



FOREST INVESTMENT PROGRAM

GHANA: PUBLIC-PRIVATE PARTNERSHIP FOR THE RESTORATION OF DEGRADED
FOREST RESERVE THROUGH VCS AND FSC CERTIFIED PLANTATIONS

USD 10 million

May 2016

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ACRONYMS

AfDB	African Development Bank
CIF	Climate Investment Funds
DSCR	Debt Service Coverage Ratio
ESAP	Environmental Assessment Procedures
FAO	Food and Agriculture Organization of the United Nations
FC	Ghana Forest Commission
FIP	Forest Investment Program
FSC	Forest Stewardship Council
FWP	Forest and Wildlife Policy 1994
GoG	Government of Ghana
IP	Investment Plan
ISS	Integrated Safeguards System
ITTO	The International Tropical Timber Organization
NFPDP	National Forest Plantation Development Program
PPP	Public-Private Partnership
REDD+	Reducing Emissions from Deforestation and Forest Degradation
VCS	Verified Carbon Standard

COVER PAGE

Public-Private Partnership for the restoration of Degraded Forest Reserve through VCS and FSC Certified Plantations.			
1. Country/Region:	Ghana	2. CIF Project ID#:	(Trustee will assign ID)
3. Source of Funding:	<input checked="" type="checkbox"/> FIP	<input type="checkbox"/> PPCR	<input type="checkbox"/> SREP
4. Project/Program Title:	Ghana: Public-Private Partnership for the restoration of Degraded Forest Reserve through VCS and FSC Certified Plantations.		
5. Type of CIF Investment:	<input type="checkbox"/> Public	<input checked="" type="checkbox"/> Private	<input type="checkbox"/> Mixed
6. Funding Request in million USD equivalent:	<i>Grant:</i>	<i>Non-Grant:</i> USD 10 million Concessional Loan	
7. Implementing MDB(s):	African Development Bank		
8. National Implementing Agency:	Not Applicable.		
9. MDB Focal Point and Project/Program Task Team Leader (TTL):	<i>Headquarters- Focal Point:</i> Gareth Phillips g.phillips@afdb.org / Leandro Azevedo l.azevedo@afdb.org	<i>TTL:</i> Richard Fusi r.fusi@afdb.org /	
10. Project/Program Description:			
<p>The project aims at catalyzing private sector involvement in large-scale sustainable and commercial teak plantations in degraded forest reserves in Ghana by expanding an existing – and both Forest Stewardship Council (FSC) and Verified Carbon Standard certified (VCS) - forest plantation from a current size of 5,000 ha (end 2014) to 11.700 ha of sustainable commercial forest plantation composed of 10% indigenous tree species and 90% teak.</p> <p>The estimated net greenhouse gas sequestration potential for the entire project (i.e. 11.700 ha) is around 2.8 million tCO₂ over 40 years or 70,103 tCO₂ per year. In addition, the project will create 400 direct full-time jobs and 600 direct seasonal jobs.</p>			
11. Consistency with Investment Criteria			
See pages 15 to 19 of the attached project document.			
12. Stakeholder engagement:			

Several meetings with different stakeholders were organized throughout the different stages of project preparation. For example, during the field work that led to the development of both the Environmental and Social Impact Assessment, a total of 34 communities / groups were consulted. In addition, several government institutions, traditional rulers and other organizations active around the project locations were consulted. These consultations aimed at obtaining the opinions and views of stakeholders and local communities on the proposed project with the main focus being put on social, cultural, economic and conservation aspects as well as the perceived associated impacts. Stakeholders were also asked about any concerns and expectations they have regarding the project.

Most of the identified concerns are based on assumptions inspired by previous bad experiences with external organizations to the project. Form Ghana explained what it expects to do and what the consequences of their activities would be for these stakeholders. Form Ghana made clear that there will be an end to illegal activities around the project areas, but those that shall be impacted by that can find jobs with Form Ghana as the company is hiring several hundreds of individuals on a permanent and temporary basis. It was also made clear that the company has procedures in place that facilitate interaction between people and management to solve any issue. Through intercropping activities, availability of farm land is assured for several years.

Stakeholder engagement is a continuous process for Form Ghana. Stakeholder engagement will be done through a number of activities:

- **In depth information sharing (provision of reports and meetings with individuals):** Form Ghana shares in depth information with partners such as the Forestry Commission and AfDB. In addition, FSC collects the information itself and performs an annual audit to assure it obtains the information needed to continue allowing Form Ghana to use the trademark of that organization which is essential to the project;
- **Active engagement with community representatives:** Form Ghana has selected representatives in the communities. The company communicates through these volunteers to the community and also builds their capacity on forestry protection issues to assist the company;
- **Active engagement through central stakeholder meetings:** Form Ghana will organize at least two stakeholder meetings per year;
- **Active engagement through inter-cropper meetings:** Form Ghana organizes meetings with the inter-croppers twice a year;
- **Active engagement through school visits:** Form Ghana has done a round of visits to schools in the vicinity of the project area.
- **Information sharing through the company website and newsletters:** Form Ghana's website is kept up to date to assure it reflects the actual situation of the company. Reports such as the public monitoring report, the Social and Environmental Impact Assessments and reports of studies are available to download;
- **Grievance and redress mechanism:** Although due care is taken to avoid that grievances arise, it should not be forgotten that all the work is done by people, and conflicts and grievances may arise. Form Ghana has a special procedure to deal with grievances and conflicts (protocol 7 "grievance and redress mechanism" provides all the details regarding this procedure);
- **Capacity building:** The company will organize training for the people that deal with stakeholders directly.

13. Gender considerations:

The project will foster gender mainstreaming by creating jobs, providing social benefits and skills transfer. These factors were identified as vital for gender mainstreaming in forestry in Ghana.

The project company is certified by FSC - an independent, non-profit organization that protects forests for future generations - and as such is compliant with FSC criterion 2.2 that requires certified companies to “*promote gender equality in employment practices, training opportunities, awarding of contracts, processes of engagement and management activities.*”

While the Forestry Sector is largely a male dominated sector and Ghana is no exception, the project company is making efforts to ensure gender equality in its structure. Currently 92 (27.9%) of 330 staff members are female, 14.2% of them are in managerial positions and 43.6% are general workers. With the objective of obtaining a more balanced workforce in terms of gender, the project company is expecting to give to women 40% of the total jobs that will be generated with the project. In addition to this, FG is currently working on developing a Gender Policy which describes formulated principles and procedures that address the need for equal rights, responsibilities and opportunity for men and women to work in the company without discrimination. Some of the identified activities to be undertaken include: (i) improve upon the recruitment system to encourage women to apply for jobs, especially those viewed as typically male job profiles, (ii) affirmative actions in recruitment, training and developing identified female employees with potential talent, and (iii) provide to support to the company’s Form Ghana Women’s Association.

14. Indicators and Targets (consistent with results framework):

Core Indicator	Target
GHG emission reductions/avoidance/enhancement of carbon stock (a)	Net GHG sequestration potential of around 2.8 million tCO ₂ over 40 years or 70,103 tCO ₂ per year.
Livelihood co-benefits (b)	
Biodiversity and other environment services	11,700 ha of sustainably managed forest plantation with FSC and VCS certification
<i>Development Indicator(s)</i> :Number of jobs	400 direct full-time jobs and 600 direct seasonal jobs created

15. Co-Financing:

	Amount (in USD million):	Type of contribution:
• Government	0.00	---
• MDB	14.00	Senior Loan
• Private Sector (Sustainable Forest Investments BV)	19.40	Equity
• Bilateral	0.00	---
• Others (Sponsor’s Cash-flow from Operations)	3.00	CFOs
Co-Financing Total:	USD 36.40 million	

16. Expected Board/MDB Management approval date:

Approval from AfDB’s Board of Directors is currently expected to happen during the first half of July 2016.

BACKGROUND

Proposed Context

1.1 This project proposal conforms to the Ghana's Forest Investment Program (FIP) Investment Plan (IP), endorsed by the FIP Sub-Committee on November 2012, and to the concept note *"Public-Private Partnership for the Reforestation of Degraded Forest Reserve through VCS and FSC Certified Plantations"* which was endorsed by the FIP Sub-Committee on October 2013 under the FIP Competitive Set-aside Fund and following a review from an Independent Expert Group.

1.2 Pressure on the world's planted and natural forest resources is expected to continue to rise with an increasing population and overall demand growth for wood products, which exposes the forestry sector to continued risks including unsustainable management of forestry resources, illegal wood sourcing, loss of biodiversity and threats to community rights over forests. In Ghana, forest resources in are being depleted at an alarming rate. From the country's original forest cover of 8.2 million hectares at the beginning of the 20th Century only an estimated 1.6 million hectares remain. In accordance with the FIP Ghana Investment Plan, the deforestation rate currently stands at 2.0% leading to an annual loss of around 135,000 ha¹, with the underlying causes involving a complex of demographic, economic and policy factors.

1.3 The project aims at catalyzing private sector involvement in large-scale sustainable and commercial teak plantations in degraded forest reserves in Ghana by expanding an existing – and both Forest Stewardship Council (FSC) and Verified Carbon Standard certified (VCS) - forest plantation from a current size of 5,000 ha (end 2014) to 11.700 ha and to provide the needed cash-flow for operations in a business which revenues are highly dependent on the growth – and standing value - of trees which will take an expected 20 years to mature. The ultimate goal of the Project Sponsor is to reach a total size of 20.000 ha.

1.4 The project is the first Public-Private Partnership (PPP) in this sector in Ghana due to a tripartite Benefit Sharing Agreement (BSA) signed between the Government of Ghana (GoG) through the Forestry Commission of Ghana (FC), Form Ghana acting as project sponsor, and traditional land owners. The BSA has in place grievances mechanisms. The project is aligned with the National Forest Plantation Development Program (NFPDP), a program developed by the FC and the Private Sector in close collaboration with local communities that was launched in 2011 to mainly establish plantations in highly degraded forest reserves.

1.5 FIP funds will be essential to provide the much needed funding to an emerging sector with the ultimate goal of demonstrating the business case for future replication and with strong climate, environmental and social benefits to catalyze market transformation where commercial investors are currently reluctant to invest.

¹ Food and Agriculture Organization of the United Nations, 2010

1.6 The project is consistent with Ghana's Forest and Wildlife Policy 1994 (FWP) which aims at the *"conservation and sustainable development of the nation's forest and wildlife resources for the maintenance of environmental quality and perpetual flow of benefits to all segments of society."* Among the strategies set in the FWP one finds private sector investment in plantation development, focusing on the conversion of the timber industry into a low volume, high value industry.

1.7 In addition, the Project will help meet the overarching objective of the Ghana's FIP IP by addressing the underlying drivers of deforestation and catalyze transformational change by providing upfront investment to support the implementation of the country's strategy on Reducing Emissions from Deforestation and Forest Degradation (REDD+).

1.8 With regards to private sector involvement, it will help lower the barriers of entry and catalyze the development of other sustainable and commercial plantations in highly degraded forest reserves and beyond. The Project will develop replicable activities which can be adapted by small and large farmers alike which will contribute to the reduction of risk perception by investors in the sector.

Country and Sector Context

1.9 The Republic of Ghana has a land area of 23.9 million ha and a population of 25.9 million. Ecologically the country is divided into a high forest zone in the south, accounting for about a third of the land area (8 million ha), a savanna zone (14.7 million ha) mostly in the north, and a transition zone (1.1 million ha). A study from the International Tropical Timber Organization (ITTO) categorizes the broad forest types in rainforest (47%), moist tropical forest (32%) and dry tropical forest (21%). The main timber-producing areas are the deciduous and evergreen forests in the southwest.

1.10 Ghana's forests are divided into forest reserves and off-reserve areas. Of the 266 forest (production) reserves, 216 occur in the high-forest, timber-producing zone and the remainder occur in the savanna. Forest reserves were originally established by the state to promote ecological stability while seeking to guarantee the flow of goods and services for socio-economic development.

1.11 **Deforestation and Forest Degradation.** The condition of Ghana's forests has been in decline for many years, particularly since the 1970s. Many forest reserves are heavily encroached and degraded, and the off-reserve stocks are being rapidly depleted. Immediate drivers for this include: (i) forest industry over-capacity, (ii) policy and market failures in the timber sector, (iii) burgeoning populations in both rural and urban areas, (iv) increasing local demand for agricultural and wood products, (v) high demand for wood and forest products on the international market, (vi) heavy dependence on charcoal and fuelwood for rural and urban energy, and (vii) limited technological development in farming systems and continued reliance on cyclical slash-and-burn methods to maintain soil fertility (FC 2010).

1.12 Deforestation in Ghana usually commences with the degradation of well-stocked forests by excessive (often illegal) logging, slash-and-burn agriculture, mining and quarrying, and fuelwood collection. Degraded forests are then often completely deforested by wildfire, illegal occupation and/or land-use changes. These destructive forces are influenced by population pressure and poverty and also by

infrastructure and economic development programs. Road construction near or within forest reserves facilitates encroachment. Internal migration to the western forests for cash-crop cultivation accounts for the high rate of degradation in those forests.

1.13 **Land Tenure.** Nearly all the high-forest zone in Ghana is owned by communities vested in traditional authorities, held in trust from them by the state, and logged by private contractors.

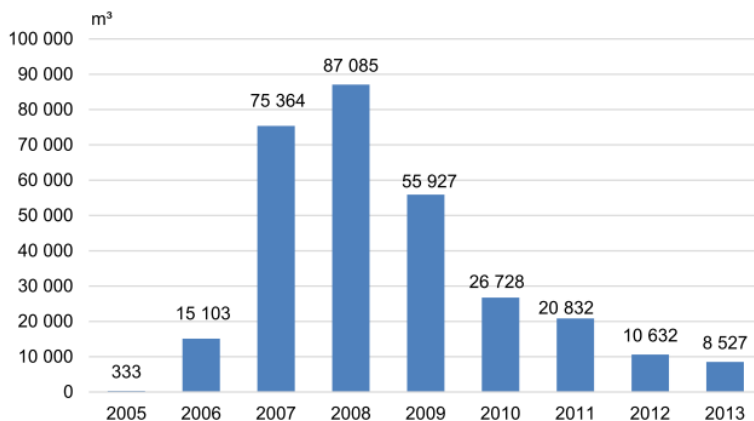
1.14 **Forest Policy and Legislation.** The first forest policy was established in 1947 which was revised in line with Ghana’s 1992 Constitution and approved in 1994 as the Forest and Wildlife Policy. The FWP abolished the existing concession system and replaced it with a new system intended to promote efficiency, transparency and accountability. Under the system there are two types of permits: (i) competitive bidding to allocate forest resources through competitive-price bidding for timber rights which are evaluated by the Timber Rights Evaluation Committee, and (ii) administrative permits divided between timber utilization permits and salvage felling permits.

1.15 **The Timber Industry in Ghana.** Agriculture, including forestry, is the backbone of the Ghanaian economy. In accordance with FAO, the sector contributes with 43% to the Gross Domestic Product (GDP), 50% of export earnings and 70% of total employment. Forestry as a sub-sector accounts for 6% of the GDP, 11% of export earnings and employs a labor force of around 100,000 people.

1.16 Most of the rural population depends on the forests for their survival as forestry has played a significant role in the provision of food, clothing, shelter, furniture, potable water supply sources, thus providing livelihood for over 2.5 million people. The forests are also highly valued as sources of natural medicines, which are essential components of health treatment, which is commonly used in conjunction with mystical and ritual practices.

1.17 The timber industry is among the most important foreign exchange earners of the country and is one of the fastest growing manufacturing units in the country generating employment and income to a majority of Ghanaians. It consists of around 200 timber processing mills which are mainly oriented to exports.

Figure 1: Ghana Exports of Teak to India (95%), Vietname and Bangladesh (5%)



1.18 Between 2005 and 2013, Ghana exported about 296 000 m³ of teak logs and logs (billets). However, there has been a decline in the export of teak logs over the last 6 years. From a peak of 87,085 m³ in 2008, export volumes dropped to 8,527 m³ in 2013. However, the sudden drop in export volumes between 2008 and 2013 is not an indication market decline, but rather the unavailability of teak logs for export due to poor planning. In 2008, the export volume of wood products was around 586,865m³ or USD 300 million in value which declined since then to around USD 180 million in 2014. The volume of teak exported over nine years (period 2005 - 2013) is shown in Figure 1 above.

1.19 The informal forestry sector, mainly chain saw milling is almost equal in size to the formal sector. These mills, though illegal since 1998, provide the bulk of the supply (84%) for the domestic market, with an estimated volume of around 500,000 m³ and market value of around 280 million GHC. It is also the main source of (illegal) overland export lumber to neighboring countries with an estimated volume of around 260,000 m³. It provides employment for around 130,000 people and livelihood for 650,000 people, and is the source of considerable revenue, to the mostly urban financiers of the operations. The disconnect between a growing domestic demand and sustainable wood harvest creates huge pressure on forests, particularly in off-reserve areas. In addition to timber, forests provide the main source of domestic energy in the form of fuel wood and charcoal. The average annual per capita wood energy consumption estimate is 1.3 m³ and accounts for a total estimated wood removal of more than 30 million m³ for fuel wood and charcoal, or about 85% of the total wood removal in Ghana on a given year.

1.20 It is widely recognized that Ghana is endowed with climatic conditions and soil characteristics that favor the growing of production forests. In addition, the regulatory and legal framework has significantly evolved over the past years and this will act as an enabler for investments in the sector in years to come. This is an enormous opportunity for Ghana to tap into its vast potential and develop a sustainable forest plantation sector that would be able to satisfy local and help meeting global demand for tropical hardwoods. Most high grade, tropical hardwood production from natural forest globally is still unsustainable and will not be enough to satisfy growing demand. Sustainable certification bodies such as the FSC are of paramount importance and while Ghana has been engaged in the development of forest certification for more than a decade, there is an interest in developing a national scheme to increase the size of FSC certified forest areas in Ghana. As of February 2011, only a small area of teak plantation and about 150,000 ha of natural forest in the World were certified by FSC. Products carrying the FSC label are independently certified to assure consumers that they come from forests that are managed to the social, economic and ecological needs present and future generations.

International Teak Markets

1.21 Teak (*Tectona grandis*) is one of the most valuable high grade tropical hardwoods in the world due to its unique durability properties and aesthetic qualities. Its reputation for excellent wood quality stems from its sought-after properties, which include: (i) strength with lightness, (ii) durability, (iii) dimensional stability, (iv) corrosion resistance when in contact with metals, (v) ease of working and seasoning, and as a plantation species, resistance to termite, chemical, fungus, and (vi) resistance to adverse weather conditions, namely droughts and fire. Such properties have made it a prized wood for a

wide range of traditional and contemporary end-uses including for furniture and joinery, veneers, flooring, marine applications and garden and patio furniture.

1.22 Indufor, a leading consulting company in the forestry sector, estimates the global teak plantation area to amount to some 2.5 million ha, of which the Asia-Pacific region accounts for almost 90%. Other estimates for IITO, for example, refer to an area of 6 million ha but this estimate includes areas in Indonesia and India that are not fast growing plantations. Nevertheless, Indian and Indonesia are still by far the largest teak plantation countries with shares of 40% and 30% respectively. In Africa, there is almost 150,000 ha of teak plantations, whereas in South and Central America teak plantations cover around 100,000 ha and 80,000 ha respectively.

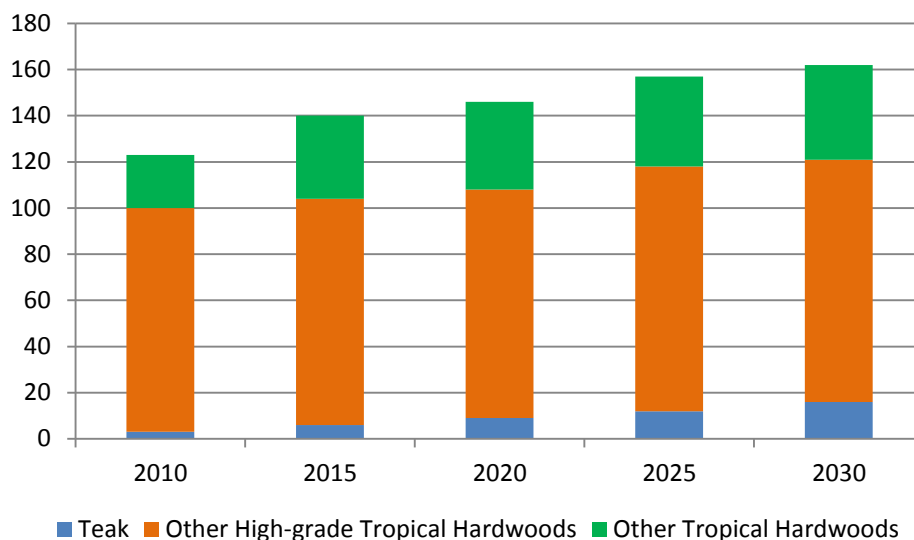
1.23 Teak plantation can be categorized into two classes based on their rotation time – short rotation (20 to 30 years) and long rotation (40 years and above). Within these two categories, they can be further classified based on the productivity of the plantations. For example, while plantations in rural communities with a growth of 5 m³ per ha per year are acceptable, teak investors will usually require a productivity of some 15 m³ per ha per year.

1.24 The current teak demand is estimated to amount to around 1.5-2.0 million m³ per year with the Asia-Pacific region dominating with an approximate 70% share of the total consumption. Europe is another major market relying mainly on imported teak products from Africa and South and Central America. Teak demand is driven mainly by the following factors: (i) population growth, (ii) economic growth, and (iii) product substitution. While economic growth increases wood consumption in various end-uses, the manufacturing of the products for those end-uses may take place elsewhere. For example, strong economic growth in Europe and North America increases the demand for wood furniture in those areas, but much of the demand will be supplied by furniture plants in China Vietnam. Thus, the demand growth for wood raw materials (round wood, sawn wood) will take place in Asia rather than in the end-use geographical locations.

1.25 India accounts for some 75% of global teak imports, followed by Thailand, China and Vietnam with Burma being the largest supplier to all these markets. India's imports have increased by 54% since 2010, the result of a boom in construction of residential housing. Teak is the preferred building timber in India, particularly for doors and windows, which account for some 40% of the teak wood processed. The increase in Indian demand has been met largely by plantation teak from Central and South America.

1.26 The market for high grade tropical hardwoods estimated at about 100 million m³ per annum in 2010 is expected to increase to a minimum of 120 million m³ per annum by 2030. The demand for teak was estimated at 3.5 million m³ in 2010, representing roughly 3.5 % of the global hardwood market. Teak demand is also expected to increase driven by several factors, including population growth with an increasing purchasing power of middle income countries, and economic growth leading to increased demand of furniture (furniture manufacturing, outdoor furniture, wood flooring, marine boats, and luxury items among others).

Figure 2: Hardwood Demand Increase (2010 – 2030) in million m³



Source: AfDB’s Internal Report 2015 commissioned to Indufor

1.27 A significant percentage of high grade tropical hardwood demand is still supplied from unsustainable plantations and illegal logging. Interpol estimates that illegal logging accounts for 50 to 90% of the volume of forestry activities in key producer tropical forests, such as those of Central Africa and other parts of the World, and 15 to 30% of all wood traded globally.

1.28 Import prices of teak round wood in India have ranged on average from USD 300 to 450 per m³ over the previous five years. The current annual growth rate of the plantation teak prices in India since 2010 to date has been 2.8%. The largest volumes imported to India are from Ecuador and Costa Rica. For China, the prices have ranged on average from USD 350 to USD 820 per m³ over the previous five years with a current annual growth rate of 7.5% in prices since 2010. Teak log prices range from USD 250 to USD 600 per m³ in 2014 depending on the size and quality of the log with the price being higher for products with larger diameter. In general, the quality of logs is better and dimensions are larger when the wood is sourced from final harvest or late thinning when compared to early thinning.

1.29 As the supply of natural teak is expected to diminish gradually, the price of these natural teak products will increase in the future. This emerging supply-demand open up possibilities for the highest-grade plantation teak in various end uses. How much of this opportunity will be captured by the high-grade plantation teak depends on how successfully the plantation wood processors manage to market their product. Consequently, the price of the highest plantation teak products is expected to increase in the end and will approach the level of natural teak as the two products will be viewed as being the same (species/products), or at least close alternatives.

1.30 . Meeting future demand for high grade tropical hardwoods on a sustainable management basis will require large areas of high grade tropical hardwood timber plantations (such as teak), supplemented by supply from limited areas of sustainably managed natural forest such as the one being proposed in the context of this project. At this time, the total area of tropical hardwood plantations is approximately 4

million ha – of which plantation teak makes up an estimated 2.5 million ha, falling short of the required area of 10 million ha.

1.31 Plantation teak now competes with, and is fast becoming the wood of choice based on cost-benefit for many applications over wood from natural forests as well as other plantation species due to its intrinsic teak quality (resistance to drought, fire, pest, and its multi-purpose uses), and suitability for a wide range of end-users. Additionally, most of the other tropical hardwoods that have been grown in plantation formats have had significant problems with pests, whereas plantation teak has proven to be pest-resistant. For these reasons, plantation teak is gaining in recognition as a high value tropical wood.

1.32 Over the past 20 years, FSC has earned a reputation as the most rigorous, credible forest certification system and as a result, there are significant advantages to choosing FSC-certified products such as: (i) wood-source credibility, (ii) environment protection, (iii) community engagement, and (iv) increased access to markets.

Sector Context: Teak Plantations in Ghana

1.33 In addition to a rising global demand, domestic demand for teak is expected to continue increasing due to the country's expected GDP growth over the next years and as electrification efforts are intensified in Ghana and in the region.

1.34 Ghana has imposed a series of log bans on the export of logs since 1980. These bans were put in place to force an industry shift towards the use of lesser-known timber species and more value added processing for increased export earnings. During the early 70s and 80s, the FC and private commercial plantation developers cultivated teak plantations which reached maturity in the 00s. However, the local sawmill industry could not process small diameter teak logs as most sawmill equipment was made for larger diameter natural forest logs. To improve export earnings, the ban was lifted specifically to allow the export of teak logs and square logs. This represents a great opportunity for investments in the sector.

1.35 Between 2005 and 2013, Ghana exported about 296.000 m³ of teak logs and square logs, with a decline being identified during the last 6 years. This drop on export volumes is not an indication of market decline but rather unavailability of teak logs for export.

1.36 The competitive environment for teak is highly fragmented and unstructured and is mainly driven by plantation developers seeking to generate revenues from harvesting of mature teak stands. Due to the poor thinning regimes undertaken in the past, it is difficult to properly predict when teak logs will become available on the market and what quality is likely to come out of the current stock of teak plantations. Consequently, any competition for teak markets is mainly driven by Indian buyers and prospectors seeking teak for their Indian industries.

PROJECT DESCRIPTION

2.1 The project aims at establishing 6,700 ha and maintaining a total of 11,700ha of sustainable commercial forest plantation composed of 10% indigenous tree species and 90% teak. It is being implemented by Form Ghana Ltd, in close collaborating with the GoG through the FC. Form Ghana is the first FSC and VCS certified Plantation Company in Ghana and West Africa.

2.2 The project started in 2001 with a pilot teak plantation of 64 ha to test the potential of the land for scale-up. It was only in 2007, and based on growth results from this pilot-phase, that a large-scale nursery with the objective of supporting a significant expansion was installed. As of end 2014, a total of 5,000 ha were planted. As establishment progresses, the first commercial thinning is expected to occur next year on a small number of old stands while major plantation maintenance (e.g. thinning, pruning, weeding) will be continuously implemented until 2028 on the already established and to be established standings. Significant exploitation and commercial harvesting will commence soon after in the more mature stands.

Figure 2: Form Ghana Plantation Areas



2.3 The project will aim at rotation periods of 20 years to maximize tree standing value. However, depending on the debt repayment obligations of the Project Company, felling on certain stands may have to be anticipated to ensure the company doesn't enter into financial distress. The obvious objective is to avoid as much as possible early felling so that value-generation is maximized. Form Ghana will actively plan their harvesting operations.

2.4 The project operations are located about 280 Km northwest of Accra as depicted in Figure 2 more precisely in the Berekum (Tain II Forest Reserve) and Akumadan (Asubim & Afrensu Brohuma) forest reserves. A 50-year renewable land lease agreement accompanied by a tripartite Benefit Sharing Agreements between the GoG, the local communities and Form Ghana was signed for a total area of 14,000ha of degraded forest land (based on a 2006 legislation on the land lease concept for Forest Reserves).

2.5 **Project Sponsorship.** The project is sponsored by Sustainable Forest Investments BV (SFI), a company based in The Netherlands that specializes in forestry investments and technical management of commercial forest plantations. SFI is jointly owned by Wienco Holding and Form Group, two companies with a common interest in forest plantations in Ghana. Wienco Holding has significant investments in agriculture, irrigation, tourism and banking operations in Ghana while Form Group focuses in forestry investments. The group is comprised of: (i) Form International B.V. - a forestry consulting firm established in 1992, (ii) Form Valuations B.V – specialized in valuation of natural and plantation forest assets, and (iii) Form Investments BV - specialized in forestry investments. Form Ghana Lda, the Project Company, is owned by Wienco Holding (87.5%) and Form Investments (12.5%).

2.6 SFI has a strong track record and over 22 years of experience in the sector and the African continent. Previous activities in the forestry sector in Africa include (i) the coordination of the Congo Basin Program of the Dutch Sustainable Trade Initiative (IDH in the Congo Basin and West African forests in partnership with Dutch Government, IDH, WWF, ICCO and Private Sector, (ii) others similar projects have been carried out in Gabon, Cote d’Ivoire, Ghana, Congo and Central African Republic. SFI also operates a similar private forestry plantation in Tanzania, incorporated as SFI Tanzania.

Project Cost Structure and Financing Plan

2.7 The total project cost is estimated at around USD 46.4 million with the largest investment directed towards plantation development and maintenance. This is mainly due to the heavy silvicultural operations (weeding, pruning, thinning, and singling) involved in plantation forestry maintenance, and the need to establish good fire management framework and road network system within the plantation.

Table 1: Use of Funds (in USD million)

Activities	Amount	Share
Initial Establishment Costs	15.9	34
Infrastructure and Harvest Equipment after 2015	2.6	6
Operation Costs 2015-2020	25.7	53
Financing Fees	2.2	7
Total*	46.4	100%

*Includes 5% contingency (deemed adequate by LTA as 6,900ha have already been established by end 2015)

2.8 The project will be financed through debt (52%), equity (34%), and cash flow from operations (14%). The debt finance equals USD 24 million and will be provided by AfDB (USD 14 million) and the FIP (USD 10 million). The participation of the FIP in this transaction is critical to the mobilization of AfDB’s co-financing and ensure financial close.

Forest Stewardship Certification and Verified Carbon Standard Certification

2.9 FSC is an independent, non-governmental, not for profit organization established to promote the responsible management of the world's forests, enabling businesses and consumers to make informed choices about the forest products they buy, and create positive change by engaging the power of market dynamics. FSC establishes best practices for forestry that addresses a multitude of social and

environmental issues by setting the highest standards of forest management which are environmentally appropriate, socially beneficial and economically viable. Form Ghana has been FSC (Forest Stewardship Council) certified since 2010 and the company is independently audited on an annual in order to renew its certification.

2.10 FSC certification grants access to, in particular, European markets where there is a high demand for retail products made from FSC certified wood. Many retailers will not accept wood that does not carry a recognized certificate of sustainable management and chain of custody. In West Africa the only FSC certified plantation is Form Ghana. Developing country markets such as India are not, as yet, demanding such standards. FSC certification may or may not translate into a “green” premium but marketing should be significantly easier and for external investors, it provides independent confirmation that the plantations are well managed.

2.11 In January 2013, Form Ghana's reforestation activities have been independently validated under the VCS for reforestation of degraded forest reserves in Ghana. VCS is a renowned greenhouse gas accounting program used by projects around the world for verification and issuance of carbon credits on the voluntary carbon markets. The company makes contribution to climate change mitigation by reforestation of degraded land. This generates long-term carbon storage capacity, offering high quality carbon credits that provide significant co-benefits to local communities and to the area's ecology. The first 4,500 VCS certified carbon credits as part of this project and corresponding to roughly 1,500 ha are currently available for sale. This number is expected to reach 500.000 carbon credits when the entire plantation is established.

2.12 The financial model used for the project does not attribute any value to the carbon credits which translates on an underestimation of the project's revenues, especially as the current stands start maturing and the certification covers bigger areas of the plantations. This financial decision is required as Form Ghana has not entered into a sale agreement with a creditworthy third-party.

Barriers for Market Transformation

2.13 A number of barriers exist that are hampering market transformation of the sector. These are a combination of limited track record of these types of plantations and inexistence of financial markets with appropriate instruments to finance businesses with their bulk of returns materializing in the long-run. In detail, these barriers include:

- (i) Lack of track record: Teak sustainable plantations are relatively new in the African continent and are therefore a new market to be explored for financial institutions seeking to provide support to these businesses. Second, there is an unsubstantiated perception that short rotation teak quality (average 22 years) is inferior to long rotation teak (40 years) and without large volumes available for sale to date, an international wood-grading system for plantation teak has not yet emerged, such as the one for natural teak wood. Due to these reasons, there is a limited empirical track record for the production and use of intensively grown on short-rotation teak.

- (ii) Lack of adequate finance (long term, patient investment): The cycle for short-rotation teak is completed in 22 years on average, during which specific areas of the plantation will go through harvesting. Teak plantations require a long-term investment horizon and considerable high upfront investments in both land preparation and capital-intensive plantation establishment costs than other project finance transactions. The return on investment is concentrated at the back-end of the 22 years as trees mature and the standing tree value increases. There are obviously business models that accelerate harvesting and do not properly maintain plantations throughout their growth cycle which impacts considerably the value of the trees as sizes are below ideal. In order to maximize final volumes, maintenance operations such as weeding, thinning, and pruning must be meticulously conducted to ensure the desired market value is obtained. Existing financial products from both private and public sources and including those provided by Multilateral Development Banks, lack the long-term characteristics in terms of tenors and grace periods that are required to cultivate teak. Patient capital is therefore essential to stimulate the growth of this sector and the bankability of this project in specific, especially in Africa where track record is still lacking. Around the World, some companies have attempted to achieve scale in teak plantations without proper financing and as a consequence are facing solvency issues because the debt terms did not match, on one side the end-of-tail cash-flows resulting from the sale of their assets, and on the other the need to actively manage plantations in a way that final harvesting operations are delayed as much as possible so that value is maximized. The Project Sponsor is facing similar challenges in raising funds to expand the plantation size and in ensuring proper maintenance. In addition, due to the early age of the existing plantations, with major positive free cash flow expected only from 2025 onwards, the only potential investors capable of providing sufficiently attractive financing terms (long-enough grace period, interest capitalization, etc.) is the FIP and AfDB benefiting from FIP's financial additionality.

Institutional investors such as public and private pension funds, insurance companies are increasingly supporting forest investments and adding those assets to their portfolios. The chief attribute of the forestry asset class is its superior historical risk-return profile relative to other asset classes. Investors have been drawn by its performance in terms of return stability, positive correlation with inflation and negative correlation with financial markets' performance. While investment flows have been increasing in developed countries, African has seen a limited amount of foreign direct investment in the forestry sector to date for a number of challenges. These include: (i) weak land-tenure and ownership issues that only allow for leases or concession rights, (ii) broad spectrum of sensitivity environmental and social issues that require considerable involvement from communities, (iii) weaker local industrial capacity to process timber, and more generically, (iv) typical emerging market risks. If successful, this project will contribute to attract the attention of institutional investors into Ghana in the medium and long-term. At the same time, these may represent a good exit strategy for AfDB and FIP.

Proposal Strategy for Achieving Market Transformation

2.14 The Project will have a significant transformational impact role in the future of the Ghana forest plantation sector by supporting a new business model that will serve as an example to other investors. The wood products that will be produced as a result of the project will have the quality and sustainable

stamp that will contribute to meet increasing local, regional and global market demand while avoiding pressure on natural reserve forests.

2.15 By aiming at implementing sustainable forest management practices, the Project will promote inclusion of biodiversity conservation and ecosystem services at scale in a social and environmentally manner.

2.16 Currently, market incentives are driving conversion of forests (where they exist and are not already totally degraded) to other land uses including agriculture. FIP resources are needed to consolidate a business case for sustainable forest management that leads to substantial carbon sequestration and enhanced environmental services in a market that still needs incentives to make innovative projects viable and accelerate market transformation.

2.17 FIP Funds will support the demonstration of a business model at a large scale which is competitive and more profitable than illegal logging and unsustainable forest management, as well as more competitive than other land use activities that result high GHG emissions and put pressure natural forests. Moreover, by supporting pioneering companies that work beyond environmental requirements to implement initiatives that increase the quality and management of conservation areas, the proposed project will also demonstrate approaches that can be further replicated in Ghana and in the region while ensuring that it is financial viability.

FIT WITH FIP INVESTMENT CRITERIA

Climate Change Mitigation Potential

3.1 The already VCS certification estimates the net greenhouse gas sequestration potential for the first 1,506ha at 360.943 tCO₂ over 40 years. Using this estimate as a basis for the entire project (i.e. 11.700 ha), we estimate a climate change potential of around 2.8 million tCO₂ over 40 years or 70,103 tCO₂ per year.

Demonstration Potential at Scale

3.2 The participation on FIP in this project provides the critical support to early movers of a nascent but growing sector to demonstrate a business case to later entrant, which at the moment is not bankable on its own. This effect will unlock investments from other investors in sustainable plantations.

3.3 Most importantly, there is an opportunity to provide demonstration effect for financiers at large of how a well-managed project with strong social and environmental components and with sufficient patient capital can invest in a new business model that is more sustainable and environmentally friendly. Achieving economies of scale will make it easier for already established illegal logging companies to transit to an honest and legal business model.

Cost Effectiveness

3.4 Based on the GHG calculation highlighted earlier in the document and the FIP investment of USD 10 million, the implied direct GHG reductions for the FIP financing will be USD 3.56 per tCO₂. This is based on a total net positive change in GHG sequestration of 2.8 million of tCO₂ over 40 years of the project cycle.

Implementation Potential

3.5 The project is already under operations with a total of 5,700 ha to be fully planted by the end of 2015. In addition, the project runs two nurseries that have sufficient capacity to cover the project's needs for both native and teak seedlings. FIP financing will be key in supporting the expansion of the plantation to 11,700 ha and to ensure proper and timely maintenance of the existing stands. FIP intervention will considerably accelerate the plantation establishment process and be linked to a future expansion to a total of 20,000 ha.

Integrating Sustainable Development (Co-benefits)

3.6 The project will meet high-level standards of integration of environmental and social concerns.

- Environmental co-benefits: By reforesting degraded forest reserves, the project will make a valuable contribution to the restoration of Ghanaian forests and their ecosystem services such as (i) conservation of biodiversity, (ii) regulation of water regimes, (iii) maintenance of soil quality and limitation of erosion, (iv) fire protection and climate regulation.
- For instance in terms of biodiversity, the standing degraded forest along river courses will be assisted in its recovery by assisted natural regeneration techniques. Areas less suitable for teak and buffer zones along water streams will be actively reforested with a variety of indigenous tree species and endangered native tree species will be reintroduced in the area.
- Due to the reforestation activities, the ecosystem will change from an open savanna to a dense (plantation) forest ecosystem. This means fauna composition will also change over time and endangered fauna species will be likely to be seen in the forest reserves. That is why Form Ghana will protect wildlife with poaching control.
- Social co-benefits: The project will comply with the social criteria of the FSC, which is beneficial not only to the employees, but also to local people that are indirectly involved in the activities of the project. The project will deliver important social benefits to the area in a number of ways including through Land Lease and BSA agreements. In addition, it will contribute to employment generation and cooperation with local farmers.
- Form Ghana has a long-term Land Lease Agreement with traditional land owners and the GoG to restore productive forest in the degraded forest reserves. Additionally, the FC, Form Ghana and Traditional Councils signed two BSA to formally document the responsibilities and future benefits of each of the three key stakeholders.

- The company currently employs around 200 permanent workers and 300 temporary workers. These numbers will grow to a total of 1,000 as operations are expanding. Employees are offered a safe and healthy working environment, with good employment terms, favorable health insurance and retirement conditions. Free meals and transportation are provided to the employees. Many of them are also receive training in fire-fighting, safety-regulations, first aid, silvicultural and reduced impact logging practices.
- In the forests managed by Form Ghana (both Akumadan and Tain II), illegal farming was widespread. This was mainly practiced by migrants from the North that do not have easy access to land outside the forest reserves. The project will offer these illegal farmers the option to participate in intercropping systems as follows: (i) during the first two years and after tree planting, farmers will be able to plant their annual food crops, like maize, okra or tomatoes, in between the seedlings. After the two years, farmers have the option to move their intercropping areas to new plantation areas, thus migrating with the company's activities. If such farmers do not want to migrate, thus putting the plantations at risk, the Traditional Councils will be called in order to mediate with the squatters, and find alternative settlements for them.
- If feasible, the plantation out-grower schemes will provide extra opportunities for local smallholders to generate income. In this scheme, smallholders will be offered input and technical assistance to plant some of their land with teak.

Environmental and Social Safeguards

3.7 AfDB's environmental and social assessment was prepared in accordance with AfDB's Integrated Safeguards System (ISS) and Environmental Assessment Procedures (ESAP) served as the basis for the environmental and social assessment made to the project. The project fulfilled ISS requirements for a Category 1 project. The full Environmental and Social Impact Assessment (ESIA) provides information on project activities, anticipated impacts, measures to be put in place to mitigate those impacts, and institutional arrangements to facilitate implementation and monitoring of the Environmental and Social Management Plan (ESMP). In addition, a Resettlement Action Plan was also developed.

3.8 The project is in full compliance with Ghanaian legislation and policies, particularly the: (i) Ghana Forest Policy (1995), (ii) the Forest and Wildlife Policy (1994), (iii) the National Land Policy (1999), (iv) the Farm Lands Act (1962), (v) the Ghana Environment Policy, (vi) the Forest Protection Act (1974), (vi) the Timber Resource Management Act (1998), (vii) the Forestry Commission Act (1999), (viii) the Wild Animals Preservation Act (1961), and (ix) the Environmental Protection Agency Act (1994). In addition to financial, legal, technical and credit due diligence, environmental and social due diligence is an integral part of AfDB's due diligence efforts.

3.9 During appraisal, Form Ghana's operations were assessed against AfDB's operational safeguards. These include: (i) environment and social assessment, (ii) involuntary resettlement, land acquisition, population displacement and compensation, (iii) biodiversity and ecosystem services, (iv) pollution prevention and control, hazardous materials and resource efficiency, and (v) labour conditions, health and safety. The company was found to be compliant not only with the national policies mentioned above

but also other international requirements such as the United Nations Framework Convention on Climate Change and the African Convention on the Conservation of Nature and Natural Resources.

3.10 AfDB’ safeguards team concluded that *“no significant environmental impacts will occur as a result of the project and, when taken together, the overall environmental and social impacts will not be significant. The ESIA reports and relevant annexes have been submitted to the Ghanaian Environmental Protection Agency for approval and issuance of the environmental license”*.

Financial Sustainability

3.11 The FIP funds will support early movers to demonstrate the case for later entrants by filling the financing gap that will enable the Project to reach scale while achieving appropriate returns to its investors. Over time, the track record established by this Project, will make it appealing for institutional and other commercial investors to invest in plantation forestry (beyond eucalyptus and other tree species that grow on very short cycles) in the region, gradually reducing the need for support from concessional sources. In addition, FIP financing will be of paramount importance in leveraging additional financial resources, including those from AfDB that will act as a co-financier to the project as it will mitigate important risks that could impede AfDB’s involvement in the deal. Finally, the FIP funds being proposed to this project reflect substantial leverage (above 4:1) as required by the FIP Design Document.

Effective Utilization of Concessional Resources

3.12 FIP resources will be deployed in the form of a long-term concessional loan at an interest rate of 1%, a grace period of 7 years, a tenor of 15 years, and finally interest payments will be capitalized during grace period. These terms were determined following detailed sensitivity analysis of project’s cash-flows, reflecting at the same time the need of abiding by the principles of minimum concessionality, avoidance of market distortion and crowding out of other investors and the need to ensure financial viability and appropriate security reflected in appropriate debt service coverage for both AfDB and the FIP as the only debt financiers of the project.

Expected Results

Indicators	Results
Number of Tons of CO ₂ sequestered through afforestation and reforestation activities	Approximately 70,103 tCO ₂ per year for a total of 2.8 million tCO ₂ over 40 years.
Sustainable management of forests and forest landscapes to address drivers of deforestation and forest degradation	11,700 ha of sustainably managed forest plantation with FSC and VCS certification
Number of jobs created	400 direct full-time jobs and 600 direct seasonal jobs created

CONCLUSION AND RECOMMENDATIONS

4.1 The Project will help meet the overarching objective of Ghana's FIP IP by addressing the underlying drivers of deforestation and catalyze transformational change by providing upfront investment to support the implementation of the country's strategy on REDD+.

4.2 The AfDB invites the FIP Sub-Committee to approve a FIP loan of USD 10 million.

ANNEX 1: INVESTMENTS IN SUSTAINABLE FORESTRY – A BRIEF PRESENTED TO AfDB'S CREDIT COMMITTEE

Note: This brief was presented to AfDB's Credit Committee as part of the internal review and approval process of this project.

1. **Background.** Three hundred fifty million people around the world depend on forests for their subsistence and income. Many more enjoy the environmental benefits of forests (e.g. protect watersheds, provide fuel and other necessities, trap carbon, contribute to soil fertility, and reduce the risks of natural disasters like floods and landslides). Yet despite their tremendous value to society, forests are shrinking. FAO currently estimates the world loses about 13 million ha of primary forest annually with emerging markets particularly vulnerable.

2. Sustainable forest management requires substantial financial resources. Developing countries need to explore and encourage all sources and mechanisms of funding for the forest sector. A study from the World Bank suggest that private investment in the forestry sector in developing and transition countries is estimated at USD 15 billion per year. To date, private investment in sustainable forest

management has been concentrated in developed countries. Although this trend is changing, the need remains to motivate similar investments in developing countries to maximize the full potential of these forests, because investments required for harvesting and processing can be large (for example, establishing a modern pulp mill can cost around USD 1 billion). Investments on this scale can only come from global corporations or joint ventures involving local partners and development banks willing to cover the risk.

3. **Investment Opportunity.** The chief attribute of the forestry asset class is its superior historical risk-return profile relative to other asset classes. Investors have been drawn by its performance in terms of stability of returns and positive correlation with inflation, providing an effective inflation hedge. These investment strengths are supported by the most basic characteristic of these assets – the biological growth of trees that is uncorrelated to both economic and financial markets’ performance, and continues as long as there is soil, water and sunlight. Furthermore, continued biological growth not only increases the marketable volume of timber, it can also increase the value of the forest, as larger-diameter logs yield a greater proportion of high-value products. Also, harvests can be accelerated or delayed based on the market prices for forest products as well as companies’ cash obligations, providing unique inventory flexibility that can mitigate the impact of downturns in business cycles.

4. A study by Proparco shows that investors in mature market have achieved sizeable returns in the past two decades. Based on the National Council for Real Estate Investment Fiduciaries (NCREIF) index, an investment in a U.S. timber asset in 1986 would have grown at a compound annual return of nearly 16% through 2008. Adjusted for inflation, the real rate of return for this period exceeds 12%, more than twice the real return one would have achieved investing in stocks or residential real estate during the same period.

5. Teak is one of the most valuable high grade tropical hardwoods in the world due to its unique durability properties and aesthetic qualities. Its reputation for excellent wood quality stems from its sought-after properties, which include: (i) strength with lightness, (ii) durability, (iii) dimensional stability, (iv) corrosion resistance when in contact with metals, (v) ease of working and seasoning, and as a plantation species, resistance to termite, chemical, fungus, and (vi) once established, resistance to adverse weather conditions, namely droughts and fire. Such properties have made it a prized wood for a wide range of traditional and contemporary end-uses including for furniture and joinery, veneers, flooring, marine applications and garden and patio furniture. Teak plantations have a rotation period of around 20-30 years. During this period proper maintenance (e.g. thinning, pruning, and weeding) is required to maximize growth of the trees in both size and value.

6. Institutional Forestry Investment (e.g. Pension Funds) is a USD 50 billion industry with the vast majority of organized timber investments in developed countries (North America, Europe, New Zealand, etc.). Investors are willing to consider emerging markets but weary of: (i) political risk and related tenor appetite, (ii) land/property tenure risks, (iii) local business infrastructure, (iv) transport links to get timber to markets, (v) lack of management skills, and (vi) ability to involve communities.

7. Institutional investors are increasingly focusing on environmental stewardship, adopting environmental and social safeguards that have become benchmarks. Certifications such as the one provided by the Forest Stewardship Council (FSC) are of paramount importance. Over the last 20 years,

FSC has earned a reputation as the most rigorous, credible forest certification system and as a result, advantages of choosing FSC-certified products include: (i) wood-source credibility, (ii) environment protection, (iii) community engagement, and (iv) increased access to markets. Given the long-term nature of forestry investments, the 'costs' of responsible governance more than pay off in the long run, even though they may represent an entry-barrier for short-term product seekers.

8. Technical risks to forest plantations exist in the form of fire, pest, encroachment, appropriation of assets. A number of risk mitigation mechanisms exist but may not yet be available in African countries. For example insurance against fire and pest outbreaks is available in most countries with active plantation sectors but may not be available in Ghana at this time. However, the measures required to obtain FSC certification also go a long way towards mitigating these risks:

- a. Fire and pest risks increase in uniform plantations which lack species and age diversity. FSC specifically requires that diversification is built into plantation design and that significant areas of natural vegetation (which can act to impede the spread of fires and provide habitats for pest controlling species) are protected within the plantations
- b. FSC specifically highlights the need to work with surrounding communities which in turn reduces the risks of encroachment and intentional fire and grazing damage
- c. FSC requires that legal title is established and that forest management activities are approved by the necessary authorities, strengthening the legal basis and reducing susceptibility to expropriation of assets

9. **Why Africa?** Africa offers solid biological growth rates, with relatively low costs to establish and maintain plantations. Sub-Saharan Africa provides attractive growing conditions for species such as eucalyptus, pine and teak. Due to the combination of soil conditions and rainfall, many countries in Africa have already exceeded or have the potential to exceed a mean annual increment (MAI) – a measure of rate of tree growth – of 20 cubic meters per hectare per year. This compares favorably with growth rates in most parts of the world, and is considerably higher than for mature markets in temperate regions. Africa also offers among the lowest plantation establishment costs of any region in the world. This and the low maintenance costs position properly sited African forestry projects well to serve growing domestic demand as well as traditional European, Asian and North American markets. Land limitations in other regions and increasing demand in Asia are expected to lead to new market opportunities for forest products originating in Eastern and Southern Africa. There is tremendous availability of land in Africa – of the estimated 500 million hectares of degraded land (formerly forested tropical land not being used for agriculture, settlement, or other purposes) worldwide, 300 million hectares are found in Africa – makes the continent an attractive option for establishing plantations. The ability to site plantation projects on land without a competing use is critical to developing socially acceptable large-scale forestry projects.

10. **International Finance Corporation Role in Forestry Investments.** Over the past decade, IFC has invested in 56 sustainable projects along the forest product supply chain worth USD 1.5 billion. Why continue investing in a sometimes controversial industry? IFC believes it plays a critical global leadership role by ensuring that its projects set an example of environmental and social stewardship. A review by the World Bank's Independent Evaluation Group, published earlier this year, found that IFC's forestry projects

have helped developing countries produce higher value-added products, improved efficiency and yielded strong rates of financial return.

11. Among the key achievements of its forestry transactions, IFC claims that these have: (i) provided strong return profiles, (ii) the loan performance is strong, (iii) are sequestering up to 4 million tons of CO₂ per year, and (iv) created up to 85,000 jobs. On the other, lack of Patient Capital is seen as big barrier for the scaling-up of these investments.

12. **Potential Role for AfDB.** In addition to the much needed patient capital that is provided through tailor-made financing (with longer grace periods, back-loading of principal repayments, etc.) that highly contribute to the bankability of sustainable forestry projects, AfDB's involvement has the ability to provide client companies with a "seal of approval" that will over time contribute to mitigate political and market risk and improve access to capital in Africa. Possible exit strategies may include the possibility of selling the loans to institutional investors once the investment concept gains credibility and first-mover risks are mitigated.