The State of Forestry Plantation Investments in Africa
- Overview of Volumes and Investment Patterns

Working Conference Forests for the Future – New Forests for Africa
Accra Ghana 16 to 17 March 2016
Petri Lehtonen, Deputy Managing Director, Indufor Oy

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Indufor and Timberland Investments

- Indufor was founded in 1980
- Independent staff owned
- Advisory services in forest and forest industry development
- Private and public sector clients
- Located in:
  - Helsinki, Finland
  - Auckland, New Zealand
  - Melbourne, Australia
  - Washington DC, USA
Indufor in Africa

- Due diligence and valuations
- Feasibility studies
- Sustainability assessments
- Strategic advice in forest and wood processing investments
- High level reviews of government strategies
- Development of private forestry

Recent projects in:
- Cameroon
- Congo, DRC
- Ethiopia
- Ghana
- Kenya
- Liberia
- Mozambique
- Sierra Leone
- South Africa
- Tanzania
- Uganda
- Zambia
- Mauritius
- Cape Verde
Planted exotic trees can create a forest that has remarkable biodiversity with rich flora and fauna.

Photo: Mike May/Ecofuturo
Parque das Neblinas, Brazil
Contents

1. Investments in African Forestry
2. Role of Different Investors
3. Barriers in Investing
4. Solutions
5. Take-home Messages
Rationale to invest in forestry in Africa

- Demand of forest products
- Potential and suitable areas for forest plantations
- Economic and social situation improving
Africa has a huge population

The working age population will be the largest in the world in a few decades

1 Population aged 15–64.
Economic growth continues to be significant in Africa

<table>
<thead>
<tr>
<th>2011-2016</th>
<th>GDP Growth (%/a)</th>
<th>2011-2016</th>
<th>GDP Growth (%/a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature markets</td>
<td>Selected African countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>2.2</td>
<td>Ethiopia</td>
<td>8.1</td>
</tr>
<tr>
<td>Germany, France</td>
<td>2.1</td>
<td>Mozambique</td>
<td>7.7</td>
</tr>
<tr>
<td>France</td>
<td>2.1</td>
<td>Tanzania</td>
<td>7.2</td>
</tr>
<tr>
<td>Australia</td>
<td>3.2</td>
<td>Ghana</td>
<td>7.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>6.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Several Sub-Saharan countries are growing faster than mature markets.

In some countries the economies have grown for more than a decade. The growth is expected to continue at 6-9% per year.
GDP growth is not all that matters

The social wellbeing is improving in many countries over the past 15 years measured by UNDP Human Development Index

The greener the colour the more the index has improved over the past 15 years; vice versa with red colour.
Industrial forest plantation expansion in Sub-Saharan Africa (excl. South Africa)
The current wood supply is insufficient

Plantation investments and overall development will be fundamental otherwise deforestation will inevitably continue

Wood supply and demand in Africa

Million m³

- Deficit
- Natural forest/imports
- Supply of plantation wood
- Demand of industrial roundwood
Investing in Forestry

Investing in forestry, 2010-15 average per year

- **Greenfield investment into processing**: Latin America, Asia-Pacific, Africa
- **Plantation establishment**: Latin America, Asia-Pacific, Africa
- **Forestry ODA**: Latin America, Asia-Pacific, Africa

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Africa in the Universe of Timberland Investment

Global forest ownership by financial investors, 2015

- North America
- Europe
- Oceania
- Latin America
- Africa
- Asia

Million hectares

African share of the value of timberland investments, %

Timberland Investment Universe:
- area 25 million ha
- value USD 80-100 billion

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1. Investments in African Forestry

2. Role of Different Investors

3. Barriers in Investing

4. Solutions

5. Take-home Messages
## Investor Typologies

<table>
<thead>
<tr>
<th>Type of Operator</th>
<th>Entrepreneurs, communities, smallholders</th>
<th>Strategic investors:</th>
<th>Financial investors:</th>
<th>Other philanthropy ENGOs: social and environmental objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro operators</td>
<td>SMEs, organized communities and large farmers</td>
<td>Forest industry companies</td>
<td>Energy/mining/agro-industries</td>
<td>International/Regional timberland funds and TIMOs</td>
</tr>
</tbody>
</table>

### Nature of operators

- **Informal, not capable to comply with legislation and business reporting nor accessing finance.**
  - Often family entrepreneurs, difficulties to expand operations and comply with legislation and even less international standards to obtain financing.
  - SMEs might provide a range of services. And partner in wood supply.
  - Raw material sourcing for industrial production. Mainly large-scale but also medium-scale operators - international and local.
  - Many new operators, energy companies looking at feedstock.
  - Raw material sourcing for industrial production.
  - For financial profit, portfolio diversification.
  - Many cases keen on direct involvement in the business e.g. in teak.
  - Long term conservation driven interest, however, want to have positive bottom line.
## Vision for forest financing in Africa

<table>
<thead>
<tr>
<th>Level of development</th>
<th>Today</th>
<th>5-10 years</th>
<th>10-15 years</th>
<th>&gt; 15 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Poor industrial infrastructure, Limited existing planted forest assets, Unsecure land tenure, Limited information</td>
<td>Private investments are more important than aid, Development driven by agricultural soft commodities and minerals, Emerging infrastructure, Unsecure land tenure, Limited information</td>
<td>Driven by private investments, Industrial infrastructure in place, Export of low value added wood products, Developed land tenure – still unbalanced landownership with social pressure, Decent level of information</td>
<td>Developed infrastructure and logistics, Balance land ownership, Nearly perfect information</td>
</tr>
<tr>
<td>High</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Required development inputs in forestry / forest industry

- Grants / subsidies
- Technical assistance
- Technology
- Policy changes
- Infra development
- Attract investments
- Local loan instruments
- Local service providers
- Market access
- Gov. subsidies
- Government subsidies
- Face international competitiveness

### Risks and returns

- Low
- High
# Role of Local Entrepreneurs, Governments and Donors

<table>
<thead>
<tr>
<th>Frontier Market</th>
<th>Emerging Market</th>
<th>Developed Growing Market</th>
<th>Mature Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role of government, donors and development financing</strong></td>
<td><strong>Role of local entrepreneurs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improving the infrastructure and governance</td>
<td>Establish partnerships with strategic investors in technologies and market access (including in small-scale plantations)</td>
<td>Turning from developer to regulator</td>
<td>Important players in solid wood product industries</td>
</tr>
<tr>
<td></td>
<td>Establish associations to promote sectoral interests</td>
<td>Key driver of sustainability</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Regulator</td>
</tr>
</tbody>
</table>
## Role of Strategic and Financial Investors as well as Impact Investors

<table>
<thead>
<tr>
<th>Frontier Market</th>
<th>Emerging Market</th>
<th>Developed Growing Market</th>
<th>Mature Market</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Role of Strategic investors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limited access due to high risks</td>
<td>Creating industrial infrastructure, providing technology and market access, HRD and R&amp;D</td>
<td>Need to outsource assets, Partnerships with other forest owners, Organic growth</td>
<td>Entering less mature markets, Growth by acquisitions and structural rationalisation</td>
</tr>
<tr>
<td>Possibility to create long term unique position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Role of financial investors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Few possibilities without strategic investors and industrial infrastructure</td>
<td>Opportunities for high risk/returns assuming that strategic investors are entering</td>
<td>Increasing opportunities and transactions</td>
<td>Established presence/ exits</td>
</tr>
<tr>
<td><strong>Role of impact investors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fill the gap between development financing and private investments</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investor’s perception – integrating Africa to global scene

Emerging markets: Opportunities for higher returns are present but coupled with limited market information as well as country risks.

Mature markets: Various transactions have allowed for nearly perfect information, and opportunities for exceptional returns have diminished. Return is largely determined by the highest risk/return rates in the target market.
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Why investors are not investing and financiers not financing plantation development?

LOCAL INVESTORS AND FINANCIERS are opportunistic

STRATEGIC INVESTORS are facing barriers to entry

FINANCIAL INVESTORS have demanding investment criteria

DEVELOPMENT FINANCING required to create enabling conditions
Major Obstacles

- Land Tenure and Land Use
- Industrial Infrastructure – Integration to Value Chain and Markets
- Technology and Productivity
- Financing Gaps
Land Tenure – Underlying Issues

• Established formal land ownership is a major driver of economic development

• Lack of tenure security drives unsustainable and destructive use of land

• Land issues are sensitive and debates are characterized by
  – political myopia,
  – corporate interest,
  – international civil societies’ agenda,
  – critics on land grabbing,
  – and failed interventions to contribute to clarify issues by development agents’
Land Tenure – Who owns the land in Africa?

• Land ownership is a mixture of
  – customary rights,
  – traditional communal ownership (often with conflicts),
  – colonial and corporate estates,
  – government land,
  – and nobody’s land

• The land use is commonly with low productivity and often destructive
• Unclear visions on how land tenure and related land uses can be developed
• Local and national political interests reduce improvements
• Formal property rights appear often less secure than customary rights
Forest plantations’ share of land use is marginal

[Graph showing data on forest, agriculture, natural forest, planted forest, and other land from 2000 to 2028 for the world and Africa.]
State owns most of the land in Africa

Forest ownership in the World

<table>
<thead>
<tr>
<th>Year</th>
<th>Publicly owned</th>
<th>Privately owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>82%</td>
<td>18%</td>
</tr>
<tr>
<td>2005</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>2010</td>
<td>79%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Forest ownership in Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Year</th>
<th>Publicly owned</th>
<th>Privately owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>89.8%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2005</td>
<td>89.7%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2010</td>
<td>89.5%</td>
<td>10.5%</td>
</tr>
</tbody>
</table>
Industrial Infrastructure – Integration to Value Chain and Markets

• Industrial infrastructure is mostly poor, however, developing in Sub-Saharan Africa
  – Primary and secondary road infrastructure
  – Railways
  – Ports
  – Land border crossings

• Forest industry value chains are still largely disintegrated
  – Industrial scale plantations few and still limited access to markets
  – Value chains combining smallholders, small-scale industrial operators and local urban markets are fragmented
Development of road, railway and port infrastructure in Mozambique
Typical Forest Value Chains

Large-scale plantations – relatively new assets with initial downstream processing

<table>
<thead>
<tr>
<th>Company Plantations</th>
<th>Large companies</th>
<th>Lumber, poles</th>
<th>Veneer, plywood, furniture</th>
<th>Paper, MDF (none currently)</th>
<th>Premium for quality lumber</th>
</tr>
</thead>
</table>

Small-scale plantations – disintegrated value chain

<table>
<thead>
<tr>
<th>Govt. plantations</th>
<th>SME’s</th>
<th>Lumber: poor quality</th>
<th>None</th>
<th>None</th>
<th>Traders play important role</th>
</tr>
</thead>
</table>

Private tree growers

<table>
<thead>
<tr>
<th>Private tree growers</th>
<th>Companies</th>
<th>SME’s</th>
<th>Bottlenecks:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Suboptimal mix of assortments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Lack of capital to buy logs</td>
</tr>
</tbody>
</table>

Assets/Processing/End Markets are not integrated
Technology and Productivity

- Obsolete technology – opportunities to develop appropriate technologies
- Productivity gap – opportunities for significant improvement
Comparing Productivity Development over the Past 50 Years in Agriculture and Forestry: Brazil and Tanzania

Sources: FAOSTAT, FAO Forest Plantation Thematic Papers & Indufor Databank.
Financing Gaps

- Financing is available for business operations that can create positive cash flows in 3 to 5 years and have acceptable risk levels.

- Companies have to be well established.

- Financing gaps
  - New plantation establishment to develop assets (green field)
  - Small-scale industrial operations
  - Privatisation of state-owned plantations
What kind of actions are expected to accelerate responsible investments?

- **DFIs**: WB or IFC, AfDB, EIB, Finnfund, FMO, Norfund, etc.
  - Financing to compensate the long exit periods and social risks
- **Donors**
  - Incentive schemes for local tree growers
- **Governments**
  - Innovative policies in leasing land for responsible investors
- **Governments and donors together**
  - Policy support, risk sharing, developing infrastructure that facilitate forest investments, or provide complementary financing or guarantees
- **Strategic and financial investors**
  - Take seriously the opportunities in Africa and look for local partners
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Some cases of interesting forest investments with local development impact

- Form Ghana
- Miro
- APSD
- Africa
- Moringa
- GEF
- Firestone
- GMG
- Hevecam
- Socfin

- Komaza
- Green Resources
- New Forest Company
- Private Forestry Project
- Rift valley
- Portucel
- GEF
- Moz tree growers
- Border Timbers

Strategic investor green field
Financial investor brown field
Company / fund green field
Public / cooperative / green field

GDP Growth, % (2011 - 2020)
- 0 - 2
- 2 - 4
- 4 - 6
- 6 - 8
- 8 - 10

Plantation Area, 1 000 ha
- < 100
- 101 - 200
- 201 - 300
- 301 - 400
- 401 - 500
Largest private plantation owners in Africa (2015)

Source: GEF, 2015
Largest sources of plantation wood in Africa (2014)

Source: GEF, 2015
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Take-home Messages (1)

- Global megatrends, regional demand and diminishing natural forests call for investments in forest plantations and wood processing industries in Africa

- Forest plantations are an important vehicle to improve living standards create employment and reduce poverty

- Operating environments are rapidly improving in many African countries

- Stakeholders in forest investments have many reasons to follow Africa closely and take actions
Take-home Messages (2)

The key question is to manage and mitigate the unique risks

- Commitment required on national and local level
- Appropriate technology, scale and logistics in place
- Develop secure market channels
- Proof of good performance in Africa
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