Linda Broekhuizen, CIO at FMO, outlines the Dutch development bank's plans to get more government and EU backing for developing country timberland investments

Who will finance Africa's reforestation?

Arne Doornebal

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REFORESTATION HAS BEEN identified as one of the most effective tools against climate change. At the COP21 conference in Paris, 10 African countries pledged over 40 million hectares of land for reforestation. But planting a forest is costly. Who is going to pick up the bill? Dutch investment bank FMO is investigating how it can increase involvement in the forestry sector, which currently accounts for only 1% of its total investments.

Linda Broekhuizen has just returned from Accra, Ghana, where FMO co-sponsored a two-day conference, Forests for the Future, New Forests for Africa. Broekhuizen is chief investment officer at FMO, which holds €9.2bn in investments. Speaking to ESG Magazine, Broekhuizen says: "We are convinced that forests need to be planted in addition to efforts to stop the ongoing deforestation. This can have a great impact on greenhouse gas reduction."

The conference was organised by forest plantation company Form International, its local subsidiary Form Ghana and Nyenrode business university in the Netherlands. Kofi Annan, the former secretary-general of the United Nations and now one of the world's leading voices in the battle against climate change, was the guest of honour. "Commercial forestry companies have a huge potential to restore degraded land and to reduce pressure on natural forests," Annan said in his keynote speech. "African governments must create conducive environments to promote domestic and international investment in sustainable reforestation initiatives."

Sustainable Forests Investments (SFI), which is part of Form International, has been investing in forestry plantations in Africa for over decade. Paul Hol, executive director at Form and CEO of SFI, says: "Today we have invested around $40m in Ghana and Tanzania. We manage around 30,000 hectares of land in these two countries. We employ around 1,700 people." Hol says he wants to increase investments to $150m by 2030 and is therefore looking for alternative funds: "Until now, the investments have been realised through private equity. But we want to realise growth in close collaboration with development banks."

However, SFI and other investment companies are having difficulties accessing capital: "The current financial systems of development banks are not adapted to forest plantation investments. The interest rates and the collateral in relation to the country risks are not appropriate for a greenfield investment where the cashflow only becomes available after eight and in some cases 10 years," says Hol. The term 'greenfield' is used for plantations which are set up from scratch and therefore pose a larger risk to investors than plantations that already exist.

FORESTS FOR THE FUTURE, New Forests for Africa was attended by over 150 people and brought together the 10 largest companies operating on the African continent. They were joined by NGOs, representatives from the financial sector and political leaders from various African countries including Ghana and Tanzania. Broekhuizen says: "It was very important to bring together all these stakeholders in Africa. A lot of promising connections have been made." Some of the attendees also visited Form Ghana's plantation in Central Region.

Broekhuizen notes: "This plantation has already been operating for 16 years. Therefore the investors' risks have reduced. But before we make any decisions on investments we need to do much more research on the ground. We have to take into consideration issues like ownership of land and how the company relates to the local population living on or near the plantation. That process takes time."

'Finance for forests' is listed among the five priorities of the Green Climate Fund, which aims to invest $100bn per year by 2020 according to the COP21 agreements. Hol hopes that the access to money will become easier: "It amazes me that these agreements in Paris have been made and that we nevertheless struggle to secure long-term funding for reforestation projects in Africa."

Broekhuizen acknowledges the issue but expects positive change: "Large investors like pension funds do invest in forestry projects in developed countries, but not yet in developing countries. The main reason is that the risk-return profile is not attractive to them. For most greenfield forestry investments you need a very long investment horizon of sometimes up to 20 years, which increases the risks. Secondly, there is no financial compensation for the huge benefits that forestry creates in terms of reduction of greenhouse gas emissions or creation of employment. Together with other development banks, FMO is looking to work towards better 'bankability' of the forestry sector."

To this end, FMO is looking at alternative options for funding. Broekhuizen adds: "We are currently looking at opportunities to attract funding from the Dutch government as well as from the European Union. We hope to use those funds for important but high-risk investments in developing country forestry."