underlying contract. An earlier version of this Blueprints report devoted space in its early stages to “Background”, however, this version jumps straight to the main points it this Summary, and the Background is now provided as Annex “A” for the benefit of those coming to the topic from further afield.

The Final Report highlights two significant supply-side investor opportunities under development:

1. A Structured Investment Fund for FLR (SIF) in partnership with Triodos Bank. This could mobilize at least $100 million from private and institutional investors.
2. A Sovereign Green Bond (Restoration Bond) in partnership with Citi. It could be at least $100 million mobilized through capital markets.

There are also two main types of demand-side investment opportunity that have emerged during the course of the work:

a. Those that change the way finance happens such as the Climate Smart Lending Platform; and,

b. “Normal” finance applied to FLR, for example, a loan to an eco-tourism business to support restoration activities.

Both “a” and “b” are needed to achieve Forest Landscape Restoration at scale, however, arguably, the former (“a” above) is more important for two reasons; firstly, because they allow investors to get behind a specific instrument that is inherently scalable, and secondly because FLR finance is not straightforward requiring innovative financial mechanisms in order to make it happen at all. Individual investment opportunities, though important, tend to be disaggregated and idiosyncratic and therefore represent a much slower path to scaling FLR investment in its broadest terms. IUCN should not focus on such seeming “quick wins” which arguably take as much time and effort to develop as the major fundamental work on FLR finance that is needed.

This report is an important step because it lays down “Blueprints” that have potential as models for FLR investment applicable in many and varied contexts. As the Final Report points out, the duration of this assignment was just 66 days. Many new scope activities, field trips, conferences and tasks crowded the multiple and diverse TOR components, therefore, it was challenging to get to this point. But, in order to secure the major fixed income (bond – “2” above), and debt/equity (SIF – “1” above) financing opportunities identified, a massive and focused effort is required to demonstrate to these investors that $200 million of bankable opportunities can be mustered. Failure to do so will lead to stagnation of these potentially game-changing financing opportunities for FLR and the Bonn Challenge more generally. Conversely, if successful, the potential for applying Blueprints to ROAM opportunities globally could herald a new era of FLR
finance and with it much needed real potential for Bonn Challenge commitments to happen due to their viability.

Some of the other opportunities that have emerged during the course of the work are also critical to success. A partnership with Climate Policy Initiative on an African FLR Lab would support the road-testing of Blueprints and related innovative financing models – particularly those that are game-changing about the way finance happens such as the CSLP (fundamentally required). Also, the regional FLR Hub’s role as an Accelerator would have to evolve quickly so that it can operate as a production line for identifying opportunities for investment and readying these for investors through support with defining the business models, and then supporting production of business plans. As the Final Report highlights “draft” business models were developed for each ROAM restoration opportunity identified in Rwanda, but each requires much supporting research and technical development in order to complete. Significant changes in how staff time is consistently diluted across many IUCN roles and projects might be needed in order to produce such focus, and corresponding results. New dedicated staff/consultants could be needed.

Finally, it would be remiss not to point out that the type of work described above is ill-fitting with typical donor funded FLR projects. Allow me to explain why. Someone who sources and structures deals that stand to offer returns to investors of millions of dollars per year through interest payments (the above mentioned bond would return circa $6.5 million per annum to investors) could be rewarded 0.5%-2% of the principal for his/her success. And why not? Deal sourcing and structuring is one of the hardest parts of the finance value chain to which significant value is often given. To fail to recognize this could jeopardize the FLR investment sector’s growth. How will it attract the finest deal professionals (and corresponding quality deal flow) if it does not offer market rates? Granted, small consultancies will work for a fee while “landscape investment” exists as a novelty, but we need it to become mainstream for scale to be achieved. Realistically, there is a critical role for development institutions now during this early phase where they can support this emerging sector through employing specialists where no investor is yet able to do so (because their business models cannot absorb those speculative costs), but, in the longer term – within the next five years - the realities of how commercial private investment works must be brought to bear on FLR finance if scale is to be achieved. The quicker this sustainable sector happens, the quicker privately financed global Forest Landscape Restoration would happen.
The Climate Smart Lending Platform (CSLP) recently won Climate Policy Initiative’s Climate Finance Innovation Lab’s call for innovative financial instruments. The instrument includes short-term loans (three months) offered to smallholders starting with small sums in the order of $20 but building up to $160 or more depending on the success of the relationship. Rather than basing the loan decision on agroforestry, the CSLP model makes agreed agroforestry practices a condition of being a borrower. The bankability of each loan decision rests on any and all other factors at the financial institution's discretion but not on agroforestry per se.

This differs from conventional thinking about how agroforestry could be a bankable FLR solution. Agroforestry products include fruits, fertilizing trees, boundaries, shade, honey, fodder enrichment, mulching, climbing bean sticks, timber and medicinal products to name but a few, but the fact is that any corresponding business plan with financial flows will reflect science and long-term gains more than bankable, realistic investments within acceptable parameters to local finance institutions in today's markets.

The Climate Smart Lending Platform will unlock international public and private finance on the basis that it delivers sustainable practice among smallholders. International finance is on-lent to local financial institutions (LFI) who administer lending programs to target farmers. The LFI should commit its own funds in the scheme also, but by availing of concessional international finance, its risks are lowered and its profits increased making the smallholder lending proposition more attractive. In simple terms, the LFI lends to farmers at typical interest rates for the sector (can be 10% over a 3-month loan), and repays its international investors at interest rates that allow a fair margin.

Interestingly, the model will appeal to the Ministry for Agriculture because it represents a foreign direct investment in agriculture, and also the Ministry for Environment because the credit is offered contingent on sustainable practices. In the case of Rwanda it has the potential to stop 40 million tonnes of soil entering its rivers each year.

**HOW DOES THIS IDEA ACHIEVE FLR RESULTS ON THE GROUND?**

The financing model is predicated on feasible loans to smallholder farmers. This is the starting point. The credit is only made available with conditionality relating to agroforestry and this FLR intervention is developed overtime alongside increasing credit being offered to the farmer as his/her business develops.

**TIMESCALES OF THE AGROFORESTRY BLUEPRINT**

<table>
<thead>
<tr>
<th>Short-term</th>
<th>1 month</th>
</tr>
</thead>
<tbody>
<tr>
<td>The CSLP proposition will be developed in partnership between IUCN, Climate Policy Initiative and F3 Life, and submitted to FONERWA in October 2016.</td>
<td></td>
</tr>
<tr>
<td><strong>Medium-term</strong></td>
<td>3 months</td>
</tr>
<tr>
<td><strong>Long-term</strong></td>
<td>1+ years</td>
</tr>
</tbody>
</table>

**ROAD MAP**

- **October 14th 2016**: Submit PDD to FONERWA in partnership with CPI and F3 Life
- **January 2017 - March 2017**: Extensive development of the Climate Smart Lending Platform supported by FONERWA
- **April 2017**: Pilot contingent investments with multiple local banking partners, and international supporters
- **2018**: Scale international investments and local finance institutions efforts in Rwanda and explore other markets
At first sight, protective forests are not bankable, after all, they typically only offer public benefits. But other beneficiaries often exist such as tea factories that have an imperative to operate sustainably within a watershed in order to attain a very strict international standard that will help it sell product at higher prices, or bottled water or hydropower companies that have huge commercial interest in protecting their business inputs. Of course, there are scenarios where a straight forward PES scheme might support protective forest restoration, but what role could innovative finance play in this type of FLR?

One common feature of innovative finance is outcome based finance. Social Impact Bonds and Development Impact Bonds are one such instrument that offers a return to a private actor that is delivering a public good. It is most commonly seen in things like increasing vaccination coverage, or promoting education, however, it could potentially be applied to restoration and it has been applied to water projects in Kenya.

The Restoration Impact Bond model was developed to protect wetlands in Uganda by scaling finance to Community Environment and Conservation Funds (CECF). CECFs are small revolving funds (circa $1500) given to communities that agree to operate a conservation approach in their area. The results in Uganda are dramatic: over 50km of river wetlands have been protected, shea trees are being preserved rather than turned to charcoal, fruit trees are being planted and many other benefits and co-benefits are being derived by these communities.

A Restoration Impact Bond model is a Public Private Partnership (PPP). In the CECF model a special purpose vehicle (private fund) would invest in CECFs in a given catchment or micro-catchment, however, the model could apply to tea companies and other private partners.

A public fund would secure the support of the private actor by providing a bond payable against verifiable results – “outcomes”. The details of such a bond can vary but, for example, it might be a three-year bond paying an annualized return to the private partner. The amount of the restoration activity's cost that the bond covers would be agreed based on an analysis of the “value” that the private actor(s) derives from the intervention (if any). In the case of a tea company such as Mulindi in Rwanda which is comprised of a community of 5000 smallholders, a protective forest could be designed with multiple benefits beyond watershed protection such as honey production, sustainable high value timber products and revenues from carbon credits. These benefits could be factored in the bond design and the public private partnership that governs it.

The restoration impact bond is particularly interesting because it affords governments an expanded narrative around resource mobilization. As well as highlighting the participation of the private sector and private investment, the resource mobilization proposition is based on outcome based aid, which is increasingly interesting to donors and supporters seeking innovative finance solutions.

**HOW DOES THIS IDEA ACHIEVE FLR RESULTS ON THE GROUND?**
Conservation Impact Bonds start with a proponent on the ground well placed to restore protective forests. The two propositions being advanced are significantly different – one is a corporate entity in the form of a tea company, and the other has foundations in an existing community conservation finance model. The objective in both instances is to make restoration at scale financially sustainable as well as structuring the prerequisite PPP.

**TIMESCALES OF THE PROTECTIVE FORESTS BLUEPRINT**

**UGANDA – CECFS AND THE MINISTRY FOR WATER AND ENVIRONMENT**

<table>
<thead>
<tr>
<th>Timescale</th>
<th>Duration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td>3 months</td>
<td>A concept note was requested by the Ministry of Water and Environment. The instrument needs to be road-tested with investors and specialists in Social Impact Bonds.</td>
</tr>
<tr>
<td>Medium-term</td>
<td>6 months</td>
<td>A small-scale bond could be raised for a given catchment or micro-catchment. Private sector partners/investors would need to be sourced along with funding for TA.</td>
</tr>
<tr>
<td>Long-term</td>
<td>2+ years</td>
<td>The programme could be scaled nationally across all four water management zones protecting Uganda's watersheds and water supply sustainably.</td>
</tr>
</tbody>
</table>

**ROAD MAP**

The experience of pushing to submit an entry to CPIs “The Lab” was a useful one, however, ultimately the view was taken that without the Ministry's endorsement it would be unsuccessful and therefore the entry did not proceed.

Recommendation on the way forward:

**Phase 1**: IUCN should pilot a circa $50,000 project (raised from ADA?) using the outcome based model of CRIB. A reputable local Social Enterprise could act in partnership with IUCN as the private enterprise raising capital from impact investors and being contracting in relation to the Impact Bond. I would suggest to pilot a model where the interest (nominally 15%) is offset by annual contributions of the community members to their CECFs (or taken from the principal). In this way, the additional cost of CRIB vs grant is negated leaving only the case for outcome based aid vs upfront grant-making.

**Phase 2**: Having involved the World Bank's [Global Partnership on Outcome Based Aid](#) in the design of the above pilot, the Bank would become involved in supporting financing for scaling the model in Uganda to protect and restore all Uganda's four WMZs through CECFs. In preparing The Lab entry we estimated that this comes with a cost of $8million which could be manageable. At this time, the instrument could be submitted to CPI's “The Lab” in 2017 on the case for the
potential of the model globally to resolve water resources challenges in partnership with vulnerable communities.

**Phase 3:** If GPOBE or another donor does not support scaling CRIB nationally in Uganda, a GCF proposal could be another option. However, if “Phase 2” happened then the case for a multi-country GCF proposal led by IUCN in partnership with its member states would be a feasible way to scale the CECF model in many countries in Africa, and potentially globally.

Road map for Phase 1:

| Short-term | 2 months | Representatives from the Tea Factory have expressed their interest in a PPP with RNRA, and discussions are scheduled with the Tea Factor owners. Agreement could be reached. |
| Medium-term | 8 months | A ground breaking PPP could be established that sees communities (5000 smallholders) restore the protective forests in their watershed. |
| Long-term | 1+ years | The model could be embedded in other tea or coffee estates in Rwanda, regionally and globally. For example, the Mulindi watershed would be completely restored. |

**ROAD MAP**

- **January 2017:** Develop the revised CRIB plan with the Ministry and engage with GPOBE
- **February 2017 - Structure pilot CRIB including sourcing a local social enterprise, and agreement from donor sources**
- **June 2017:** Distribute impact finance raised from the private sector to CECFs working with IUCN acting in a TC and TA role
- **June 2020:** Evaluate "outcomes" and approve payment to the Social Enterprise partner.

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**RWANDA – MULINDI TEA FACTOR AND A PPP WITH RNRA**

- **January 2017:** Discuss the model with a private sector partner. Structure how the proposal will advance
- **February 2017:** Discuss the PPP with RNRA and agree with them and Mulindi how advance the concept
- **2017:** Launch the fully designed PPP around a Restoration Impact Bond model.
- **2017:** Promote and accelerate the model regionally and internationally.
BLUEPRINT 03: WOODLOTS

Rwanda has substantial forest resources in relation to its high population density. The importance of woody biomass as a fuel for the Rwanda population is recognized but this could be substantially supplied from the waste products of a high value wood products production system. If small-scale forest owners (about 600,000 or 3 million people) can change from primarily delivering wood for energy to delivering poles and sawn timber at a price substantially higher than for energy purposes increased revenues would exceed USD 180 million per year, which is almost 3% of GDP.

According to a former Green Resources forester with current data; tree poles fetch $50 farm gate, and $180 dried and treated. It is possible to harvest 1110 Eucalyptus poles per hectare after 12 years. In addition, 50%-60% of the original plantation is sold as scaffold after thinning at 2.5 years for $5 each, and after 4 years small utility poles are harvested during thinning, which fetch $25 each. If produced for timber additional thinning occurs at 8 years and the timber is harvested after 15 years.

In Rwanda in 2013, studies conducted for the Ministry of Forestry showed that prices per m3 of poor quality timber sold in Rwanda range from about US$200/m3 for Grevillea to US$1200 for Muvula (from Congo). This compares to wholesale prices of similar timbers, well sawn and well dried in the European market ranging from US$130 to US$1000 demonstrating how inflated prices were at the time of this study.

Significant domestic opportunities for timber exist because demand for timber and fuelwood alike is booming in East Africa and Africa-wide. As we all know, this is also a primary driver of deforestation. Plantation forestry is severely limited by available land – a problem exacerbated by population pressure. “Best in class” operators are constantly prone to reputational challenges caused by land ownership issues. However, I fear (and this is not unfounded) that much development finance will flow to large-scale sustainable forestry if we do not find a better community forestry solution soon. And by “better”, I mean scalable through private finance.

With this mandate framed, two Blueprints for woodlots are proposed the latter of which is extremely radical:

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1 For underlying assumptions: SSC Forestry (Hubertus van Hensbergen and Lennart Ljungman), January 2013 project proposal. “Rwanda: Forestry and Small-scale Forest Enterprises Project (FSFEP)”

2 Interview in Uganda in October 2016

3 Green Resources, September 2016. The above mentioned Green Resources forester chose to leave the company because of pressures related to such controversy; New Forest Company, 2011
A version of Uganda’s acclaimed Sawlog Production Grant Scheme (which the World Bank is considering incorporating into FIP Mozambique) would be implemented by the government in Rwanda. Basically, this programme provides grants of circa $300/ha to woodlot owners over 20ha with conditions around, among other things, thinning practices (linked to payment schedules of the grants). This scheme has received substantial coverage in the literature and its main designer could be hired to support Rwanda (he was recently hired by World Bank in Mozambique). This programme in Uganda was built upon extensive stakeholder engagement which influenced its design considerably and resulted in the many technical details that ultimately made it a success. Furthermore, the lessons to be drawn from the challenges that it has experienced are substantially transferable to Rwanda.

This scheme would serve two notable purposes (among many others) in the context of Rwanda; 1) It would support the government’s strategy to form cooperatives among woodlot owners because they would only be able to access the grants if they can aggregate over 20 ha; and, 2) It would support the development of business opportunities for these woodlot cooperatives and larger woodlot owners by allowing them “space” to invest in their productivity and sustainability as well as making their operations more attractive to private investors and banks. However, a cautionary note is made: that average annual household charcoal costs in Rwanda are estimated to be USD 235 therefore the program should take care not to become a subsidy in practical terms for this legacy technology and, more to the point, this factor could prohibit mobilization of “green” funds for the programme.

In relation to “1” above, cooperatives make it much more feasible for smallholders to be part of an organized marketing chain attaining higher prices than for charcoal and fuelwood, and improved extension is more achievable which could focus on high value production. In relation to “2” value chain improvements could result organically because of the programme. Modern micro-sawmill equipment starts from as little as $10,000 and is scalable through adding modules to the operations.
Figure 1: Modular micro sawmill production system - 2500 m³ production/month of sawn dried timber.

Depending on demand and market conditions, entrepreneurs will readily establish such enterprises, which can scale through a modular approach as shown in the images above. Such businesses represent much more straightforward financing propositions than “forestry” itself.

RWANDA’S FORESTRY SECTOR HAS THE POTENTIAL TO SATISFY BOTH THE FUEL DEMAND AND THE TIMBER DEMAND OF THE COUNTRY BUT GIVEN THE DIRE MEDIAN STATE OF WOODLOTS ACROSS THE COUNTRY, TURNING THE SECTOR AROUND WILL REQUIRE GRANT FINANCE UNLESS A REVOLUTIONARY BUSINESS SOLUTION COULD BE FOUND.

AND THAT IS THE TOPIC OF BLUEPRINT 2.
BLUEPRINT 2: A NEW CROSS INSTRUMENT ASSET CLASS

The second Blueprint is for a corporate model. In my opinion, the only way for a community timber-focused company (not conventional or “social” plantation operator) to achieve financially sustainable scale using an out-grower model with smallholder woodlot owners might be to treat out-grower contracts as an asset and securitize them using a special purpose vehicle, which would raise capital to finance the out-grower scheme.

A parent operating company could relatively easily raise capital for sawmills and credit to support its operations. Vertically integrated, it would benefit from being connecting to large-scale buyers in the North (export). (This is the value chain approach being supported by SIDA/WWF funding through a global programme called “Fair Wood”). Exactly how this “Harvest Contract Vehicle” (HCV) could raise money is the main challenge and I suggested to one such operator in Kenya (Komaza now funded by venture capital company Novastar Ventures) that such an HCV might initially auction put options for its shares to investors - giving them rights to sell shares after a number of years for a fixed price underwritten by a donor-guarantor (future strike prices with lower guarantee levels would also be defined) in order to create a market for the security. A Global Harvest Guarantee Facility (GHGF) (consisting mainly of donors and Foundations leveraging their balance sheet) would then be required to achieve the prerequisite scale to create an asset class. Their application to CPI’s “The Lab”, which incorporates this Blueprint concept and further details is provided herein as Appendix A.

Fair Wood (mentioned above) also constructed an application to the Lab (upon my suggestion) promoting the idea of smallholders in the community owning shares in the main sawmill. This is challenging for a number of reasons: firstly, aside from the upside of actual ownership how does it actually help the business raise money? Secondly, how does the company structure the rights and privileges afforded by the shares (such as dividends and voting rights) when some community members participate and contribute more than others?

In fact, the “Harvest Contract Vehicle” does not remove the potential for a community ownership model. Provided that fair out-grower agreements are possible, community shareholdings would not need to be established at the outset but could be a commitment (share options) once profitable sustainable operations are achieved. This is not dissimilar to Rwanda's Mulindi Tea Factory which is 45% owned by its 5000 smallholders, however, arguably such a tightly integrated supply chain is better served by such a model than disaggregated and in-development timber market.

ROAD MAP
### Timeframes and Activities

<table>
<thead>
<tr>
<th><strong>Short-term</strong></th>
<th>6 months</th>
<th>Design of SPV completed and legal framework/entity established</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium-term</strong></td>
<td>2 years</td>
<td>Komaza has USD 40 million investment in its pipeline and will scale significantly</td>
</tr>
<tr>
<td><strong>Long-term</strong></td>
<td>5+ years</td>
<td>Expanding to Rwanda and Uganda, the company will become the largest forestry company in Africa built on a community forestry model. Shares in the SPV could be traded on a stock exchange.</td>
</tr>
</tbody>
</table>

**January 2017:** Komaza is discussing the new model with the Shell Foundation seeking a grant to develop it.

**January 2017:** We will know CPI’s feedback on the Lab entry.

**February 2017:** A “brain-trust” is planned to advance the design of a Special Purpose Vehicle with JP Morgan involved.

**June 2017:** Finance in place ~USD 3 million to design and establish the SPV.
BLUEPRINT 04: NATURAL FORESTS

Like protective forests, natural forests contain no inherent business model. Ecotourism activities in national parks can profit-share with communities on their peripheries in order to promote buffer-zone restoration, alternative livelihoods and other maintenance roles, but what about actually restoring native forests at scale? How can this be financed using private investment and national actors?

Ecotourism operators within national parks are often well placed to conduct restoration activities within the park boundaries, however, the lack the resources. In Rwanda, Akagera Game Reserve in Gatsibo district has built strong connections to peripheral communities. Even in more challenging countries such as Sierra Leone opportunities exist, for example, Tacugama Chimpanzee Park operating within the protected area of the western peninsula forest.

Obstacles to private finance take many forms including excessive risks, access to finance, insufficient returns and higher upfront costs to develop propositions. In terms of attracting international investment currency risk is a primary concern. Uganda, for example, has seen its currency devalue year on year by as much as 8%, and the cost of hedging against such risks are typically prohibitive.

In order to circumvent such challenges, innovative finance often looks at existing business models and critically understands the way assets are leveraged and cash flows managed. Such an analysis of ecotourism in a typical African context suggests that hard currencies collected from tourists could be more useful than simply converting them to local currency in order to pay operating costs and overheads.

A private investor could be invited to make a monthly dollar loan to the Ecotourism company's operations for a fixed period in order to achieve significant restoration goals. The consistent and uplifted incomes (addressing seasonal variability) would allow the ecotourism company to manage an effective programme, and repay the investor (also monthly) using its hard currency revenues (which also act as collateral) in a pattern reflecting seasonality until the principal and interest are fully repaid. A philanthropic foundation or public agency could also offer a guarantee to investors in order to de-risk the proposition as well as offering a grant for capacity support to help ensure success of the restoration project.
**Althelia Ecosphere Climate Fund**

During and IUCN/IFC event in The Hague in October 2016, I discussed the model presented in Figure 1.0 below with Althelia Ecosphere. It could apply to a protected forest or restoration project associated with a forest park or equivalent. It includes carbon revenues as a fundamental revenue stream, which, we discussed, would be required to a greater or lesser extend depending on the revenues that the park generates relating to tourism (the model above).

**Figure 1.0: The Althelia model for financing a National Forest Park’s restoration efforts**

<table>
<thead>
<tr>
<th>TIMESCALES OF THE NATURAL FORESTS BLUEPRINT</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>Short-term</strong></th>
<th>2 months</th>
<th>This idea could be sounded out with those responsible for Rwanda’s well developed ecotourism sector, and a concrete business case readied for investors and donors.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium-term</strong></td>
<td>6 months</td>
<td>An impact investor and partner Foundation could be sourced for a given proposition. The relatively straightforward deal would then be structured and the initiative launched.</td>
</tr>
<tr>
<td><strong>Long-term</strong></td>
<td>2+ years</td>
<td>Native forests are restored using a private investment model. Once successful, protected areas in more challenging countries could be restored using the same model.</td>
</tr>
</tbody>
</table>

**ROAD MAP**
January 2017: Meet with eco-tourism proponents in Rwanda well placed to conduct restoration activities

January 2017 - March 2017: Promote a structured proposition to investors and donors.

March 2017 - July 2017: Support investors with a due diligence process and evaluation of the opportunity on the ground

September 2017: Initiate first private sector finance funded restoration of natural forests in Africa.
If we are close to deriving a set of Blueprints for FLR finance that can be applied not only in Rwanda but in each new ROAM context, then that level of clarity and direction arguably makes the complexity of “FLR Finance” manageable rather than unwieldy. In addition, people who understand how the mechanisms and instruments in each Blueprint work, could be recruited to apply them to local or regional FLR finance requirements moving ROAM beyond the limitations of reliance on public finance alone – a direction that the entire global ODA community has resolved to take. Please refer to additional discussion about ROAM and FLR finance in Annex “B”.

Furthermore, the high-potential partnership with Climate Policy Initiative – an undisputed world leader in innovative climate finance – is a partnership that is entirely complementary and potentially plugs the gap in capacity that IUCN currently has.

In terms of GEF and GCF, proficiency in identifying private finance’s role in FLR could underpin applications for the large grants needed in order to support future access to private finance through a well-thought out strategy and roadmap for each ROAM context.

The following recommendations are volunteered at this point in time:

1. A follow-on consultancy should build on “Blueprints”, and each road map identified within this report should be fulfilled. *There should be an adjusted focus on business models and the generation of specific business plans (which could approach investor term-sheets in nature) in order to secure existing investor interest and ultimately deploy new capital*;
2. The next TOR should enable a consultant to tap investors for knowledge support and partnerships around exploring possibilities. Specifically, this could require allowances for all the main impact investor conferences globally as well as potentially spot fees for advice from key specialists in order to accelerate the development of the technical aspects of specific investment opportunities;
3. The scope of future work should be immediately broadened in order to start applying Blueprints to ROAM opportunities worldwide;
4. IUCN should cement its partnership with Climate Policy Initiative, and chart a road map towards the Africa FLR Lab for innovative finance, and other global opportunities;
5. FLR Hub team time and focus should be defined in terms of personnel and quantifiable time (days) in order to ensure that progress on FLR Finance is accelerated, and that resources are deployed commensurate with the challenges of this work;
6. Future contracts might encourage consultants in this field negotiate directly with investors on performance pay commensurate with normal private investment practices;
7. IUCN should consider the Virgin Earth Challenge as a source of unrestricted funding, as well as other financing opportunities that could be used specifically to scale-up and accelerate the funding given to FLR financing work globally, perhaps in partnership with Net-Positive Solutions;
8. Given the scale of the challenge to find business or innovative finance solutions that connect global finance with community focused FLR, IUCN - Net-Positive Solutions joint
proposals to funders could seek scaling up of the effort through massive expansive of the resource and talent pool deployed to address that challenge.

9. IUCN should work up a strategy for GCF and GEF that adopts a pipeline approach to FLR opportunities identified through ROAM, in the context of a new focus on private financing opportunities (defined through Blueprints application) and potential public finance flows (local and international). Such a coherent approach – a global strategy for restoration combined with robust local analysis, financial gap analysis (including private sector potential), and stakeholder buy-in – would demonstrate to GEF and GCF the joined up thinking that they are looking for around justifying the use of grant support in a new era where leverage of private capital is the absolute priority of public finance where possible.
The conservation community has taken significant steps to evolve since the Financing for Development conference in Addis Ababa heralded a new paradigm where it was laid down that ODA was to be used in a new way if the SDGs were to be achieved. This global undertaking was a paradigm shift from relying on grants to leveraging private finance.

IUCN’s reaction has also been notable: Its IPR project in Rwanda was designed in the earliest stages of these changes yet contains ideas and direction that suggest that its authors could foresee the future, the Verena project in Brazil and other initiatives are blazing a trail of private sector leadership in restoration, and Mexico’s ROAM outcomes paint a clear path for the private sector’s role through business model identification. Of course, the Rwanda ROAM was the instigator of much of this change by focusing on the economic upsides of FLR.

Meanwhile, our new allies in the finance world have also been making strides in the emerging asset class dubbed “conservation finance”. Ground breaking reports from Credit Suisse, Clarmondial and Climate Bonds Initiative have boldly defined the challenges and opportunity. It is clear that an inertia has been achieved. It is like a ship capable of delivering all the promises of FLR but potentially equally difficult to steer! IUCN’s Conservation Finance Coalition launched at the World Congress in Hawaii could help to do so.

The direction of IUCN’s work on FLR Finance needs careful consideration at this juncture, and rigour in understanding the options before us, as well as open and honest discussion. The Blueprints that are emerging as solutions for unlocking private capital for FLR at scale (and conservation finance generally) are frankly a very long way from basic investment ideas, yet our community is not yet well versed in the complex financial mechanisms and instruments that these Blueprints contain. This poses a threat to progress that is exacerbated by the finance community’s not making their solutions easier to understand through the use of plain language.

One of the seminal reports from the finance sector mentioned above recommends,

“Moving from idiosyncratic and disaggregated early-stage testing efforts to an incubator approach that brings together business, conservation, and technical know-how and provides the necessary infrastructure to rapidly prototype and test promising new ideas with scale-up potential.”

THE AIM OF THIS REPORT IS TO EXPLAIN IN BRIEF FORM AND PLAIN LANGUAGE THE BLUEPRINTS THAT ARE EMERGING WITH HIGH POTENTIAL FOR THE FLR FINANCE. HOW MIGHT THE EMERGENCE OF THESE BLUEPRINTS INFLUENCE FLR FINANCE THINKING IN THE CONTEXT OF ROAM AND FLR GENERALLY?
ANNEX B: THE TOPIC OF FLR FINANCE AND ROAM (FROM BLUEPRINTS VERSION 110916)

An interesting question to ask is, “ARE WE NOW APPROACHING A SCENARIO WHERE A COMPREHENSIVE PORTFOLIO OF ROAD-TESTED, STRESS-TESTED BLUEPRINTS EXIST FOR FLR FINANCE?” If so, this is a stark contrast to where the discipline was even 18 months ago when the application of financial mechanisms was in the early stages of being discussed for FLR finance.

If we are on our way to formulating this suite of Blueprints, then from this emerging vantage point proponents of the Bonn Challenge could take a second look at how “Financing FLR” is framed.

Firstly, the “Blueprints” approach has differences to the approach described in the first edition of the ROAM manual. Currently ROAM invites proponents to conduct an evaluation of the barriers to private finance in the country, and evaluate the scope for new private sector investments on the basis that “In general, the more a restoration intervention will benefit individuals, the more opportunities there will be for attracting private finance.” What the development of Blueprints in Rwanda and Uganda has demonstrated is that private investment can be unlocked for all of the FLR intervention sometimes in unconventional ways through innovative finance.

Secondly, FLR Finance training would look very different now than it did twelve months ago. I delivered the “Financing FLR” sessions during FLR Forum in Washington in September 2015 and this discussed equity and non-equity financing options with the later limited to a solitary financial mechanism – blending. Equipped with the learning derived from the work completed since then this training would be much more developed. In fact, a full day could easily be dedicated to the topic and if dedicated workshop time was offered with different country’s representatives tangible progress would be made on specific financing solutions.

FLR Finance solutions that require innovative finance could become easily identifiable because a suite of Blueprints exists. Furthermore, these solutions would be capable of being relatively easily and systematically disseminated or “workshopped”. ROAM could promote Blueprints that are validated and potentially supported by all of the main proponents of development finance community and many private actors too. Through its ongoing focus on FLR Finance, IUCN would support its members (countries) by helping them to align with new global priorities around innovative finance, as well as identifying the extent to which Bonn Challenge commitments can be achieved through innovative finance and by unlocking private finance. With this achieved, IUCN’s partner government institutions can develop public policies to help address barriers to private finance and to finance the gap that private finance and innovative finance cannot achieve.