

WEBINAR

Investing in Smallholders' Regenerative Practices

August 26 , 12:00 GMT

Agenda

- **Welcome Remarks**

Sebastian Subsol, Senior Technical Specialist - Climate Change – IFAD

- **TerraFund (Rural Prosperity Bond)**

Venkat Iyer, Manager, Global Restoration Initiative, World Resources Institute

- **Smallholder Forestry Vehicle**

Alex Freeland, Senior Manager, Corporate Finance & Strategy, Komaza

- **Q&A Session**



TerraFund

(Rural Prosperity Bond)
2020 Global Lab Instrument

Proposed by





WORLD
RESOURCES
INSTITUTE

GRI INVEST STRATEGY (RURAL PROSPERITY BOND/ TERRAFUND) *Restoration through finance.*

July 2021

PHOTO: Aron Simeneh / WRI

I. Why Restoration?

II. Local Inhibitors

III. The GRI Three Pillar Strategy

IV. TerraFund Framework

V. Localized Financing and its Impacts

VI. Holistic Theory of Change

1. WHY RESTORATION?

- **The Problem: Land Degradation.** 25% of global lands face degradation caused by unsustainable management practices, primarily in agriculture.
 - Degradation leads to decreased biodiversity and land productivity. Global financial damage of \$6.3 trillion/year in crop loss.
- **Restoration is a Key Solution.** Restoration is the recovery of ecological systems and involves the improvement of land-management practices to drive economic growth while protecting the ecosystem.



Initiative 20x20

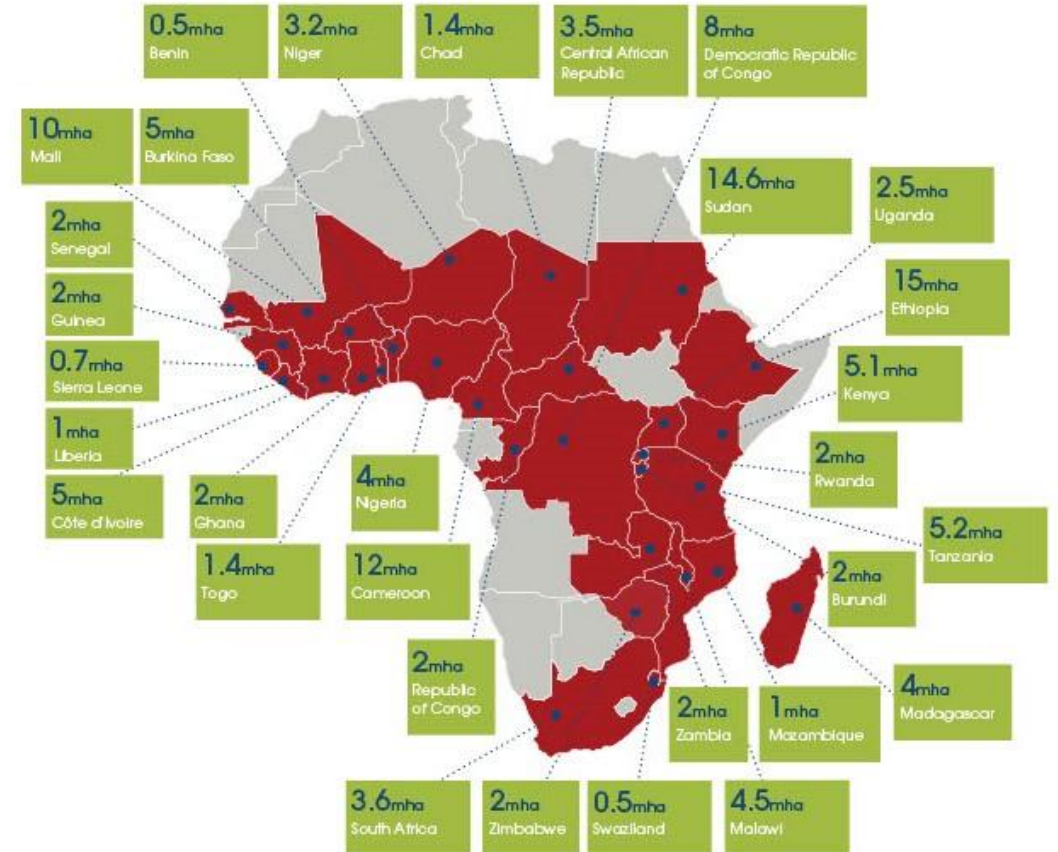
Bringing 50 million hectares of degraded land in Latin America & the Caribbean into restoration by 2030.



Africa restoring
100 million hectares
of deforested
and degraded land
by 2030

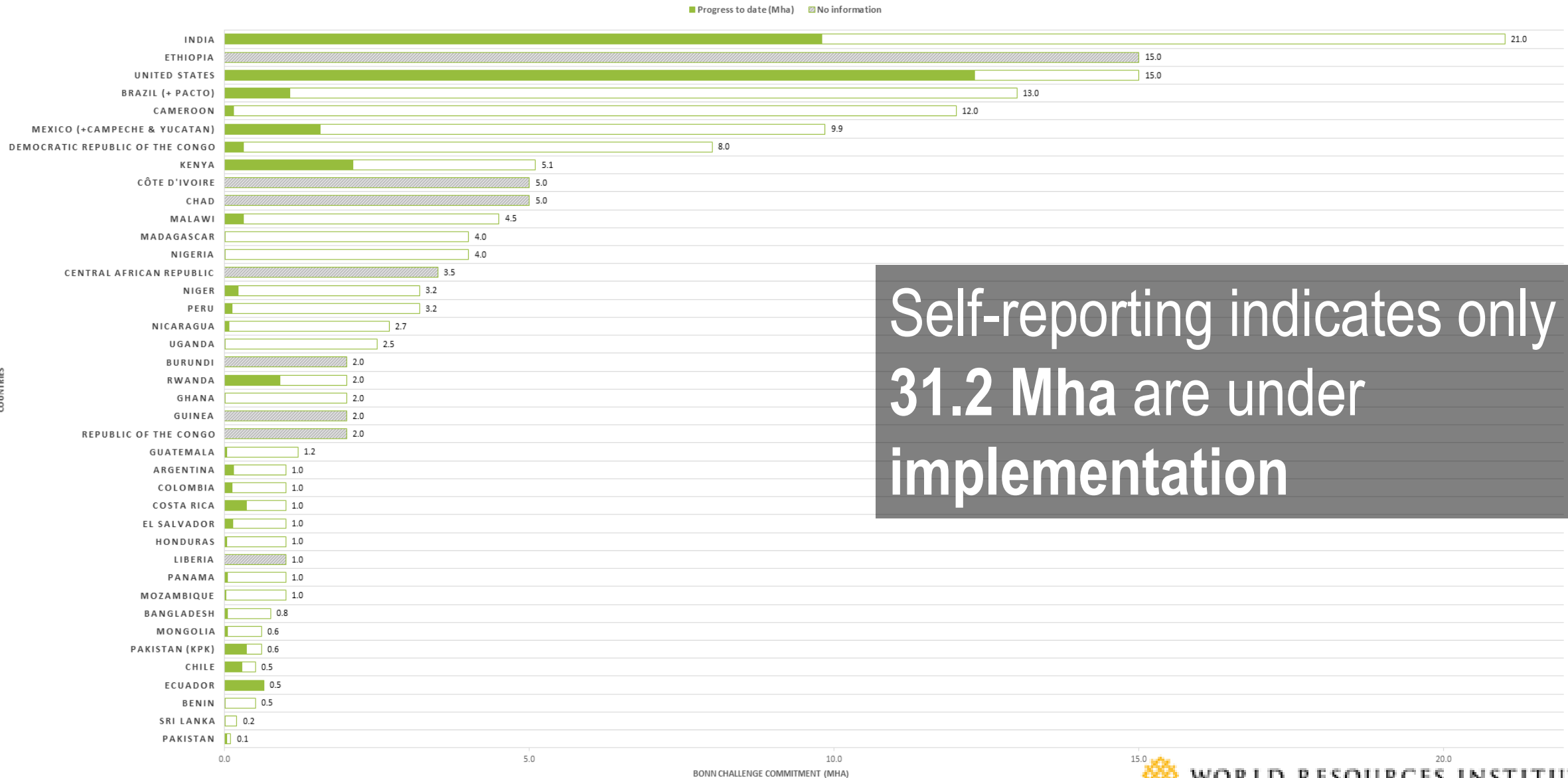
31 countries have committed
to restore **128 million hectares**

\$1B in development finance
\$481M private sector
commitment



BUT, ONLY 18% UNDER IMPLEMENTATION

BONN CHALLENGE PROGRESS BY COUNTRY



Self-reporting indicates only 31.2 Mha are under implementation

2. LOCAL INHIBITORS

- **Unsustainable land management practices**, overpriced imported fertilizers and pesticides with no local alternative.
- **Limited access to financing, especially for small enterprises** and those pursuing tree-based crops and solutions that take time.
- **Lack of capacity building and support** for small-scale actors interested in pursuing restoration-themed business models.



3. WRI – GLOBAL RESTORATION INITIATIVE

Inform

Create new data on tree growth and its impacts that provide insights at the global, national and landscape scales

- Restoration Watch
- ROAM assessments
- Thought leadership
- Stories of implementation

Enable

Shift policies and incentives by helping decision makers solve each others' challenges

- Political mobilization
- Innovation in policy analysis
- Policy Accelerator

Invest

Accelerate projects and businesses and match them with funders to start closing the funding gap

- Land Accelerator
- TerraMatch
- TerraFund



Africa:

afr100

Latin America:

Initiative
20x20

Asia:

TBD (Starting with
India + Indonesia)

Core Offers

Scaling Platforms

4. INVESTMENT MATTERS

**Good
Investment**

Every \$1 invested in restoration can yield \$7 - \$30 in economic benefits.

**Gender
Equality**

Land restoration enables new opportunities for women, giving them more economic and political power.

**Changed
Mindset**

Investment makes it more economically feasible and lucrative to restore land rather than destroy it.

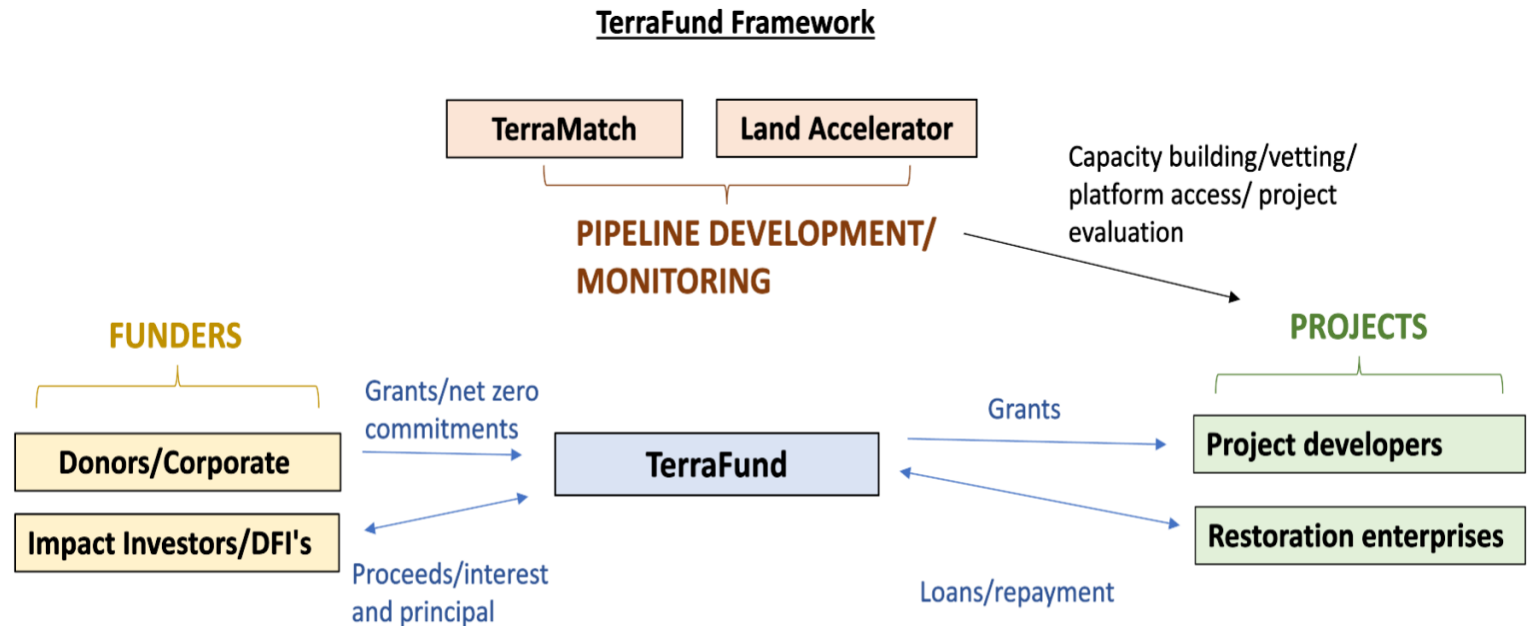
**Long-term
Growth**

Restoring the 150 million hectares under the Bonn Challenge would generate \$30 - \$40 billion/year for local farmers and \$85 billion for local economies.

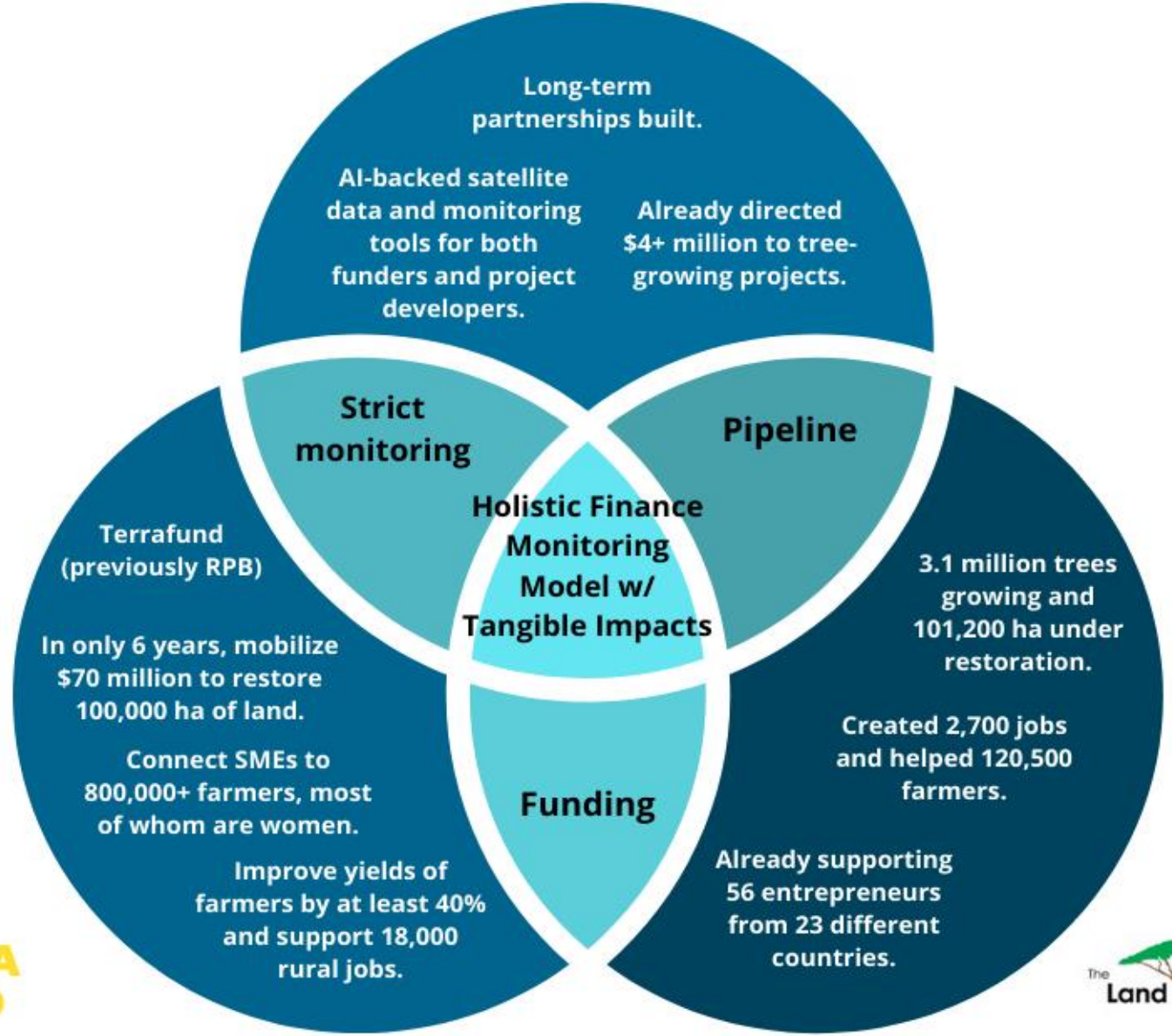


5. TERRAFUND FRAMEWORK

- **TERRAMATCH** | Global platform connecting tree-growing projects with funding partners, and tracking results.
- **LAND ACCELERATOR** | Workshops/ personalized mentorships that empower restoration entrepreneurs to grow their businesses to attract venture capital.
- **TERRAFUND** | Grant/debt instrument channeling funds towards selected enterprises graduating from Land Accelerator, helping them scale their production and restoration efforts.



THE GRI INVEST APPROACH



7. TARGETED LOCAL FINANCING

- **Goals of TerraFund**
 - Empowering locally led programs.
 - 'Learning by doing' by tackling localized restoration models to gauge which are the most successful
 - Local knowledge and ownership of projects
 - Help funders target investments to improve livelihoods of marginalized groups.



8. IMPACTS OF LOCAL FINANCING

Top 40 – Restoration Developers and Enterprises in WRI pipeline

	Investment/Grants	Hectares restored	Livelihoods generated	Trees Planted
20 Restoration Enterprises	\$2 million	890	882	290,500
20 Restoration Project Developers	\$2 million	3,281	1,032	2,670,500
TOTALS	\$4 million	4,171	1,914	2,961,000

9. Case Study in Funding Enterprise:

Tilaa Lmtd, Ghana.

- **Project Type:** Agroforestry/cashew trees
- **Usage of Capital:**
 - Equity/debt finance used to plant cashew seedlings
 - Construction of environmentally friendly of concrete beehives
 - Purchase of machines for mechanization
- **Key Impact:**
 - Livelihoods: 30 direct employees, 500 smallholders engaged through business
 - Environmental: 50 hectares restored, 20,000 trees planted



10. Case Study in Funding Project Developer: Youth Environmental Services, Uganda

- **Project Type:** Reforestation & Riverbank Restoration
- **Usage of Capital:**
 - Grant funding used to facilitate tree planting
 - Environmental education
 - Coordination on collaborative natural
- **Key Impact:**
 - Livelihoods: 38 direct employees, 150 smallholders trained, 300 volunteers engaged
 - Environmental: 70 hectares restored, 90,000 trees planted



11. GRI'S THREE KEY PILLARS AIMING FOR HOLISTIC, SYSTEMIC CHANGE:

- **Building a pipeline of strong restoration enterprises through the Land Accelerator**, more than 1,300 business are already registered and vetted.
- **Funding enterprise/projects with a targeted debt/grant blend through TerraFund**, with portions of the loan amount forgivable upon reaching and maintaining ESGs over time
- **Compiling knowledge and monitoring progress with the existing GRI TerraMatch platform**, which has cutting-edge spatial and monitoring systems





Smallholder Forestry Vehicle (SFV)

2018 Global Lab Instrument

Proposed by





The Smallholder Forestry Vehicle

A catalytic investment facility to scale smallholder forestry

Africa's wood market crisis: \$30B industrial supply deficit by 2030

To meet 2030 demand, Africa needs to plant trees today. Good time to plant trees is 10 years ago or today.

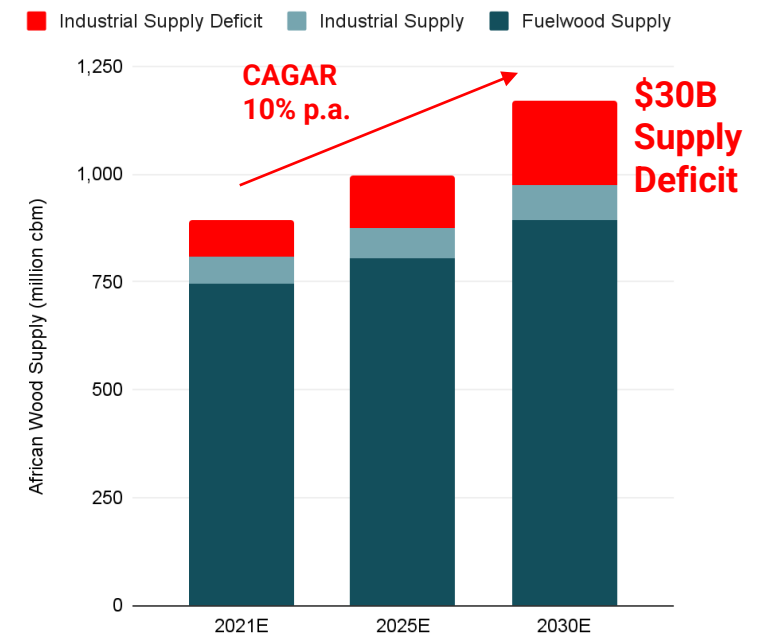
Demand: +7% p.a.

- Population growth and economic development have resulted in industrial timber consumption increasing faster in Africa than any other region over the last 50 years.
- The African industrial wood demand is expected to continue **growing at 7% p.a.**

Supply: +3% p.a.

- Local commercial plantations currently produce under 50% of industrial timber used. The African industrial wood supply is only expected to **grow at 3% p.a.**
- Industrial wood import is expected to **grow at 10% p.a.**, reaching **\$30B by 2030.**

Gap



Smallholder forestry is the solution to scale commercial forestry

Large-scale plantations struggle to scale due to lack of available land and complex land tenure issues

Large-scale plantations¹

Lack of Available Land

Areas suitable for forestry are already populated resulting in few large tracts of land and high prices.

Complex Land Tenure

Land disputes and lack of formal title in some regions mean that land acquisition can be complex and risky.

High Establishment Cost

Plantations requires purchase of a large tract of land, resulting in \$5,000/ha establishment cost.

Smallholder Forestry

Plentiful Land to Grow Trees

Smallholder farmers control ~80% of agricultural land² in across sub-Saharan Africa.

Simple Land Tenure

Farmers retain ownership of the land, and there are no complex valuations, transfers, or transactions required.

Low Establishment Cost

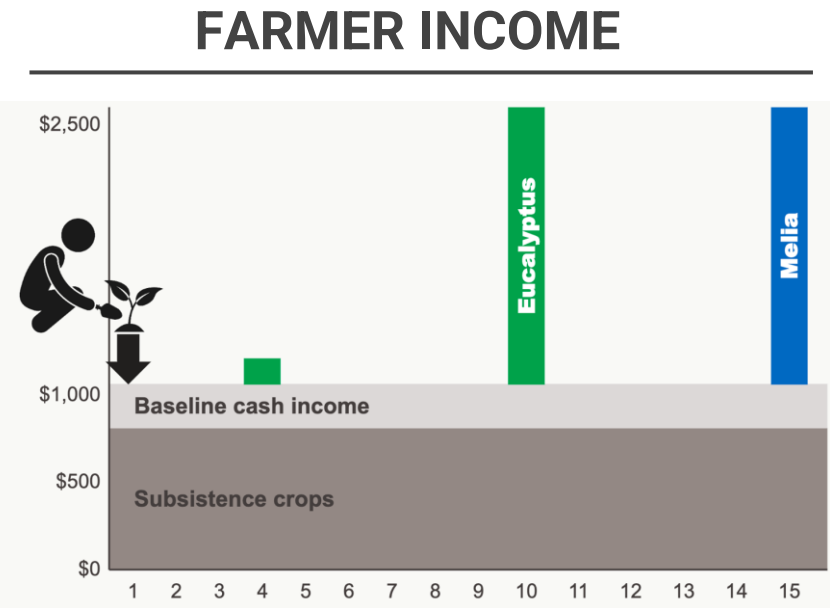
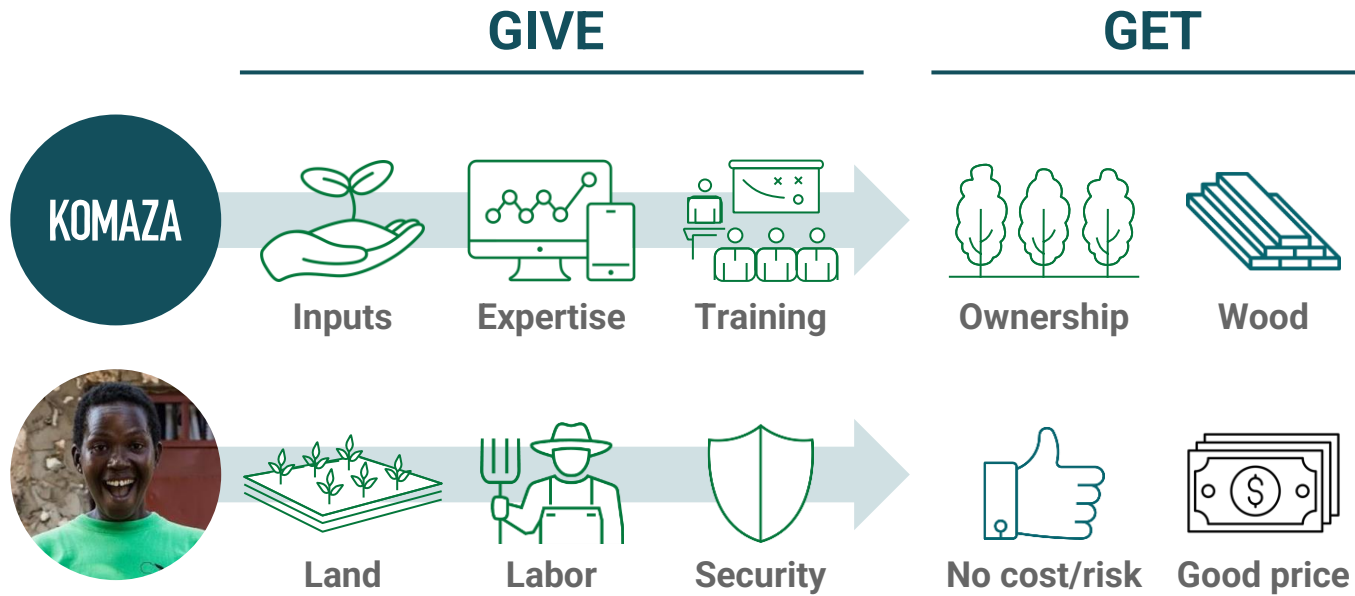
The smallholder forestry model does not need to purchase land, resulting in \$1,000/ha establishment cost.

1) Allocating Capital for Maximum Impact in Africa's Plantation Forestry Sector (Criterion Africa Partners & Indufor, 2017)

2) Smallholders & family farmers (FAO, 2012)

Komaza's model is a win-win partnership with smallholder farmers

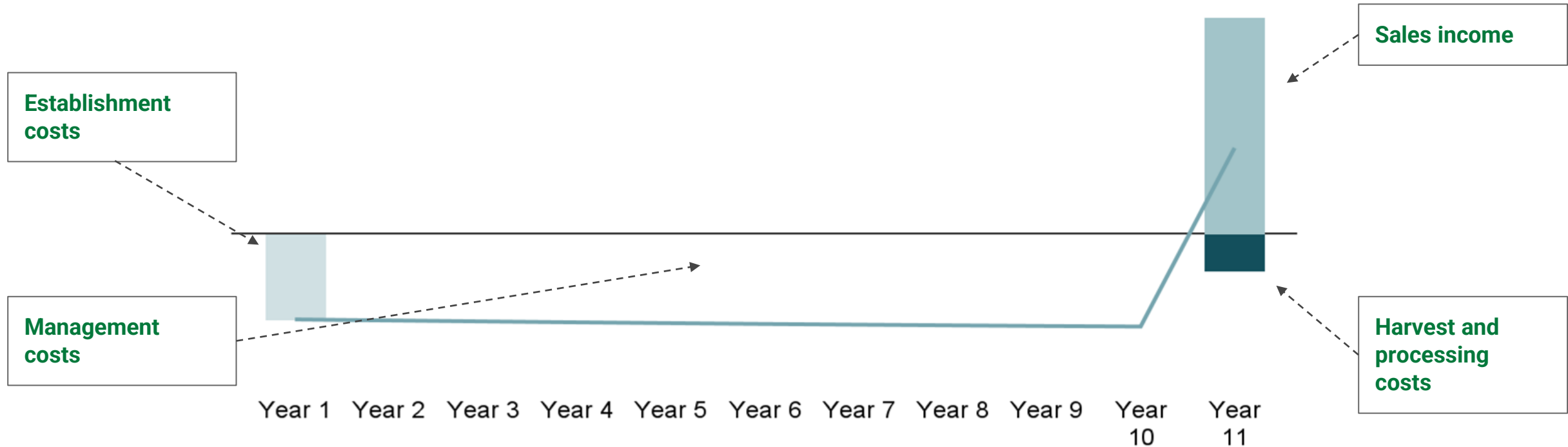
Without any upfront cash or forestry knowledge, farmers can earn life-changing incomes from their unused land



- Komaza and farmers plant trees (owned by Komaza) on unused land (owned by farmers), observing environmental and social safeguards.
- Komaza provides high quality inputs and “McDonalds of Forestry” trainings that translate expert forester knowledge into simple, repeatable tasks for farmers.
- With field staff from local villages managing farmers, Komaza closely engages with local community stakeholders to deliver quality services.
- Komaza delivers early thinning revenue in Year 3-4.
- Final harvests after 10 years return life-changing payouts to each family, equivalent to 5x her annual cash income.

Access to appropriate capital is Komaza's main barrier to scaling

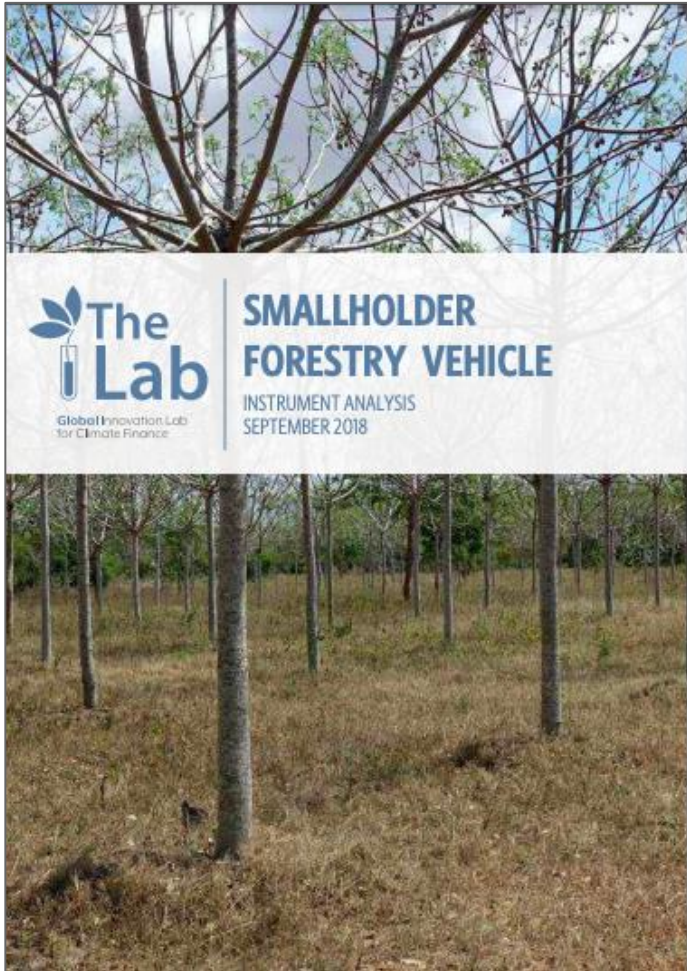
Forestry assets are capital intensive and long-term - tailored patient capital finance is vital to expand



Investors who are able to provide the tailored patient capital required cannot currently invest in Komaza given the venture risk associated with the model.

Komaza and The Climate Lab collaborated to design the SFV

The SFV is a new financing structure that can unlock the capital that smallholder forestry needs to scale



The Lab provided expert advice as well as access to insights from a broad range of relevant stakeholders

DFIs



Private investors



NGOs

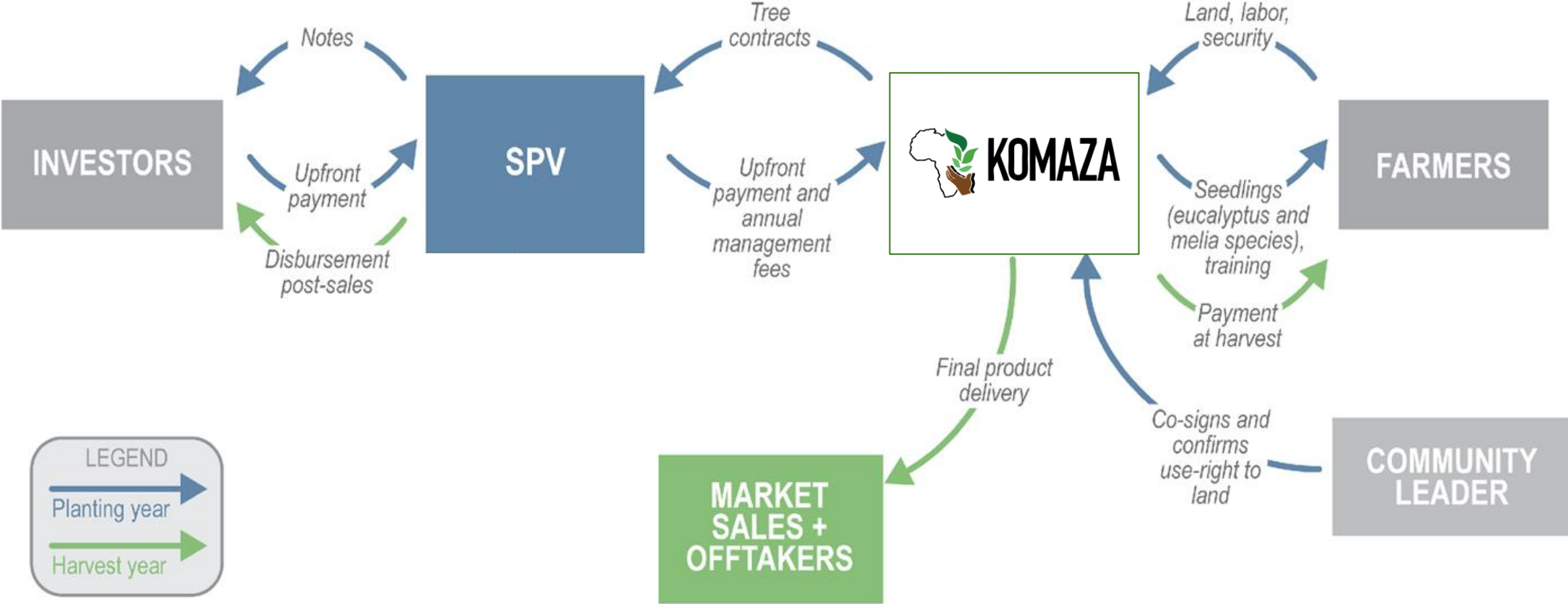


Enterprises

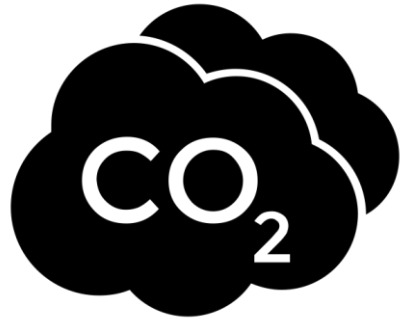


And many more.....

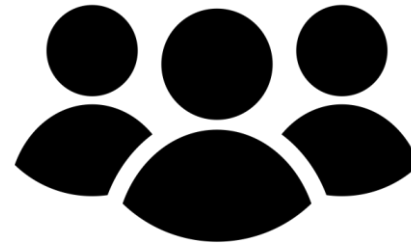
The SFV applies best practice asset financing techniques to smallholder forestry assets



Komaza is now seeking ~\$50M to establish a proof of concept SFV, that will realize huge environmental and social benefits



~2.8 million tCO₂eq
sequestered



~68,000 farmers
generating income from
sustainable forestry



~21,000 ha of
sustainable commercial
forest developed

This is just start.... once the concept has been proven, Komaza will replicate this model to access the capital needed to continue scaling smallholder forestry across Kenya and beyond

Q&A



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