



**WeForest, an international non-profit organisation, puts forward this short paper in relation to UNFCCC call for papers on the financing of forests. It is a brief discussion focusing on two distinct ideas.**

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## **Summary**

In the *Little Forest Finance Book*<sup>1</sup>, which is referenced in the background document to this call, Andrew Mitchell, Founder and Director of the Global Canopy Programme states, “The global debate is moving from a nexus around carbon to one around water and food. Similarly, in forests it will extend from REDD (Reducing Emissions from Deforestation and Degradation) to a more holistic view of proactive investment in natural capital (PINC).”

WeForest has encountered various obstacles during its work, which entails financing reforestation by raising money from corporate partners. Its corporate partners include FedEx, American Express, Henkel, Daimler, Marriott and Deloitte and over six million trees have been planted since 2011. More to the point, WeForest has developed capacity in multiple projects delivering measurable environmental and social impacts, and bringing them potentially to a place where major forest finance could be introduced with transformative effects at a relatively macro level. The intellectual capital within this “how to” is relevant in the discussion about “the use of resources/the transfer of payments in results-based approaches”.

The two obstacles are highlighted in this paper are:

1. *Transition phase* – WeForest believes that the roadmap from capacity building to a mature sustainable business model is ill-defined in the current debate.
2. *Measurement and auditing* – WeForest believes that technical expertise relating measurement and audit of reforestation projects is not well understood nor valued in the current debate.

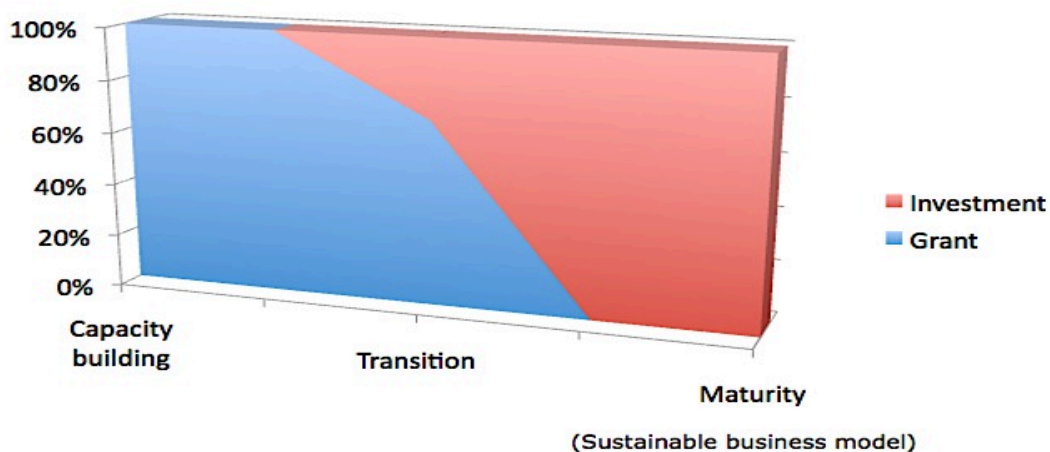
Can, as Mr Mitchell suggests, a proactive approach emerge where the broader natural capital of forests are recognized and new frameworks emerge which solve problems such as those identified by WeForest in this paper?

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<sup>1</sup> Oakes, N., Leggett, M., Cranford, M., Vickers, H. (eds.). 2012. *The Little Forest Finance Book*. Global Canopy Programme: Oxford.

## Transition phase

Transition phase refers to the journey from the capacity building stage of a reforestation project to the evolution of a mature sustainable business model where forest finance should support the development of the mature model. The nature of this transition strategy is very simple and not uncommon at all in many spheres of grant making. The grant could be offered throughout the transition period provided that a) certain pre-agreed revenue streams are created and revenues generated and that b) a certain amount of non-grant finance is also secured.



In this context therefore, a large part of the capacity building stage becomes as much about preparation for the future as it is about getting “trees in the ground”.

It is true that CBD Lifeweb is an excellent model for a clearing house<sup>2</sup> where a financier provides capital to a project but this rarely extends beyond the grant making stage. And arguably the Biodiversity sector that it serves is very different to Forests which deliver not only environmental services, but contribute to water and cloud nucleation systems (also the albedo effect) and deliver direct social impacts mainly through contributing to local earnings. Exchanges facilitate the other end of the spectrum where the ecosystem service is so measurable and regulated that it can be traded, for example, carbon. What is missing is the mindset that capacity building exists to result in sustainable business models and that a support structure is needed to enable the transition to occur.

There is therefore, as we see it, a gap in the current debate and also provision. Where does an INGO such as WeForest turn to find a suitable clearing house? Despite the benefits that we are able to articulate and substantiate there is not one that we know off and as a result opportunities aligned to the UNFCCC goals could be missed.

<sup>2</sup> Little Forest Finance Book page 128

## Measurement and auditing

WeForest has developed a number of systems for the measurement and audit of the work that it is engaged in. These have evolved despite the inherent challenges in the countries that it operates such as basic internet connectivity, suitable device availability and education.

The picture below is page 142 of the Little Forest Finance Book (Conclusions). Our proposal for measurement and audit fit where the red arrow is placed.

### CATALYSING FINANCE FOR FOREST-FRIENDLY DEVELOPMENT

This book analyses the flow of finance for forest-friendly development. Below, we summarise the key **issues** limiting that finance today, and highlight the specific **catalysts** (see fold-out inside front cover for page references) that the public and private sector can use to take it to scale.

#### COLLATERAL, OWNERSHIP AND DELIVERABLES

**Issue:** Capital for forest-friendly activities is largely in the form of grants, loans and balance sheet capital from public organisations. There is greater potential to access bonds, equity and private sector balance sheet capital, however these are dependent on providing collateral, ownership or deliverables to investors, and their perception of risk and expected return.

**Catalysts:** Risk can be lowered, or collateral, ownership and deliverable requirements relaxed, using the following catalysts: Co-investment, Credit Guarantees, Forward Contracts, Clarifying Property Rights, Technical Assistance, National Planning and Coordination, Subsidies and Tax Incentives.

#### EXPERTISE

**Issue:** Access for forest-friendly activities to traditional sources of large-scale capital – such as equity, loans and bonds (of the order of trillions of dollars globally) – often requires out-of-house expertise, which can be difficult to access and costly.

**Catalysts:** Public-sector provision of Technical Assistance can lessen the need for out-of-house expertise, and establishing forest-friendly Exchanges and Clearing Houses can make larger-scale capital easier to source.

#### RISK-RETURN EXPECTATIONS

**Issue:** Companies and Trust Funds could effectively deploy and manage forest-friendly capital at scale, but the levels of return expected by their investors limit the attractiveness of this emerging sector.

**Catalysts:** Risk, and therefore return expectations of private investors, can be lessened by the public sector using Co-investment, Credit Guarantees, Subsidies and Tax Incentives.

#### ACCOUNTABILITY AND DECISION-MAKING

**Issue:** Co-operatives and Community Organisations are important for forest-friendly development, but often perceived as risky by investors because of their downward accountability and decentralised decision-making.

**Catalysts:** Investor perceptions of decision-making and accountability risk can be lowered by the provision of particular types of specialist Insurance.

#### REVENUE GENERATION

**Issue:** Existing activities that cause deforestation or forest degradation may be more profitable than forest-friendly alternatives, making a transition unattractive for some.

**Catalysts:** Forest-friendly revenue generation can be improved using Forward Contracts, Technical Assistance, Insurance, Certification, Forest-friendly Procurement, Domestic Trade Laws and Agreements, Price Floors, Subsidies and Tax Incentives.

#### REGULATION

**Issue:** The development of forest-friendly regulatory frameworks is a complicated and lengthy process.

**Catalysts:** Forest-friendly development need not depend on regulation. Strong public-sector incentives and the right private sector actions can suffice: Forward Contracts, Insurance, Certification, Forest-friendly Procurement, Price Floors, Subsidies and Tax Incentives.



National centrally organised measurement and auditing would naturally increase investor confidence in projects. Just as in any large commercial organisation where there exists a reporting chain, so in a co-operative or other community organisation where there is effective reporting similar accountability and control can be maintained.

To be fair to an otherwise exacting document, perhaps the only omission was not to include “Technical Assistance” in the catalysts section under Accountability and Decision-making, however, it is a fundamental omission because whereas “specialist insurances” might help “investor perceptions”, real reporting systems and corresponding structures could help, in fact, investor decision making.



WeForest have for some years been testing suitable measurement and auditing procedures. At this time, plans include large-scale text messaging campaigns to hundreds of smallholders whose responses relating to metrics such as average tree height or survival rate among species are recorded in a database and input to statistical models.

And this is the second point of this short submission: to ask where does WeForest turn to look for funding and support to implement this critical catalyst to forest-friendly finance? Despite their importance to the UNFCCC strategies for promoting forest finance, this is unclear.