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INTERVIEW

New forests are the solution – attracting new capital is the challenge

Protecting the world's current natural forests, while also expanding sustainably managed forest plantations across the world is regarded as one of the most effective responses to climate change. However, such developments are severely hindered by a general lack of capital from investors. Finding new ways to raise public concessional funding to catalyze private capital to underserved timberland investment regions is key.

- Interview with Anders Pagh, Director of Impact
Timberland Investments

Climate change – a matter of global concern

"In 1802, two percent of Denmark was covered by forest. Today, that number is 14 percent, not least thanks to strong and persistent efforts on the part of the Danish state. But maybe it is time that we look beyond our own borders. After all, **the fight against climate change is not a national matter, but one of global concern,**" Anders Pagh, Director of Impact Timberland at IWC, argues.

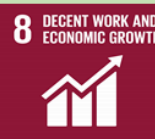
The Intergovernmental Panel on Climate Change (IPCC) has clearly signaled the direction, in which the world should be heading. Anders cites the IPCC's special report on climate change and land released in August 2019, in which new forests are given a prominent role in the fight against climate change. Scientists suggest that **activities related to forest restoration, afforestation, and reforestation alone could offer more than one third of the response options needed by 2030** to prevent an increase in global temperatures that exceeds the

2° C threshold set out in the Paris Agreement.

"The big challenge is how actually to make this happen. We currently have a situation where almost all countries recognize the framework of the Paris Climate Summit and have committed to submitting their national climate action plans by 2020. Here, afforestation is essential if you truly embrace the IPCC's recommendations. However, today's market conditions do not allow for this to happen," Anders Pagh maintains.

Unrealized potential in developing countries

Particularly in developing countries, there is immense potential for creating new sustainable timber plantations, which, in turn, could help compensate some of the forest areas that are lost each year to deforestation, for example in Uganda, where IWC has more than ten years of experience in sustainable timberland management. The country is currently losing around 125,000 hectares of forest each year,





making it one of the countries in the world with the highest deforestation rates. Compared to Denmark's total forest area, if this were the rate of forest loss in Denmark, the forest cover would be gone in 5 years.

Creating new sustainable timber plantations not only benefits the climate and the ecological functions of landscapes, but it also **contributes positively to rural employment and the overall economic growth and prosperity of local communities**, whose livelihood conditions are fast deteriorating if status quo continues. Many developing countries are looking into a future of strong population growth that will only worsen the current land degradation activities and dramatically increase demand for sustainably produced building materials in the coming decades.

Impact fund focused on Sub-Saharan Africa

IWC is working to establish a EUR 150 million impact fund focused on afforestation in Sub-Saharan Africa, which is expected to have significant climate, social, and environmental impacts alongside financial returns. However, attracting private and Development Finance Institution (DFI) capital to such strategies is limited by the risk premiums required by these investors, when serving these markets. This calls for **efficient catalysts to blend into financial structures that break down the barriers to mainstream investors**. Such catalysts are currently scarce or very difficult to access for private fund managers. Wealthy countries should thus consider to also contribute some of their catalytic climate funding directly to private managers in order to unlock private capital inflows to these underserved regions with the urgency required according to the IPCC.



Below are some examples of catalytic structures that could unlock more capital to underserved timberland investment regions:

- First loss position in a fund
- State underwriting insurance in case of e.g. storms, fires, droughts, pests, and disease in addition to certain political risks
- Technical assistance support to fund managers
- Pre-agreed state payment for climate change adaptation and mitigation outputs or benefits (e.g. carbon sequestration, hectares of forest landscape protected or restored, etc.)



Anders joined IWC in 2010 and is heading the Impact Timberland Investments team responsible for developing IWC's direct impact investment mandates. Anders is also responsible for the direct timberland investment mandates in Europe and emerging markets. This includes the role as Fund Manager in the Capricorn Forest Fund.

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