



Partnerships for  
**Forests**

**A year in Latin  
America**

**Investing in the climate-smart land use sector: Lessons from the one-year anniversary of Partnerships for Forests, an innovative public-private accelerator of businesses in forests landscapes.**



# The challenge

**Currently, the short-term economic gains from degrading or converting forests for agricultural uses are greater than those from preserving or restoring them. In order to generate bigger shared value from sustainable land use and forests, new approaches are needed.**

In the fight against climate change, forests can provide 23%<sup>1</sup> of the cost-effective climate mitigation needed before 2030. Despite this potential, forest-related finance, even for countries with high rates of deforestation, accounts for less than 3%<sup>1</sup> of global climate mitigation-related development funding.

## **PARTNERSHIPS FOR FORESTS (P4F) OFFERS INNOVATIVE RESPONSES TO THESE CHALLENGES.**

We aim to strengthen the emergence of a new investment paradigm in sustainable land use by demonstrating how the private and public sector, as well as the local communities can come together to generate attractive shared returns from improving sustainable business in forests landscapes – investments that can outperform prevailing models that drive deforestation.

# The response

**By creating market-ready ‘Forest Partnerships’ – businesses that offer an attractive balance of risks and benefits for all actors - the programme aims to mobilise significant investment, principally from the private sector, towards the climate-smart land use agenda.**

Partnerships for Forests provides financial and technical support to initiatives at different levels of maturity, from projects that are in the stage of signing Memorandum of Understanding (MoU), to business plan development, pilot and scale-up stages.

Our support varies from improving the business case, financial model, or organisational design, strengthening environmental monitoring or advising on commercial scale-up. The targeted landscapes range from forests that are still well preserved, but under pressure, to those that have been already cleared for production purposes, or that are moving towards restoration. All partnerships we support have the potential to deliver impact at scale, either through their own operations or replication elsewhere.

The core of P4F’s work focuses on developing business opportunities and unlocking investments towards sustainable businesses through these Forest Partnerships. Furthermore, the programme also supports Demand-side Measures that strengthen markets for deforestation-free commodities and initiatives to create Enabling Conditions for sustainable investment by removing key barriers.

<sup>1</sup> GIBBS, D; HARRIS, N; SEYMOUR, F. WORLD RESOURCES INSTITUTE - WRI. By the Numbers: The Value of Tropical Forests in the Climate Change Equation. Accessible at: <<https://www.wri.org/blog/2018/10/numbers-value-tropical-forests-climate-change-equation>>; Accessed on: 15/04/2019



## A year in Latin America

Latin America is home to 22%<sup>2</sup> of the forested area globally. Brazil alone contains the largest tropical forest in the world: more than 60%<sup>3</sup> of its territory is covered by forest, the majority of which is situated within the Amazon basin. Increasingly, Brazil's agricultural production serves as a global breadbasket. Post-conflict Colombia has made large patches of forest areas available for market use. These areas can now be converted to agricultural land use.

Our strategy in Latin America, focused on Brazil and Colombia, was developed by the selection of thematic areas for support. The selection was made considering their fit with programme's broader approach and our additionality given other existing programmes. The potential to bring land under sustainable use at scale and the existence of minimum enabling conditions for business to thrive, such as appropriate legislations, were also taken into consideration. For each of the selected thematic areas, we then assessed existing barriers for change and finally prioritized impact levers for intervention.

## What have we learned?

May 2019 marks our first year of implementation in Latin America. In that time, we have built a portfolio of seven initiatives, five of them Forests Partnerships, one in Colombia and six in Brazil, one Demand-side Measure and one Enabling Condition, both in Brazil.

P4F commitment to deliver impact in hectares under improved land use management and in private capital mobilization by 2020 represents a big filter for selecting investment opportunities. Since mature initiatives, in pilot or scale-up stages, are closer to generating impact within a shorter timeframe, our current portfolio includes more mature initiatives.

This resulted in five thematic areas, which in turn evolve around three core pillars:

- **PRODUCE AND PROTECT:** P4F aims to ensure that agricultural activities take place side-by-side with forest conservation, sustained through economic incentives such as improved productivity and profitability. **Responsible cattle intensification and expansion of soya towards already opened areas** are the two thematic areas of this pillar.

- **INCREASING THE VALUE OF STANDING FORESTS:** P4F understands the need to strengthen economically viable options for improving the livelihoods of communities living in preserved lands. **The promotion of high value non-timber forest products** such as Brazil nuts and açai, together with **native timber management** (in Colombia only) are additional thematic areas under this pillar.

- **RESTORATION:** P4F intends to promote development benefits for the forest restoration economy. **The promotion of financially viable restoration models** and of **restoration services** are the final thematic area of our strategy.

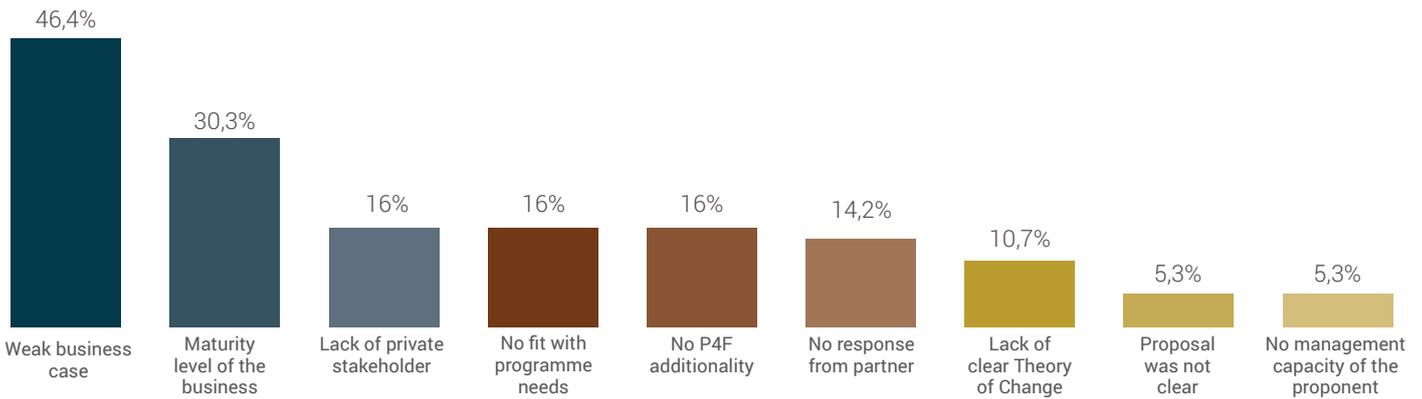
The learnings we present in this document are based on the development of P4F's portfolio over the first year of operation in Latin America. It captures our lessons from seeking proposals and assessing their business viability, positive land use impact and alignment with the programme strategy. We hope it offers insights for both the investors and the entrepreneurship community that can help the land use sector business development ecosystem flourish.

<sup>2</sup> FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS - FAO. Sustainable forest management in Latin America and the Caribbean. Accessible at: <<http://www.fao.org/americas/prioridades/bosques/en/>>; Accessed on: 15/04/2019

<sup>3</sup> MINISTÉRIO DO MEIO AMBIENTE - MMA. Florestas. Accessible at: <<http://www.mma.gov.br/florestas.html>>; Accessed on: 15/04/2019

# General Learnings

## Main reasons for rejecting Forests Partnerships proposals

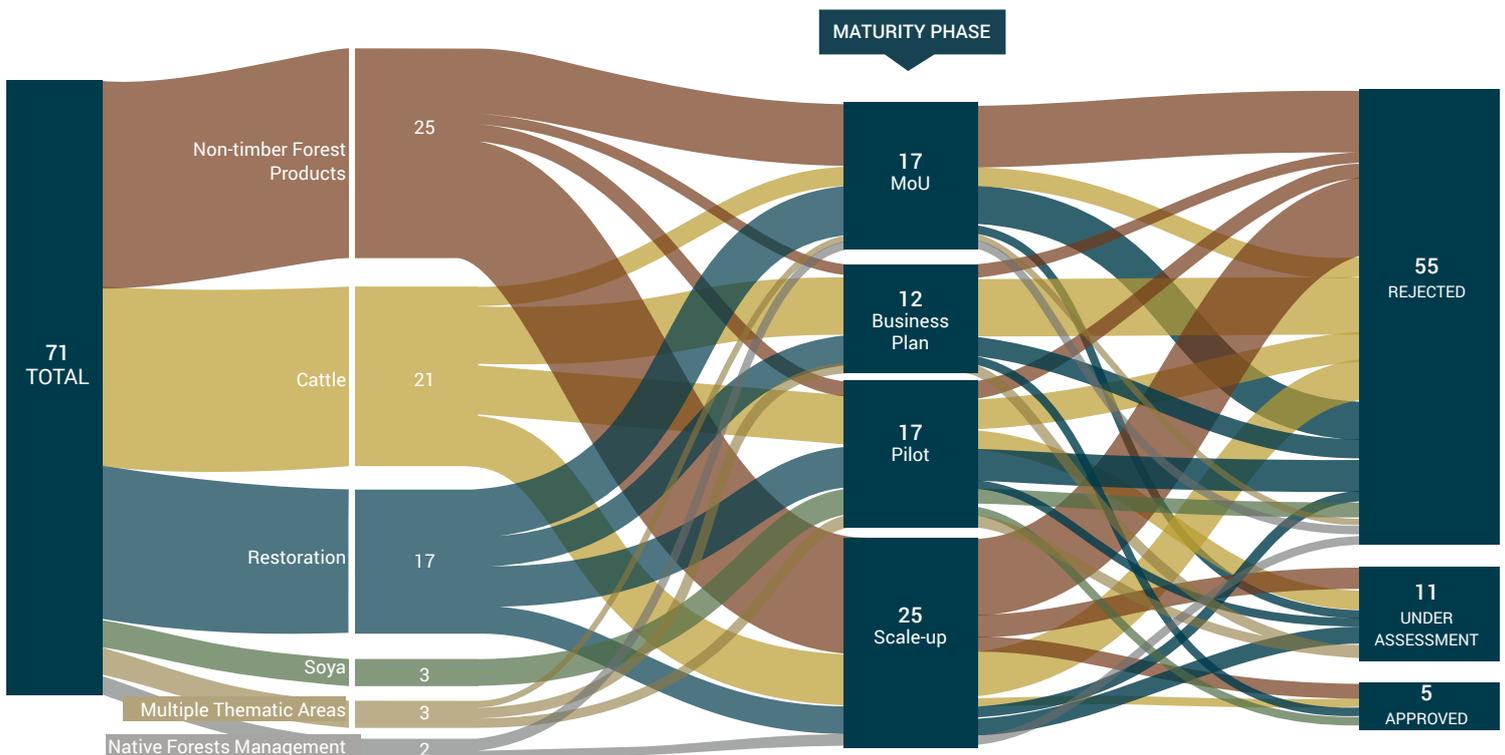


- There is an overall lack of business approach in the proposals we have received, with many missing a value proposition or business model.
- Many proposals focussed mainly on solving supply side challenges, such as increasing productivity, not paying enough attention to the market demands.
- Proposals born within the private sector often look for investments to lower their costs of expansion without a clear shared value approach or positive social or environmental impact for public or communities beyond the company's commercial interests.
- Few proposals leverage data of gender or other demographics to develop a business model that provides wider socio-environmental benefits in shared value approach.

### WHAT ARE THE ELEMENTS OF A STRONG BUSINESS MODEL FROM P4F'S PERSPECTIVE?

- Clear value proposition with a defined product or service.
- Clear sense of target market.
- Defined management team with proven ability to solve business-related problems.
- Effective and transparent governance system.
- Clear pathway to financial sustainability aligned with P4F's lifespan.
- Positive and measurable impact on land use.
- Risks management strategy with adaptive contingency plans.
- Improved financial attractiveness against the unsustainable, yet legal, business-as-usual land uses.
- Shared value approach that leverages data of gender and other social demographics.

## Overview of Forests Partnerships received to date



## **Soya** Innovation is the answer

According to our analysis, the operational costs for soya producers in the Cerrado region to expand plantation into native areas is the same as to expand into already degraded land. **Innovative market-oriented models are necessary to create the needed incentives to make the expansion into already opened areas more attractive over areas of native vegetation**, thus shifting the balance.

- We have found some initiatives aimed at addressing this challenge by means of innovative financial mechanisms. Those initiatives were easily able to find investors.
- However, the capacity to prove impact is still hard to measure since deforestation in Cerrado is influenced by multiple factors. The results of these innovative initiatives, such as the potential to attract producers and the improvement in the land use management, are yet to be demonstrated in practice.

### RECOMMENDATIONS

- For investors: Continue looking for innovative financial mechanisms, ensuring robust monitoring to capture impacts and lessons.
- For entrepreneurs: Invest in impact measurement systems. Whoever can prove measurable impact will attract investments and have their business model scaled and replicated.

The efforts from both investors and entrepreneurs will be rewarding. Commitments from companies such as the British retailers in the UK Sustainable Soya Initiative, the Soft Commodities Forum - which gathers the six biggest soya traders – and the SOS Cerrado Working Group together with Cerrado Working Group (GTC) point to an increasing demand from markets for sustainable soya.



## **Cattle** A call for joint action

Huge availability of degraded pasturelands and big opportunities to enhance productivity and returns at the farm-level **have not yet translated into a large availability of business propositions focused on improvement of cattle management**.

- There is a misalignment of sustainability commitments among supply chain actors, with retailers often having more stringent commitments than the industry. The lack of shared incentives among producers, industry and retailers to improve land use management makes sector arrangements complex and hard to reach.
- The transition from extensive cattle ranching to semi-intensive or silvopastoral models paired with environmental compliance requires complex operations with high costs, which cannot be covered by producers alone, offering additional risks for investors.

- Low Internal Rates of Return with long payback time make such investments less appealing.
- The result: Few investors are willing invest in the sector so far, leading to disproportionately high risk for early movers.

### RECOMMENDATIONS

- For investors: The profile of investors that best fit the cattle sector is the one with patient money and relatively high appetite for risk. Technical assistance should accompany the investments in order to guarantee returns.
- For entrepreneurs: Look for the shared incentives among the supply chain in order to generate partnership arrangements that can lower the risks for investors. Alliances are needed to align efforts and share implementation costs.

## **Native Forest Management** The challenge in Colombia

Despite its vast, timber-rich forest reserves and favourable geographic positioning of some of its forests, Colombia continues to import timber for its internal consumption. There appears to be a salient opportunity for the native timber industry to flourish, but **the local industry is mostly based on industrial, monoculture tree planting.**

- The few mapped projects were still early-stage and covered small areas if compared to the sector needs.

- Experts point to regulatory uncertainties regarding sustainable timber laws and rules, which reduces investment attraction. Illegal timber production still represents an unfair competition to legal entrepreneurs.

### **RECOMMENDATIONS**

For both investors and entrepreneurs: build alliances with federal authorities to help create the necessary enabling conditions for native forest management.

## **Non-timber Forest Products** Shift towards a business mindset

Few of the non-timber forest products present the right opportunity to sustain a shift in land use decision making towards a forest-based economy and away from deforestation activities such as opening land for cattle ranching. However, whenever these stars align, the **potential for positive impact in forest protection and improvement of livelihoods is significant.**

- There are a vast number of initiatives on the ground, usually led by grassroots organizations. Many of the ones we have come across lacked business management skills and have limited commercialization capacity, resulting, for instance, in the frequent lack of market demand assessments.
- The lack of working capital is a major bottleneck for these initiatives. Most are intermediary businesses in the supply chain, who process raw NTFPs and sell them to final buyers. There is a mismatch between the timing of their outgoing cashflow to collectors and their incoming payments from buyers of the final product, which leads to working capital shortages.

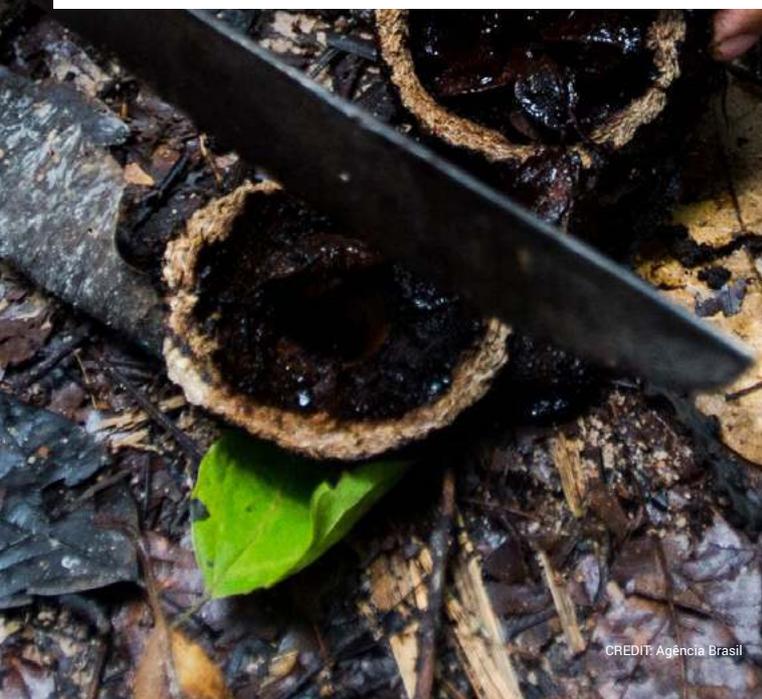
- Currently available credit lines for working capital comes with too high a cost for these actors. Sectorial rotating funds initiatives have shown themselves as an interesting alternative to fill this gap.

### **RECOMMENDATIONS**

- For investors: When considering investments, make sure to look for partners that can help reduce the risk by improving local business management capacities and therefore enhancing the impact of the investments. P4F is a good example of such a partner, but there are numerous other supporting entities working with communities.
- For entrepreneurs: Make sure the right enabling conditions are in place for your business to succeed and, in case not, seek alliances to improve them or make sure to have mitigation strategies before investing in increased production.

**WE FOUND THAT A COMBINATION OF FACTORS WOULD LEAD TO THE IDEAL ENABLING CONDITIONS TO MAKE NON-TIMBER FOREST PRODUCTS ECONOMICALLY VIABLE WHILE PROTECTING FORESTS:**

- Abundant availability of the resource in the forest, ideally in high density.
- Well known collecting and processing good practices, with no immediate need for R&D.
- Organized collectors, for instance through professional associations or aggregators.
- Low infrastructure cost, mainly for transportation.
- Buyers that follow principles of fair commerce.
- Better returns than competing economic alternatives.
- Existence of a minimal level of command and control policies as to avoid deforestation.
- Well established legal framework for the activity.





# Restoration A long way to go to reach the goal

Despite the existence of ambitious commitments, such as Brazil's Nationally Determined Contributions (NDCs) of 12 million hectares under restoration until 2030, **most of the received proposals for restoration were small scale.**

- Unproven business models, high implementation costs and the long time for the return on the investments - usually over 7 years - represent strong impediments for private investments.
- Restoration through agroforestry systems offers business opportunities, but, in Brazil, it has only proven to be financially attractive with cocoa, a mature commodity.
- Nevertheless, most of the proposals arising from the cocoa sector lacked a business perspective, mostly based on grants

resources for supporting technical assistance to improve productivity at the farm-level without a clear market strategy.

## RECOMMENDATION:

- For investors: As can also be said about the cattle sector, the profile of investors in this case is of higher tickets and patient capital.
- For entrepreneurs: Build short cycle species into the restoration models that can deliver income in the short term to reduce the impact of the first years of investments. Search for arrangements that align similar interests from the different actors of supply chain to share risks and costs.



## Next steps

P4F will continue expanding its portfolio in Latin America. Our selection criteria have evolved to reflect the learnings gained over the first year. While exciting opportunities are starting to demonstrate that good solutions can attract the right investment and promote positive impacts on land use, the business and natural environment worlds still need to better coordinate efforts. We expect the best proposals to arise from of this integration.

*"Latin America has the planet's best investment opportunities for nature-based business solutions against climate change. It holds unmatched natural capital and a thriving and expanding agribusiness sector. Partnerships for Forests gathers the best-in-class expertise in business development and land use management to respond to the need of bringing sustainable business to bankable status. Our first year of operation has further validated the programme's global theory of change regarding the relevance of businesses in promoting large scale, long term solutions. The opportunities we are helping to build today offer the needed evidence for conscious decision making that will affect tomorrow's realities".*

- Marcio Sztutman,  
P4Fs Regional Manager for Latin American.

## Who is Partnerships for Forests?

Partnerships for Forests (P4F) is a five-year programme funded by the UK Department for International Development (DFID) and the Department for Business, Energy and Industrial Strategy (BEIS). It operates in Central, East and West Africa, South East Asia and Latin America. P4F is implemented by Palladium and McKinsey & Company.

# Learn about our projects

## *Forests Partnerships*

### **COOPAVAM**

A decade ago a Brazil nut processing cooperative named COOPAVAM managed to create one of the most successful Brazil nuts business models. COOPAVAM brings indigenous communities and smallholder farmers together to collect Brazil nuts from native forests in the north-west of Mato Grosso: one of the Brazilian Amazon region's deforestation hotspots. P4F is now supporting COOPAVAM to move to the next level by expanding its sales and marketing strategy and its production capacity, while directing returns to strengthening forest monitoring capacity by the local communities.

### **PECSA**

In the Amazon, traditional cattle ranching practices exhaust the soil and result in reduced production. This in turn leads farmers to open more land to continue or increase production levels. In contrast, improved ranching practices align with non-deforestation commitments can help avoid production area expansion and further deforestation, while also generating greater economic returns for both producers and investors. Modernizing traditional cattle ranching practices is the business of PECSA. P4F is supporting the company in scale-up by helping them improve their operational management and business development.

### **Naidiseros del Pacífico SAS**

In 2016, the Colombian NGO Fondo Acción supported the launch of a pilot-project of native açai collecting and processing with the community-based enterprise Naidiseros del Pacífico SAS: a private company set up in the heart of the Pacific mangroves by seven community councils as public shareholders. With the demand for açai (or naidí, as it's known by the locals) growing double digits year-on-year in Colombia and globally, P4F is focusing its support on helping Naidiseros del Pacífico SAS scale their business, with improved income for families substituting illegal alternatives such as timber extraction. The support includes activities to strengthen forest vigilance, community governance and greater gender balance within the business.

### **The Responsible Commodities Facility (RCF)**

Soya is Brazil's most important agricultural commodity. As the country increases its production, native vegetation in the Cerrado biome being converted at a fast rate. The Responsible Commodities Facility (RCF) is developing an innovative financing and trading mechanism for deforestation and conversion-free (DCF) soy production. The initiative will issue green bonds to provide favourable agricultural credit lines for soya farmers in exchange of zero deforestation and restoration commitments.

In addition, RCF is creating the first commodities exchange that exclusively trades DCF soya, hence linking sustainable producers with interested international buyers through a dedicated negotiations platform. P4F supports Sustainable Investment Management (SIM) company in structuring the issuance of the green bond.

### **The Xingu Seeds Network (ARSX)**

The Xingu Seeds Network (ARSX) is a network of native seeds collectors located in the Xingu basin headwater, which stretches across the Brazilian Amazon forest and the Cerrado biomes. Currently, they are the biggest native seeds producers in Brazil, counting with a network of 500 collectors working on an innovative governance scheme for seeds collection and selling that is both replicable and scalable. ARSX dates from a 2004 campaign initiated by the NGO Instituto Socioambiental (ISA) in partnership with indigenous leaders from the Xingu Park, the oldest indigenous territory of Brazil. P4F is working together with the Network to improve their business model, still partially dependent on grants.

## *Enabling Condition*

### **The Seed's Path Initiative**

The direct seeding restoration technique offers social and economic benefits, as well as a better cost-effectiveness when compared to restoration practices using seedlings. Despite its clear advantages and its potential to be replicated, direct seeding is not vastly used as restoration method in Brazil. The Seed's Path Initiative aims to unlock this potential by accessing the barriers and defining strategies to overcome regulatory, economic and cultural barriers for this technique. P4F is partnering with the consultancy Agroicone and the NGO Instituto Socioambiental (ISA) in promoting this enabling condition.

## *Demand-side Measure*

### **The UK Roundtable on Sustainable Soya**

The UK Roundtable on Sustainable Soya brings together significant players in the UK soya market, providing a pre-competitive space for companies and industry associations to work together to achieve a shared goal of a secure, resilient and sustainable supply of soya, with joint progress monitoring and reporting. The Roundtable forms the core of a wider UK Sustainable Soya Initiative, which links to existing platforms, programmes and related activities in consumer and producer countries to collaborate on the practical steps necessary to achieve this shared goal. P4F supports the advisory organization EFECA in the technical assistance facility of the Roundtable.