Financing for the Future

Guidance for businesses to secure investments in landscape governance and forest protection

Partnerships for Forests | Catalysing investments in forests and sustainable land use

Financing for the Future: A guide for forest landscape businesses

Landscape governance approaches have evolved over the last two decades to become a practical solution for helping balance global efforts towards forest protection and food security.

Landscape governance is the process of creating multi-stakeholder interactions for collective decision making and joint action in solving problems at the landscape level. Over the years, these models have emerged to be vital in addressing agriculture-driven deforestation through their potential to generate concerted efforts and results. However, entities focusing on conservation, food security and livelihoods have been challenged by the inability to mobilise enough upfront investments to finance the transformation of unsustainable 'business as usual' models into commercially viable and forest-friendly businesses. To address this problem, it is vital to establish a shared understanding and aligned expectations between landscape models and actors (producers, communities and companies) and the investor and finance community.

This short guide provides practical advice to forest landscape businesses that are seeking to either attract initial investments or scale operations across landscapes. Drawing from the views of sustainable investment experts, it highlights key investor criteria that businesses must consider before they approach investors and financial institutions.

Beyond banks: exploring alternative funding options for landscape governance

Value investors (banks, credit companies and financial institutions) are often hesitant to finance relatively new ventures that lack credit history and/or an existing proof of concept. Unlike with impact investors – who consider longer-term investments using social capital – value investors are more concerned with generating financial returns from their investments over the short and medium-term.

This creates a disadvantage for commodities such as rubber, palm oil, and timber which can undergo gestation periods in excess of three years before generating cashflows or value accretion. If small businesses in these commodity chains attempt to take out loans, they risk accumulating debt. A smallholder farmer, co-operative or community with a significant debt burden will invariably lack the free cash flow needed to secure such things as farm inputs and extension services.

> "If you start, take baby steps; the bank is not the first place to go.
>
> But if, after two years, you have demonstrated performance and you have history behind you, a bank or any financier will want to support you."
>
> **Andrew Ahiaku**
> Head of Agri-business
> Fidelity Bank Ghana

To avoid this fate, Andrew Ahiaku*, Head of Agri-business at Fidelity Bank Ghana, encourages landscape businesses to begin by exhausting three fundamental strategies:

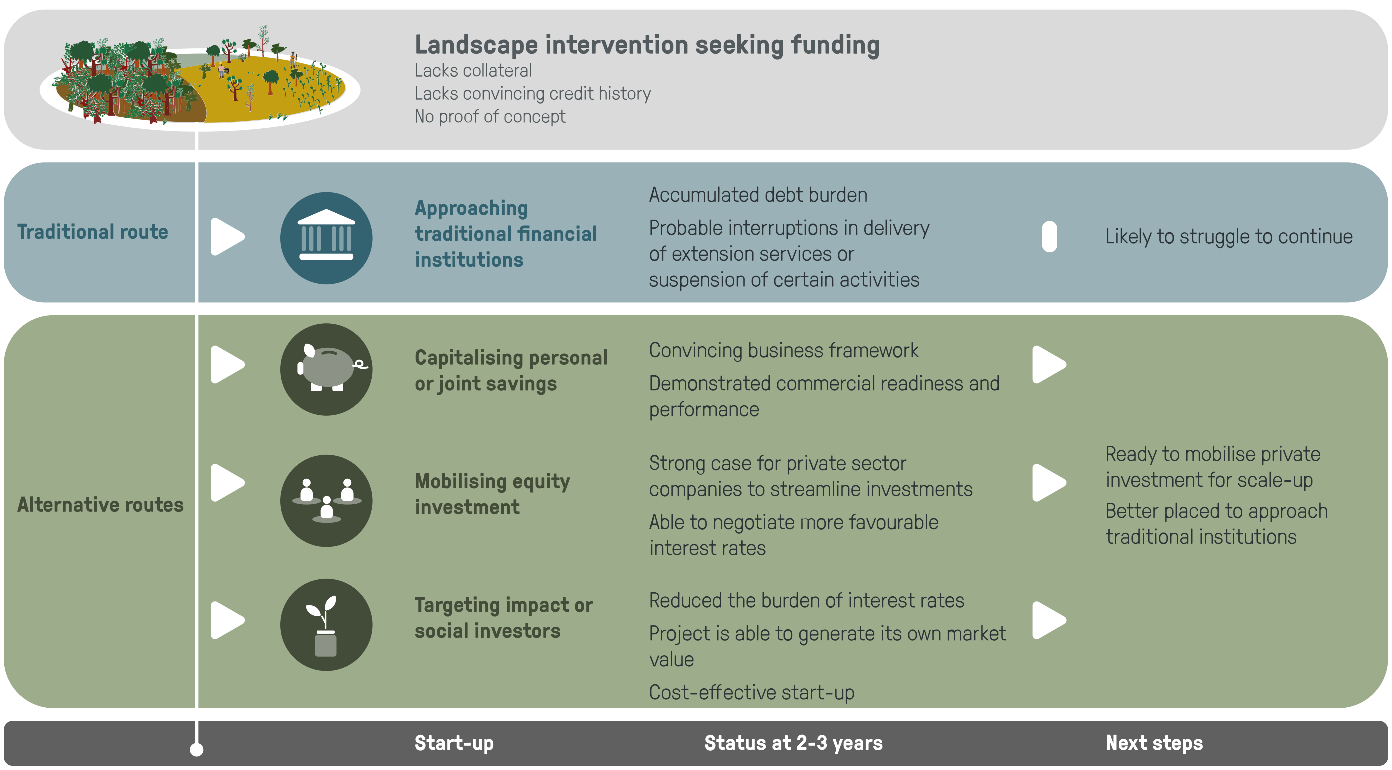
1. **Capitalising personal or joint savings:** This involves leveraging private and

* Andrew is a senior Agricultural Finance Specialist with over 12 years of experience in using de-risking mechanisms and developing innovative agricultural finance instruments

community-level resources including contributions from friends and families. By pooling these immediate resources, businesses can demonstrate their commercial preparedness to attract private capital.

2. Mobilising equity investment: Unlike value investors, equity investors such as community elites, traditional authorities or decentralised governments typically have no guarantee of return on their shares. Equity subscriptions would develop a strong case for private sector companies to streamline corporate investments or, conversely, help re-model the business to become more attractive to lenders such as banks.

3. Targeting impact or social investors: To address the issue of prolonged gestation periods that can delay cashflows within certain commodity value chains, project grant funding or first loss capital investment could be a good short-term alternative to commercial debt. It therefore reduces the burden of interest rates until the project is able to generate enough free cash flow to service debt. In a similar way, agro-industries can take advantage of special agricultural funds allocated by governments or banks to enjoy financial disbursements at concessionary rates.



Financing pathways for early-stage landscape businesses

Case Study _

Financing a Hippo Sanctuary: The case of the Wechiau Community, Northern Ghana

In Northern Ghana, conservation NGO the Nature Conservation Resource Centre (NCRC), supported communities living near the Wechiau Hippo sanctuary to set up a trust fund and shea businesses to boost their livelihoods and establish a self-sustaining financial mechanism for the Wechiau landscape. Grant funding was initially used to enforce the capacity of Community Resource Management Areas (CREMAs) for the protection of Wechiau's Hippo Sanctuary. After identifying the need for additional income streams aside revenue from ecotourism, NCRC partnered with the Calgary Zoological Society and concessionaries in the landscape to set up an autonomous sustainable financial mechanism in the form of a community Trust Fund. Following this, 2,000 women were trained on the sustainable, organic harvesting of shea nuts and new off-take prices were brokered with concessionaries to pay 20% premiums to harvesters and reinvest 5% of annual company profits into the Trust Fund.

Due to a 300% increase in organic shea harvests, an onsite factory was set up with funding from CZS and leased to a private concessionaire for the processing of shea. This new arrangement streamlines rents paid for the factory into the fund – enabling the fund to finance community development projects (e.g. building or repairing schools and roads) and paying salaries to more than 200 community women recruited by the factory.

The fund has grown by 50% since 2016 and is considering organic sourcing for other commodities such as groundnuts and shea honey that can provide additional benefits to communities through fair trade prices.

Key issues to consider when approaching value investors

Ideally, value investors look to protect shareholders interests by reducing risks and maximising returns on investments within the shortest possible time. To get their attention, sustainable forest-based businesses must provide evidence of how project outcomes will create tangible financial returns. This includes proving legality, management capacity, and demonstrating they have a thorough understanding of market dynamics.

Legal status: Landscape enterprises must show good faith by abiding to existing company laws and standards (e.g. articles of incorporation, valid business licenses, tax registration, insurance, etc.). By so doing, they score on investors' risk assessment and provide a basis for long-term collaboration.

Management capacity: Businesses need to demonstrate a capacity to mitigate risks related to material adverse change. This refers to any change in circumstances that significantly reduce the value or return prospects than initially estimated (e.g. the withdrawal of a valued shareholder).

Market linkages It is important to construct a well-grounded business case with a clear market strategy that outlines various cashflow channels. This includes providing data on production capacity at present and future potential, the variety and value of existing commodities, and the availability of market links to establish off-take agreements.

Effective record-keeping: This involves consistently archiving results and updating data storage systems to reflect impact and the potential for expansion.

> "Banks don't give money to companies – they give to ideas or the people behind them."
>
> Andrew Ahaiku
> Head of Agri-business
> Fidelity Bank Ghana

Legal status

Demonstrate valid licenses and status to support investor due diligence

Organisational capacity

Strong management and processes essential for attracting and retaining investment

Market linkages

Business model must be embedded within concrete market strategies with a clear business case

Effective record-keeping

Build evidence and demonstrate proof-of - concept via portfolio

Key issues to consider when approaching value investors

Conclusion

There is no easy way to finding landscape finance; neither is there a one-size-fits-all approach. The key issue to note is that landscape mechanisms are traditionally embedded in multi-stakeholder engagements – notably the participation of local communities and smallholders. In seeking funding for landscape approaches, sustainability-driven businesses must be conscious of the variations in investors' rationales and conceive targeted fundraising strategies to match this. Equally, efforts must be targeted at investors that value mid- and long-term benefits and show a genuine commitment to responsible environmental and social practice.

> [When funding landscape models] there is a need to balance sustainability objectives with profitability objectives
>
> Corné De Louw
> Project Manager
> Rabobank

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This guide draws key lessons from their expertise and discussions around the theme of 'Financing for the future: How can businesses secure investments for landscape governance and forest protection?'

Pictured: *(left-right) Corné, Andrew and Haruna at the Partnerships for Forests West and Central Africa Annual Learning Event, held in Côte D'Ivoire in October 2019.*