

Evaluation and Learning Partnership on financing forest-related enterprises

Learning from the Forest Investment Program and
other initiatives



Contents

- List of figures..... i**
- List of tables i**
- Acronyms ii**
- Acknowledgements..... iv**
- Executive summary..... vi**
- 1. Introduction..... 1**
 - 1.1 Rational for the learning partnership..... 1
 - 1.2 Background to the learning partnership 2
 - 1.3 The learning questions 4
 - 1.4 Content guide to the sections in this report..... 5
- 2. Methodology 7**
 - 2.1 Three phases of work..... 7
 - 2.2 Enabling to Asset Investment (EAI) framework..... 8
 - 2.3 Portfolio review10
 - 2.4 Country case studies: field visits in Ghana and Lao PDR10
 - 2.5 Meta-analysis11
 - 2.6 Events within the learning process12
- 3. Findings on financing forest-related enterprises 14**
 - 3.1 FIP theory of change and design.....14
 - 3.1.1 Summary findings on the FIP theory of change and design 14**
 - 3.1.2 FIP theory of change 14**
 - 3.1.3 How the FIP portfolio has evolved based on the theory of change and design 18**
 - 3.1.4 Translation of theory of change and design into country investment plans..... 19**
 - 3.2 Early results for forward-looking learning from FIP and non-FIP investment models.....21
 - 3.2.1 Summary findings on early results for forward-looking learning 21**
 - 3.2.2 Focus of investments viewed through the EAI framework lens..... 21**
 - 3.2.3 Options for addressing the enterprise support gap 30**

3.3	Overcoming barriers and risks to financing forest-related enterprises.....	32
3.3.1	Summary findings on overcoming barriers and risks to financing	32
3.3.2	Barriers addressed through enabling investments	32
3.3.3	Barriers addressed through asset investment activities	33
3.3.4	Improving financial literacy and broadening finance sources	35
3.4	Lessons learned on scaling up and transformational change.....	37
3.4.1	Summary findings on upscaling and transformational change	37
3.4.2	FIP and non-FIP types of engagement strategy	38
3.4.3	Upscaling pathways	39
3.4.4	Common transformational features of FIP and non-FIP investments	40
4.	Lessons and areas for future potential action	44
4.1	ELPFRE lessons on disaggregating and tracking different types of investment.....	44
4.1.1	The framing of the FIP theory of change (ToC) could have given more specific treatment to enabling and asset investments into forest-related enterprises	44
4.1.2	The performance outcomes for enabling investments could be clearer	44
4.2	ELPFRE lessons on approaches to forest business incubation	45
4.2.1	The value chain specificity of interventions could be increased	45
4.2.2	Forest business incubation could be designed and housed more sustainably.....	45
4.2.3	An emphasis on financial literacy in private and public sectors could strengthen the business incubation process	46
4.3	ELPFRE lessons on how to include small- and medium-scale enterprises	46
4.3.1	Aggregation of smallholder production could receive more attention to ensure upscaling	46
4.3.2	More explicit pipeline development for bankable smallholder business groups could be better matched to appropriate financial institutions	47
4.4	ELPFRE lessons on de-risking investments into forest-related enterprises	48
4.4.1	Partnerships could be expanded to ensure investor confidence	48
4.4.2	The sources of leveraged finance could be broadened	48
4.4.4	Learning systems could be upgraded to showcase investor returns that encourage further investment.....	49
4.5	Areas for future potential action	50
4.5.1	Future potential actions for FIP programme staff, MDB investment officers and forest staff, FIP focal points, and financial intermediaries or service providers (e.g. lead firms committed to zero deforestation, NGOs, producer organisations, private sector financial specialists)	51
4.5.3	Future potential actions for donors.....	51
4.5.3	Future potential actions for designers of follow-on programs	52

List of figures

Figure 1: Three phases of work by the Evaluation and Learning Partnership on financing forest-related enterprises..... 7

Figure 2: The enabling to asset investment (EAI) framework used in ELPFFRE..... 9

Figure 3: Derived FIP theory of change with regard to supporting forest-related enterprises developed by the Evaluation and Learning Partnership in the inception phase.....17

List of tables

Table 1: Coverage of FIP private sector and non-FIP case studies relating to elements of the EAI framework.....25

Table 2: Case studies' learning features.....27

Table 3: Types of finance that an FFPO might wish to access.....35

Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBFF	Congo Basin Forest Fund
CEO	Chief Executive Officer
CI	Conservation International
CIF	Climate Investment Funds
CIF AU	Climate Investment Funds Administrative Unit
CONAFOR	Mexico's National Forest Commission
CBFF	Congo-Basin Forest Facility
CPI	Climate Policy Initiative
CSA	Climate Smart Agriculture
CSR	Corporate Social Responsibility
DRC	Democratic republic of Congo
EAI	Enabling to asset investment (framework used in this evaluation)
EIB	European Investment Bank
EBRD	European Bank of Reconstruction and Development
E&LI	Evaluation and Learning Initiative
ELCIR+	Engaging local communities in REDD+ / Enhancing carbon stocks
ELPFRE	Evaluation and Learning Partnership on Financing Forest Related Enterprises
ENFAL	Enhancing natural forests and agro-forest landscapes project
EU	European Union
FCPF	Forest Carbon Partnership Facility
FDI	Foreign Direct Investment
FIP	Forest Investment Program
FINDECA	Mexico's National Fund for Rural Development
FLEGT	Forest Law Enforcement, Governance and Trade
FMCN	Mexican Fund for the Conservation of Nature
FND	Mexico's National Financing of Development of Agriculture, Livestock, Forests and Fisheries
FPIC	Free, Prior and Informed Consent
FSC	Forest Stewardship Council
GEF	Global Environment Facility
GCF	Green Climate Fund
GHG	Greenhouse gas
IBRD	International Bank for Reconstruction and Development
ICD	Integrated Conservation and Development
IDA	International Development Association, World Bank Group
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IGAs	Income Generating Activities
IIED	International institute for Environment and Development
IISLF	Innovative Investments for Sustainable Landscapes Fund
ILCF	Investing in Locally Controlled Forestry
INDC	Intended Nationally Determined Contributions
ISFL	Integrated Sustainable Forest Landscapes
LTS	Land and Timber Services
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MIF	Multilateral Investment Fund
MLNR	Ministry of Lands and Natural Resources
MSME	Micro, Small and Medium Enterprise

NCCF	Natural Capital Finance Facility
NDC	Nationally Determined Contributions
NGO	Non-governmental organisation
NTFP	Non-Timber Forest Products
ODA	Overseas Development Aid
P4F	Partnership for Forests
PDR	People's Democratic Republic (Lao)
PPP	Public-Private Partnership
PPCP	Public-Private-Community Partnership
PPCR	Pilot Programme on Climate Resilience
PROFOR	Program on Forests
RDI	Research, Development and Innovation
RECOFTC	Regional Community Forestry Training Center
REDD+	Reduction of Emission for Deforestation and Forest Degradation, Conservation of forests, Sustainable Forest Management and enhancement of carbon stocks from plantations
REM	REDD+ Early Movers
RG	Reference Group
ROTI	Review of Outcomes to Impact
SDGs	Sustainable Development Goals
SFP	Smallholder Forestry Programme
SME	Small and Medium Enterprise
SPGS	Uganda's Sawlog Production Grant Scheme
SUFFORD-SU	Scaling-Up Participatory Sustainable Forest Management
TCLP	Transformational Change Learning Partnership
TTL	Task Team Leader
UK	United Kingdom
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America
VCS	Voluntary Carbon Standard
WB	World Bank
WBG	World Bank Group
WCF	World Cocoa Foundation
WRI	World Resources Institute
WWC	Wildlife Works Carbon
WWF	World Wildlife Fund

Acknowledgements

The IIED/LTS core team for the Evaluation and Learning Partnership on Forest-Related Enterprises (ELPFRE) wish to acknowledge the CIF AU team – Ines Angulo de Aviles, Ian Gray and Joseph Dickman – for the collaborative approach to the co-creation of knowledge during this assignment.

There are many people who helped behind the scenes in this Evaluation and Learning Partnership: coordinating activities for the research components; helping with the production of events and publications; assisting with financial management; and working on communications. The IIED/LTS core team would like to thank: Elaine Harty, Elaine Morrison, Geraldine Warren, David Sankar, Matthew Wright, Rosalind Goodrich, Kate Green, Jodie Frosdick from IIED, and Ankit Agrawal and Callum Murdoch from LTS. We appreciate the support from in-country partners and the governments of Ghana and Lao PDR. We acknowledge in particular Abu Juam (FIP Focal Point) and Samuel Nketiah from Ghana; and Bounpone Sengthong (FIP Focal Point) and Bounyadeth Phouangmala (RECOFTC) from Lao PDR.

The IIED/LTS core team would like to thank the internal quality assurance team comprising of James Mayers (Director of the Natural Resources Group, IIED), Patrick Abbot (Managing Director, LTS) and Kirsti Thomber (Managing Consultant, LTS) who reviewed the draft reports and provided valuable inputs.

The ELPFRE Reference Group (RG) was created to provide strategic guidance. Thanks to all of its members, including Margaret Splawn (Observer – CMIA UK), Nalin Kishor (External – PROFOR), Jussi Tapio Lehmusvaara (MDB – IFC), Gregory Watson (MDB – IDB), Joberto Freitas (Country – Brazil), Gaia Allison (Donor – UK), Juan Chang (GCF – Green Climate Fund), Archana Godbole (Observer – Applied Environmental Research Foundation), Peter Dewees and Darius Sarshar (IIED/LTS technical advisory panel). We appreciated the input from the RG especially during the inception phase as they helped to define the scope of this study and the country and project case studies, reviewed products, and participated in the different learning events and webinars. Peter Dewees often challenged the team to ensure that this assignment added value to existing experience on challenges facing the financing of climate change mitigation investment and the impact thereof. Darius Sarshar contributed to the discussion of the various financial instruments that can strengthen the role of private sector in reducing deforestation. Thanks to the members who also participated in the learning events (in-person and online). Particular mention goes to Gregory Watson who was a discussant of the findings and recommendations shared during the last webinar. He brought invaluable inputs that helped validate the findings of the study but also pointed to other innovations to ensure that successful business models can be incentivised to scale up transformational change.

Many experts were interviewed during the inception period contributing to IIED/LTS team's understanding of the context, the views on challenges and opportunities for effective financing of forest-related enterprises. Others contributed to the meta-analysis identifying innovative approaches and context that make them work. We only mention institutions of the interviewees (the inception report includes the list of names): World Bank FIP Operations, PROFOR, CONAFOR, BioCarbon Fund, Forest Trends, WRI, IFC, IDB, GEF, WWF USA, IUCN – USA, WCF, GCF, AfDB, CI, TTLs of Lao PDR & Vietnam and P4F.

The learning events stimulated exchange of knowledge on various aspects of financing forest-related enterprises. Experts shared practical lessons on technical, business and financial mechanisms that helped aggregate, incubate and de-risk climate smart investments. The ELPFRE team therefore appreciates the inputs of:

- the panellists of the ELPPFRE-run session at the FIP pilot country event in Lao PDR: Brian Schaap, Forest Trends; Michael Brady, IFC; Paul Speed, New Forests; and Berenice Hernández Toro, CONAFOR México.
- the presenters of the first ELPPFRE webinar: Mark Ellis-Jones, F3 Life; Paul Jacovelli, UNIQUE; and Juan Carlos González Aybar, Althelia. They complemented IIED/LTS's presentation of the findings from Ghana and Lao PDR case studies.
- the discussants of the second and last webinar: Gregory Watson – IDB (and member of the RG) and Curan Bonham of Conservation International. They commented on the findings, lessons and recommendations presented by the IIED/LTS team.

There are several people who are not named here but whose contribution was important and hence acknowledged. The participants of the World Café and panel discussion in the Lao PDR; the government, private sector and NGO representatives who participated in the review in both Ghana and Lao PDR, including the learning events; plus all the participants who joined the webinars and took time to share their views, questions and comments.

Executive summary

The Forest Investment Program (FIP), launched in 2009, is one of four programmes financed by the Climate Investment Funds (CIF). It was set up to provide and leverage additional funding to address drivers of deforestation and forest degradation. The private sector has an important role to play in this regard. The FIP design therefore focuses on how replicable business models can achieve transformational change leading to poverty reduction, sustainable forest management, and low carbon development. Feedback to the United Nations Framework Convention on Climate Change (UNFCCC) deliberations on Reducing Emissions from Deforestation and Forest Degradation (REDD+) is part of the design¹.

Important lessons are emerging from the last decade of FIP efforts to finance sustainable forest-related enterprises and overcome a range of challenges, including perceptions of high risk. This review, seeking to capture those lessons, was commissioned by the Evaluation and Learning Initiative of the CIF.

IIED and Land and Timber Services (LTS) facilitated an Evaluation and Learning Partnership on Financing Forest-Related Enterprises (ELPFRE) to carry out this review, and to develop and disseminate its findings. The focus was primarily on forward-looking evidence-based learning for the Forest Investment Program (FIP). While it builds on early results from the FIP's own investments in these areas, it also draws on a rich body of experience gained by social and impact investors outside of the FIP.

The aim of ELPFRE was “to help increase the viability and scale of investments in sustainable forest-related enterprises by harvesting lessons from different types and models of financing tested in the FIP as well as non-FIP investments and applying learning to on-going and planned forest investments.”

ELPFRE addressed, through a set of four matching learning questions, *four main objectives* that are listed below and form the main heading of the evaluation findings:

- **FIP theory of change and design** – understand the design considerations or theory of change in engaging the private sector in reducing deforestation
- **Early results for forward-looking learning** – reflect on early results from successful pilot pathways and models of enterprise support in FIP and non-FIP initiatives
- **Overcoming barriers and risks** – identify key barriers and risks that affect the channelling and leveraging of private finance, and innovations in overcoming them, and
- **Lessons learned on scaling-up and transformative change** – harvest lessons on pathways through which innovative private sector finance can be scaled up, transferred and replicated, leading to transformative change.

The review *methodology* involved three phases: (i) inception; (ii) data collection and learning; and (iii) synthesis and sharing. Tasks included: setting up a learning community; design and feedback interviews; reviewing literature to design an evaluation framework; conducting a FIP Portfolio Review; assessing financing options for Multilateral Development Banks (MDBs); undertaking two country case study missions (to Ghana and Lao PDR); developing a meta-analysis including 12 FIP and non-FIP detailed cases; and running interactive learning sessions through a world café, a panel event, two webinars, and a final presentation of findings with the learning community. Over 200 people from the FIP community, government, NGOs, private sector and practitioners were engaged through this process.

The broad *forest finance landscape* sees FIP interventions alongside non-FIP interventions. Both span a variety of different forest contexts, from indigenous territories in the forest core, through community forestry on the natural forest edge, to smallholder agroforestry in forest

¹Paragraph 11 a) of FIP Design Document

and farm mosaics, to peri-urban contexts where forest product processing often happens. Forest-related enterprises span a range, from household and community at small- and medium-scale at one extreme, to industrial-scale international corporations at the other. Enterprise models that reduce deforestation and forest degradation grapple diversely with how to maintain tree cover as subsistence farming expands to stave off hunger (at one extreme), to how to maintain forest industries in the face of alternative land uses offering better corporate returns on investment (at the other extreme).

A *central challenge* in the forest finance landscape is that forest-related Overseas Development Assistance (ODA) represents only 1 per cent of the total investment – the rest coming from private sources and capital markets. For this very reason, it is essential that climate finance programmes such as FIP leverage new and additional REDD+ finance. The FIP works primarily through MDBs to put in place the enabling investments, and to pilot replicable models of REDD+ asset investment, that will attract these new and additional sources of finance.

As the *primary implementers of FIP interventions*, MDBs have a range of financing instruments at their disposal. These are backed by donor funds and include: investment loans that make up 75 per cent of the overall MDB climate finance portfolio (market rate or concessional loans); budget support (loans or grants); grants (from retained earnings or structured grant funds); guarantees (but still rare for forest enterprise); equity (shares of forest investments); tailored lines of credit (e.g. for small- and medium-scale forest enterprises). Forest-related enterprises often struggle to attract investment because maturation periods for tree growing are long (requiring patience), activities are remotely dispersed (enhancing perceptions of risk), and investments lack liquidity (impeding exit). MDBs can help through concessional loans, grace periods and guarantees – but there are also constraints, as discussed below.

The findings of the review are as follows:

FIP theory of change needs more focus on private sector

The FIP *theory of change (ToC)* does not make explicit reference to financing forest related enterprises. But FIP design documents infer that MDB investments in sustainable forest-related enterprises (either directly REDD+ focused or reducing pressure on forests) will result in: piloting of replicable models; promotion of learning; and by proof of concept, leverage additional REDD+ finance into those models. In the language of the Enabling to Asset Investment (EAI) framework used for this evaluation, this implies an emphasis on private sector asset investment. There could be more specificity in future ToC about financing forest-related enterprises, the sub-sectoral types that will form the object of replicable model pilots (natural forest timber, plantation timber, non-timber forest products, conservation agriculture, biomass energy, etc) and about the types of forest landscape they will be tested in (e.g. indigenous territories, natural production forests, plantations, agroforestry areas, peri-urban areas).

An *evolution in the FIP portfolio* has occurred through the process of designing country-specific elements whereby there are relatively few private sector asset investments and instead, a heavy emphasis on public sector enabling investments. ELPFFRE interprets this as an adaptive management response to the scarcity of investable models of sustainable forest-related enterprises in current enabling policy environments. The new logic of this pragmatic design shift could usefully be captured in any concluding discussions on the FIP ToC so as to guide future interventions.

At *national level*, the FIP ToC has been translated into National Investment Plans that take stock of local drivers of deforestation and degradation. National Investment Plans have focused on three main areas: enabling investments in governance reform (to reduce risk and increase returns for sustainable forest-related enterprises); village-level funds and grants to

promote alternative income-generating opportunities (to reduce pressure on forests); and limited numbers of private sector asset investment. For future enabling investments it could be constructive to explore governance reforms that establish performance-based systems of purchasing carbon credits from forest-related enterprises – a necessary precursor to REDD+ regulatory markets. This could sharpen the focus of future enabling investments.

In terms of the *overall design*, interventions clearly targeted three of the four stated FIP objectives (e.g. transformational change in policy and practice, piloting of replicable models, and leveraging additional resources for REDD+). It is less clear how feedback in the context of UNFCCC deliberation on REDD+ (the fourth objective) was to be achieved. The FIP design has not included an integral learning system on financing forest-related enterprises that categorises different investment types or provides synthesis based around answers to common qualitative learning questions on those issues across the portfolio. While too late to remedy that now, future programs could build in such systems from the outset to improve understanding of what might be replicated.

Early results suggest more effort needed to organise, incubate and de-risk sustainable small and medium forest enterprises

An *enterprise support gap* was identified by the Portfolio Review. The vast majority of FIP investments were either enabling investments addressing policy issues (41%), or micro-scale investments into alternative income generating activities (53%) – with few investments into small- and medium-scale forest enterprises (3%). At the micro end of the scale spectrum, start-up funds for micro-scale sustainable income-generating activities have made progress. Interventions have learned that it is necessary to restrict generic support to livelihood options with positive impacts on forest cover. Looking forward, it would be useful to develop a concerted strategy within FIP to upscale such enterprises built around: (i) organisation / aggregation of particular smallholder value chains, (ii) business incubation to grow emergent enterprises; and (iii) de-risking measures to encourage investment into those enterprises to reach transformational scale. There is much to build on, with exceptional (yet patchy) support to small- and medium-scale forest enterprises in, for example, Mexico and Burkina Faso, and value chain specific support to sectors, such as cocoa in Ghana.

At the *large end of the scale spectrum*, investments into companies (3% of FIP investments) have been limited by MDB due diligence requirements and institutional safeguards that exclude most of the operators in the forest sector. While the intention has been to use lead firms to reach down through out-grower schemes to aggregate, include and spread benefits to smallholders, this has proved more difficult to achieve than anticipated. Looking forward, it will be useful to complement lead-firm approaches to the inclusion of smallholders with more direct attempts to build multi-tiered organisations of smallholder producers. Building a stronger pipeline of investible forest-related enterprises will strengthen the demonstration of replicable asset investment models that can act as proof of concept to leverage additional REDD+ finance.

Overcoming barriers and risks to financing requires more capacity building around financial literacy

Different *barriers and risks* have been overcome through different types of FIP investment (many of them context specific). For example, enabling investments have overcome governance barriers and capacity-related barriers within forest-related enterprises of different scales. Asset investments have overcome barriers such as the lack of access to finance encountered by forest-related enterprises and investor perceptions of high risk. Looking forward, FIP could help articulate the strong link between enabling investments and the subsequent possibilities for asset investment to partner country governments.

Poor *financial literacy* lies behind many of the barriers to finance for forest-related enterprises. This is certainly true among small- and medium-scale enterprise clients – which in turn restricts their ability to identify which financing they need and who to approach for it. But understanding of the various financing options for such forest-related enterprises among lead government agency staff responsible for FIP could also usefully be increased. Strong sectoral skillsets among such staff could be enhanced by training on finance and investment so as to better focus the work on financing forest-related enterprises in national Investment Plans.

The *limited leverage* of different sources of finance (beyond the MDBs themselves) as new or additional REDD+ finance may be a function of financial literacy constraints. For example, much could be done to upscale inputs from: business owner finance; buyer and trade chain finance (including leasing); semi-formal and micro-finance; formal bank finance; and national public finance. Looking forward, FIP might develop options for financial literacy training (at enterprise and programme level) and specifically aim to broaden financial leverage options.

Scaling-up and transformational change require governance improvements alongside more sustainable business incubation

Similar to other CIF evaluation and learning efforts assessing transformational change in the FIP, ELPFFRE found clear articulation of the relevance and systemic change possibilities of FIP up-scaling pathways, but looking forward, more could be done to articulate: (i) how scale is to be reached; and (ii) how change is to be made sustainable. A set of complementary strategic and up-scaling pathways was found to be used in FIP and non-FIP cases:

Governance-oriented focus on creating an enabling environment. This pathway builds on the FIP's strong record of government ownership, alignment with FIP theory of change and national priorities in the REDD+ strategies and other strategic development plans. As a result, the FIP portfolio has many projects targeting policy reform – for example national level policy frameworks and incentives on plantations in Lao PDR and Ghana that are creating conducive conditions for private sector investment.

Investor-oriented focus based around lead firms. This pathway builds MDB comparative advantage in offering concessional loans, grace periods, grants and guarantees to reduce investor perceptions of risk. An example within FIP is the Mexico project 'Support for forest-related micro, small and medium enterprises (MSMEs) in Ejidos and communities', with a currency hedging mechanism to reduce the risk to international investors stemming from investment in a local currency.

Market and enterprise focus based around value chain development. This pathway involves working with specific value chains to increase enterprise viability, expansion or replication. Business incubation has been used to develop capacity for aggregation into larger and more successful businesses in Mexico, Burkina and other FIP countries – but such approaches are not yet widespread.

FIP interventions often involve a combination of the pathways listed above. The following components were felt to have transformational potential and deserve further consideration as FIP moves forward:

- *Sustained business incubation around particular value chains* – that involves outreach into remote forest landscapes, tailored training, linking services, and clear processes of impact assessment to improve future performance.
- *Outsourcing of pipeline development for forest-related enterprise investments* – from MDBs to more risk tolerant financial intermediaries who can develop portfolios of smaller investments.

- *Tailored financial products* – that match the production cycles and needs of particular sub-sectoral value chain enterprises.
- *Blended finance* – that reduces enterprise repayment costs as assets mature, crowds in private sector finance, and funds non-commercial enabling activities.
- *Public-private partnerships* - that link enabling and asset investment in support of particular value chains (e.g. cocoa sector development in FIP and Partnerships for Forests (P4F) Ghana, and timber plantation development in Uganda's Sawlog Production Grant Scheme (SPGS)).

There appears to be little correlation between investment size and the degree of progress towards upscaling or transformational change. Size does seem to matter for certain types of company investment at the larger end of the spectrum and the total scale of resource envelope matters a lot for the degree of buy-in and transformative potential, but looking forward in search of greater impact, FIP might spread investments more into smaller, value chain specific interventions — requiring a broadening of implementation partners.

Lessons and areas for future potential action

Given the learning nature and mandate of this review, country- and project-specific conclusions or observation on performance are not appropriate. Instead ELPFFRE offers a set of lessons derived from the methodology (for which there is a complete description in Section 2 of this document) that suggest areas for future potential action. We list these here in bullet form and refer the reader to Section 4 for further detail on exactly what is meant and how such future potential actions might be achieved:

- The value chain specificity of interventions could be increased.
- Aggregation of smallholder production could receive more attention to ensure upscaling
- Forest business incubation could be designed and housed more sustainably
- More explicit pipeline development for bankable business could be installed
- An emphasis on financial literacy could be strengthened
- Partnerships could be expanded to ensure investor confidence
- The sources of leveraged finance could be broadened
- Learning systems for future programs could be upgraded
- The framing of the FIP theory of change (ToC) could be sharpened
- The performance outcomes for enabling investments could be clearer

The concluding paragraphs of Section 4 offer specific future potential actions that stakeholder groups might take; however, ELPFFRE does not have the continuity to help make that happen. Rather our intention is that these lessons and suggestions for future potential action act as a basis for discussion in regular strategic review and planning meetings of the FIP itself.

1. Introduction

1.1 Rational for the learning partnership

Deforestation and forest degradation make a substantial contribution to global carbon emissions that drive climate change. Reducing Emissions from Deforestation and forest Degradation (REDD+) is seen as a cost-effective means of tackling climate change. The Forest Investment Program (FIP), launched in 2009, is one of four programmes financed by the Climate Investment Fund (CIF) that was designed to provide funding to address the drivers of deforestation and forest degradation. FIP investment support is of three main types:

- Institutional capacity, forest governance and information measures
- Forest climate change mitigation measures, including forest ecosystem services, and
- Measures outside the forest sector necessary to reduce the pressure on forests.

The CIF was established in 2008 to support developing countries in their transition to a low-carbon, climate-resilient economic growth path. It consists of two separate multilateral funds: the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) that hold financial resources in trust until they are deployed. The FIP is a funding window of the SCF that is dedicated to addressing deforestation and forest degradation from within and outside the forest sector. The donors to the FIP are Australia, Denmark, Japan, Norway, Spain, Sweden, UK and the US.

The private sector has an important role to play. For example, in 2006 it was estimated that US\$ 36 billion was invested specifically in the forest sector of developing countries – of which only US\$ 380 million was official development assistance or ODA – and the rest coming from private sources and capital markets (Trine, 2007). While overall totals have increased since then (e.g. with ODA disbursements on forests rising to just below US\$ 800 million in 2014 – Singer, 2016), the proportion between private and public finance has remained much the same.

Much private capital is concentrated in sectors beyond forestry but that are known to be detrimental to forest cover. For example, exported palm oil, soy and beef, pulp and paper have a combined production value in tropical countries of US\$ 1,068 billion with only US\$ 2.7 billion recorded to be invested in sustainable commodity production and conservation in developing countries (Climate Focus, 2017). So, the FIP has given special attention to how various business models can achieve transformational change leading to poverty reduction, sustainable forest management, and low carbon development.

The FIP is a REDD+ Phase II mechanism that provides upfront financing for public and private investments in forestry and related sectors. Its objectives include:

- transformational change in developing countries' policies and practices
- piloting of replicable models to generate learning on the link between investment and emission reduction, sustainable forest management (SFM), and enhanced carbon stocks
- leveraging additional resources to attain effective and sustained REDD+, and
- providing experience and feedback in the context of the UNFCCC deliberations on REDD (CIF, 2009).

In addition to the main pool of FIP funding, the FIP has two discrete funds that specifically target: 1) indigenous peoples and local communities; and 2) the private sector. The Dedicated Grant Mechanism (DGM) has US\$ 80 million set aside for indigenous peoples and local communities, with the fund intended to enhance communities' capacity to engage and

contribute to national REDD+ dialogue and action. The Private Sector Set Aside (PSSA) was established to contribute to the financing of innovative programmes and projects that engage the private sector. Concessional funds (US\$20.3 million) were allocated to the PSSA.

A total of 23 countries across Africa, Asia and Latin America are beneficiaries of the FIP. The governments of those countries take the lead in the participatory process of prioritising investment areas in line with their national REDD+ strategies and FIP objectives. There are 21 national investment plans developed to pursue these goals. The range of countries provides a wealth of different policy and institutional contexts for engaging with the private sector to both access finance to implement the planned climate smart investments and catalyse additional finance. There is also an opportunity for cross learning from FIP and non-FIP initiatives to enhance the implementation and the achievement of transformational results thereof at scale.

Since the CIF was established in 2008 and the FIP in 2009, it was felt timely to assess what has been learned so far and so shape the ongoing programme.

1.2 Background to the learning partnership

The Climate Investment Funds (CIF) Evaluation and Learning Initiative was approved in May 2015. The subsequent Evaluation and Learning Initiative Business Plan, approved in June 2016, commits to undertaking catalytic evaluation and learning activities that are demand-driven, relevant, and applied to important decisions and strategies. The business plan identifies four priority learning themes to guide a focused learning agenda during the first period of the initiative:

- Transformational change
- Private sector investment
- Local stakeholder engagement and benefit, and
- CIF design and approach.

Various evaluations and learning partnerships of different durations and scales were contracted during 2016-2017 corresponding to the priority learning themes in the business plan.

The subject of this final report relates to the Evaluation and Learning Partnership on Financing Forest-Related Enterprises (ELPFRE), which hereafter is referred to as the Evaluation and Learning Partnership. The work of the Evaluation and Learning Partnership was intended to span three phases to be completed by end of September 2018:

- Phase I: Inception phase
- Phase II: Data Collection and learning, and
- Phase III: Synthesis and sharing of lessons learnt.

This final report corresponds to the third of these phases. According to the Terms of Reference (ToR – see Annex 1), the key problem to be addressed by the full assignment is the:

“urgent need for a better understanding of effective financing strategies to ensure the full contributions of forests to sustainable development and to attain the climate goals of the Paris Agreement and the country-level Intended Nationally Determined Contributions (INDCs).”

This was expected to align with the CIF Evaluation and Learning Initiative 'Private Sector Investment' priority learning theme (CIF, 2016), which seeks to better understand how CIF investments can best catalyse increased private sector action for transformational change in clean energy, forests and climate resilience.

Within the CIF, this Evaluation and Learning Partnership has been asked to focus on the FIP.

This Evaluation and Learning Partnership intended to:

- Establish a learning community on financing forest-related enterprises within the FIP
- Work with the learning community to jointly refine the assignment ToR learning questions, scope, and identify priority projects to be evaluated
- Design and conduct evaluations of at least two to four FIP and two to four non-FIP case study projects
- Conduct complementary meta-analysis, market research and/or policy analysis
- Facilitate ongoing learning exchange and dialogue with the learning community through existing stakeholder platforms in country and internationally, and
- Produce learning briefs and conduct routine communication and interim and final reporting.

The audience and intended beneficiaries of this Evaluation and Learning Partnership (primary user groups as stated in the ToR) and the members of learning community are: investment officers and other forest sector staff in MDBs as well as other funds, institutions, and practitioners focused on the forest sector; recipient country governments, including FIP focal points; regulators; policy makers; local government and others; private sector actors; and programme coordinators and staff in the CIF Administrative Unit.

See Annex 1 for ToRs of the ELPFFRE assignment

The purpose of the Evaluation and Learning Partnership is:

“to help increase the viability and scale of investments in sustainable forest-related enterprises by harvesting lessons from different types and models of financing tested in the FIP as well as non-CIF investments, and applying learning to ongoing and planned forest investments.”

1.3 The learning questions

This report addresses four objectives described in the ToR (Annex 1) through an agreed set of four learning questions. The learning questions were refined and agreed during the inception phase (see IIED, 2017) of the Evaluation and Learning Partnership (see Box 1).

Box 1: The learning questions

1. FIP theory of change and design: What is the FIP theory of change at country and project level for supporting the establishment and upscaling of sustainable, forest-related enterprises capable of delivering social, economic and climate-related impacts? The Evaluation and Learning Partnership developed and used an ‘enabling to asset investment framework’ EAI framework to critique the programme theory of change and design. In addition, the portfolio review and the country case studies gave an indication of how the FIP theory of change and design have been enacted in practice.

2. Early results for forward-looking learning: What are the results of current financing of public-private and private sector engagement in sustainable forest-related enterprises, and how/where have successful outcomes been delivered? Most FIP projects particularly those engaging the private sector are still in their infancy. Therefore, the Evaluation and Learning Partnership looked at ‘pathways towards potentially positive results’ within existing documentation associated with the portfolio review and case studies and through in-country interviews, learning groups and webinars, as well as deriving learning from examples outside FIP.

3. Overcoming barriers and risks to financing forest-related enterprises: Have financial mechanisms, instruments or models overcome barriers and risks to private sector investment in forest-related enterprises? If so, how? The portfolio review and case studies reveal where FIP has been able to leverage finance to engage the various different scales and types of private sector and overcome barriers and risks – and the literature review, in-country interviews, learning groups and webinars substantiated findings.

4. Lessons learned on scaling up and transformative change: What has been learned to date on scaling-up and transformative change? How might the Evaluation and Learning Partnership best harness the sharing of knowledge both in-country and internationally to achieve transformative change? What are the synergies with the transformational change evaluation team? These findings were based an analysis derived from the portfolio review, case studies, literature review and in-country interviews, learning groups and webinars.

It should be noted that while the assignment ToRs (Annex 1) include the question “What can be said about the (projected or) early results/early outcomes of these investments?”, this was not interpreted by the Evaluation and Learning Partnership as requiring a performance evaluation of the FIP, nor as requiring any quantitative assessment of impact on carbon emissions. The aim was to conduct thematic learning on financing models for forest-related enterprises and considerations for applying them going forward. The FIP operational timeframe means that it would not in any case be possible yet to demonstrate conclusively the link between financial investment approaches used and carbon emission reductions and livelihood impacts. Furthermore, any performance evaluations of that type would certainly fall under the mandate of the programmes themselves. This report restricts itself to thematic lessons from the FIP projects to date on financing forest-related enterprises that indicate how (potential) transformational change might best be achieved. As REDD+ Phase II is undertaken, performance evaluations of FIP will need to assess how different financing options deliver actual impacts on carbon emissions and livelihoods so as to guide the operationalisation of national REDD+ strategies and help countries deliver on their emission’s reduction from land use change – but that is not the ambition here.

1.4 Content guide to the sections in this report

This report is structured around the following main sections:

- Section 1** – this current section presents the rationale and background to this evaluation and learning partnership, introduces the learning questions and structure of the report.
- Section 2** – describes the methodology that was used to answer the learning questions, the analytical framework developed (i.e. the Enabling to Asset Investment (EAI) framework), and the phases within the evaluation process.
- Section 3** – introduces the broad forest financing landscape within which the evaluation of the FIP took place – in order to highlight some of the financing instruments used in the forest-related sectors by different MDBs compared with FIP financing instruments in order to explore potential synergies at global and national levels in leveraging finance to address deforestation and degradation.
- Section 4** – highlights the key findings under each of the four main learning questions: FIP theory of change and design; early results for forward-looking learning; overcoming risks and barriers to financing forest-related enterprises and; lessons learned on scaling up and transformational change. The roles and responsibilities of the different FIP stakeholders including MDBs, government, private sector and intermediaries are discussed.
- Section 5** – shares the conclusions emanating from the analysis of FIP and non-FIP initiatives, which are applicable to a wide range of global and national, bilateral and multilateral initiatives. It also presents actionable recommendations and ways forward for FIP government beneficiaries, MDBs, private sector and investors.

In addition, this report refers to a series of detailed annexes which, if not available in the version of the report made available, can be supplied on demand by IIED, and include:

- Annex 1** – The ToRs for the Evaluation and Learning Partnership – clarify what was expected of this Evaluation and Learning Partnership.
- Annex 2** – The FIP Portfolio Review – provides a description of the financial scale and scope of the FIP projects, data on the types of financial mechanisms used, design considerations and critical cases that were considered in more detail for the purposes of the Evaluation and Learning Partnership.
- Annex 3** – The main financing instruments used by MDBs – include investment loans (covering 75 per cent of financial activities, mostly at market-equivalent interest rates, or occasionally a concessional rates), but there are also other mechanisms used such as policy-based loan/budget support, grants, guarantee funds, equity and other lines of credit.
- Annex 4** - The forest finance landscape - this is described in terms of: different forest contexts, varied types of private sector and private sector impacts, private sector financing that dwarfs overseas development aid (within which climate finance dominates) and the role and financial instruments used by MDBs.
- Annex 5** – The country case studies for Ghana and Lao PDR – describe short missions to both Ghana and Lao PDR to assess FIP country portfolios and supplement evidence from the portfolio review and key informant interviews – focusing mainly on national level meetings and discussions structured around the four learning

questions, rather than deep engagement at the project level or intensive field visits.

- Annex 6** – The meta-analysis – which assembled data about the main funding instruments used, collated evidence from the key case studies both within FIP and for instructive non-FIP projects, and analysed patterns and explanatory themes associated with successful investment models in different contexts as they relate to financing sustainable forest-related enterprises.
- Annex 7** – The summary of ELPFFRE learning events convened – describes the main learning events including a world café event, a panel discussion, and two webinars that were held during the course of the Evaluation and Learning Partnership.

2. Methodology

The inception report provides a full account of the methodology developed and used for the three phases of the Evaluation and Learning Partnership (IIED, 2017). A summary of the methodology is presented here.

2.1 Three phases of work

Participatory and interactive methods were used to elicit information responding to the four learning questions in this assignment. A three-stage process (Figure 1) – inception; data collection and learning; and synthesis – was based on the principles of stakeholder ownership through engagement and promotion of a structured learning experience.

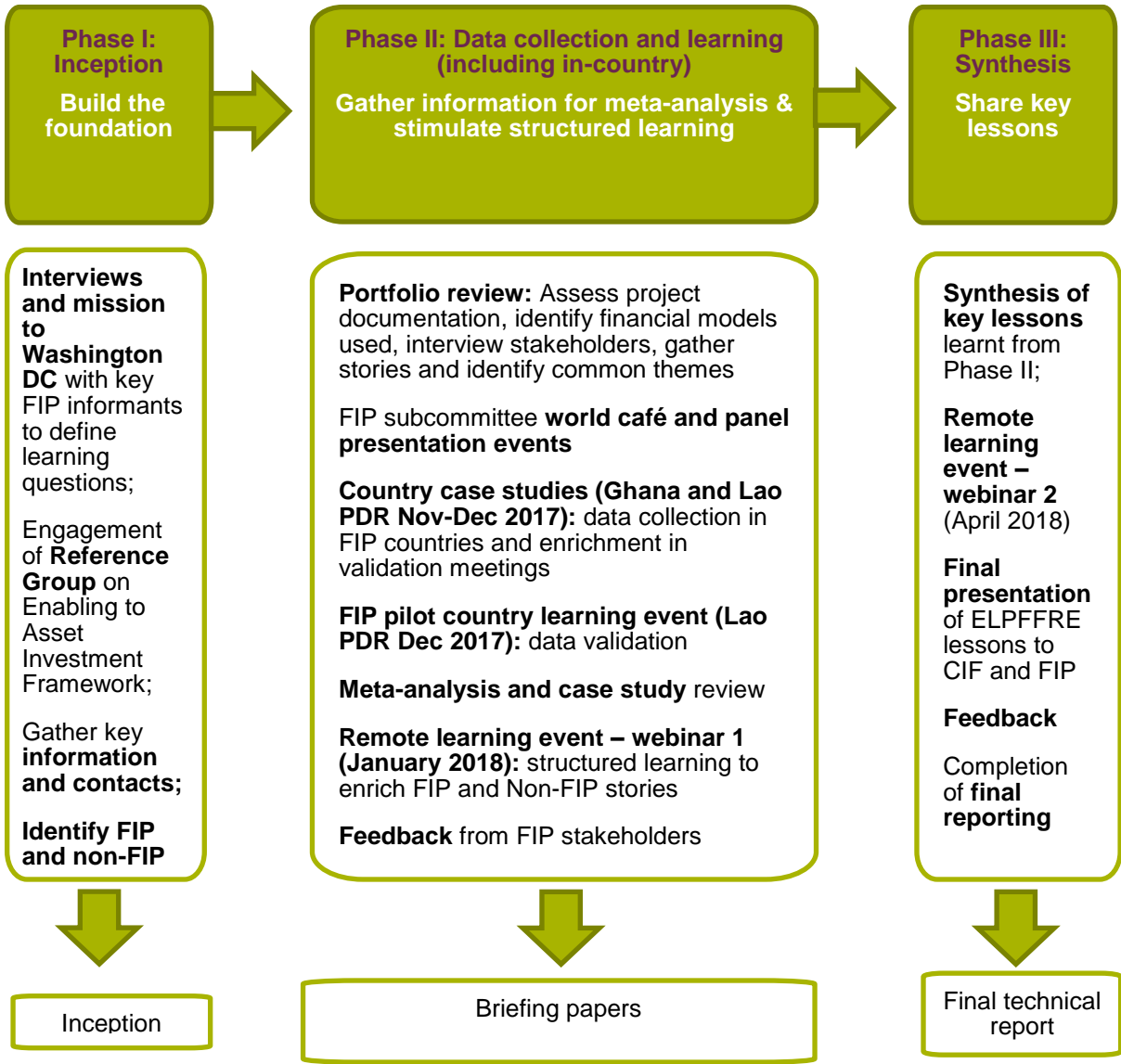


Figure 1: Three phases of work by the Evaluation and Learning Partnership on financing forest-related enterprises

Source: IIED, 2017.

Phase I: Inception

The inception period built a collective understanding of the questions that would form the basis for evaluation and learning. Through interactions with FIP stakeholders and beneficiaries, the inception period also helped refine the overall methodology and schedule.

Engagement with the Reference Group was particularly important in refining the learning questions and scope of this assignment. Interactions were brokered between the IIED/LTS team with CIF AU and interviews with various FIP stakeholders, including national coordinators and officers of MDBs and PROFOR. It was also possible to participate and run café style interactions at the FIP subcommittee meeting, which involved exchange with the Transformational Change Learning Partnership (TCLP). Interactions were also developed with Forest Trends who were working on *Financing Mechanisms*. Key issues began to emerge on channelling FIP finance and on leveraging private sector finance, with the identification of potential cases to gain further insights. A literature review was completed on key conditions for effective forest investment – and the insights were then developed into an ‘Enabling to Asset Investment’ (EAI) framework which would be used to critique the FIP portfolio (see below).

Phase II: Data collection and learning

The data collection comprised of:

- a portfolio review (Annex 2)
- review of the financing landscape highlighting the role of MDBs and the private sector presented in the main report and in Annex 3
- in-country visits to Lao PDR and Ghana (Annex 4) where a learning-focused forward-looking evaluation and learning was undertaken
- interviews conducted to inform the meta-analysis (Annex 5) through gathering insights on FIP and non-FIP case studies, and
- event organisation (for a summary see Annex 6).

Phase III: Synthesis

As the learning process came to its conclusion, overall findings, conclusions and recommendations were distilled on how to enhance innovative, effective and transformational financing mechanisms. These are documented in this synthesis report. Two policy briefs have also been produced to share the learning widely. The conclusions and recommendations are deemed applicable to wider global and national financing initiatives engaged in a collective action to address deforestation and forest degradation and to improve livelihoods.

In the following sections, a little more detail is given on some of the more substantial elements of the methodology.

2.2 Enabling to Asset Investment (EAI) framework

The EAI framework (Figure 2) was developed to respond to the learning questions of this assignment and the reality seen within the FIP portfolio. It recognises that, in addition to *asset investments* into either sustainable forest enterprises or into sustainable non-forest enterprises that reduce pressure on forests – there is often prior need for *enabling investments* (see Elson, 2012; Macqueen and deMarsh, 2016). In other words, there is a need to create an enabling environment within which bankable businesses can emerge. This *enabling investment* involves investments to:

- Secure commercial tenure
- Develop technical know-how
- Incubate business development skills, and
- Organise / aggregate for scale efficiencies.

Enabling investments are essential for there to be a pipeline of bankable businesses into which asset investment can flow. What private sector asset investors look for are attractive risk-return ratios at bearable transaction costs. Even with enabling investment, leveraging asset investments from the private sector often still requires concessional government or donor finance to:

- make returns more attractive – by bringing down interest rates so that interest payable is bearable in the years it takes for forest projects to mature
- de-risk investments – by providing guarantees or developing tangible collateral that is easily converted into cash (i.e. is liquid), and
- reduce transaction costs – by investing in infrastructure, providing investment dating services.

The detail of how to do this in practice is very much at the heart of the FIP theory of change as FIP attempts to pilot replicable models. How much governments / donors are willing to step in to help private sector asset investors in developing sustainable forest enterprises is really a function of how strong the need for climate or social impacts might be. The EAI framework is used to frame, analyse and understand how the FIP and non-FIP projects create necessary and sufficient conditions to deliver a pipeline of bankable projects on the one hand, and engage and shore up investor confidence for asset investments into sustainable forest-related businesses on the other.

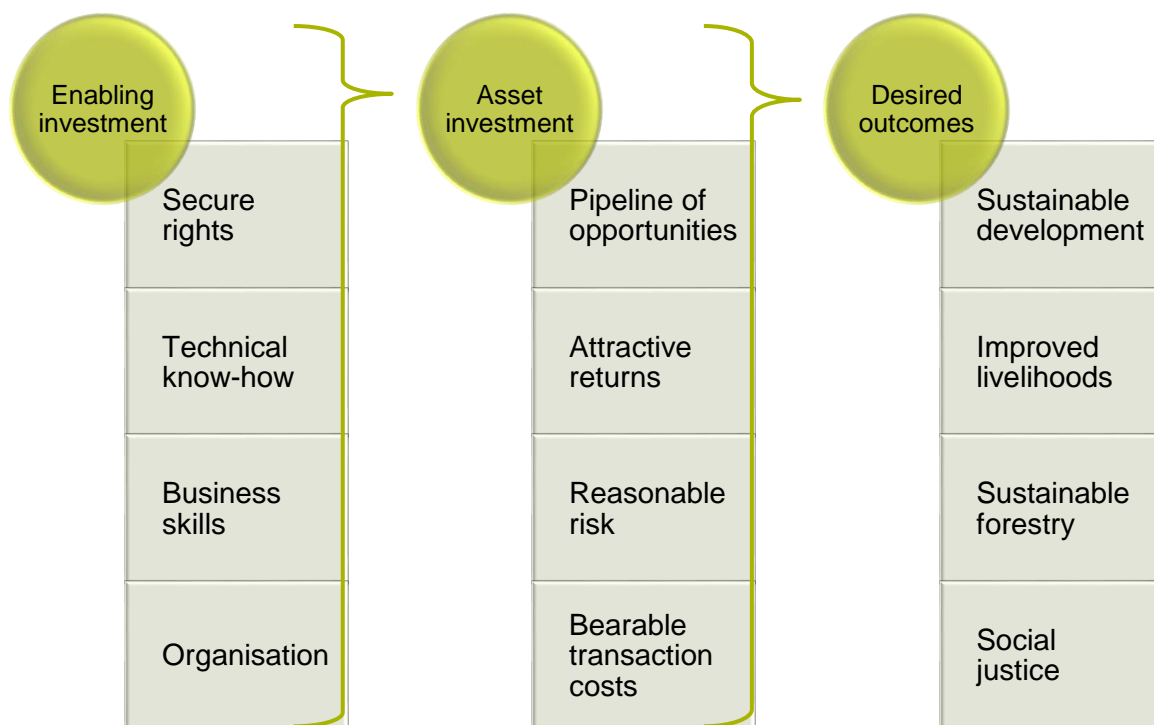


Figure 2: The enabling to asset investment (EAI) framework used in ELPFFRE

The genesis of the different components of this framework and application to this assignment are discussed in detail in the inception report (IIED, 2017). It should also be noted that the EAI framework considers the allocation of many different types of ‘capital’ as ‘investment’ – for example natural capital (land, natural resource stocks and environmental services); physical capital (buildings, machinery and transport infrastructure); human capital (skills, knowledge, labour capability); social capital (networks, social and political claims, relations and affiliations); and financial capital (cash, credit/debt, savings, and other economic assets) (Scoones, 1998). Recognising some of these capitals as ‘co-investment’ can improve prospects for sustainability.

2.3 Portfolio review

A portfolio review (Annex 2) was conducted to help the Evaluation and Learning Partnership become familiar with the multiple projects that were financing forest-related enterprises within the FIP. This involved gathering evidence from a review of project documentation of 25 active projects within the portfolio and a further 5 pipeline projects alongside information contained in the FIP design document, FIP investment criteria and financing modalities, FIP results framework, and operational and results reporting.

See Annex 2 for the FIP portfolio review

The FIP portfolio review provides a description of the financial scale and scope of the FIP projects, data on the types of financial mechanisms used, design considerations and critical cases that were considered in more detail for the purposes of the Evaluation and Learning Partnership.

This portfolio review allowed the Evaluation and Learning Partnership to:

- Identify the different financial models and instruments used within the FIP to scale up sustainable forest-related enterprises and leverage private finance
- Collect narratives on these attempts – both direct efforts to finance sustainable forest-related enterprises by the FIP and other actors, and more indirect efforts to leverage the private sector in such financing, and
- Identify explanatory arguments associated with successful models and how they work, along with elements that have the potential to be transferable and scalable.

2.4 Country case studies: field visits in Ghana and Lao PDR

The ToRs (Annex 1) required that at least two FIP countries were to be selected for the forward-looking evaluation and learning. A set of criteria was developed (IIED, 2017) to select the country cases looking at:

- country dynamics and demands (e.g. favouring early starters in developing forest investment plans, with interest in the private sector investment and with policy opportunities for transformational change); and
- operational issues (e.g. the strength of the portfolio of projects, existing experiences to learn from, varied geographies and partnerships).

As a result, country case studies were undertaken in Lao PDR and Ghana to deepen and supplement the evidence and learning collected through interviews with key FIP stakeholders, the FIP portfolio review, meta-analysis and learning events for this assignment.

Interviews and focus group discussions were conducted with key stakeholders at national level involved in the implementation of FIP projects. The country case studies were guided

by the Review of Outcomes to Impact (ROTI) methodology, supplemented by appreciative inquiry and realist inspired analysis and synthesis.

Rather than a deep engagement at individual project level, resourcing meant that country evaluations focused at national level, but with engagement of a wider network of actors, institutions and projects, including those working on private sector engagement outside the sphere of influence of the FIP activities. Non-FIP projects with learning potential were incorporated in this wider country-level forward-looking evaluation and learning, including those supported by bilateral as well as multilateral donors and other financial institutions.

2.5 Meta-analysis

The meta-analysis (Annex 6) was key to generating the findings and recommendations of this assignment. A case study-based methodology focused on the development of illustrative and critical instance cases that provided examples of how FIP and non-FIP investments have supported sustainable forest-related enterprises. Interviews and desk review were the main sources of information. The underlying assumption is that both FIP and non-FIP cases are transferable.

The selection of cases was either purposive, based on an opportunity to learn from comparable FIP and non FIP funds, or based on special interest. For example, the Evaluation and Learning Partnership selected comparable FIP and non-FIP case examples with lessons on useful pathways towards building effective private sector engagement – but selection also favoured examples that could address the “enterprise support gap” identified in the FIP Portfolio Review.

All non-FIP cases covered cases in which enabling investments or combined enabling and asset investments had taken place. Three case studies involve grants for enabling activities (Biocarbon Fund Integrated Sustainable Forest Landscapes Program; Partnerships for Forests; and the Uganda Sawlog Production Grant Scheme), and the other four involve loans or equity with technical and business capacity development provided by the fund manager (Global Environment Fund support to the Moringa Fund; Root Capital; F3Life; and Althelia). There were no non-FIP cases of solely asset investment. Broadly speaking, whether in FIP or non-FIP cases, the approaches to forest investment can be disaggregated by:

- the degree to which they blend enabling and asset investment
- the sort of scale of enterprise at which their investment is directed – and of which there is also an important third dimension, and
- the nature of the outcomes desired from the investment (what would be considered a worthwhile result) whether strictly financial, or with some social development or environmental outcomes mixed in.

Unfortunately, visually displaying three dimensional universes on paper is difficult. For this reason, the ELPFFRE team have developed a two-dimensional matrix which attempts to capture some of the spectrum of options (see Section 3.2 which maps the spread of FIP and non-FIP funds along the continuum of the EAI framework). The comparison of FIP and non-FIP case studies identifies the potential learning for FIP in particular. The lessons and recommendations however are more broadly applicable to other funding mechanisms.

The meta-analysis involved case studies from several country contexts covering:

- effective integration of smallholders into supply chains
- incubation and / or partnership between large-scale business and farmers with support of intermediaries to offer technical and business development support

- building capacity of large-scale companies to promote responsible investments and positive engagement with communities, and
- a range of financing instruments applied to enhance leveraging of private finance.

The case studies also included a range of products such as timber, non-timber forest products (NTFP), plantations, and agricultural commodities (e.g. coffee, cacao). Observations emerging from the case studies were then grouped into general explanatory themes to draw the findings and recommendations.

2.6 Events within the learning process

Learning was promoted at different levels, for example within:

- one to one interviews,
- validation meetings for the country case studies,
- one FIP pilot country meeting,
- kick-off meetings with CIF AU and Reference Group,
- two events at the FIP subcommittee meeting,
- two online webinar events, and
- one final presentation.

A summary of issues raised in the various events is shared in Annex 7. As noted above, learning from FIP and non-FIP initiatives in the two country case studies was fostered through validation meetings held at the offices of the Ministry of Land and Natural Resources (MLNR) in Ghana and the Ministry of Agriculture and Forestry's Department of Forestry in Lao PDR during the country field visits.

Also, as noted above, at the FIP subcommittee meeting the Evaluation and Learning Partnership structured two events:

- A world café entitled *'Financing investment readiness for SMEs to effectively engage in value chains is a costly proposition. But is there another way?'*
- A panel discussed lessons on *'How to close the gap between demand and supply of finance for forestry related enterprises'*.

The two online webinar learning events were structured and titled as follows:

- *'From transient to transformational: investing in the long-term sustainability of forest-related enterprises.* The discussion was informed by the findings of the country case studies (Lao PDR and Ghana) and three non-FIP initiatives on forest plantations and cocoa production involving smallholders mainly in Kenya, Uganda and Peru.
- *'Strengthening effectiveness of private sector engagement in addressing deforestation: learning on innovative channelling and leveraging of finance'* with the aim of: (i) sharing and validating the overall lessons on financing forest-related enterprises; and (ii) reflecting on potential scalability, transferability and financial leverage.

Through these multiple events engagements underscored:

- the wealth of learning opportunities from initiatives outside FIP that need to be drawn more regularly into knowledge-exchange interactions
- the need to interview MDB finance officers to unearth challenges and innovations in financing forest-related enterprises, and

- the importance of strengthening a strategic framework such as the EAI framework that helps to structure thinking on how to advance successful engagement of the private sector in widely different contexts.

3. Findings on financing forest-related enterprises

3.1 FIP theory of change and design

Learning question 1: What is the FIP theory of change at country and project level for supporting the establishment and upscaling of sustainable, forest-related enterprises capable of delivering social, economic and climate-related impacts? Specifically, what are the necessary and sufficient conditions that are envisaged in the programme design for this to happen?

3.1.1 Summary findings on the FIP theory of change and design

The Evaluation and Learning Partnership found that:

- FIP theory of change (ToC) makes no explicit mention of financing forest-related enterprises, but inferences from design documents suggested an initial expectation that MDB asset investments into private sector pilots would drive change.
- The evolution of the FIP portfolio has had a much stronger emphasis on enabling investments (to secure tenure, private sector governance and technical resource management capacities), so articulating what sort of enabling investment have proved effective, and how they link to specific forms of asset investment, could sharpen future ToC – now that understanding has advanced since the inception of the FIP.
- The limited number of private sector-led projects, and a significant investment gap for small- and medium-scale forest enterprises suggests unrealistic assumption of the level of attractiveness, accessibility and demand for the FIP offering among private sector actors.
- A stronger finance and business education component within lead government agencies for FIP could: improve understanding of private sector needs and drivers and improve commercial feasibility of enabling investments.

3.1.2 FIP theory of change

The Forest Investment Programme (FIP) is a REDD+ Phase II mechanism that provides upfront financing for public and private investments in forestry and related sectors. Its objectives include (CIF, 2009):

- transformational change in developing countries' policies and practices
- piloting of replicable models to generate learning on the link between investment and emission reduction, sustainable forest management (SFM), and enhanced carbon stocks
- leveraging additional resources to attain effective and sustained REDD+, and

- providing experience and feedback in the context of UNFCCC deliberations on REDD.

To achieve these objectives, the FIP works through the MDBs (see Annex 3) both to invest in socially, financially and environmentally sustainable enterprises that undertake REDD+ activities inside the forest sector and to invest in equivalent enterprises outside the forest sector that reduce pressure on forests.

FIP operates within a broad forest finance landscape alongside many non-FIP interventions. Both span a variety of different forest contexts, from indigenous territories in the forest core, through community forestry on the natural forest edge, to smallholder agroforestry in forest and farm mosaics, to peri-urban contexts where forest product processing often happens (see Annex 4). Forest-related enterprises span a range, from household and community at small- and medium-scale at one extreme, to industrial-scale international corporations at the other. Enterprise models that reduce deforestation and forest degradation grapple diversely with: how to maintain tree cover as subsistence farming expands to stave off hunger (at one extreme); to: how to maintain forest industries in the face of alternative land uses offering better corporate returns on investment (at the other extreme).

See Annex 3 for the financing instruments used by MDBs

The financing instruments used by the MDBs are predominantly investment loans (covering 75 per cent of financial activities, mostly at market-equivalent interest rates, or occasionally a concessional rates) but there are also other mechanisms used such as policy-based loan/budget support, grants, guarantee funds, equity and other lines of credit.

See Annex 4 for the forest finance landscape within which FIP operates

The forest finance landscape is described in terms of: different forest contexts, varied types of private sector and private sector impacts, private sector financing that dwarfs overseas development aid (within which climate finance dominates) and the role and financial instruments used by MDBs.

A central challenge in the forest finance landscape is that Overseas Development Assistance (ODA), represents only 1 per cent of the total investment – the rest coming from private sources and capital markets. For this very reason, it is essential that climate finance programmes such as FIP leverage new and additional REDD+ finance. Yet, given the scale of investment into activities causing deforestation and forest degradation, simply attracting new money is not enough. It is also necessary to divert existing investment patterns into investments that do not cause deforestation or forest degradation. The FIP works primarily through MDBs to put in place the enabling investments, and to pilot replicable models of REDD+ asset investment, that will attract these new and additional sources of finance.

The official FIP Theory of Change (ToC) is included in the FIP Results Framework (2011). That ToC does not mention forest enterprises. Because of this, the Evaluation and Learning Partnership developed a ToC for financing forest related enterprises based on the statements in the design documents and investment criteria. This derived FIP ToC for financing forest-related enterprises is relatively simple (see Figure 3).

In essence, the ToC is that, by piloting replicable models for investment, leveraging new or additional REDD+ financing for these pilots and undertaking rigorous monitoring and evaluation of them, the FIP can improve the risk-return ratio for sustainable forest-related businesses. It seeks to do this by generating a track record of successful investments into such businesses. The theory indicates that not only should this generate direct impacts on reduced deforestation and degradation and also reduce poverty, but it should also build private sector investor confidence so as to scale up investments and reduce the need for subsidies.

A challenge in evaluating the efficacy of the FIP ToC is that it fails to mention forest enterprises – and the ToC that can be derived from the FIP design documents fails to disaggregate investments into enabling or asset categories. There is no specific mention of which categories of forest-related enterprise it will work with. There is no mention of the different forest landscape types in which outcomes are to be achieved. The assumptions relating to financing forest-related enterprises are unstated. This hampers learning.

For example, in using the EAI framework to question the FIP design documents, the main focus for financing forest-related enterprises seems to be replicable models of *asset investment* into forest sector enterprises and enterprises that reduce pressure on forests outside the forest sector. There is little explicit mention of *enabling investments* in the design documents, suggesting that the need for this was not well understood – or at least not well articulated – during the development of the FIP design documents.

This broad theory of change that the Evaluation and Learning Partnerships derived from the FIP design documents is summarised below in Figure 3.

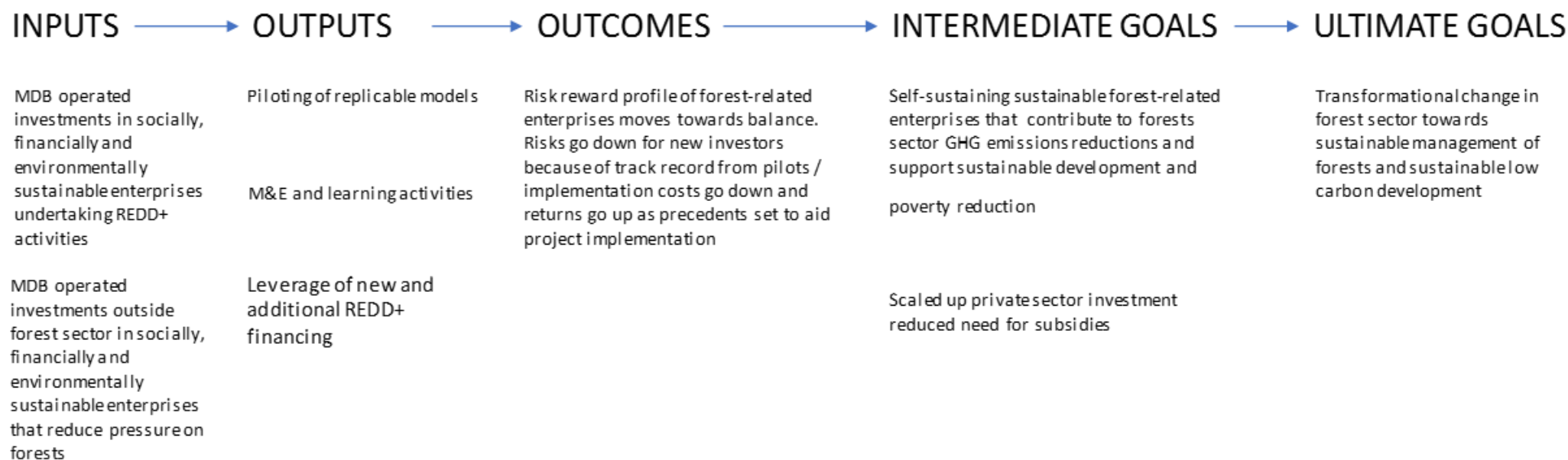


Figure 3: Derived FIP theory of change with regard to supporting forest-related enterprises developed by the Evaluation and Learning Partnership in the inception phase

3.1.3 How the FIP portfolio has evolved based on the theory of change and design

In contrast with the FIP design documents, which (in the language of the EAI framework) indicates emphasis on two types of MDB private sector *asset investments*; the evolution of the FIP portfolio shows that it consists of mainly *enabling investments* through public sector projects with national government institutions as implementing partners.²

We explore the FIP spread across four main types of investment further in Section 3.2. Here, it is sufficient to note that there appears to be a small number of projects directed directly to the private sector. For example, the FIP portfolio includes the following projects: two pure asset investments; two projects that combine enabling and asset investments together; and one enabling investment project as shown below (see Table 3 in Section 3.2 for more detail):

- *FIP asset investments directed to the private sector*: The FIP Ghana PPP Forest Restoration project involves a concessional loan to reduce the overall cost of credit required for an innovative model of sustainable plantation expansion in a degraded forest reserve to a level in which the activities can go ahead. The FIP project supporting climate change mitigation and poverty reduction through the development of the cashew sector in Burkina Faso involves an investment in a farmers' association that covers improvements at the downstream processing and value addition alongside enabling components focused on technical support, business and market know-how and organisation development / aggregation for upstream producers.
- *FIP combined enabling and asset investments directed to the private sector*: The two FIP private sector-focused projects in Mexico³ that combine enabling activities with asset investments both consist of grants that cover technical, business and organisational capacity development with concessional loans to develop the enterprises.
- *FIP enabling investments directed to the private sector*: The FIP Lao Smallholder Forestry Program is a private sector grant covered two enabling areas: technical support both for the large corporates involved to develop free, prior and informed consent (FPIC) and effective processes for working with local communities and production at the subsistence household level; and policy and governance work focused on supportive legislation for plantation development.

Many other public sector projects involve grant-funded enabling investments primarily focused on technical support for production, organisational capacity of the implementing agencies, policy issues and / or business and market know-how and capacity development. A number of public sector projects are also developing local-level microfinance funds to support sustainable forest-related household and micro-enterprise – which might rightly be included within funding directed towards the private sector (at least the smallest end of it).

The observations about the difference of emphasis between the FIP design documents (piloting replicable models of asset investments) and the evolutions of the portfolio (mostly public sector enabling investments) should not be taken as a criticism. Rather, it should be taken to mean that enabling investments through public sector work are a critical part of making replicable pilots in private sector asset investment work in practice.

Greater emphasis on public sector enabling investment has great strengths, particularly in removing policy and regulatory constraints to make a more enabling environment. But the flow from enabling to asset investments that could form 'replicable models' needs more explicit treatment and tracking at country level.

One of the strengths of the FIP engagement with the public sector is the way in which national investment plans can be developed, undertaken in a participatory manner to ensure

² Portfolio Review, Annex 3.

³ FIP Mexico MSMEs and FIP Mexico Low Carbon Strategies.

individual projects are strategic, and linked across government and non-state sector actors. Enabling investments related to policy and regulatory aspects operate in a manner that supports other forms of investments, such as small-scale income-generating activities and investment finance. These links are created through national level investment planning that is undertaken at the beginning of FIP activities.

Being anchored within national environment ministries provides FIP with unique opportunities to support enabling investments, such as the sectoral policy and regulatory constraints. This contrasts with a range of other financial support mechanisms which operate outside government and provide support directly to private sector actors. Finally, anchoring FIP within a lead government agency provides opportunities for cross-government collaboration and co-ordination and linking to agencies with complementary roles such as regulation, business support, taxation or legality assurance. As an illustration, the Ghana FIP programme is anchored in the Ministry of Lands and Natural Resources (MLNR). Given that the strong focus of the programme is in support of climate-smart cocoa, MLNR has been able to successfully broker important new relationships with the National Cocoa Board, the government agency responsible for promoting cocoa production, marketing and export which has had a major impact in terms of promoting climate-smart (shade-grown) cocoa.

More could be done to capture the new understanding of how important public sector enabling investments are for financing forest-related enterprises – and to articulate that clearly within the theory of change, perhaps structuring the theory of change such that it has distinctive elements on enabling and asset investments (much as in the EAI framework structure – see Figure 2).

3.1.4 Translation of theory of change and design into country investment plans

At the operational level, the FIP theory of change and design documents find their articulation in national investment plans – developed by the governments of the FIP countries. More detailed analysis of the FIP portfolio in Ghana and Lao PDR is presented in Annex 5. At country level (in the two countries assessed), the theory of change had three main elements: (i) enabling investments in tenure reform, law enforcement and productivity incentives (e.g. the ENFAL and ENCIR projects in Ghana or SUFORD-SU, BCC and SFP projects in Lao PDR) will reduce risk and increase returns for sustainable forest-related enterprises; (ii) direct financial investments into public village funds and grants to support ‘alternative livelihoods’ will reduce pressure on forests; and (iii) private sector blended asset investment and / or capacity development to increase afforestation in degraded lands (e.g. FORM Ghana and SFP in Lao PDR) will increase the number and scale of sustainable forest-related enterprises.

These practical theories of change were derived from detailed studies of drivers of deforestation prepared during the development of the national investment plans.

The attention to improving the policy and regulatory environment appears key to the development of more sustainable forest landscape outcomes – for example the provision of productivity incentives for shade grown cocoa in Ghana. The theory of change that underpins such investments is that, by removing policy and capacity constraints, the costs and risks of investment by forest-related enterprises are lowered to promote asset investment without or with minimal external support. This element of the theory of change appears most useful when it relates to the development of specific value chains – where clear policy signals can be sent through incentives. Giving adequate attention to law enforcement, not just policy development, also seems a desirable emphasis.

In terms of the more general village-level funds and grants to develop alternative livelihoods, the theory of change that underpins this impact pathway is that identifying and supporting alternative livelihoods for forest-dependent communities will provide new sources of income

to rural households, reduce demands for shifting cultivation and forest use, build grassroots support for forest conservation and management, leading to improved forest management and a reduction in deforestation and carbon emissions. However, it is somewhat unclear to what extent such livelihoods offer real pathways out of poverty. It is also unclear whether the advent of successful market options may in fact offer incentives to increase rather than decrease deforestation. Generic approaches to alternative livelihood development can result in scattered micro-level household income-generating options, but with few prospects for longer-term poverty reduction. It is unclear to what extent assistance is given in screening and then focusing in on more particular value chains known to be based on promising agroforestry systems that enhance carbon storage (e.g. cocoa, cinnamon, star anise, etc.). It is in this element of the national investment plans that it would also be good to see more clearly differentiated approaches to livelihood development and investment in, for example, the forest core, forest edge, forest-farm mosaic, and peri-urban periphery (see Table 1, Section 3).

The blended asset investment approaches and / or capacity development for forest plantation establishment have tended to follow a 'top-down' approach – selecting lead firms and then reaching downward to smallholders through outgrower schemes or their equivalents. The theory of change underpinning this approach assumes that large, industrial plantation companies will generate a range of local benefits including employment, benefit-sharing arrangements as well as outgrower schemes that will increase forest stocks while creating further economic benefits to surrounding communities. From a climate perspective, it is assumed that supporting afforestation of degraded land in government-managed forest reserves will increase carbon stocks and reduce demands on natural forests. Furthermore, it is assumed that the establishment of plantations will not lead to conversion of natural forest to exotic monocultures, resulting in an increase in emissions and loss of biodiversity. Safeguards within MDBs are put in place to ensure such loss of natural forests does not take place or is minimised. There are solid underpinnings to this approach, not least in meeting due diligence requirements where lead firms have significant advantages.

Within the FIP portfolio at national level, there are also some scattered attempts to incubate household- or village-level micro-enterprises. This follows the idea that these could achieve greater value addition if more attention were given to aggregation of forest and farm producers with functional business association or cooperatives. Larger scale of operations could improve prospects for larger-scale asset investments in value-added processing. The theory of change that underpins such approaches is that by removing capacity and financing gaps, smallholder enterprises can grow and prosper, delivering livelihood benefits to members and supporting forest protection and the wider goal of reduced GHG emissions. The possibilities of scaling up towards such large aggregated investments is not explicit in the more detailed country investment plans that were assessed but experiences from East Africa (e.g. the Ugandan SPGS) suggest that working closely with medium-scale smallholders and focusing on productivity gains can provide a useful starting point for aggregation in a more 'bottom-up' approach.

3.2 Early results for forward-looking learning from FIP and non-FIP investment models

Question 2. Early results for forward-looking learning: What are the results of current financing of public-private and private sector engagement in sustainable forest-related enterprises, and how/where have successful outcomes been delivered? Most FIP projects, particularly those engaging the private sector, are still in their infancy. Therefore, we look at the pathway towards potentially positive results, as well as deriving the learning from examples outside FIP.

3.2.1 Summary findings on early results for forward-looking learning

The Evaluation and Learning Partnership found that:

- Although the FIP has pilot models working across all the main elements of the EAI framework, there is limited current potential within the FIP portfolio to demonstrate replicable models of asset investment, and there is a particular enterprise support gap for asset investments into small- and medium-scale forest-related enterprises within the FIP portfolio (and more broadly).
- In some specific country contexts FIP has been usefully closing the enterprise support gap to meet investment needs of small- and medium-scale forest-related enterprises through investments that could usefully be upscaled in the future into: (i) aggregating product within particular value chains that are known to have a positive impact of avoiding deforestation and forest degradation; (ii) piloting business incubation to such producer organisations in ways that are financially sustainable, and (iii) finding ways to de-risk investment into this gap through guarantees, concessional loans, trade credit and fiscal incentives for the sectors of interest to help with cash flow and management costs until the commodity becomes productive.
- FIP needs to broaden its engagement with intermediaries who can undertake the three tasks listed in the point above, especially with regard to the facilitation of better organisation / aggregation of product from multiple smallholder producers. Yet, while it may be possible to push aggregation through lead firms, and potentially also through outgrower schemes, the longevity and health of smallholder organisations often depends on strong and autonomous shared visions of their members. This implies more emphasis on work from the bottom up to persuade of the benefits of collective action, rather than attempts to impose it from the top down in supply chains.
- An important element of the FIP's enabling investment was public sector grant funds, often channelled through national government, or as part of a Public Private Partnership (PPP). This is a particular niche where FIP has a real comparative advantage as there is no direct commercial incentives for the private sector to provide these sorts of investments to improve the enabling environment.

3.2.2 Focus of investments viewed through the EAI framework lens

Given the early stage of implementation of some of the key FIP private sector projects, the ELPPFRE took a forward-looking evaluation focusing on lessons for the future from FIP and non-FIP investments, rather than the progress and results achieved from FIP investments. Early results are interpreted in this report as emerging patterns from FIP and non-FIP case studies for investment in sustainable forest-related enterprises. These cover investment strategies, common features of FIP and non-FIP investments and upscaling pathways and are all drawn from the meta-analysis and its case studies, where more detail and examples are provided (Annex 6).

The preceding section noted how the overarching FIP theory of change translates into more nuanced theories of change at national level (built on in-country situation analyses that inform national investment plans). But how is finance being allocated towards these different theories of change and investment types? The Portfolio Review (Annex 3) reveals the following composition for FIP investments:

- *Enabling investments (41 per cent)*: Public sector grants are a common element across the FIP finance portfolio and within these, enabling investments constitute 41 per cent. We interpret enabling investments as any public sector support for policy legal reforms designed to reduce barriers for investment in forest-related enterprises. This includes strengthening tenure rights, improving forest and lands governance and creating policy incentives for climate-smart forestry and agriculture. In limited cases within the FIP portfolio, for example, in the context of the Lao PDR Smallholder Forestry Program (SFP), enabling investments are made to support technical tree-plantation capacity development and community engagement by the private sector. These have resulted in strengthened systems and procedures within leading plantation companies, as well as affected communities, for example on the procedures relating to community engagement, grievance mechanisms, land procedures and agreements, and FPIC.
- *Financial support to micro-scale income-generating activities (53 per cent)*: The final beneficiaries of a substantial portion of FIP investments are forest and farm smallholders and their micro-enterprises in forest landscapes where deforestation rates are high. Investments made across the FIP in support of such household income-generating activities or smallholder enterprises constitute 53 per cent of the total portfolio. Support to this very small end of the private sector is compatible with the broader FIP goals of forest protection and climate mitigation. For example, the Scaling Up Sustainable Forest Management (SUFORD-SU) project in Lao PDR adopts this approach by supporting community-managed funds in around 250 villages. The support of small or micro-enterprises includes improved agriculture, small-scale livestock and tree planting. An evolution in approach has taken place with regard to supporting livelihood activities, which began with a bottom-up approach, with no restrictions placed on the type of interventions supported. Cattle production became the most popular income-generating activity requested by the communities. But this has potential negative impacts in terms of emissions as well extensive grazing inside forest areas. The model was modified as a result. SUFORD-SU now has a 'negative list' included in its operational procedures that defines those activities that should not be supported by SUFORD-SU funding due to their potential negative impacts on emissions or livelihoods. This includes road construction, purchase of chainsaws or guns, pesticide use and purchase of land. Although the degree to which alternative livelihoods approaches lead to improved forest management outcomes is specific to the value chain in question, it is an area that has been heavily researched as it formed a major aspect of integrated conservation and development (ICD) projects which were popular around biodiversity hotspots in the 1990s. These initiatives can certainly be useful in building trust and securing engagement from poor and rural communities. But it would be useful to strengthen an emphasis validating the links between project-promoted small-scale income-generating actions and forest restoration/protection impacts. Thinking through how such smallholder businesses could be aggregated and incubated to upscale any positive benefits that are validated should be an important next step.
- *Investment finance only (3 per cent)*: A third and much less common investment yet important model adopted by FIP relates to the provision of asset investment finance, generally to large-scale, private sector entities in support of new investment models that otherwise may not have had access to credit. Concessional loans are aimed at unlocking barriers to accessing patient capital from commercial sources, demonstrating

proof of concept and crowding in similar investments in other areas. An example of this is the Ghana Public-Private Partnership for the restoration of Degraded Forest Reserve (FIP Ghana PPP Forest Restoration) through VCS and FSC Certified Plantations. This project implemented through AfDB provides a concessional loan to a private company (FORM Ghana) to establish a PPP and expand an existing company plantation in a degraded forest reserve. A three-way benefit sharing agreement signed between FORM Ghana, the government of Ghana and local communities ensures that benefits of the project are shared between different stakeholder groups. The loan is catalytic in that FORM Ghana and AfDB hope to demonstrate an effective business model at scale, which can attract other investors and financing to Ghana's emerging plantation sector.

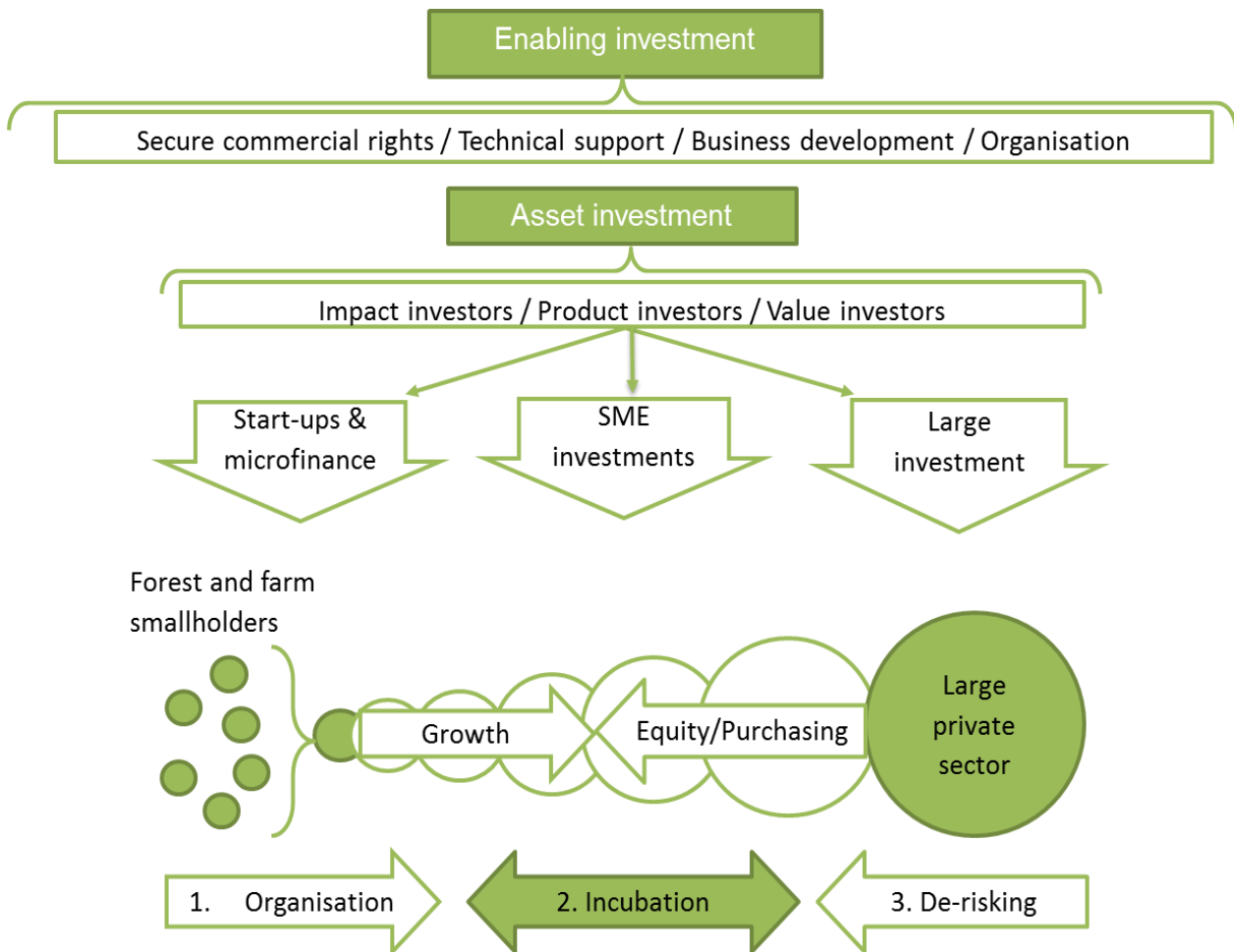
- *Business incubation with finance (3 per cent)*: A fourth investment-type supported by FIP relates to the provision of business incubation services coupled with finance. This is in recognition of two types of constraints that limit the viability and expansion potential of smallholder enterprises – namely limited business development capacity that results in poor access to markets and finance. Sustainable smallholder enterprises face particular financing constraints due to perceptions of financial institutions that the risk to return ratio for such enterprises and the transaction costs of dealing with them are too high. So in some FIP countries, such as Mexico, programmes have been developed with NGOs to provide technical and business support to such smallholder enterprises and concessional loans have been provided to a national financial institution for it, in turn, to develop financial products tailored to the smallholder enterprise sector. Similarly, in Burkina Faso, FIP loan financing is being channelled to smallholders through support to a national-level union of farmers co-operatives (Wouol). The support given to members of Wouol includes technical support to improve cashew plantations and business advice to upgrade processing capacities.

The spread of four different investment modalities presented above for the FIP Portfolio reveals several learning points.

- First there is a significant FIP disbursement towards *enabling investments* such as developing legislation and providing financial and technical support to government agencies that has evolved as a necessary antecedent of asset investment. Being explicit about this necessary blend of enabling and asset investment in the theory of change would improve the ability to monitor and learn from impacts.
- Second, that in the spectrum of private sector investments with which FIP is engaged, from micro-scale investments all the way through to large-scale equity and debt finance as shown in Figure 6 below, there is a gap in small- and medium-scale investments. FIP has a disproportionate focus on micro-scale household income-generating activities with much less channelled to the spectrum from small and medium to large enterprises. In the area of asset investment into small- and medium-scale enterprises there appears to be a general 'enterprise support gap'. It is not that no support is being offered to small- and medium-scale enterprises, as examples from Mexico and Burkina Faso show, but that a concerted strategy built around organisation / aggregation, business incubation, and de-risking to improve access to finance is yet to emerge systematically across the FIP portfolio. Additionally, while there are some good examples of support to climate-smart agriculture (e.g. in the Ghana cocoa sector) less attention seems to have been paid to bringing biomass energy production onto a sustainable basis – which, as one of the major drivers of deforestation is South Asia and southern Africa, needs a concerted effort to address.
- Third, the Portfolio Review (Annex 2) also indicates that currently there is relatively limited support from the FIP to *asset investment* finance and where it does take place,

it tends to target well-developed and high capacity international forestry corporations. While employment generation and benefit sharing have been taking place, outgrower schemes have proven much harder to establish than first anticipated, limiting any further trickle down of benefits.⁴

Figure 4: One possible representation of the forest investment universe



Tables 1 and 2 below highlight the overall trends of financing in the continuum of *enabling to asset investment* for both FIP and non-FIP projects. One observation is that, in the FIP portfolio, the emphasis on MDBs seems to exclude other forms of financial intermediaries or brokers – who are more prevalent in non-FIP projects and some (such as Althelia, F3-Life and the Moringa Fund) seem better equipped to overcome the perceived risks of investment in small- and medium-scale forest enterprises.

⁴ Country reviews and interviews suggest that planned outgrower schemes have proven harder to establish than anticipated, due to limited community capacity and prevailing levels of poverty that restrict long-term (and potentially risky) investments. Furthermore, companies have no guarantee that outgrower investments in seedlings, fertilizer, fencing and extension support will be recovered, as companies will always be unwilling to sue farmers who chose to sell their produce to other markets, due to the local reputational risk that this would create.

Table 1a: Coverage of FIP private sector case studies relating to elements of the EAI framework

Key: Mid green = central focus of FIP project; light green = FIP project enabling activities undertaken through asset investment finance rather than a grant for enabling activities.

Case study	Enabling investment			Asset investment			Grant		
	Policy and governance work on commercial rights	Technical support for production (inc. resource managemt.)	Business and market know-how & capacity development	Organisation development / aggregation	Access to finance brokerage	Impact investment (Concessional loan)	Value investment (Commercial loan)	Product investment (Equity or concessional loan)	Non-commercial grant / subsidy
FIP Burkina Faso Cashew Supply Chain		Light Green	Light Green	Light Green		Mid Green			
FIP Ghana PPP Forest Restoration						Mid Green			
FIP Lao Smallholder Forestry Program	Mid Green	Mid Green							Mid Green
FIP Mexico MSMEs		Mid Green	Mid Green	Mid Green		Mid Green			Mid Green
FIP Mexico Low Carbon Strategies		Mid Green	Mid Green	Mid Green		Mid Green			Mid Green

Table 2b: Coverage of non-FIP case studies relating to elements of the EAI framework

Key: Mid-yellow = central focus of non-FIP project; light yellow = micro-finance to households / micro-enterprises funded through grant rather than asset investment.

Case study	Enabling investment			Asset investment			Grant		
	Policy and governance work on commercial rights	Technical support for production (inc. resource managemt.)	Business and market know-how & capacity development	Organisation development / aggregation	Access to finance brokerage	Impact investment (Concessional loan)	Value investment (Commercial loan)	Product investment (Equity or concessional loan)	Non-commercial grant / subsidy
ISFL Ethiopia Climate Smart Coffee									
P4F Ghana Sustainable Landscape Management									
P4F Ghana Cocoa Landscape									
P4F Indonesia Masarang Project									
GEF Moringa Fund									
Root Capital									
Uganda Sawlog Production Grant Scheme									
Althelia									
F3Life									

Note that the Tree Bank Foundation and GEF Innovative Investments for Sustainable Landscapes cases are not included in this table as the Tree Bank Foundation does not undertake investments and the GEF fund is not yet implementing.

Table 3: Case studies' learning features

Project / Fund / Enterprise Name	Enabling Investment (Grant funds)				Asset Investment (Non-grant funds)			Financial Instrument	Key Learning Features
	Commercial Rights	Technical Capability	Business Capacity	Organisation for Scale-up	Impact	Product	Value		
FIP Ghana Public Private Partnership for Restoration of Degraded Forest Reserve					✓ ✓			<p>Concessional loan with grace period (7 years) and long term (full recovery after 15 years – term aligned to production cycle). Co-Finance: From AfDB, unspecified instrument</p>	<ul style="list-style-type: none"> – Promising model of finance for reforestation through public-private-partnership – Concessional development finance used to secure additional MDB co-finance – Model is based on investible international company with track record and due diligence; and investible project with successful pilot
FIP Laos Smallholder Forestry Program	✓	✓			✓		✓	<p>Private sector technical assistance grant Co-finance: unspecified instruments, from IFC, other development organisations, private sector finance (loans)</p>	<ul style="list-style-type: none"> – Smallholder outgrower model in partnership with large enterprise may not be suited to very low capacity and certain market contexts – It is not just micro and SMEs that may have capacity limitations. Large enterprises may lack, and be keen to gain, technical capacities in key areas essential for sustainable development (particularly the social ones: community engagement, FPIC, grievance redress) – Example of developing a legislative framework to support and provide incentives for enterprises in a sustainable forest-related sector – Gap in planning for the development of alternative livelihoods activities into viable, sustainable enterprises

FIP Mexico Support for Forest Related MSMEs in Ejidors and Communities		✓	✓	✓	✓	✓	✓	Private sector grant combined with private sector loan Co-finance: MIF Non-reimbursable loan; counterpart contribution	<ul style="list-style-type: none"> – Example of providing micro and small-scale finance alongside technical and business capacity development and incubation. Focused on developing and growing viable MSMEs – Example of an accelerator for lower capacity MSMEs to become ‘investment ready’ – Example of innovative partnership model between commercial bank and technical organisation – Good programmatic example – this project directly to builds enterprises’ capacity to access other financial and technical resources available via the FIP – Builds on commercial bank’s existing activities in a similar sector – Financing model focuses on short term, high value investment activities: value addition for producer enterprises where there are existing international commodity markets - Innovative currency hedging mechanism to derisk
FIP Mexico Financing Low Carbon Strategies		✓	✓	✓	✓			Grant and concessional loan. The terms for the concessional loan are: 40-year term, grace period of 10 years, principal repayment years 11-20 – 2%, principal repayment years 21-40 – 4%, with a 0.25% service charge.	<ul style="list-style-type: none"> – Example of a loan to a national development bank – Interesting programmatic approach alongside the Support for MSMEs in <i>ejidos</i> and communities project, but focused on larger, higher capacity, ‘investment ready’ enterprises. These require more investment than the MSMEs of the <i>ejidos</i> and communities project, but still much less investment than MDBs require for individual projects – Provides dedicated financing line for market ready SMEs in <i>ejidos</i> in conjunction with a Technical Assistance Facility to provide financial and technical assistance to SMEs
Biocarbon Fund – Public Private Partnership on Climate Smart Coffee, Ethiopia		✓	✓	✓	✓		✓	Grant Co-financing: loan from IFC and co-funding from Nespresso	<ul style="list-style-type: none"> – Example focuses on sustainability in the production and primary processing components of a key international commodity supply chain, with a large multinational enterprise (exploiting buyer end leverage for a sustainable commodity)
Partnerships for Forests – Integrated Sustainable Landscape	✓	✓	✓					Grant	<ul style="list-style-type: none"> – Builds from FIP Ghana PPP by combining funding and technical assistance for enabling activities to support establishment of a landscape governance system for the area and conducting a business feasibility study for the development of the project business case. Supports scale-up.

<p>Management, Ghana</p> <p>– Partnership for Productivity, Protection and Resilience in Cocoa Landscapes, Ghana</p> <p>– Masarang Illipe Nut Project, Indonesia</p>	✓	✓		✓			✓	<p>Grant plus match funding from private enterprise</p> <p>Grant plus match funding from private enterprise</p>	<p>– Finance and technical assistance for enabling activities focused on commercial rights and conditions for investment (establishment of a landscape governance framework and development of climate smart cocoa standard)</p> <p>– Exploits international commodity enterprise’s commitment to zero deforestation in supply chain</p> <p>– Example of incubation to scale up successful pilot for a new sustainable forest resource.</p>
<p>Global Environment Fund Non-Grant Instrument</p> <p>– The Moringa Agroforestry Fund</p> <p>– Piloting Innovative Investments for Sustainable Landscapes</p>		✓	✓		✓	✓	✓	<p>Junior equity stake with expected return of 6%; co-financing from private and public investors</p> <p>Subordinated loans, unfunded-risk sharing(guarantees), mezzanine debt, and convertible debt</p>	<p>– Interesting example of channelling funds through MDBs to an intermediary to capture pipeline in relatively small investments that MDB would not be able to handle internally</p> <p>– Example uses an interesting combination of financing and technical and business assistance. Uses equity and quasi-equity investments to generate financial return, and the fund manager secures the investment at the supply end through its technical, environmental and social capacities and at the demand end by linking financed companies to its global networks. It also develops agreements with commercial banks for follow on financing of projects.</p> <p>– Not yet active but anticipated to use innovative combination of concessional credit and derisking instruments in its investments, which will be focused on large-scale financial intermediaries, agribusinesses and investment funds (investees) that manage production financing portfolios with producers/land-users.</p> <p>– Intends to ensure leverage by piloting a requirement that the PPI Fund will take on average a 25% stake in any project loan, with additional parties required to provide the remainder of the capital.</p>

✓ Denotes FIP finance ✓ Denotes non-FIP finance or co-finance

3.2.3 Options for addressing the enterprise support gap

Early findings suggested that to close the *enterprise support gap* will require three clearer emphases within the FIP portfolio:

- *Organisation* – aggregation of product from multiple smallholder producers is an essential precursor to market access and the ability to attract asset investment. There is need to support the development of multiple tiers of smallholder producer organisation from local commodity sales groups, through regional processing and marketing associations, to national advocacy federations. All three tiers can provide important aggregation functions that generate economies of scale to reduce costs and combine the bargaining power of their members. Social development know-how on how best to develop business organisations such as associations, co-operatives and federations is needed within the FIP. Alternatively, FIP needs to engage potential intermediary partners who could support the consolidation and scaling up of FIP-initiated businesses. But it is important to get the right partners, because as Conservation International noted in the webinar discussion the traditional technical knowledge of NGOs tends to be about conservation and development rather than the social organisation of business.
- *Business incubation* – dedicated training in business and financial management and marketing alongside networking with experts in a range of fields is essential if sustainable smallholder enterprises are to grow. Business incubation services are scarce in remote rural environments and where they do exist, focus primarily on agricultural commodities (Macqueen and Bolin, 2018). There is therefore potential for improving support to business incubation and development for small and medium sustainable forest-related enterprises. The current heavy emphasis on supporting household-level income-generating activities forms an excellent foundation for business incubation – especially when combined with adequate attention to aggregation (above). FIP could play a key role in piloting where best to house such business incubation services for forest-related enterprises (e.g. whether in government extension services, for-profit private sector partners, non-government organisations, or second-tier forest and farm producer organisations).
- *De-risking finance* – perceptions of risk in dealing with small and medium-scale forest enterprises abound. There are risks associated with a spatially dispersed forest resource, especially if tenure arrangements are insecure, but often the issue is less about risk and more about the long timeframes associated with forest businesses and the lack of liquid collateral. FIP can assist through:
 - guarantees that reduce exposure in the event of default
 - concessional loans that reduce interest payments to bearable sums until the project matures and repayments can begin, or provide longer grace periods
 - support for leasing, factoring, warehousing and other forms of trade credit that improve cash flow options for enterprises with a more limited financial track record, and
 - develop financial and fiscal regulation to raise domestic finance in dedicated funds that provide grant or concessional support for the upscaling of small and medium scale forest-related enterprises.

It should be noted that there are several examples across the FIP and non-FIP projects in Table 5 that show how this might be structured. For example, the FIP 'Forest-related MSMEs project' in Mexico is an example of a comprehensive approach that fills the enterprise support gap. This

involved work with local *ejido* groups to aggregate product, support from a business capacity development partners (FMCN NGO) and a number of tailored financing instruments such as grants and concessional short-term credit for working capital; and medium/long-term credit for fixed assets. The programme also provided microfinance for vulnerable populations; and currency hedging mechanisms. The fact that FIP retained the credit risk of the loan (a form of guarantee) in relationship with the financial service provider FINDECA was also important in expediting loans to small- and medium-scale forest-related enterprises.

In other cases, useful complementarity has been arranged between FIP and non-FIP initiatives to achieve similar aims. For example, the work of FIP in Ghana with smallholder cocoa growers to develop technical capacity, as well as at national level to clarify tree and land tenure, has helped to stimulate market development through the Ghana Cocoa Board. But further business incubation of cocoa grower groups through the DFID-funded Programme for Forests (P4F) is supporting the upscaling of group businesses linked to this value chain.

Table 4 also highlights non-FIP projects that demonstrated useful approaches to bridging the enterprise support gap. For example, Althelia in Peru worked to organise cocoa producers within an effective cooperative structure and provide business incubation and financial management for the development of cocoa processing investments, which also involved a component of climate payments for reduced deforestation in the buffer zone to a forest reserve.

In each of these (and other successful) cases, there is a fairly narrow focus on a particular value chain, a strong emphasis on aggregation and business organisation, expert business incubation inputs (not just funding for start-up activities) and innovative ways of de-risking finance. It is interesting that some of the financial programme and intermediaries involved are not MDBs and are less risk-averse in who they can work with.

3.3 Overcoming barriers and risks to financing forest-related enterprises

3.3.1 Summary findings on overcoming barriers and risks to financing

The Evaluation and Learning partnership found that:

- In FIP countries, country contexts differ and barriers to finance vary by location. But in general, forest values have been seen as a source of quick rent, and the forest sector has not historically benefited from significant investment and development either in managing the natural stand, in plantation or in value addition.
- REDD+ and FIP are playing an important role in shifting the mind-set of governments, private sector and even the MDBs. IDB/MIF stated that although they have been investing in the forest sector before, it is FIP that helped raise the profile of the forest investment to the mainstream portfolio. Some FIP MDBs, such as IDB/MIF through its innovation lab, have also been reaching out to show how to support the much neglected small and medium-scale enterprise sectors that make up the mainstay of forest landscapes.
- Barriers to financing forest-related enterprises that were identified in the meta-analysis, portfolio review, case studies and country report examples align closely with the components of the EAI framework. For example, barriers in the enabling environment include insecure tenure, lack of technical capacity, lack of business know-how and lack of organisation. Barriers to asset investment include overly high risk to return ratios and transaction costs. These are *nested* to the extent that enabling factors, both contextual and enterprise-level, need to be tackled in order to address the investor level barriers associated with asset investment – and FIP can help articulate that.
- A wide range of asset investment measures have been used in the FIP portfolio – investment loans, policy-based or budget support loans, grants, guarantees, equity, and line of credit via financial intermediaries, hedge funds, carbon credits and performance-based payments. Yet, more needs to be done to ensure that tailored financial literacy training becomes a routine part of FIP business incubation support to small and medium-scale enterprises both before projects are bankable, and also afterwards - alongside tailored training for large enterprises seeking to develop more inclusive value chains (particularly addressing lack of technical capacity in areas such as working equitably with communities, FPIC, grievance redress)..

3.3.2 Barriers addressed through enabling investments

The barriers to investment addressed among the meta-analysis and country report examples closely align with the components of the EAI framework described in Sections 2. The barriers are nested to the extent that generally contextual enabling factors need to be addressed before enabling factors associated with enterprise technical and business capacities and organisation. Both contextual and enterprise level enabling factors need to be tackled in order to address the investor level barriers associated with asset investment. Details of the specific activities used to address barriers in the case study examples are provided in the meta-analysis.

Different types of enabling investments have been identified in the case studies that were designed to address contextual and capacity barriers in enterprises. For example:

- *Contextual barriers for all enterprise scales* include tenure, rights and other policy-level barriers. These have been tackled in the case studies primarily by the FIP public sector projects (see Portfolio Review, Annex 2) but also by three of the other private sector-focused initiatives such as the FIP Lao Smallholder Forestry Program (Table 4 and Annex 5). There are generally no direct commercial incentives for the private sector to provide funds to address contextual barriers – the processes of dealing with such issues are simply too complex and dependent on factors in the political economy. As a result, there is a particular niche for public sector funds to address such issues and the FIP has a real comparative advantage through its work with governments in the development of national investment plans.
- *Capacity-related barriers for smallholder enterprises* manifest in a lack of technical expertise, weak organisation, lack of business skills and knowledge. These barriers have been tackled together through business incubation around particular value chains in the majority of the non-FIP case studies reviewed, although only in the Mexico projects among the FIP cases. Enabling investments to overcome capacity-related barriers of smallholder enterprises have put in place business incubation services. Sometimes this has been achieved by building in tailored incubation services as a core component of the project – including organisational and business-related⁵ capacity development (Table 5 and Annex 5). Sometimes business incubation has been provided by project partners or external service providers – such as the Root Capital supporting enterprises using tailored training backed by concessional loans, or the Moringa Fund which gives tailored support alongside equity funding. Lead firms or other forms of cooperative aggregator organisation can help to build economies of scale and manage investments into processing that individual members are unable to do. Outgrower models linked with commodity purchasing enterprises also fall into this group. Interviewees involved in such work emphasised the continuing need for technical and business capacity development for smallholders, both before projects are bankable, and also afterwards and as they continue to grow.
- *Capacity level barriers for large enterprises*. Notwithstanding the generally higher levels of business know-how among larger enterprises – there are still areas in which they might need to develop new capacities and ways of working to move towards sustainability. For instance, a major focus of the FIP Lao Smallholder Forestry Program project involves training large plantation enterprises to work in a socially responsible way with communities. This is new capacity requirement for those enterprises given that limited land availability necessitates that expansion is undertaken through the development of networks of local suppliers rather than necessarily through land acquisition (Table 5 and Annex 5).

3.3.3 Barriers addressed through asset investment activities

In addition to the use of enabling investment to overcome particular barriers to forest-related enterprises, the FIP has also used asset investments to address two key types of barrier which include:

⁵ Financial management, business planning, marketing.

- *Lack of access to finance.* The case studies from different FIP countries illustrate a convergence of three different types of asset investment provided for three different scales of enterprise:
 - Provision of micro-finance to households for alternative livelihoods (through village funds and other micro-credit arrangements), usually by an intermediary within the project rather than directly from public or private sector investor
 - Tailored financial products with appropriate grace periods for small- and medium-scale enterprises and for large enterprises involved in forest plantations, and
 - Concessional credit and guarantees for large enterprises, to reduce the cost of piloting more sustainable practice and increase access to finance for traditionally 'high risk' investment activities.

Among the case studies, household and alternative livelihoods level microfinance is often linked with technical extension on production, harvesting practices and other processing. Tying such support to more dedicated forms of business incubation, however, might secure such investments and reduce the level of risk for investees and investors.

Most case studies that funded small- and medium-scale forest-related enterprises provided financial products tailored to the level of enterprise capacity or to the activities to be funded alongside technical and business capacity building for the development of the enterprise. Good examples of tailored financial products are provided in the FIP 'Forest-related MSMEs project' in Mexico and the low carbon landscape projects (Table 5 and Annex 5), training in credit and financial management provided by Root Capital (Table 5 and Annex 5) and Uganda SPGS case studies (Annex 5).

Large companies that are primary producers also have a need for funding that is tailored to planting seasons and to patient capital tailored to the production cycle of the commodity.

- *Investor perceptions of high risk.* Approaches to manage and reduce investor perceptions of high risk of investing in sustainable forest-related enterprises within the case studies fall into two main groups:
 - Enterprise focused approaches: The major approaches observed in the case studies are: (i) partnerships that pilot new business ideas to provide a successful proof of concept that these approaches are profitable and do not involve undue risk; and (ii) increasing the bankability of enterprises through, for example, detailed record taking to facilitate the use of trees as collateral (Annex 6);⁶ detailed monitoring and scoring to build or increase credit ratings for small- and medium-scale forest-related enterprises (Annex 6)⁷; developing business, technical and management capacity through business incubation (Table 4 and Annex 6)⁸. Such approaches reduce investor perceptions of the level of risk and therefore increase attractiveness for investment.

⁶ Tree Bank Foundation case study.

⁷ F3 Life case study.

⁸ Mexico MSMEs and low carbon forest landscapes case studies; and Althelia case study supporting sustainable cocoa production in Peru.

- Investor-focused approaches: These use financial instruments to de-risk investments, e.g. risk sharing and currency hedging; taking a junior equity role⁹ (Table 5 and Annex 5); subordinated loans, guarantees, mezzanine and convertible debt¹⁰ (Table 5 and Annex 5). These and other financial instruments reduce the level of risk experienced by investors.

3.3.4 Improving financial literacy and broadening finance sources

Barriers to finance for forest-related enterprises often stem at least partly from poor financial literacy, especially among the small- and medium-scale clients (Cole *et al.*, 2009). Analysis of the financial skill needs of small- and medium-scale enterprises indicates that local business managers might need to know the following (Lee and McGuiggan, 2008): how to price goods and services; analyse and forecast cash flows; benchmark business performance against competitors; set up contracts; do business online; and set up and run employee pension funds. It is not clear from the FIP project portfolio as to whether particular projects have dedicated training in financing literacy and financial management. It would certainly help to make this a focus of future learning activities. A lack of financial literacy may even mean that small- and medium-scale forest-related enterprises do not really know what financial products they want (Miller *et al.*, 2009). The lack of familiarity with financial products translates into entrepreneurs not using them (Beck *et al.*, 2007), especially in developing countries such as the FIP partner countries.

A good start in building financial literacy is to clarify the type of finance on offer. Table 6 outlines some of the main options (see OECD, 2018).

Table 4: Types of finance that an FFPO might wish to access

Finance type	Terms	Implications for forest-related business
Member or family / friends savings	Unlimited duration, with no repayment or interest required	<ul style="list-style-type: none"> • Restricted by owner savings capacity • No loss of control – no risk • Low fundraising costs • High flexibility and high replicability
Grants	Short-term duration with no repayment or interest required	<ul style="list-style-type: none"> • Restricted by pre-defined donor interests • No loss of control – low risk • High fundraising costs in securing project • Low flexibility or capacity to replicate after first grant
Bank or credit card overdrafts	Medium-term duration (but with high interest)	<ul style="list-style-type: none"> • Restricted by availability in certain countries • No loss of control – but interest rates can be high • Low fundraising costs • High flexibility and high replicability of repaid

⁹ GEF Non-Grant Instrument Moringa Fund.

¹⁰ GEF Non-Grant Instrument Innovative Investments for Sustainable Landscapes.

Finance type	Terms	Implications for forest-related business
Loans (debt capital)	Medium-term (3-7 years), with repayment and interest payments	<ul style="list-style-type: none"> • Restricted by business securable assets – collateral and low risk business model • No loss of control – high risk in the event of default • High preparatory costs to meet investment criteria • High flexibility and high replicability if repaid
Trade credit (Factoring / Purchase orders / Warehouse receipts)	Short-term (1-2 years) asset-based lending with repayment and interest	<ul style="list-style-type: none"> • Restricted by availability of providers (which advance cash on invoice / receipts and then are repaid when the client settles the bill) • No loss of control – high risk in event of default • Medium fundraising costs – useful for cash flow • High flexibility and high replicability if repaid
Leasing	Medium-term (3-7 years) asset-based lending with annual payments and return of item	<ul style="list-style-type: none"> • Restricted to specific capital items of equipment • No loss of control – but risk of breakage • Low fundraising costs – but capital provider can recover asset in case of default • Low flexibility but high capacity to replicate in future
Equity capital	Unlimited duration without repayment but with annual dividend and shared ownership	<ul style="list-style-type: none"> • Restricted by business-investor fit and palatability of risk to return ratio to investor • Dilution of control in favour of the investor • Support forthcoming from investor who now has vested interest in profitability • Flexible but may alter business culture
Crowdfunding	Varies – including grants, rewards, pre-selling, lending or equity	<ul style="list-style-type: none"> • Restricted by online capabilities and available ‘crowds’ of potential supporters • Occasionally dilutes control • High fundraising costs but high flexibility
Bonds (or blended debt-equity mezzanine finance)	Long term (5-15 years) with repayment on completion (with interest built into that final payment)	<ul style="list-style-type: none"> • Restricted by high transaction costs of designing and issuing bonds (likely to be beyond most small- and medium-scale enterprises) • Investors in those bonds have first call on business in case of default • High fundraising costs • High flexibility as repayment date matched to future revenue flows
Insurance	Short-term duration (e.g. 1 year) with annual payment	<ul style="list-style-type: none"> • Restricted by available products • No loss of control – reduces costs in the event of unforeseen risks or failures • Low fundraising costs • Low flexibility but high replicability if available

Of these types, loans, equity, trade finance (including leasing) and insurance are the most common ways that small- and medium-scale enterprises deal with financial institutions. If the business has significant assets and track record, loans tend to be easier to secure, but if not, equity may be the easier investment route. External investors invariably want to scrutinise any

investment idea and the business behind it, before responding to an application for loans or equity – and they look at certain things in considerably more detail than others. For the investor, what matter most are the financial structure of the business (the logic of the value proposition), the worth of the business (what the business stands to lose if the investment fails – sometimes called ‘skin in the game’), and the return on investment (which will affect confidence that a loan can be repaid, or that an equity investor can exit profitably). For business with very little track record, trade finance and insurance require minimal financial requirements.

While the FIP portfolio does cover a number of these areas, as listed above – there is perhaps more that could be done in developing more innovative forms of finance – particularly trade credit and leasing which are more accessible to small- and medium-scale forest-related enterprises.

3.4 Lessons learned on scaling up and transformational change

Question 4: Lessons learned on scaling up financing of forest-related enterprise for transformative change and ways to best harness the sharing of knowledge both in-country and internationally.

3.4.1 Summary findings on upscaling and transformational change

The Evaluation and Learning Partnership found that:

- While there appears to be good emphasis in the FIP portfolio of the relevance of projects and the potential scale of their impacts (assured through the careful design process leading to investment plans), there is less thought given to upscaling (e.g. the incubation of small- and medium-scale enterprises) and sustainability (e.g. the financial durability of incubation arrangements for such enterprises beyond the life of FIP projects). This resonates with findings from the CIF Transformational Learning and Evaluation Team (Ross Strategic, 2018).
- The private sector actors with which MDBs seek to work are large, established, often international corporations. This is more than just preference, as only such companies can meet MDB due diligence requirements. Yet, because such corporations are scarce and their prospects for expansion into land constrained contexts are limited, this model engages only a very limited component of the private sector and has hindered pipeline development.
- Outsourcing pipeline development and management to national and local financial intermediaries are required. This can involve lead firms, specific financial intermediaries, forest and farm producer associations or cooperatives, and so on. Links to non-FIP funds or locally able banks with complementary agricultural credit programmes have been demonstrated within the case studies. This is an area of large opportunity for pipeline development and potential achievement of transformational change, given the findings of the Transformation Change Evaluation and Learning Partnership that also note how progress towards transformational change is independent of scale of investment.
- Many government staff (and even some MDB staff) are not familiar with the practice of private sector investment and the different needs of enterprises and investors. This can provide a challenge if the FIP projects are developed with strong public-sector leadership

– as this may stifle innovation. This needs to be addressed to provide appropriate market focus and to attract private sector investment.

3.4.2 FIP and non-FIP types of engagement strategy

FIP projects and plans aim for long-term transformational change at landscape level, with cumulative global impact. Through the methodology described in Section 2, and especially through the learning events that are described in Annex 7, the Evaluation and Learning Partnership offer here lessons learned on scaling up for transformational change that can inform both the

See Annex 7 for the summary of ELPFFRE learning events

The summary of learning events covers the summary findings from a world café event, a panel discussion, and two webinars that were held during the course of the Evaluation and Learning Partnership.

development of the few remaining plans, but more importantly influence actions towards sustainability of ongoing initiatives within and outside FIP.

Among the case studies reviewed there are major differences in the strategy for scaling up the financing of sustainable forest-related enterprises. These affect the emphasis placed on different elements of the EAI framework. Three overarching strategies were observed:

- *Governance-oriented* – Of the case studies reviewed, the FIP projects (as opposed to the non-FIP projects) involve a design with government-led investment plans. The enabling context is the main focus of these investments and the resulting FIP portfolio is heavily oriented towards projects that seek to improve the conditions for private sector investment, particularly in relation to policy, governance and land tenure contexts.¹¹ Improving technical capacities for the management of natural resources is also a key area of activity within the portfolio. Being government-led confers the possibility of translating investment requirements into lasting legal or regulatory reforms¹² (Annex 4). There are also some disadvantages – such as the disincentive for the government to use funds for private sector projects (beyond small- and medium-scale enterprises). Also, government staff may lack knowledge and capacity to develop creative incentives for private sector engagement (an issue that may also affect MDB technical team leaders). In interviews, this was cited as a major constraint to developing private sector projects and the level of innovation of those projects. For instance, several interviewees identified an urgent need for supporting aggregation, marketing and business incubation in many countries – but felt that this need was rarely recognised by government, or MDB staff. The multi-stakeholder consultation and cross-sector coordination envisaged in the programmatic approach of FIP could overcome this. Some of the most innovative private sector investments within the FIP programme are those in Mexico (Table 5 and Annex 5), the success of which was attributed to the highly competent understanding of the private sector, their needs, and the investment context, both by key government staff and the implementing MDB. The Mexico FIP Focal Point and MIF notably worked together on the design of the Mexico FIP investment plan.
- *Investor oriented* – This strategy uses public funds to reduce investor perceptions of risk through financial de-risking; risk sharing; piloting; and provision of concessional credit to

¹¹ FIP Laos project example.

¹² Ghana and Laos Country Reports illustrate this in detail.

catalyse investment (to reduce the cost of interest payment to an acceptable level, and/or to attract interest from other investors). The development of the GEF Non-Grant Instrument pipeline focuses on generating private sector leverage by meeting private sector investor needs (Table 5 and Annex 5). Funding is given to investees with an economically viable and sustainable business model. Piloting new business models to demonstrate the cash flow profile to potential investors can be very important in securing funding in the future from commercial banks. Interviewees stated that piloting of the resource management activities and testing financing with commercial banks are important for crowding in private sector investments in the sector. The FIP 'Forest-related MSMEs project' in Mexico also includes an element of this in its establishment of a currency hedging mechanism in order to reduce the risk to international investors of investing in a local currency (Table 5 and Annex 5).

- *Market oriented* – This strategy includes commodities with global buyers who can provide leverage for sustainable products; integrated enterprises in a supply chain with value addition through aggregator enterprises; and improved efficiencies in processing. This strategy is particularly common among non-FIP projects. The models presented in the case studies work from opposite ends of the supply chain. For example, the Biocarbon Fund Integrated Sustainable Forest Landscapes strategy (ISFL) involves working with commodities for which there is substantial global buyer-end leverage for sustainable products (Annex 5). Other cases involve market focused strategies, but work from the ground up with enterprises within the supply chain, such as the SUFORD-SU project.

3.4.3 Upscaling pathways

An underlying rationale for FIP investments is their ability to be scaled up and / or replicated. The case studies illustrate three general upscaling pathways that have been used, sometimes singly or in combination, depending on whether policy, activity model, an enterprise or a commodity is the unit of focus. The upscaling pathways mirror to some extent the engagement strategies listed above. Upscaling pathways are not mutually exclusive – all to some degree require an enabling policy environment, investor confidence and clear enterprise development of marketable commodity as these are the basic ingredients for sustainable forest-related enterprises. For ongoing initiatives, it may be possible to use the following typology to identify where the project is weak and may need further investment:

- *Focus on creating an enabling environment where upscaling can take place.* This upscaling pathway focuses on facilitating changes to national level policy and legal provisions, with a view to enabling further investments into sustainable forest-related enterprises. For example, in Ghana, much work has been done through public sector grants at national level to clarify and simplify legal arrangements for tree tenure, as this is seen as a major barrier to local level afforestation and agroforestry. As a further example, FIP enabling investments have supported the development of national level policy frameworks on plantations, creating incentives for further external investments in FIP Lao PDR and Ghana forest plantation cases. With this approach, upscaling potential is sector wide, facilitating responsible investment across the sector. Strong government engagement is necessary.
- *Focus on the lead investors.* This pathway places the onus on upscaling in the hands of a leading company with a strong track record of sustainable forest management. The idea is that FIP finance unlocks a suite of activities that can be replicated in other locations. For example, the FIP Ghana 'Public Private Partnership on the Restoration of a Degraded

Forest Reserve’ engaged an international company and provided concessional loan finance with a seven-year grace period to encourage the planting and restoration of a forest reserve. Similarly, in Peru the non-FIP ‘Sustainable coffee and cocoa project’ worked through the financial intermediary Althelia which help to broker investments into cocoa processing and encourage sustainable cocoa farming in the buffer zone of a forest reserve. Similar arrangements are seen in the ‘Partnerships for Forests Integrated Sustainable Landscape Management’ in Ghana; and in the ISFL Climate Smart Coffee project.

- *Focus on market demand and value chain development.* This pathway involves working with specific market sectors and value chains with a view to their expansion or replication. The upscaling happens as producers aggregate to meet market demand. Within the context of FIP, examples of this include the FIP ‘Forest-related MSMEs project’ in Mexico, within which a large number of small businesses have been incubated (and received financing) with a view to growing and becoming higher capacity, larger and more successful businesses. Other examples in this pathway include FIP investments in the plantation sector in Lao PDR and Ghana. The focus is on removing market barriers, creating economies of scale, and upgrading products. For example, the FIP Burkina Faso cashew supply chain project provided support to a national umbrella organisation offering aggregation, processing and market support services to small-scale producers. In Ghana, the ELCIR+ and ENFAL projects are working with large multi-national cocoa buying companies to support transformation within the cocoa supply chain. Upscaling happens through such aggregator or umbrella organisations (e.g. forest and farm producer associations or cooperatives) that have access to large numbers of producers;¹³ through conglomerates with multiple supply chains;¹⁴ through expanding commodity production; and through partnering with funds or financial institutions with commodity production portfolios¹⁵ (Table 5 and Annex 5).

Different upscaling pathways are likely to be appropriate in different contexts. For instance, one interviewee noted that working with multinational conglomerates, a market and value chain focused pathway is only feasible if there is substantial buyer-end leverage for a sustainable product. As discussed in Section 3, the market for sustainable products is critical to stimulating investment in supply (World Bank, 2017). In a weak market or context with very low producer business capacity an investor pathway might be appropriate, or an enterprise focused pathway that seeks to affect market conditions and develop and grow enterprises.

3.4.4 Common transformational features of FIP and non-FIP investments

Transformational change in climate action can be defined as “strategic changes in targeted markets and other systems with large-scale sustainable impacts that accelerate or shift the trajectory towards low carbon and climate-resilient development” (Ross Strategic, 2018). The Transformational Learning and Evaluation Team (TCLP) note four main ingredients to transformational change:

¹³ Moringa Fund, GEF Non-Grant instrument.

¹⁴ ISFL Public Private Partnership on climate smart coffee.

¹⁵ Piloting Innovative Investments for Sustainable Landscapes fund, GEF Non-Grant Instrument and FIP Mexico case studies.

- Relevance – referring to the strategic focus of CIF and FIP (e.g. clear focus on tackling the drivers of deforestation and forest degradation and the broader low-carbon and climate resilient development)
- Systemic change – fundamental shifts in system structures and functions (e.g. innovations in how forest-related enterprises deliver products and services)
- Scale – large-scale processes and impacts (e.g. the collective forest area affected by financing is large), and
- Sustainability – the robustness and resilience of change (e.g. the socio-economic viability of sustainable forest-related enterprises).

From the various elements of the methodology the following components were felt to have transformational potential within FIP and / or non-FIP investments:

- *Partnerships to link enabling with asset investment.* Making systemic change requires a wide range of relevant skills, from detailed policy reform work, to technical forestry and business incubation, to community engagement and financial literacy development. This requires a range of different skills involving multiple stakeholders. Several of the case studies involve the establishment of or continued support for Public-Private, or Public-Private-Community partnerships (PPPs / PPCPs). These are focused on specific supply chains, such as tree planting for pulp and paper or agriculture commodities. Other useful forms of partnership involved financial intermediaries working with multiple actors in the small- and medium-scale private sector, together with technical or business service providers for capacity development to producers. Reaching out to intermediaries with business incubation capacity underpinned several of the more successful non-FIP examples of support to small- and medium-scale enterprises. This type of partnership usually covers a number of enabling activities in combination with an asset investment of some sort. Households' level or micro-enterprises can also be helped through partnerships with larger lead firms or aggregator organisations (e.g. forest and farm producer associations or cooperatives) who manage investments into value added processing. This is the model used by a number of the impact investment funds and is often tailored to be inclusive of marginalised groups and provide development benefits (Table 5 and Annex 5). In outgrower schemes, multinational conglomerates in well-established commodity supply chains partner with small- and medium-scale farms. This model is often not as accessible to the poorest producers and those with the least capacity,¹⁶ unless there is dedicated technical, organisational and business support.
- *A strong emphasis on business incubation.* It is widely recognised that growth in employment and income does not come primarily from start-ups (where there is a high turnover), but rather from the expansion of established small- or medium-scale enterprises. There is a strong positive correlation between firm longevity and growth rate. For this reason, investment in business incubation of established small- and medium-scale enterprises is an important route towards transformational change. This means providing shared space or learning opportunities, dedicated training in a range of business, financial and market aspects, plus linkage services to other more specific service providers (e.g. for research and development, product registration, etc.). In order to provide business incubation services in remote rural areas, there is often a need to

¹⁶ Lao Sustainable Forest Management.

focus on particular value chains as the technical complexities of transformational market change require detailed market knowledge.

- *Outsourcing pipeline development from MDBs to more risk tolerant financial intermediaries.* Interviewees noted that while there are a lot of very innovative private sector developers in the field that see opportunities to make money through sustainable activities, these are often small- or medium-scale enterprises that are simply too small for most MDBs to fund. MIF in Mexico worked with a microfinance cooperative to provide this support. The GEF addressed this challenge to a certain extent by providing funds to MDBs to outsource to external private sector fund managers. The external fund managers then developed and managed portfolios of relatively small grants and loans, which would have been too small and involved high transaction costs for the MDB. There are efficiencies at both the GEF and MDB ends in this approach and it responds to the scale of opportunities for investment. It would be feasible for a private fund implementer to develop a pipeline of small, US\$250,000 projects, for an investment of several million dollars, but the scale of pipeline that would be needed for a US\$100 plus million investment is not well aligned with the opportunities in the sector. According to one interviewee:

“There is no shortage of small projects with innovative project developers. What there is a shortage of is the \$100 million projects that the banks are looking to fund.”

- *Tailored finance.* In successful case studies there was invariably some form of finance that was tailored to the production cycle to cover upfront costs and ongoing management until a profit is realised or patient capital with a long tenor for plantations to overcome risk not taken under commercial loan terms. This was frequently tailored to the scale and capacity of an enterprise or the nature of the investment activity such as short-term credit for investments in technology or longer-term investments tailored to commodity production cycles.¹⁷ An important feature of the non-FIP case studies in their support to small- and medium-scale enterprises is that financing is combined with tailored technical assistance, business management capacity development and often business incubation. Another focus of tailored finance is to use public finance to reduce the level of risk experienced by an investor in the sector. For instance, the GEF Innovative Investments for Sustainable Landscapes Fund (IISLF) will provide a combination of de-risking instruments tailored towards making sustainability investments more feasible for financial institutions that hold production investment portfolios. These include subordinated loans, unfunded risk sharing / guarantees, mezzanine debt, and subordinated debt to large commodity enterprises for avoiding deforestation of their supply chains (see Annex 5 GEF Non-Grant instrument).
- *Blending finance to reduce early entrant costs, crowd in private sector finance and fund non-commercial enabling activities.* Among the case studies, only the two FIP private sector projects in Mexico involve blended finance at the funding source. Blended finance is used in instances where financing would not be feasible on strictly commercial terms because the risks are considered too high and the returns are either unproven or not commensurate with the level of risk. In the Mexico cases, grants are used to provide enabling technical and business management capacity development for supported enterprises to equip them with the capacities to apply for credit and to grow. These activities increase the potential of the supported enterprise to decrease the risk of unpaid loans. This is key to addressing the ‘enterprise support gap’ and bringing small- and

¹⁷ FIP Mexico case studies.

medium-scale enterprises into the financial markets. All of the enterprises and private sector funds among the case studies use funding from a range of different sources to implement their activities. As discussed in Section 3, enterprises supported by multilateral funds combine public sector funds with MDB or other investment co-finance, alongside the enterprise's own reinvestment funds. This enables the financing of a full scope of activities. Similarly, the private sector impact investors among the case studies, and the SMEs they fund, are generally financed through a mixture of impact and value investments combined with public or philanthropic grants. This reflects the need to reduce 'early starter' costs using development funds for implementation to be feasible. At the investment fund level, blended finance has been used to attract and 'crowd in' private sector finance that would not otherwise be available. This can be through decreasing early entrant costs (by combining concessional with commercial funds), or to rebalance the risk reward profiles of pioneering investments to incentivise investment.¹⁸ For the GEF Innovative Investments for Sustainable Landscapes fund, catalysis and leverage is written directly into its design: the fund will take no more than a 25 per cent stake in any project loan, with the remainder of the capital to be provided from development finance institutions, including commercial banks.

¹⁸ The two GEF Non-Grant Instrument projects provide different examples of this (see Box 4, GEF Non-Grant instrument).

4. Lessons and areas for future potential action

Given the learning nature and mandate of this assignment, country and project-specific conclusions or recommendations on performance are not appropriate. However, the methodology used by the Evaluation and Learning Partnership has led to a set of lessons on how to improve the impact of the FIP (and other equivalent financing mechanisms from which forward-looking recommendations can be drawn). These are summarised below.

4.1 ELPFFRE lessons on disaggregating and tracking different types of investment

4.1.1 The framing of the FIP theory of change (ToC) could have given more specific treatment to enabling and asset investments into forest-related enterprises

At present, the FIP ToC does not mention financing forest-related enterprises. Design documents break intervention types into two broad categories of MDB investments in: (i) enterprises undertaking REDD+ activities; and (ii) enterprises reducing pressure on forests. In order to track the transformational relevance of different options, these are overly-broad categories that might usefully be sharpened by disaggregating one or more of the following:

- At input level – the split between enabling investment (of various sorts) and asset investments (of various sorts) as outlined in the EAI framework.
- At output level – the sources of additional REDD+ financing (e.g. from public funds, ODA, formal finance institutions, semi-formal finance, trade credit and business members).
- At output and intermediary goal level – the categories of forest-related enterprise investment type that could form the basis of useful sharing on ‘replicable models’ between countries and regions.
- At outcome level – the different forest contexts in which risk reward profiles are moved toward balance.

In the future, a more elaborated ToC that gives specific treatment to financing forest-related enterprises would make it much easier to interrogate whether assumptions hold true for different types of investment, into particular types of enterprise, in particular types of forest context. It would also be easier to differentiate the underlying reasons for success and failures so as to provide better guidance on the replicable models that the FIP is piloting.

4.1.2 The performance outcomes for enabling investments could be clearer

A substantial portion (41%) of the FIP portfolio consists of enabling investments rather than asset investments. The problem with enabling investments in general (i.e. beyond the FIP) is that it is challenging to attribute impact to particular interventions. For example, many different programmes are making policy recommendations, and many factors beyond written policy determine field reality. It can be difficult in such circumstances to tell whether work to change policy X will make a material difference to REDD+ outcome Y.

With the regulatory market for carbon credits still some way off, it might be useful for future programs to channel enabling investments into developing pilots for carbon purchasing agreements at either national or sub-national levels. The model could involve private sector

providers competing to supply carbon credits at a particular price (a reverse auction would deliver the lowest prices). The enabling changes in policy, technical oversight systems, and institutional mandates would then be very clearly linked to a performance target – purchased carbon credits. This would channel investment into the private sector, allow innovation as to how supply would be delivered, and ensure that enabling investment had a clear endpoint. Such performance-based targets would allow more deliberate tracking of performance and progress of enabling investments and broaden the potential numbers of replicable models of forest-related enterprises.

4.2 ELPFFRE lessons on approaches to forest business incubation

4.2.1 The value chain specificity of interventions could be increased

From interviews about incubating forest-related enterprises within the Evaluation and Learning Partnership, upscaling towards transformational change appears more rapid and pronounced in projects working around specific value chains but with various scales of enterprise. For example, in FIP Ghana and Althelia Peru, good progress has been made in the cocoa sector. These complement findings from other recent surveys where in NTFP-EP, Cambodia honey production value chain approaches have yielded rapid upgrading, or in Farm-Africa Ethiopia frankincense gum has seen impressive returns (Macqueen *et al.*, 2015).

In such success stories, tailored finance (grants, concessional and commercial rate loans, guarantees etc.) have been used within and outside FIP to engage a range of private sector value chains each with different financing constraints. Focusing in on specific value chains in specific countries is necessary to deliver the productivity gains, unblock the particular policy constraints, and grow the market for particular products. For example, the Gatsby Trust in Tanzania and Kenya has narrowed its geographical scope and focus to plantation timber of particular species in particular areas. It is this level of specificity that has delivered equivalent success in adjacent initiatives (such as the Uganda SPGS – see Macqueen and Bolin, 2018).

4.2.2 Forest business incubation could be designed and housed more sustainably

The literature from multiple small- and medium-scale enterprise support programmes notes how, for growth in business turnover and employment, business incubation support is advantageous (see Macqueen and Bolin, 2018). However, project approaches to providing business incubation can quickly unravel once project support finishes. Within the FIP portfolio, there is substantial investment in alternative income-generating activities at the micro-scale and some pilot work to embrace investment in small- and medium-scale forest enterprises. Yet there are question marks over the sustainability of local business support networks to maintain business incubation services to these enterprises once FIP support has ended.

Four options for the provision of forest business incubation services are:

- Private sector, for-profit models (but the deal flow in forest landscapes mitigates against profitability)
- Government extension models (but central finances rarely extend to adequate forest extension services, and almost never to ones with business incubation capability)
- NGO models (but project finance dependency among NGOs makes the long-term sustainability of such models questionable), and

- Producer organisation models (where second tier umbrella cooperatives add value to primary production from their member groups and also provide business incubation services to improve their performance – including finance).

The latter model seems to have the best long-term potential and several examples exist – notably FEDECOVERA in Guatemala (see Macqueen and Bolin, 2018). Anchoring business incubation in such organisations will ensure integrated environmental, technical and business knowledge is passed on to producers. Support for and accreditation of these kinds of financial intermediaries or service providers can be highly efficient as there are strong self-interests for umbrella organisations to improve the business capabilities of their members. Further support can be channelled to such business incubators since they often have robust financial services in place. It is also possible for such organisation to promote grant or loan conditionalities to member producers for good technical and environmental practice – which would further the aims of the FIP. In some contexts, however, it can take several years to support the emergence of workable producer organisations at local level, let alone second-tier organisations – so this would require patient enabling investment.

4.2.3 An emphasis on financial literacy in private and public sectors could strengthen the business incubation process

During the process of incubating forest-related enterprises, we have commented above on some of the financial literacy challenges that act as endogenous barriers for small- and medium-scale enterprises – which exacerbate other deficits such as a lack of technical expertise, business know-how and weak organisation. Tailored financial literacy training should be a routine part of business incubation support both before projects are bankable, and also afterwards and as they continue to grow, provided either as a core component of the investment, or outsourced from external service providers.

Yet it is not only small- and medium-scale enterprises that require financial literacy training. Staff in lead government agencies who are responsible for FIP investment plans often also have little financial training and are therefore unable to engage with more innovative ideas for investment (e.g. guarantee schemes, trade credit, blended finance, etc.). The production of FIP guidance and training on financing forest-related enterprises could help advance financial literacy where required.

4.3 ELPFFRE lessons on how to include small- and medium-scale enterprises

4.3.1 Aggregation of smallholder production could receive more attention to ensure upscaling

There has been a useful emphasis within FIP projects such as FORM Ghana to support lead firms to develop outgrower schemes that aggregate the production from multiple smallholders. This is made possible because lead companies of this sort can readily act as recipients of MDB finance – meeting due diligence requirements. There may be new and additional opportunities for investing in such lead firms as the zero-deforestation commitments deepen. Outgrower schemes are important vehicles for lead firms to engage small- and medium-scale enterprises for inclusion within high value supply chains and markets. Experience from FIP has shown the need to understand the pathways of benefit sharing from lead firms in forest-related enterprises,

but also how risk is shared with surrounding communities. Models are therefore needed within FIP that meet company objectives of increasing local supplies of forest products at minimum risk, while also ensuring risks and benefits are equitably shared within target communities involving also poorer and more risk-averse households. Despite the promise of such a model, the availability of suitable lead firms means that other forms of smallholder aggregation also merit great consideration within the FIP portfolio.

The FIP could add to these examples by learning from recent success in the Forest and Farm Facility where enabling investments to support producer organisation within multi-tiered organisations have then attracted asset investment from private sector buyers (e.g. the equity investment into sawmill owned by the Vietnamese Binh Minh Agroforestry Cooperative), or from new public sector investment programmes responding to the advocacy of national producer federations (e.g. the Confederation of Bolivian Producers and Collectors of Ecological Cocoa – COPRACAO) (see FAO, 2018). Work directly with local producer groups can quickly lead to regional marketing and value adding associations or umbrella cooperatives which can, in the longer term, group into national federations to undertake advocacy work. Aggregation from the ground up can improve local ownership and benefit distribution, create production efficiencies, increase bargaining power with buyers and help develop pricing and quality grading standards, while also representing local interests with decision makers.

There is a substantial range of FIP projects which have established village funds and micro-finance to improve income-generating activities. These could form a solid basis for improving aggregation and developing some of the more promising value chains both in economic terms and as regards reducing deforestation and degradation.

4.3.2 More explicit pipeline development for bankable smallholder business groups could be better matched to appropriate financial institutions

We noted above that the limited number of private sector-led projects suggests unrealistic assumption of the level of attractiveness and accessibility for the FIP offering among private sector actors. The MDBs (with longer grace periods) are a good partner to provide blended finance for afforestation and reforestation investments – reducing interest payments until the trees mature and harvesting can repay the loan (e.g. FORM Ghana). But the high due diligence requirements of such MDBs precludes them from financing the vast majority of companies within FIP partner countries. Even if enabling investment were used to aggregate small- and medium-scale enterprises, provide business incubation support to improve their value proposition, and offer guarantees – it is unlikely that they would meet MDB requirements.

This reality requires FIP to explore greater outsourcing of financial investment into small- and medium-scale enterprises. This would involve external intermediaries with a track record of supporting such initiatives. Outsourcing can be an effective way to expand both coverage and capacity, while reducing transaction costs for co-ordinating entities.

But there is not just a need to work through more risk-tolerant financial intermediaries, but also to ensure that there is a pipeline of bankable small- and medium-scale forest enterprises into which they can invest. Creating such a pipeline, through support for the delimitation of rights, technical extension, business incubation, and producer organisation, might require a second type of external agency with experience in developing producer organisations (see below).

4.4 ELPFFRE lessons on de-risking investments into forest-related enterprises

4.4.1 Partnerships could be expanded to ensure investor confidence

In compiling the findings and lessons from this review, it has been reiterated by participants that there many perceived risks in forestry-related investments. Such risks are not only related to finance. There are also risks that are:

- Resource-linked – tenure security, slow growth of high value timber species, fires, pests and diseases
- Revenue-linked – scale and technology availabilities, infrastructure and transport, production efficiencies
- Relational – contacts, market information, and trading partner networks
- Political – policy stability, civil unrest
- Capacity related – workforce skills and ability to meet quality standards, and
- Reputational – brand recognition, communication technology.

Mitigating these risks calls for proactive risk management by forest-related enterprises (for which toolkits are available if not widely used by FIP – see Bolin *et al.*, 2016). But it also benefits from public-private partnerships (PPPs). FIP is already brokering such PPPs to strengthen the capacity to reduce the perception of risk through building technical and business know-how in small- and medium-scale enterprises and providing guarantees and concessional loans to reduce interest repayments until investments mature (e.g. in FIP Mexico).

Partnerships that creating innovative financing mechanisms, such as revolving village funds (e.g. conditional loans (e.g. F3 Life), can increase the peer pressure to repay loans and undertake sustainable forest management – which contributes to lowering perceptions of risk for small- and medium-scale enterprises.

Partnerships can also be useful when seeking to develop collateral with good liquidity, i.e. beyond land certificates, to peer guarantee schemes, warehousing receipts, tree growing stocks, etc. Introducing credit reference bureaus and credit scoring services to build credit worthiness of small- and medium-scale enterprises can also be useful.

Partnerships between private sector, between public and private sector with communities, between capacity development, business and financial institutions are necessary to effectively channel and leverage finances to support viable, sustainable and inclusive investments. Mixes of enabling and asset investment are usually necessary and the EAI framework approach can be used to identify and address gaps for a given context and establish strategic and more effective partnerships.

4.4.2 The sources of leveraged finance could be broadened

De-risking of investment into forest-related enterprises could partly be achieved by broadening the sources of finance considered. Within the ToC we noted that there is no definition of which new or additional sources of REDD+ finance will be leveraged. Within the FIP portfolio, much of the additional finance leveraged has come from the MDBs themselves. This is clearly a step forward, but financial leverage might be enhanced by a more comprehensive assessment and

strategy of how to leverage additional finance. For example, it might prove constructive to prompt within FIP project design assessments of the following main types of finance:

- Business owner, friend and family finance – How might FIP expand the numbers of forest-related enterprises engaged, or if a group enterprise, their membership so as to increase the pool of internal funding, incubate their business towards great profitability / reinvestment potential and increase their creditworthiness and appeal as potential clients in the eyes of formal financial institutions?
- Buyers and trade-chain finance – How might FIP help build knowledge for forest-related enterprises of trade-chain finance options, such as leasing, factoring, purchase order or warehouse receipt financing options to improve access to short-term cash flow and equipment?
- Semi-formal and microfinance – How might FIP foster linkages and digital banking arrangements between semi-formal and formal financial institutions to develop tailored financial products for forest-related enterprises building on the reach and informational advantage held by semi-formal finance providers and the financial specialisation possessed by formal financial institutions?
- Formal banking finance – How might FIP improve understanding for forest-related enterprises of the terms and conditions of credit from different banking institutions, bank loan appraisal processes, and reduce risk to return ratios and transaction costs for the provision of debt and equity finance in terms of rates, repayment periods and collateral arrangements?
- National public finance – How might FIP help design national forest funds or incentive programmes and help reform financial regulatory framework that lower specific constraints to formal financial access for forest-related enterprises (e.g. through national credit bureaus; formalising use of alternative forms of collateral (e.g. tree growing-stock, or peer collateral mechanisms); reducing red tape/bureaucratic requirements; regulating and fostering the expansion of the digital financial services' market in forest landscapes; and improve specific financial instruments for underserved categories of producers (e.g. women and young entrepreneurs)?

4.4.4 Learning systems could be upgraded to showcase investor returns that encourage further investment

As noted in Section 1, the Evaluation and Learning Partnership on Financing Forest-related Enterprises (ELPFRE) was commissioned by CIF Evaluation and Learning Initiative in 2017. This initiative is a major step forward in learning from FIP. It has funded evaluations that are externally-led and time-bound. Each has independently scrutinised the FIP portfolio and generated useful learning.

In undertaking the portfolio review, while there are quantitative targets and indicators built into the FIP projects, there appears to be no overarching learning framework disaggregated by different intervention types for forest-related enterprises (e.g. natural forest timber enterprises, plantation forest timber enterprises, NTFP enterprises, conservation agriculture enterprises, sustainable biomass enterprises etc.) or forest context (e.g. indigenous territories, production forests, agroforestry areas, plantations, peri-urban processing areas).

Until recently within FIP, there also appears to have been no common qualitative learning questions built into reporting requirements for projects financing forest-related enterprises. The lack of such a learning system integral to the FIP means it is very difficult for FIP programme staff to know whether programmes in other countries are addressing similar issues, compare outcomes across different contexts, or share lessons around particular intervention types. As a result, external evaluation and learning partnerships such as ELPFFRE, have had to grapple with gathering data on multiple, contextually-different, sub-sectorally variable forest enterprise interventions. Encouragingly, recent revisions to the FIP results framework as a result of stock-taking exercises have now resulted in a better framework for qualitative information which can be built on in the future.

In the future, qualitative learning questions might be developed and inserted into the reporting requirements of future programs around common thematic content. Areas of interest could be discussed but might include: perceived contribution of different types of forest-related enterprises to avoiding deforestation and degradation; financial needs of those different enterprise types; financing options available in particular contexts; barriers to obtaining finance from those options; approaches to overcome those barriers; ways to aggregate, incubate, de-risk and thereby upscale those approaches – and so on. The development of common qualitative learning questions for different intervention types has been developed, for example, in the Forest and Farm Facility – so as to be able to report, not only on the impact metrics, but also offer explanatory narrative derived from answers to qualitative learning questions.

While this Evaluation and Learning Partnership was not a performance evaluation, it would have been insightful to have seen reported perceptions (or indeed data) of the impact of different financing models on reducing deforestation and degradation – in order to be able to draw lessons about the relative merits of replicating those models. Experiences from Lao PDR point to the importance of identifying potential positive or negative impacts of livelihood activities supported through small grants on reduced deforestation and degradation – which was useful learning.

Furthermore, it will be important to capture the broader context of project interventions when considering climate impacts. For example, support to some livelihood interventions that create goodwill and secure support from the communities (but generate few or moderate negative climate impacts) may be worth considering, if the net climate result of project-supported interventions is positive. Clear qualitative articulation of lessons would enhance future decision making if fed into future lead ministries.

As the FIP matures, it is in a strong position to take leadership in sharing lessons not only with the MDBs' finance forum, but also with broader networks working in this area, such as the Rights and Resource Initiative, the Forest and Farm Facility, the Forest Connect alliance, Global Compact, Climate Policy Initiative, United Nations Environment Programme, the Landscape Investment Forum led by the Centre of International Forestry Research (CIFOR), the Sustainable Innovation Forum, the Oslo REDD+/Tropical Forests Exchange, United Nations Forest Forum (UNFF), UNFCCC COPs, and several other platforms bringing together private sector and investors.

4.5 Areas for future potential action

In the light of the lessons emerging from our review that are listed above, there are certain key 'take-aways' for different audiences involved in the FIP programme that could be developed as innovative new areas of action. We have listed these by audience below.

4.5.1 Future potential actions for FIP programme staff, MDB investment officers and forest staff, FIP focal points, and financial intermediaries or service providers (e.g. lead firms committed to zero deforestation, NGOs, producer organisations, private sector financial specialists)

- Organise end-of-program national (or potentially international) thematic learning events with relevant FIP and non-FIP programmes about specific areas of finance forest-related enterprises. These might focus where there are identified gaps in the FIP portfolio (e.g. how best to aggregate smallholder production, how best to provide sustainable business incubation services for such actors in forest landscapes, how best to leverage, and de-risk, finance from a broader range of sources than has been contemplated to date).
- Consider specific plans to map and leverage a broader range of new and additional REDD+ asset investment involving for example: business owners; family and friend finance; buyers and trade chain finance; semi-formal and micro-finance; formal bank finance; national public finance.
- Use the learning on financing forest-related enterprises to arrange and enlist public financial literacy training in areas to do with financing forest-related enterprises – and consider outreach to facilitators who could deliver the same to small- and medium-scale forest enterprise clients.
- Screen and narrow the focus for particular financial intermediaries onto productivity gains in productivity forest related value chains – but remembering to spread support across several financial intermediaries to improve sustainability, increase the chances of upscaling and maintain landscape and production diversity.
- Facilitate aggregation / organisation of smallholders to improve the productivity of key forest-related enterprise clusters – as opposed to dispersed micro-level income-generating activities.
- Establish plans for the design and delivery of sustainable forest business incubation services in remote forest landscapes where those value chains can be further enhanced.
- Create public-private-partnerships that will help to de-risk future finance into forest-related enterprise sectors that have strong growth potential – with attention to blended and tailored finance that reduces the interest rate payments to tolerable levels until forest investment mature and repayments can begin.

4.5.3 Future potential actions for donors

- Continue to finance forest-related enterprise development activities but with explicit treatment of enabling and asset investment strategies for specific enterprise types in particular contexts.
- Insist on performance-based evaluation of different investment strategies, including the impacts on deforestation and forest degradation in different forest landscape contexts.
- Finance learning events that take stock of FIP and non-FIP progress in developing forest-related enterprise models with verifiable impacts on deforestation and forest degradation and with adequate attention to leakage.

4.5.3 Future potential actions for designers of follow-on programs

- Design a theory of change to be specific to financing forest-related enterprises. Make sure it disaggregates: enabling and asset investment; categories of forest-related enterprises; and investments in different forest landscape contexts. Categorise existing project interventions into similar clusters to enable lesson learning.
- Develop at country level (or preferably across the whole program) a set of qualitative learning questions on financing forest-related enterprises that can be inserted as reporting requirements from ongoing projects to capture learning about specific thematic issues in a systematic way.
- Set targets for filling the enterprise support gap within national FIP portfolios – investing in small- and medium-scale forest enterprises – and engage financial intermediary organisations to meet those targets (e.g. lead firms committed to zero deforestation, NGOs, producer organisations, private sector financial specialists).
- Explore options in any enabling investment interventions for the piloting of public purchasing of carbon credits including all the necessary policy and institutional changes required, to sharpen the performance basis of enabling investments in future programs.