The business model of Form Ghana

African Forestry Investment Conference
June 13 & 14, 2017, Accra

Rik Sools
Global view on forest plantations

- World timber market volume
  - 1.5 billion m$^3$ currently
  - 2-8 billion m$^3$ expected by 2050
- Plantations provide 33% of global timber supply, 1.3% of forest cover
- Currently 50 Million hectares industrial plantations
- Need for additional 250-300 million hectares by 2050 (WWF)
- Realistic expansion 40 Million hectares by 2050 (Indufor)
- 600-700 billion USD invested in timberlands, mainly plantations
Harvestable volumes in plantation forests and natural forest

- (Sub)tropical forest plantations: 200-700 m³/ha per rotation (7 to 30 years)

- Tropical natural forests: 5-30 m³/ha (Africa, Latin America), 20-60 m³/ha (SE-Asia) per rotation 25-30 years.

- Plantation forestry more intensive and efficient way of production
So what’s the business case for forest plantations in the (sub)tropics?

- Reasonable return rates possible, 8-15%
  - High tree growth rates
  - Low land and labour costs
  - Widely spread under-investment
  - Value-add of management
  - Human resources and technology improvements possible
- Plantation timber demand increases
- Timber supply from natural forest declines

Figure 2. Sources of timberland investment returns – Significance of biological growth. Source: IWC internal analysis.
Form Ghana Plantation Areas
Business plan main features

- Expand with 4,000 new hectares to 12,000 hectares planted forest
- 90% teak, 10% indigenous & conservation
- Revenue from teak sales, carbon credits and services
- Long term land lease and benefit sharing with communities and Forestry Commission
- FSC certification
- ESG according to AFDB E&S requirements
ECONOMIC

- Teak 90% - indigenous 10%
- MAI – Main Annual Increment 14 m3/ha/yr
- Final harvest at 20 years, commercial thinning 8 and 12 years
- Total production 280 m3/ha
- First FSC certified timber sales from Ghana 2016
- VCU carbon credits
- 2,000 VCU sold, 3 million in the pipeline
SOCIAL

• Employment 1,000 staff: pension, social security, collective bargaining, skills development

• Benefit sharing 10-20% Standing tree value

• Intercropping: 90% of area, 1-2 years (400-500 farmers/year)

• Awareness raising in region

• Health & Safety

• Relationship chiefs & communities

• Outgrowing
ENVIRONMENTAL

- At least 10% native vegetation
- Restocking native tree species (including endangered species)
- Fire protection
- Soil restoration: halt erosion, organic matter, structure, moisture,
- Improve water quality and quantity
- Protection and flora and fauna
- Climate change mitigation: CO2 sequestration
- Microclimate
• Total teak area: 6,670 hectares
• Total area indigenous: 820 hectares (11%)
Timber flow

Total harvested volume per quality class

Volume (m³)

Year


A

B

C

D
Cash flow

Cost and revenue development 2014-2035

Year

Amounts US$'000

Timber revenues nominal
Costs
Landscape restoration project

- Build on PPP
- Outgrowers timber
- Climate smart agriculture
- Collaborative fire management
- Restoration and conservation
- Inclusive finance
- Smallholder organisation
- Start up grant money
- Business models around timber and agri-business
Success factors

- Stepwise approach: pilot, get established, expand
- Sound sustainable model – social and environmental (restore degraded land, social benefits)
- Selection species, soil, climate (bankability)
- Support local stakeholders
- Robust financial model with strong revenue driver(s)
- Strong investor(s) with long term commitment and blended finance
- High biological growth
- Management (track record, evidence, implementation capacity)
- Entrepreneurship (business case, financing, marketing)
- Enabling environment (PPP, land lease, benefit sharing, political and business climate)

Challenges

- Long investment period
- Young sector in Africa, high risk perception (few projects, uncertain exit strategy, small industry)
- Image plantations
- Access to finance: Unknown to investors, patient capital scarce, climate finance??
Contact & info

www.forminternational.nl

www.formghana.com

r.sools@forminternational.nl