



African Forestry Impact Platform Case Study (AFIP)¹

AFIP is an investment platform investing in sustainable forestry, as well as providing finance for environmental and social activities that are designed to improve the viability of the forestry asset class in Africa.

Investment Summary

Country: Pan-African, regional

Established: 2023

Sector: Forestry

Structure: Permanent Capital Vehicle

Total size: \$200 million²

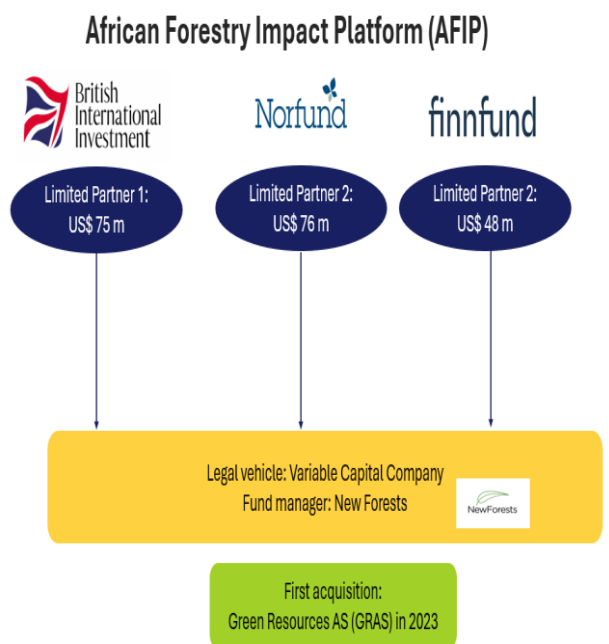
Private capital mobilised: None yet.

Development and Impact rationale: AFIP aims to strengthen the sustainable forestry industry across the African continent, which is sub-scale and has struggled to operate profitably. The forestry industry has great potential for positive impact in different ways: by supplying processed timber locally (Africa is currently an importer), by generating rural livelihoods and benefiting local communities, and there are environmental impacts from avoided deforestation, carbon sequestration from new planting and the biodiversity preservation associated with well-managed concessions.

With its engagement in AFIP and the sustainable forestry sector in Africa, BII aims to contribute to the optimization of this sector across Africa. AFIP will support BII's aims in African forestry sector by contributing to:

1. Increased sustainable and profitable supply of plantation-based wood products in Africa;
2. The optimization of the utilizable sustainable yield from existing natural production forest integrated operations; and
3. Regaining ecological functions and enhanced economic benefits on degraded and deforested land through reforestation.

Structure



Platform investments will seek to have the following impacts



BII's expectations in this field are long-term (>10 years).³

¹ The facts and figures contained here are sourced from BII documents and interviews with BII staff conducted with the purpose of this study.

² In 2023, AFIP closed at USD 200 million.

³ For more information on BII's analysis on the potential contributions of sustainable forestry to Africa's economic development, as well as to global climate change mitigation and improved livelihoods for local communities, you can read: Hu, I., Shaw, M. et

One of the greatest challenges in the African forestry industry has been developing the markets for wood products and getting the right downstream processing and marketing arrangements in place. In addition to earning revenues from wood sales, planting on degraded land should be a source of afforestation carbon credits. Certified sustainable forestry already requires careful biodiversity management alongside plantations, but in the future the development of a market for biodiversity credits could create potential for more stand-alone biodiversity projects.

Mobilisation rationale and history: Commercial capital to invest in the forestry sector in Africa is currently limited, so BII's initiative to develop AFIP as a platform aims to attract other development finance providers to support the sustainable development of Africa's forestry sector – with a target of raising USD 500 million in three years. Achieving that target will likely require AFIP to attract private investors alongside other DFIs. The permanent capital vehicle approach allows AFIP to align its investment management with the long-term development of the forestry industry. BII believes that the combination of both patient capital and management will provide the right ingredients to create a sustainable forestry industry in Africa.

AFIP was capitalised in 2023 with USD 200 million from Development Finance Institutions: USD 75 million from BII, USD 76 million from Norfund and USD 48 million from Finnfund. Following the initial capital contributions, AFIP announced its first, and so far, only acquisition – Green Resources AS (GRAS), which had been majority owned by Norfund and Finnfund. Green Resources manages approximately 38,000 ha of plantation forest in Mozambique, Tanzania, and Uganda. It operates industrial facilities including sawmills, pole treatment plants and some biomass. Additional capital is expected to be raised to finance greenfield projects and potential acquisitions – the AFIP team has sufficient capacity to manage fundraising processes from, for example, MDBs, some African pension funds, and foundations. BII expects that its participation in AFIP together with Norfund and Finnfund will signal to investors that its projects are credible, well-managed, and aligned with high standards of social and environmental sustainability.

Financial and legal structure: AFIP is managed by New Forests, a global investment manager of nature-based assets founded in 2005. New Forests manage a diversified portfolio of sustainable timber plantations and conservation areas, carbon and conservation finance projects, timber processing and infrastructure, in several regions including the Asia-Pacific region, the US and more recently Africa. AFIP is registered as a Variable Capital Company (VCC).

Governance: AFIP is run by a management team based in Nairobi. AFIP governance structure and related bodies are designed to support AFIP's economic sustainability, understanding of the markets where it operates and to ensure the delivery of world-class environmental, social and governance standards. Each governing entity (including the investment committee) relies on independent members to improve transparency and accountability, and to benefit from their market expertise.

Operational experience: BII anticipates challenges could come from issues related to host government policy instability, fire, disease, and eventually greenfield projects. So far, AFIP has been concentrating in building the local team and fundraising, with BII's active support.

Key insights

- **Selecting the right type of vehicle to make an impact:** Forestry is an inherently long-run business and although it is possible for closed-end funds to make and exit, forestry investments, the time constraints can limit possibilities. The permanent capital vehicle structure is well-suited for AFIP's investment needs – it provides a long-term opportunity for the strategies to bear fruit and demonstrate the ability to sustainably generate positive financial returns. Thus, AFIP can focus on optimising the performance of its forestry assets and maximising impact, rather than on returning capital to investors in the medium term.
- **Local knowledge and presence:** Despite the difficulties in building a professional African-based team – long recruitment processes to identify the right skills and profiles – the local and regional knowledge

of the team has been essential for managing high due diligence requirements, as well as for identifying the actions required to bring the business to a position of financial sustainability.

- **Mobilising private capital** is part of the objectives of the platform. Thus, it was important to ensure the management team and the shareholders were orientated towards that goal from the very beginning, with a clear perspective on potential investors who could be interested in investing in a sector where commercial returns are not yet evident but which would only materialise over the midterm.