OVERCOMING INVESTMENT BARRIERS IN THE FOREST SECTOR: LESSONS LEARNED FROM NINE CASES IN EUROPE

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Introduction

Forests and forest-related value chains can make a significant contribution to the development of a circular bioeconomy; one that protects biodiversity, mitigates climate change, creates jobs in green sectors and protects livelihoods in rural communities. However, there are still a number of significant barriers that must be overcome for the necessary investments to be made in forest restoration and management, and forest-related value chains.

These barriers include: complicated regulation, fragmented ownership, market failures, uncertainty and risk, limited access to finance, relatively reduced liquidity and low returns. This report summarises some of the lessons learned at the Overcoming Investment Barriers in the Forest Sector workshop held in Brussels, Belgium on 13 September 2024 and hosted by the European Investment Bank and the European Forest Institute's Bioregions Facility.

Key messages

Addressing a persistent market failure

Wood and a small range of non-wood forest products generate most of the revenue streams in forestry. It is necessary to value the multifunctional nature of forests.

A complex sector with regards to policy and regulation

The regulatory environment for forests and forestry is complex. There is a need for a clear policy roadmap based on a shared vision of the role of forests, forestry and forest-based value chains.

A fragmented investment landscape in need of aggregation

Forest ownership and industry are highly fragmented, reducing access to markets, technology and finance. Regional governments and institutions are relevant to overcome challenges related to fragmentation.

Better targeted tools to overcome the valley of death

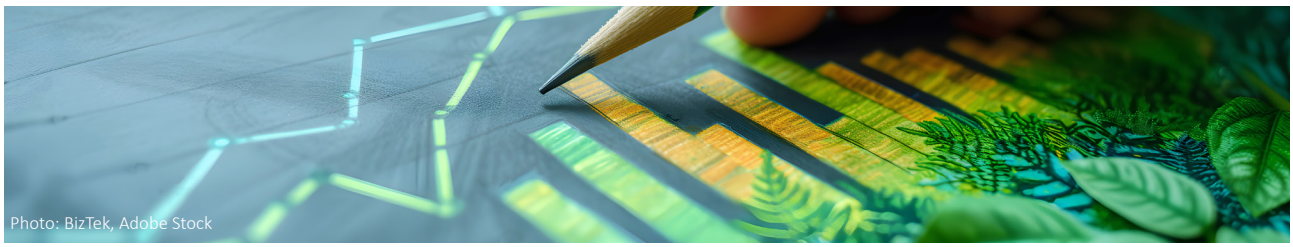
Europe lacks effective tools that help start-ups in scaling up. It is important to develop support tools to facilitate and de-risk investments to bring new bioeconomy products onto the market.

Blended finance – an option with significant potential yet to be unlocked

Combining private, public and philanthropic funding can help make forest investments more viable, mitigating risks and improving access to finance.

Bridging the knowledge gap

It is important that investors become more knowledgeable about forestry and, likewise, that forest project developers become more financially literate.


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Addressing a persistent market failure

Forests supply a wide range of ecosystem services, which can help to improve responses to current societal challenges. Given the significant trade-offs, balancing the provision of different goods and services is a major challenge. In reality, only wood and a small range of non-wood forest products generate revenue streams, while most other ecosystem services remain outside of the markets as externalities. In a context of low returns, the lack of functional markets for ecosystem services creates significant limitations in defining bankable projects and limiting private investors in forest ecosystem services. While carbon markets are opening up new opportunities and creating revenue streams that recognise the multifunctional nature of forest management, it is extremely important to understand the value of offering a range of different ecosystem services.

A complex sector with regards to policy and regulation

Forests and forest management grow in relevance in a number of policy areas and societal concerns (such as climate change, biodiversity, rural development and bioeconomy). The environment in which forests and forestry operate becomes increasingly complex because rapidly evolving, and at times incoherent regulation can generate uncertainty. Moreover, investors often need to navigate regulations that can vary both in and outside the European Union, increasing administrative costs and reducing market size. There is a need for a clear policy roadmap based on a shared vision of the role and future development of forests, forestry and forest-based value chains.

A fragmented investment landscape in need of aggregation

Around 60% of forests in the European Union are privately owned, while 40% are owned publicly in different proportions and tenure models by communities, municipalities and regional or national governments. In some areas, ownership fragmentation is extreme, with the average private forest around one hectare. In much of Europe, the sawmilling sector – in contrast to the pulp and paper industries – is dominated by small family businesses where lower competitive capacity is compensated by proximity to materials and markets. This double fragmentation leads to higher operational costs, reduced access to new markets, technology and finance. It is important to develop innovative approaches to overcome these fragmentation barriers, and to facilitate investment in nature restoration and forest-based bioeconomy that promotes sustainability principles in feedstock sourcing areas. Regional governments and other regional institutions can play a role in setting up such schemes.

"According to UNEP, the current financial flow with negative impacts on nature is reaching US$7 trillion, from public and private funds, and the flow to nature-based solutions, including forest investments, it is estimated to be US$200 billion. There are a lot of financial and economic interests connected to investment that have a damaging effect on nature. We must consolidate such a set of interests to invest in nature-based solutions",



Davide Pettenella, Full Professor at the University of Padova

"Companies must have a clear understanding of how the business environment and regulation will look in 10-20 years' time",



Niklas von Weymarn, CEO at Metsä Spring

"Private land ownership fragmentation is a significant challenge for forest investments. To such an extent that we have to focus our restoration work on common lands as the only viable way to reach a certain scale. Even then, administrative procedures remain a challenge, as they can last several months or years",



Pedro Lencart, Managing Director at Antarr

Better targeted tools to overcome the valley of death

Bringing new bio-based materials or products to the market often requires significant investment, high risk, or both. Europe has a world class research ecosystem and leading support programmes, however it still lacks the tools to help businesses cross the valley of death and bring new bioeconomy products onto the market. It is important to develop infrastructure for piloting and scaling up solutions, and to make a collaborative effort to create more suitable financing instruments to facilitate and de-risk investment. Supporting innovative businesses so that they can cross the valley of death will contribute to a competitive and prosperous Europe.

Blended finance – an option with significant potential yet to be unlocked

Blended finance – combining public and/or philanthropic funds to mobilise private capital for investment – can help overcome these barriers and make forest investments more viable. Blended finance can contribute to risk mitigation and help improve access to finance for innovative products and services. More systematic public-private collaboration would bolster knowledge transfer and improve understanding of sustainable forest practices, forest value chains, and investment opportunities.

Bridging the knowledge gap

Investing in forest-based projects can be less attractive to investors due to the long-term nature of returns in a context of high uncertainty and real or perceived risks, emerging from both environmental and societal factors. Investors frequently struggle to access comprehensive and reliable information about forest projects, further complicating their decision-making. Meanwhile, public and private promoters often have insufficient knowledge and capacity to develop well-structured and financially sound projects. We must open dialogue between the various stakeholders, helping forest project developers to become more financially literate and helping investors become more knowledgeable about forestry. In this regard, the InvestEU Advisory Hub can provide comprehensive support for investment projects throughout their lifecycle, helping project promoters and financial intermediaries improve their techniques, and supporting market development activities.

"EU support and de-risking instruments remain crucial in the final scale-up stage for success stories to thrive and stay in Europe",



Merili Palu, Site Selection & Planning Manager at Fibenol

"The forest sector holds significant untapped potential for promoting sustainable growth, rural development and nature conservation. Both public and private sectors must collaborate to harness this potential and explore nature-based solutions",



Felipe Ortega Schlingmann, Head of the Bioeconomy Division at the European Invesment Bank

"These barriers cannot be solved in isolation by any party. The goal is to establish partnerships and collaboration that support overcoming these challenges, such as those between financiers, developers, and forest owners",



Stephen Hart, Financial Advisor at the European Investment Bank



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Cases

Learn more about the barriers to investment in the forest sector by reading through the nine case studies that were presented at the workshop:

- Catalan Forest Adaptation Credits: investing in resilient landscapes
- Antarr investment case: enhancing resilience and productivity of Portuguese forests
- Land Life's approach: upscaling nature restoration and reforestation with private funds
- Czech Republic forest restoration: financing post-bark beetle restoration
- NRW.BANK example: how funding programmes can help overcome current challenges in the forest-wood value chain
- Baskegur: three investments in the woodworking industry in the Basque Country, Spain
- Fibenol: from demonstration to impact and navigating the critical stages of biorefinery scale-up
- CMPC Ventures: investing in European wood start-ups
- Metsä Spring: bringing innovative textile fibres to the market and investing in a demo plant

This document highlights the main discussion points of the "Overcoming Investment Barriers in the Forest Sector" workshop, which was held in Brussels, Belgium, on 13 September 2024. It does not necessarily reflect the position or opinion of the organisers nor the workshop participants. Scan the QR code to access the report and explore the nine case studies online. Quotes were edited for content and clarity.

This publication was made possible thanks to the continued support of Bioregions members. To learn more about them, visit bioregions.efi.int/bioregions.

Briers, S., Martinez de Arano, I., Mendes, R., Caurla, S., Enache, A. 2024. Overcoming investment barriers in the forest sector: lessons learned from nine cases in Europe. European Forest Institute.

Publication layout and design: Rodrigo Mendes



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