MINISTRY OF ENVIRONMENT AND FORESTRY
REPUBLIC OF INDONESIA

Mobilising Investment into Forest Ventures

THE MULTISTAKEHOLDER FORESTRY PROGRAMME PHASE 4 (MFP4) IN INDONESIA

This report has been produced by the Blended Finance Taskforce Secretariat. Members and friends of the Blended Finance Taskforce or their organisations have provided inputs and insights into the material but have not been asked to formally endorse this work and they should not be taken to have done so. The Blended Finance Taskforce is not an investment adviser and makes no representation regarding the advisability of investing in any company, investment fund or other vehicle. Readers may reproduce material for their own publications, as long as they are not sold commercially and are given appropriate attribution.

Blended Finance Taskforce
c/o SYSTEMIQ 69
Carter Lane
London EC4V 5EQ
United Kingdom

contact@blendedfinance.earth

Source of cover photo:
Women community members plant newly matured seedlings at the Cinta Raja Rainforest Restoration Site in Gunung Leuser National Park (GNLP) in Sumatra, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

Mobilising Investment into Forest Ventures

THE MULTISTAKEHOLDER FORESTRY PROGRAMME PHASE 4 (MFP4) IN INDONESIA

Photo credit:
A farmer climbs up a palm sugar tree to collect the sap at a forest in Sintang regency, West Kalimantan, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

Acknowledgements

This report was developed by SYSTEMIQ Ltd as part of the Multistakeholder Forestry Programme Phase 4 (MFP4) work, which is delivered in partnership with the Palladium Group.

The Multistakeholder Forestry Programme has been working in Indonesia since 2000 to strengthen forest governance, tackle illegal logging and improve the livelihoods of forest-dependent communities. MFP4 is funded by the UK Foreign, Commonwealth & Development Office. We are grateful to the Foreign, Commonwealth & Development Office for funding this report.

MFP4 incubates a number of businesses that support Community-Based Forest Enterprises to grow faster, become financially sustainable, and access new markets. MFP4 also helps to improve the enabling conditions for the long-term growth of these business models across Indonesia. This publication was commissioned to identify barriers of financing that Forest Ventures face and possible solutions.

We would also like to thank all the founders, CEOs and CFOs of the Forest Ventures we spoke with that are driving real change and achieving impact for people and planet: Arief Rabik, Indobamboo; Matt Saragih, SOBI; Khafidz Nasrullah, Nares; Erdi Rulianto, Timurasa; and Helianti Hilman, Javara. Without your vision, leadership, and commitment, we would have no regenerative markets to scale.

We are also grateful to all the investors and experts we spoke to who are operating in Indonesia across the impact investing, venture capital and philanthropic domains. They helped us better understand the rapid shifts in the market that are occurring today and where the greatest opportunities lie going forward.

Finally, we would like to thank the members and friends of the Blended Finance Taskforce who generously offered their time and insights and shared their story of sustainable and impact investment in Indonesia.

mfp MULTISTAKEHOLDER FORESTRY PROGRAMME

MINISTRY OF ENVIRONMENT AND FORESTRY REPUBLIC OF INDONESIA

UKaid from the British people

Photo credit:
A farmer climbs up a palm sugar tree to collect the sap at a forest in Sintang regency, West Kalimantan, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

Scaling Forest Ventures across the tropical forest frontier

There is no pathway to achieve the United Nations Sustainable Development Goals or the Paris Agreement that does not assume a reduction in deforestation and significant restoration of forests and other ecosystems by 2030.

Achieving this is critical to avoid the most severe effects of climate change, reverse biodiversity loss and develop inclusive and resilient societies.

Forests still occupy around a third of the world's land but are being cleared at an increasingly fast rate to make room for farming, grazing of livestock, mining, and drilling. Forestry practices, wildfires and, for a small part urbanisation, are responsible for the remaining 50 percent of global forest loss.[1] Recent modelling shows that there is no necessary trade-off between affordable food production, economic development and protection of natural ecosystems.[2] This means that halting deforestation can be achieved while feeding a growing global population and ensuring the development of prosperous economies across the world. New estimates also demonstrate forests to be generating increasing revenues over the next 30 years, reaching $800 billion per year by 2050.[3]

To reduce deforestation and secure the protection of the forests lying across the tropical belt, an effective strategy is to focus protection efforts on the most vulnerable 20 percent of remaining tropical forests – or 600 million hectares of "forest frontier" – that is already threatened by deforestation.[4]

First, this will require reducing pressure on land for food production by (i) shifting to more plant-based diets; (ii) optimising the production of animal protein from ocean ecosystems (in particular via non-fed mariculture such as bivalves which require no land, no freshwater, no fertiliser and no feed to grow); and (iii) using land more efficiently through regenerative land use and by increasing yields.

Second, it will require governments to (i) update national spatial planning regulation and enforce forest protection moratoria; (ii) create markets to compensate farmers and communities on the forest frontier with payments for ecosystem services; (iii) define trade agreements across net-zero deforestation principles; and (iv) improve the monitoring and transparency on national land use planning and enforcement.

Third, it will require regenerative business models that derive value from the protection, restoration, or sustainable management of forests to be scaled across the forest frontier. This means developing incentives that reward communities and businesses for the sustainable management of forests more highly than traditional single-use extraction models and ultimately supporting the growth of wild forest production, ecotourism, forest carbon projects as well as sustainable agricultural "production-protection" models and replanting of native forests for regulatory reasons.

Creating vibrant forest economies is particularly important to enhance the livelihoods of forest-dependent communities and incentivise an environmentally sustainable use of land.

Poverty levels of local forest communities are often above the national average. For this reason, Indonesia has been pioneering a vision for Social Forestry based on forest landscape restoration by communities and creation of Community Based Forest Enterprises (CBFEs). For these enterprises to create new value chains, substitute existing ones and provide alternative livelihoods, they need to be replicated and scaled. This cannot happen without sufficient investment along the value chain, access to high value markets and the adequate technical solutions.

This report analyses the key barriers to accessing capital for the Forest Ventures that can support CBFEs and the solutions to unlock them.

Forest Ventures are scalable businesses with products and services that helps protect and regenerate forests in partnership with Community Based Forest Enterprises. Through extensive interviews with Forest Ventures operating across the tropical belt in Indonesia and representatives from the philanthropic, angel, impact, and institutional investor communities, we identified targeted interventions to mobilise investment into Forest Ventures. These include: (i) enhancing financial capabilities of Forest Ventures; (ii) raising investor awareness of Forest Venture potential; (iii) designing flexible financing instruments; (iv) incentivising traditional lenders by offering risk mitigation products and (v) optimising the use of public capital to support this agenda.

Results achieved by writing this report go beyond its publication. They include: (i) conversations between Forest Ventures and potential investors on funding; (ii) visibility and profiling of the MFP4 portfolio and regenerative business models in tropical forest countries at a public event like London Climate Action Week; (iii) growing partnerships to develop financing vehicles for Forest Ventures and (iv) developing the idea of a platform to better connect investors with potential pipeline to build regenerative land use systems and reduce the deforestation and degradation of tropical forests.

Photo credit:
An illipe nut that fell from the endangered Shorea Stenoptera tree in the forest is harvested in Sintang regency, West Kalimantan, Indonesia. The nut from this species is a principal source of a vegetable fat called 'tangkawang' or Borneo tallow'; or sometimes 'Illipe'. When ripe the nuts fall to the forest floor, where they are harvested by hand/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

Box 1 : Methodology

This report focuses on Forest Ventures that enable market access to Community Based Forest Enterprises in Indonesia. In 2014, the Indonesian Government announced a project to allow forest-dependent communities to access 12.7 million hectares of forest through Social Forestry permits. This resulted in the establishment of several community-based businesses, like ecotourism ventures or sustainable production of goods such as bamboo, wild forest nuts and other food products or essential oils. These Forest Ventures aim to improve community prosperity and at the same time reduce forest degradation and deforestation.

The Multistakeholder Forestry Programme (MFP4) incubates a number of businesses that support Community-Based Forest Enterprises to grow faster, become financially sustainable, and access new markets. It focuses its efforts on business that connect the high-quality products of enterprises that are established and managed by local communities in Social Forestry areas with wider markets, such as multinational retailers and international and domestic wholesale companies.

The report was commissioned to investigate how to mobilise investment to scale Forest Ventures in Social Forestry areas in Indonesia. Thirty interviews were carried out, including with the Forest Ventures supported by MFP4, other Forest Ventures operating in Indonesia, international experts and investors operating in the impact and land use spheres in Indonesia.

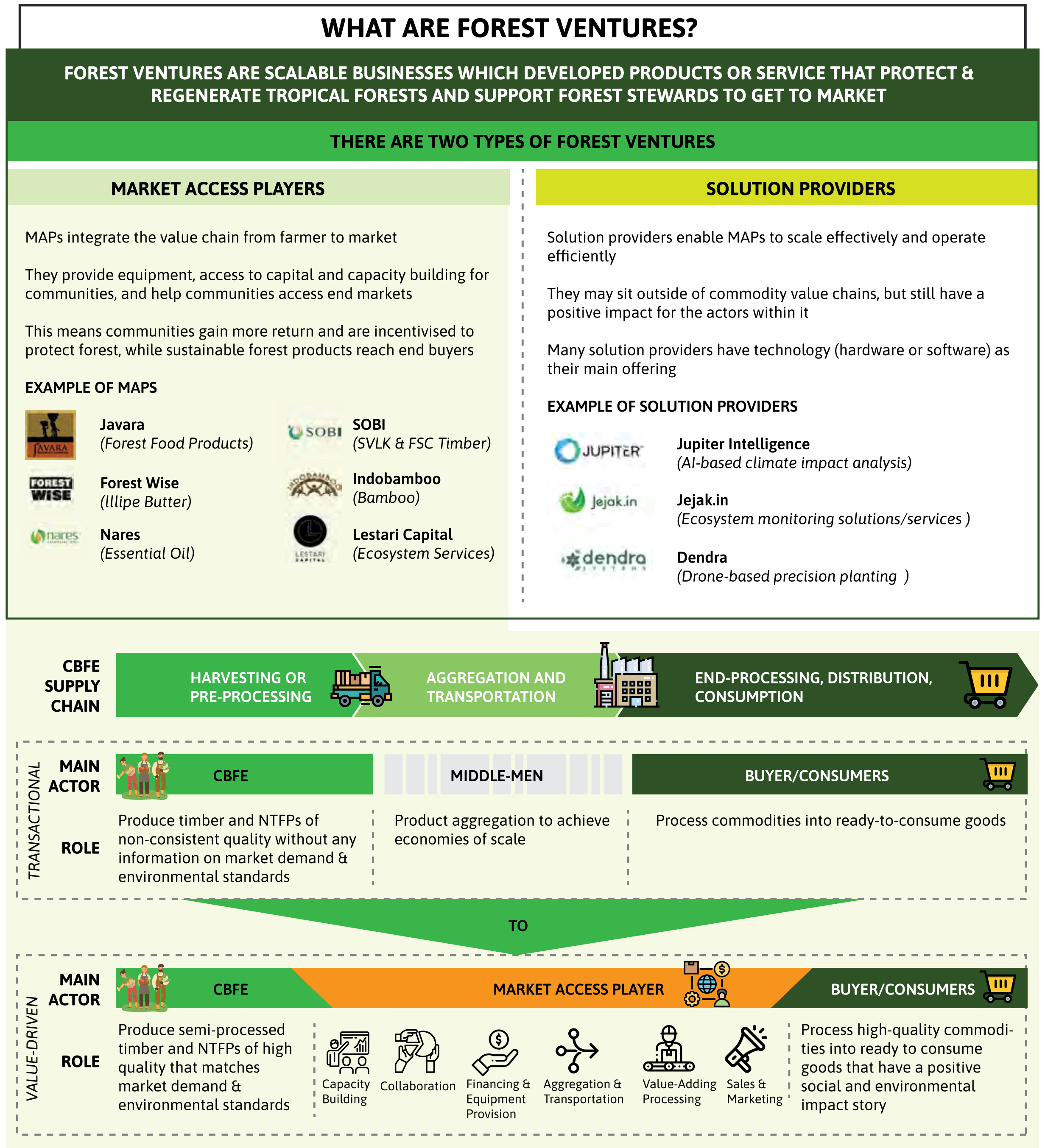
Investing in regenerative forestry and land use in Indonesia

Photo credit:
Field workers plant new trees and take care of newly planted ones at the Cinta Raja Rainforest Restoration Site in Gunung Leuser National Park (GNLP) in Sumatra, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

Indonesia presents high-impact opportunities when it comes to investing into Forest Ventures and regenerative forestry and land use more broadly.

Forest Ventures are scalable businesses developing products and services that protect and regenerate the tropical forest, working in partnership with community businesses to supply them. There are two broad categories of Forest Ventures: Market Access Players and Solution Providers. Market Access Players (MAPs) are socially and environmentally conscious off-takers. Where CBFEs lack the economies of scale, logistical and processing capacity, and technical know-how to bring their products to market, MAPs can bridge that gap by aggregating communities' outputs and selling them into high value markets.

Importantly, MAPs distinguish themselves from normal 'middle-men' by integrating the full value chain from farmer to market. This means that communities gain greater returns for their businesses as their products do not have to travel through long value chains to access markets.



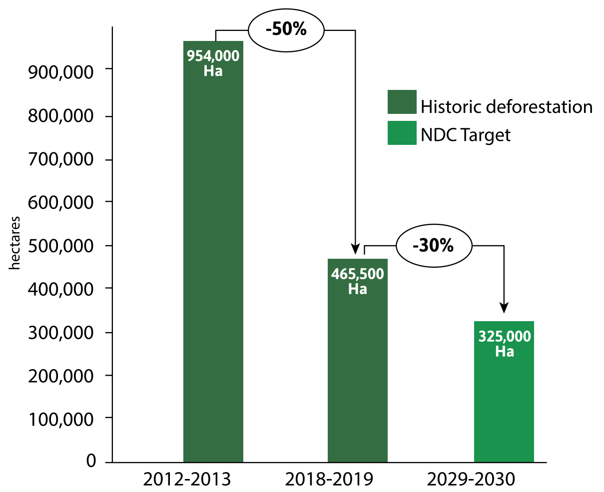
Solution Providers deliver key services to other Forest Ventures that enable them to operate more effectively and efficiently. This includes companies like Jejak.in and Dendra Systems, whose use of new mapping technologies and AI have the potential to reduce the cost of gathering key information about high-potential locations.

Indonesia presents diverse opportunities when it comes to investing in Forest Ventures and can be an example to other forest countries for developing market solutions to address the country's most pressing environmental and social issues.

Firstly, Indonesia hosts 10% of the world's remaining tropical rainforests – second in size only to Brazil – and is one of the five most species-rich countries in the world, with a high rate of endemic species. Thirty five percent of the population is dependent on forests for their livelihoods, accounting for 21% of Indonesia's GDP.[5] Emissions from forest conversions and peatland represent an increasing portion of the country's emission profile,[6] which, in 2015, account for approximately 5% of global GHG emissions.[7] Mobilising capital to Forest Ventures is therefore a matter of urgency to limit global climate change and develop a prosperous economy.

Secondly, Indonesia is on a pathway to decreasing deforestation via enabling policies such as the moratoria on logging and palm oil production and the Social Forestry reform, as well as targeted investment strategies that include (i) the establishment of a dedicated environmental fund (BPDLH) , and (ii) the development of a domestic carbon pricing regime to regulate domestic and international carbon trading. These land management and investment reforms signal the need to develop new form of livelihoods that derive value from standing forests.

Indonesia deforestation levels (hectares)



Enabling policies

- **Social Forestry permits (2014):** target 12,7 million hectares of forests to forests-dependent communities
- **Peat Regulation** (Perpres 120/2020) : up to ~300,000 hectares a of peatland restored annually
- **Palm moratorium** (InPres 8/2018) **:** 1.5 million hectares a year of reduced deforestation
- **Logging moratorium** (InPres 5/2019) **:** 66 milllion hectares of forest protected
- **BPDLH:** dedicated environment fund to deploy REDD+ funds and revenues from international donors and carbon markets
- **Domestic carbon tax & pricing regime** (PerPres 98/2021): regulates carbon tax and pricing

Exhibit 1: Historical and prediction of Indonesian deforestation levels from 2012-2030, alongside list of enabling policies
Source: Ministry of Environment and Forestry, Indonesia Presidential Regulation 120/2020, Indonesia Presidential Instruction 8/2018, Indonesia Presidential Instruction 5/2019, Indonesia Presidential Regulation 98/2021

Thirdly, the country is making a mark in the region as a leader in sustainable investing, driven by the Otoritas Jasa Keuangan (OJK's) and the Government's leadership. Sustainable investing covers a range of projects and sectors - from clean energy to water infrastructure- including sustainable agriculture and forestry.[8] Importantly, it provides transparency to investors on what is being financed, enabling investors to direct resources towards transition and low-carbon investments and align their portfolios with the Paris Agreement 2-degree global warming target.

Box 2 : Indonesia's Sustainable Debt Market

In 2014 the Otoritas Jasa Keuangan (OJK), Indonesia's Financial Services Authority, launched Indonesia's Roadmap for Sustainable Finance, setting out a work plan to increase sustainable financing in Indonesia to 2019 and beyond, to address the threats of global warming, promote environmentally friendly businesses, and develop a more resilient and competitive financial services industry. In 2017, the OJK released the Sustainable Finance Umbrella Policy, requiring financial institutions to annually submit their progress towards sustainable finance.[9] Since the launch of the Roadmap, Indonesia has seen the issuance of several billion dollars' worth of green bonds. These include issuance by the government itself, banks and non-financial cooperatives. Examples include energy company Star Energy Group Holding's $580 million green bond in April 2018, Royal Lestari Utama's $95 first sustainable land use bond for a sustainable rubber plantation and the Republic of Indonesia's own cumulative $2.8 billion sovereign green Sukuk issuances.[10]

Enabling policies

- **Roadmap for Sustainable Finance (2015-2025):** a work plan to increase sustainable finance to address the threats of global warming, promote environmentally friendly businesses, and develop a more resilient and competitive financial services industry
- **Climate finance tracking and reporting systems (2015):** to tag the government budget, developed with the UNDP
- **Regulation on sustainable finance (2017 - POJK):** requires financial institutions to develop a Sustainable Finance Action Plan (RAKB) and a Sustainability Report. The POJK sets out minimum criteria for both outputs, as well as.a timeline for the development of them.
- **Green Bond and Green Sukuk Framework for sovereign bonds (2017):** which led to the issuance of two sovereign sukuks for $1.25 billion and $759 million respectively.
- **Regulation on the issuance and terms of green bonds (2018):** developed by the Financial Service Authority (OJK), in alignment with the ASEAN Green Bond Standards

Exhibit 2: Indonesia has been a leader in sustainable investments in Southeast Asia

Source: Financial Services Authority of Indonesia (OJK), United Nations Development Program (UNDP), Ministry of Finance of Republic of Indonesia

Lastly, Indonesia is also the largest impact investing market in Southeast Asia.[11] Impact investment can be considered a subset of sustainable investing and covers all investments that are delivering and measuring positive environmental and social impacts. Recent research shows that the market is growing thanks to an increasing number of mainstream investors co-investing alongside impact investors in social enterprises.[12] These investors tend to favour tech-enabled investments with aggressive growth paths, such as in the fintech industry. However, they identify agriculture supply chain efficiency, including establishing processing and production facilities to enhance smallholder value, agroforestry and tech-enabled distribution and payment, as one of four areas with strong investment growth opportunities over the next decade.

Despite Indonesia's conducive policy environment and richness of opportunities in the forestry and land use sectors, a financing gap persists for Forests Ventures, driven by barriers to accessing capital.

> "There is no shortage of capital in Asia but it is hard to get it to the most impactful projects – we must mobilise more domestic capital from traditional assets to high impact projects that can create inclusive markets"
>
> **Indonesia venture capital fund manager**

Box 3. Government of Indonesia's main instruments to support Forest Ventures

Badan Pengelola Dana Lingkungan Hidup (BPDLH) or The Public Agency for Environment Fund Management

BPDLH is one of ~240 public service agencies (Badan Layanan Umum or BLU) and manages funds for the protection and management of the environment. It was established in 2019 by the Ministry of Finance and the Ministry of Environment and Forestry as non-structural entity accountable to the Ministry of Finance through the Directorate General of Treasury. It was set up to manage funds for environmental protection and management, including climate change mitigation and adaptation efforts, largely due to the need to reach targets to reduce emissions from land-use change and forestry. Although it is initially focused on the forestry sector, the agency has mandate to cover a wider range of sectors, including energy and mineral resources, carbon trading, payment for ecosystem services, industry, transportation, agriculture, marine and fisheries. In the larger sense of governance, the agency aims to mainstream environmental and climate change issues in the national development plan. The funds being managed under BPDLH are part of a larger framework of environmental economic instruments envisioned under Government Regulation Number 46/2017 on Environmental Economic Instruments. The fund has two main internal funding windows: the Forest Rehabilitation Revolving Fund; and the Reducing Emissions from Deforestation and Forest Degradation (REDD+) Fund.[13]

It is the first BLU with flexibility to source revenue from international donors and carbon markets as well as state funds. Non-state funds may be sourced from conventional grants; results-based payment grants; donations; return on investment; carbon trading; and other legitimate sources (interest, penalties, taxes, service fees, etc). Funds can be disbursed through conventional grants; results based payments; loans; subsidies; carbon trading; and other mechanisms. BPDLH may invest their funds through banking; capital markets; and other financial instruments according to national regulations. There are five types of eligible recipients of the Fund – the central government; regional government; civil society; donor countries / institutions, private sector or other parties concerned with the environment; intermediaries; and BPDLH partner organizations.[14] The agency began operating at the start of 2020, disbursing Rp 1.43 trillion in 2020, with ~Rp. 580 billion remaining to be used for 2021-2022 .[15]

Pusat Pembiayaan Pembangunan Hutan (P3H) or The Forestry Fund/ the Center for Forest Development Financing

A BLU, or a Badan Layanan Umum, is a government agency set up to provide services to the public in the form of goods and/or services without prioritizing profit. P3H, a former BLU, was established in 2015 and used a revolving fund mechanism by disbursing loans to smallholder farmers, cooperatives, and Micro, Small and Medium Enterprises (MSMEs) in agroforestry business - and revenue sharing instruments for reforestation and forest rehabilitation. Most of its revenue came from the Reforestation Fund—a levy from forestry business permits whose overarching objective is helping reforestation and forest rehabilitation activities. There were three modalities for the disbursement of the forest fund: (i) loan schemes, (ii) revenue-sharing scheme, and (iii) sharia financing scheme. The fund supported actors in Industrial Forest Plantation; Smallholder Forest Plantation; Private Forest; Village Forest; Community-based Forest;

Non-timber Forest Products; Intensive silviculture; and Ecosystem Restoration. Until June 2018, P3H has succeeded in establishing financing commitments under the Revolving Fund Facility (FDB) program of up to IDR 1.3 trillion. The realisation of the distribution reached IDR 651 billion (around 50%) of which was distributed to 16,235 individual debtors, 16 cooperative debtors and 30 business entity debtors. Other investments are deposits in state-owned banks (BNI and BRI) around IDR 1.25 trillion (USD 92 million). The fund has now been dissolved into BPDLH and is known as The Forest Rehabilitation Revolving Fund.

Kredit Usaha Rakyat (KUR) or the People Business Credit Programme

The Kredit Usaha Rakyat (KUR) programme or the People Business Credit Programme, is a microcredit programme for supporting the development of SMEs in Indonesia, initiated in 2007. KUR's objective is to increase SMEs access to finance and works as a bridge for SMEs to obtain a financing scheme from a financial institution, improving the competitiveness of SMEs, spurring economic growth, expanding employment, and reducing poverty. A total of ~34billion USD was allocated as part of this programme during 2007-18 and distributed to all provinces in Indonesia.[16] Loans are mainly given out by three state-owned lenders — Bank Rakyat Indonesia (BRI), Bank Mandiri and Bank Negara Indonesia (BNI), along with some privately owned and regional development banks. The loans range from 2,000-35,000 USD per borrower over a tenor of 1- 5 years with ~6% annual interest rate.[17] About 30 percent of KURs finance the agricultural sector, with ~40% financing the trade sector.[18] In 2018, the Indonesian Government and BNI released a special KUR oil palm replanting policy with an interest rate of 7%. The scheme aims to help farmers for costs of living during the unproductive period after replanting up to 5 years, at ~100 USD per month.[19]

Photo credit:
Women community members plant newly matured seedlings at the Cinta Raja Rainforest Restoration Site in Gunung Leuser National Park (GNLP) in Sumatra, Indonesia/Kemal Juffri for Panos Pictures/ Food and Land Use Coalition

Addressing key risks to investors along the financing cycle

Photo credit:
Partnerships for Forests

To understand the barriers to financing for Forest Ventures it is important to understand the incentives of different investors at the various stages of the financing cycle.

Different investors have differing requirements based on their objectives and their constraints. Objectives include required returns, risk tolerance and time horizon. Constraints limit the choice of investable opportunities based on liquidity requirements, regulation, and tax regimes. It is important to understand the financing cycle for Forest Ventures and the potential requirements for accessing capital at each stage (see exhibit 3).

	Stage of business	Investor Type	Risk appetite	Type of Instrument	Source of Financing
Inception/very early stage	Early-stage, development stage	Friends & Family	High	Equity, profit share agreements	Alternative lending
	Early-stage, proof of concept	Government	High	Grant, Technical Assistance (TA)	Concessional funding
	Early-stage, proof of concept	philanthropy	High	Grant, concessional debt	Concessional funding
	Founding, pre-revenue, development stage	Angel	High	Equity, SAFE (simple agreement for future equity)	Commercial funding
Early Stage	Micro, small and medium developed businesses	Peer to peer	Medium	Microfinance (debt)	Alternative lending
	Early to later stage, development, growth and expansion	Venture capital	Medium-high	Equity, convertible debt	Commercial funding
Mid Stage	Mid to later stage, profitable, cash flow	Private equity	Medium	Equity with Leverage	Commercial funding
Late Stage	Late stage, profitable, track record	Institutional investors	Low	Equity or debt	Commercial funding
Variable	Variable	Development Finance Institutions	Variable	Grant, TA, concessional debt, first-loss, guarantee	Concessional funding
	Variable but high impact focus	Impact investors	Variable	Equity or debt	Impact Investment

Exhibit 3: Investors participation along the financing cycle depending on their risk appetite and available financing instruments
Source: SYSTEMIQ

The first investors in any venture include alternative lenders such as friends and family, and more concessional types of funding including from governments, philanthropies and high-net worth individuals (HNWI) as “angel investors”.

As ventures establish a track record and start generating revenues and demonstrating potential future profitability, they can attract funding from peer-to-peer lending platforms or early-stage venture capital funds. As they become more mature, they then become sizable enough for private equity fund and eventually institutional investors such as pension funds.

Lending from commercial banks can also occur at early stage, provided the ventures have sufficient financial track record and collateral to raise debt.

Investors make their decisions based on their risk assessment of opportunities, analysing the business model, the team and milestones and investments achieved. Exhibit 4 shows an exemplary list of key information to produce when raising commercial capital.

EXEMPLARY BUSINESS PLAN INFORMATION TO RAISE COMMERCIAL CAPITAL

- ✓ **Executive Summary**
- ✓ **Project description,** including funding requirement
- ✓ **Expected impact**
- ✓ **Market analysis** of products/services and competitors
- ✓ **Management team** overview
- ✓ **Risk and opportunities** review
- ✓ **Demand analysis,** including details of current and intended client base and marketing plan
- ✓ **Financial analysis** of both historical and forecast cashflows

Exhibit 4: Investors requirements to assess commercial opportunities

Impact Investor requirements also depend on their home geography. In Indonesia, a handful of domestic impact investors have closed the majority of deals smaller than $500,000. International impact investors tend to prefer ticket sizes of between $1-5 million with development finance institutions tending to even larger ticket sizes on average- between $10 and 50 million.[20]

DEAL SIZE (USD MILLIONS)	≤ 0.1	> 0.1 - 0.5	> 0.5 - 1	> 1 - 5	> 5
COMMON SECTORS	Diversified sectors	Agriculture and financial services	Agriculture	Agriculture and financial services	Financial services and sustainable forestry
TRENDS	Investments mostly by HNWIs	Most common ticket size because of high number of early-stage enterprises	Almost all investments made by investors without a local presence	Equal mix of debt and equity deals, with more than 90% made since 2015	Investments primarily in mature enterprise

Exhibit 5: The majority of small-scale deals in Indonesia are covered by domestic investors
Source: Intellecap Advisory Services analysis

Impact investors can be found across the spectrum, from early stage angel investors to institutional investors looking for green bonds. Importantly, a recent survey shows a mismatch between social entrepreneurs' perception of investors and investor requirements.[21] The data collected by the Angel Investor Network Indonesia (ANGIN) shows that the vast majority – almost 90 percent – of impact investors currently active in Indonesia are targeting market rates for their required financial return, alongside the expected impact. At the same time, most social entrepreneurs expect impact investors to offer below-market terms, negotiate more softly and be more lenient in the due diligence process. Entrepreneurs, including the ones interviewed for this report, lament the burden of a "double bottom line" – financial returns and positive impact - pursued by impact investors.

Photo credit:
Multistakeholder Forestry Programme Phase 3

Unlocking barriers for Forest Ventures to access financing

Photo credit:
Portrait of an illipe nut farmer at the forest in Sintang regency, West Kalimantan, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

There are broadly three main issues that are holding Forest Ventures back when it comes to accessing finance:

1. Limited awareness in early-stage investor groups of high-impact investment opportunities in land use
2. The business and financial capabilities of Forest Ventures themselves
3. The limited availability of flexible financing instruments that meet Forest Ventures' funding requirements such as early-stage funding, limited collateral, and accessible interest rates

Most Forest Ventures interviewed for this report can be considered at the earlier stages of their financing journey, having raised mostly funding from friends and family, grant programmes (and sometimes impact investing and convertible debt) and looking for additional seed or early-stage commercial capital.

They recognise they are struggling to raise finance from different sources for several reasons, including access to collateral, track record and lack of familiarity with their business models (see exhibit 6).

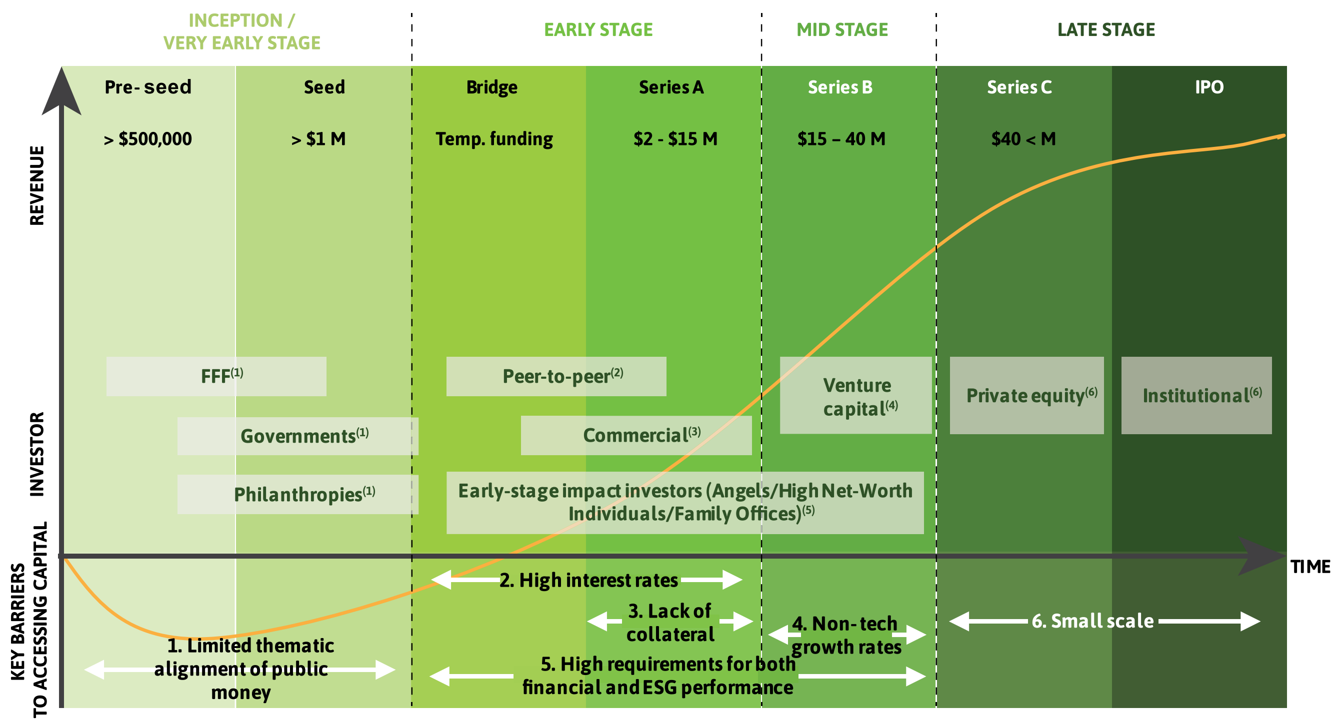


Exhibit 6: Forest Ventures face barriers to access capital throughout the financing cycle
Source: SYSTEMIQ

The barriers Forest Ventures face in accessing finance are not just perceptions or lack of knowledge around fundraising and financial market. Investors interviewed for this research confirmed.

Government

Donor governments seem to be increasingly focused on climate and nature when it comes to deploying financial aid - not least with the heightened attention on zoonotic diseases, green recoveries and health driven by the Covid-19 pandemic. The focus on forest conservation has historically been the purview of countries such as Germany, Norway and the UK that in 2015, as the GNU, committed $5 billion in support to countries that were reducing emissions from deforestation and forest degradation (a programme known as REDD+). The individual delivery modes have been diverse, with the governments often trying to understand how to support the broader market development as well as directing funds to governments in forest countries. The UK government has set an unprecedented example by supporting incubators that focus on Forest Ventures across the tropical belt (e.g. Partnerships for Forests or MFP4) as well as other instruments such as the Mobilising Finance for Forests programme that commits £150 million for funds that are focused on investing in sustainable land use.[22] Norway has also developed a bilateral partnership with Indonesia and was the first investor in the &Green fund to de-risk investments in sustainable agricultural production .[23]

Philanthropies

While several of the philathropies interviewed recognised the importance of including land use to achieve both climate and social goals, there is a limited focus on sustainable commodities and wild forest products. Philanthropic funding is often more suited to policy and civil society engagement rather than scaling up businesses – although some organisations are starting to shift their strategies. A few of the philanthropies surveyed, reflected on the need to make their efforts more catalytic and deliver long-lasting impact. This is leading them to explore new forms of financing such as returnable grants or "venture philanthropy" – effectively an early-stage impact play. For example, MacArthur Foundation, together with strategic partners Rockefeller Foundation and Omidyar Network, set up the "Catalytic Capital Consortium" or C3 initiative committing up to $150 million to support funds and intermediaries that demonstrate a use of catalytic capital across diverse sectors and geographies .[24]

Early-stage investors

Early-stage investors also present several challenges. Firstly, friends and family, peer-to-peer platforms, and microfinance institutions tend to offer above-market rates. These are often compelling options when mainstream commercial financing is not an option; in most cases, the founders and senior management Forest Ventures interviewed preferred to take out personal loans and invest personal equity, where possible, rather than access high-interest debt. As Forest Ventures increase their business, they can negotiate better terms based on secured revenues, and share risks and rewards, for example by using profit-sharing agreements.

"We invested our own money for product development to show how it looked in a supermarket; we then secured a contract with a premium supermarket and asked for a pro-forma purchase order and used that to develop profit sharing proposals and secure funding from friends"

Forest Venture CEO

Targeting microfinance institutions and peer-to-peer platforms to become more competitive can be an effective strategy to increase the availability of affordable early-stage capital. Investment platforms like Lendable in Kenya or funds such as Impact Credit's Agricultural fund in Indonesia provide capital to lenders, expanding the balance of microfinance institutions and e-commerce platforms to increase the availability of capital in this space.

Innovation is also occurring on the investor side when it comes to early-stage impact investing. Networks like ANGIN, funds like the Capital 4 Development (C4D) Asia fund (see box 6), the IIX Women's Leadership Bond and early-stage VC plays such as those of Aavishkar, provide few good examples. However, these solutions are still limited in size and geography and need to be replicated and scaled.

Mid to later stage investors

Lack of collateral and limited track record to attract commercial funding to scale up remains one of the biggest barriers for Forest Ventures. Storage or processing plants set up in rural areas are not considered as collateral by the formal banking sector, meaning fundraising in Social Forestry areas where this infrastructure is required to create wild forest product value chains is particularly hard.

In the case of players like venture capitalists, private equity managers and institutional investors, Forest Ventures are often too small scale to present viable investment opportunities.

Finally, impact investors are seen as potential partners in the early stages but are also often approached with diffidence given the "double bottom line" for both financial and impact performance. Some interviewees lamented the preference for grants given the complexity of high requirements of impact investors. Others admitted to pursuing non-impact investors as long as they could meet their financial requirements.

"Grants are more appropriate to pilot the model in new locations, we will focus on finding grants and then look for commercial investors"

"We have rejected several impact and individual investors as they are not sufficiently committed to the social missions".

"Impact investor requirements mean more burden for reporting but no added benefit"

"This year we will hire a fundraising team to manage our accounts and especially cash flow – we have a problem as the term of the payment of the loan is faster than the receivable"

"I was approached by impact investors interested in my products, but it is too early for me and the company to let someone else in"

Forest Ventures Founders and CEOs

Mobilising investment for Forest Ventures

Photo credit:
Farmers harvest ripe illipe nuts that fell from the endangered Shorea Stenoptera tree in the forest in Sintang regency, West Kalimantan, Indonesia/Kemal Juffri for Panos Pictures/Food and Land Use Coalition

The findings from the interviews reveal that:

1. There is a need to raise the profile of Forest Ventures across the investor spectrum – particularly those looking for impact across diverse topics, be it climate, social inclusion, market creation.

2. There is the need to ensure that Forest Ventures are adequately supported when it comes to fundraising and business development. Existing incubators, technical assistance facilities and government programme, where appropriate, should focus on supporting the development of financially sustainable ventures that create the right incentives for communities to manage the forests rather than opt for single-use extractive models that drive deforestation.

3. Development capital needs to be used more catalytically to address the current gaps that exist across the financing cycle for early-stage Forest Ventures. These will complement ongoing efforts from governments such as Germany, Norway and the UK that have created catalytic instruments to support investments in sustainable land use, often at the larger scale end of the spectrum that fits with sustainable agriculture projects more than wild forest production.

Governments, regulators, incubators, Forest Ventures and investors can all take several steps to mobilise more private investment in Forest Ventures, focusing on (i.) enhancing fundraising and investment incubation services, (ii.) raising the profile of Forest Ventures as high-impact investment opportunities; (iii) designing flexible financing instruments that are fit for purpose. Further, there are actions to be taken at a global level to shift the financial system and create an enabling environment that favours inclusive, nature-positive and circular investments over ones that create inequality, cause environmental hazards and rely on linear production models.

A. Venture Building

Summary recommendations:

1. **Establish pipeline partnerships** with domestic and international impact investors via new or existing investor networks
2. **Provide training programmes** for MAPs on types of capital, investor mindset, company valuations, fundraising, etc.
3. **Allocate grants/technical assistance** to developing investment plans, financial data, balance sheets, scenarios, etc. in the incubation process (e.g. at scale up phase)
4. **Raise MAPs' profile** by active participation in public events, forums and initiatives that promote investments in regenerative business models and captures nature-related risks and opportunities
5. **Design and co-invest** into flexible financing instruments that can further support MAPs' financing

Incubators and other venture builders have a key role to play in supporting companies on a journey to scale and providing vetted pipeline for investors. Targeted incubation activities can help improve Forest Ventures' fundraising capabilities and prepare them for scale-up post-incubation, as well as serve to raise awareness amongst investors.

Five actions have been identified for venture builders,[25] to enhance fundraising and investment services:

i. **Establish pipeline partnerships** with domestic and international venture philanthropists, high net worth individuals (HNWI) angel investors and impact funds to share regular pipeline opportunities and updates. This will also provide investors with an opportunity to familiarise themselves with the incubators' activities, including the due diligence they carry out on grantees and the technical assistance they provide, building investor confidence.

During the MFP4 project, this model was briefly tested with pipeline overview presentations to at least 3 potential investors. Investors required some initial basic information around the business model, the environmental and social impacts and some high-level financials (both historical and projections) to assess whether the investment could be a potential fit. This is material that the incubator could put together in a standardised format and regularly share. Following that, investors that are interested can follow up on specific opportunities and speak directly to the teams. This occurred with one company in the P4F programme. Unfortunately, the deal did not go through due to the negative impact of Covid-19 on future sale projections.

Partnerships with existing networks and matchmaking platforms should also be explored. Initial conversations were held with the Global Impact Investor Network (GIIN), Toniic and ANGIN, which all recognised alignment with the MFP4 incubator portfolio and expressed an interest in collaboration. ANGIN has supported fundraising for start-ups that have been supported by UK-funded incubators in the past. These networks are also experimenting with efficiency and aggregation of member capital: GIIN has recently coordinated thematic member sessions, including with a focus on food and agriculture to share experiences; Toniic has a dedicated platform for co-investment opportunities, and ANGIN raised a "Women Fund" to support investments in female-led businesses. The "Women Fund" aggregated investments from several ANGIN members but the investees only negotiated terms with one entity, serving to accelerate deal flow and lower transaction costs.

A platform dedicated to investing in sustainable land use and Market Access Players could be the next step to efficiently connecting a greater number of investors with more regenerative businesses across the globe (see box 4).

ii. **Organise training programmes** for Forest Ventures on types of capital, investor mindset, company valuations, fundraising, etc. to help them develop increasing familiarity with financial players. As several companies in the Social Forestry space are born as not-for-profit, understanding the investor perspective and the financial as well as the impact requirements is an important skill for the next generation of entrepreneurs. Annex I presents an investor readiness framework that Forest Ventures can use as a tool to assess their investability and seek further support and training.

iii. **Ensure grants and technical assistance are allocated** to developing investment plans, financial data, balance sheets, scenarios, etc. particularly at a certain stage of the incubation process, such as when the company has established a private entity and is ready for scale up. Companies that get to a certain level of the incubation process could be required to ensure they are working on robust financial data and investor pitch decks to get ready for the next phase. While several incubators tend to focus their support on defining the business model and measuring impacts, it is important that companies are given the right support to continue fundraising post-incubation.

iv. **Participate in public events and forums** to promote investment in regenerative business models and captures nature-related risks and opportunities (e.g. UN Food Systems Summit, IUCN Conservation Congress, Climate and Biodiversity COPs)

v. **Invest in flexible financing instruments** to further support funding for Forest Ventures and push them along the fundraising curve. Venture builders (including donor governments, development capital providers and impact investors) can also use their resources to develop flexible financing instruments that can help overcome some of the barriers faced by Forest Ventures and other early stage entrepreneurs. Two structures have been identified as necessary to grow businesses beyond the incubation phase and avoid falling into the "valley of death", a condition where 90% of startups never achieve the validation needed to attract additional finance and begin to scale.

Box 4 : A platform for knowledge and pipeline sharing to streamline matchmaking and reduce transaction costs for regenerative businesses

Incubators and their donors could co-develop a platform bringing together a small group of catalytic philanthropists, HNWIs, angel investors, impact funds and their advisors to form an aggregated pipeline platform / accelerator for "people & planet" with a focus on sustainable land use, to help reduce transaction costs and unlock capital for high-impact projects.

It would provide a chance to share learnings, review high-quality investment & grant opportunities and connect / collaborate with peers.

The platform could initially provide simple but effective services to partners, including:

- **Quarterly gatherings** on key discussion topics (e.g. types of regenerative business models, impact metrics, due diligence (DD) processes). These can be opportunities to raise the profile of business models and programme's DD process and impact measurements
- **Pipeline newsletter** (e.g. with spotlights and pipeline catalogue)
- **Networking opportunities** (e.g. amongst investors in different regions)
- **Presentations from companies** (e.g. Shark Tank session)

[The idea is currently being explored by the Partnerships for Forests incubator with the support of the UK Government. We may not have a decision on this before we finalise the text].

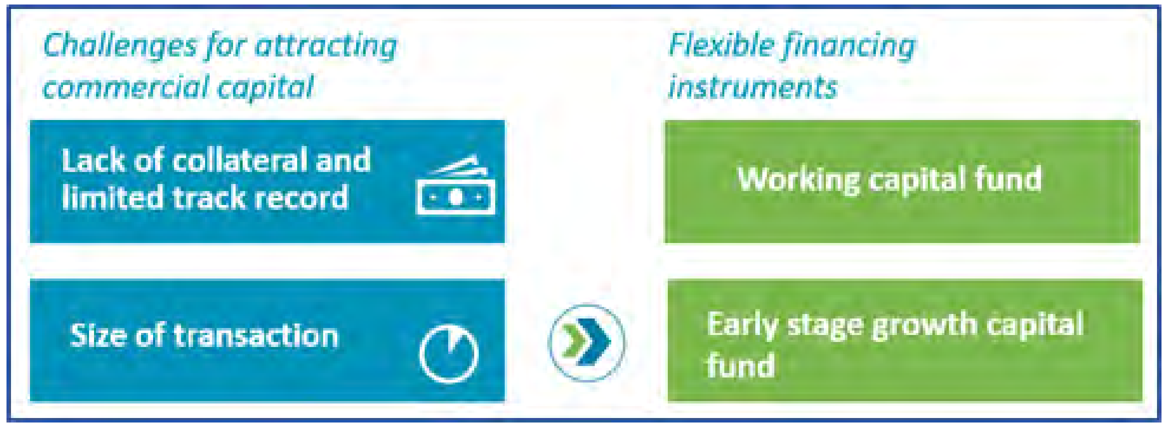


Exhibit 7: challenges for attracting commercial capital and the flexible financing instruments that could provide the solutions

Working Capital Fund:

Many amount of incubation grants for regeneration businesses support daily operations of start-up companies.[26] While this is not unusual for incubators given they are often supporting companies with limited access to other financing, there is a clear barrier when it comes to accessing the type of capital that these businesses need for day-to-day sustenance from the traditional banking system. As mentioned previously, this is often due to (i) a lack of sizeable collateral (in Indonesia start-ups can be requested up to 120% of collateral); (ii) collateral of the right value (e.g. some of the Forest Ventures interviewed own storage and processing facility but they are located in rural areas which makes them non eligible); or (iii) limited track record (less than three years).

Innovative solutions can be developed to address some of the barriers and their risks. Firstly, donor governments could develop a revolving fund for working capital for regenerative businesses. This would effectively be an evolution of how some of the funds in the incubator are currently used, providing zero-interest loans to productive companies, and recuperating the money at the time of sale, rather than providing direct grants. This would not only provide Forest Ventures with the type of capital they need, but also transition them from a grant mindset to a repayment mindset, which will help them as they go on to raise commercial capital in the future.

Secondly, more sophisticated blended finance structures for working capital targeting more mature SMEs can also be developed. Differently to traditional working capital, lending should be tied to the harvest cycle and accessible at the time of need (e.g. pre-harvest) and independent of the available collateral at the time. Again, a way to obviate this is based on future production, through purchase orders and proof of relationship with stable offtakers. Development capital providers could provide grants for technical assistance to support with the fund pipeline development or de-risking capital for the fund structure.

The viability of the fund will depend on target crops (seasonal timing, harvests in a year, etc.), funding gaps (whether the money is needed for seeds, inputs or processing; when do producers get paid currency of payment, etc.), and pricing and market risks (depending on who takes on these risks).

Photo credit:
Kemal Juffri for Panos Pictures / FOLU

Photo credit:
Partnerships for Forests

Box 5 : Clarmondial Food Securities Fund

The Food Securities Fund provides season-long working capital loans to agricultural aggregators (cooperatives, processors, traders) in emerging markets, addressing the common gap of timely and affordable credit. Structured and launched by Clarmondial, the fund combines an innovative investment approach with a regulated open-ended fund structure suitable to institutional investors, allowing it to deliver impact at scale.

Credit assessment favours supply chain relationships over the traditional focus on collateral availability. It allows the Fund to support aggregators prior to harvest and throughout the agricultural cycle. In addition to financial criteria, the loans are linked to sustainable management practices and monitoring of social and environmental standards, including deforestation-free supply chains, climate-smart agriculture, smallholder engagement and improved transparency.

The risk blending of the fund comes from a USAID commitment of $ 37.5 million in credit guarantees, through the Bureau for Food Securities and the DFC, and from value chain partners such as larger corporates.

Early-stage growth capital fund

Incubation resources are also used to expand and grow start-ups beyond the piloting stage. This is an important process as it moves the companies beyond the “proof of concept” into commerciality and eventually scaling. For companies that exit incubation services, having access to an early-stage flexible funder that also requires limited collateral, is open to revenue-sharing arrangements, provides loans in local currency, is able to provide long-term debt, and has some technical assistance funds to support with documentation and reporting. is an important step to successfully exiting the “valley of death”. There is limited availability of this type of “bridge” financing for early-stage companies before they become fully commercial. The C4D Asia Fund (see box 6) is an example of flexible early stage growth capital supported by public funds that can support investments in relatively small ticket sizes and with limited collateral by agreeing different repayment options (e.g. revenue sharing). This is the type of capital that several Forest Ventures will require once they graduate from the incubator but still do not have the scale or collateral to attract commercial financing.

Box 6 : Capital 4 Development Asia Fund

Capital 4 Development Partners (C4D Partners) is a Dutch fund manager that promotes fair economic development in emerging countries, by supporting growing Small and Medium Enterprises (SMEs) that have a strong agenda to create positive social-economic change in underserved communities. C4D Partners is currently managing the $50M Asia Fund that invests in SMEs in India, the Philippines and Indonesia.

In Indonesia, the fund invests through mezzanine (equity and debt) instruments. As the ecosystem for impact investing is still in its early stages, the fund seeks financing instruments other than conventional equity which require a clear exit strategy. Equity-alike debt instruments which will liquidate over time and are structured around the cash flow projections of the companies are utilised, including: convertible debt, debt with revenue share or debt with other forms of ‘kickers’. Investment ranges from $ 200k to $ 2m with an average tenor of 5 years. Structuring these instruments require that companies can provide robust cash flow projections.

The fund is supported by public investors including Dutch NGO Cooperative ICCO, Dutch government-backed Good Growth Fund, the investment arm of Finn Church Aid FCA, and the Australian government initiative Investing in Women.

B. Shifting the financial system

Summary recommendations:

1. **Mandate better disclosure** on climate and nature-related risks for all companies and financial institutions, especially around land use impacts
2. **Incentivise traditional lenders** through a first-loss facility for SME loans
3. **Scale and target of public funding** to focus on supporting regenerative ventures in the agriculture and forestry space

A broader enabling environment would also support the shift to more sustainable investing and therefore raise the profile of Forest Ventures financing. High requirements for both financial performance and social and environmental impact and limited thematic alignment of philanthropic or grant programmes are barriers to financing that require a systemic shift. Three priority actions for regulators and policy makers across the globe and international organisations include:

i. **Mandate better disclosure on climate and nature-related risks across the board**. Regulators should start by mandating disclosure against the recommendations of the Taskforce on Climate- Related Financial Disclosures (TCFD). Equal reporting requirements will drive standardisation of impact frameworks and not require additional disclosure burdens for investors that are interested in impact.

Efforts to improve the accounting of emissions from agriculture, forestry and other land use, particularly for land-intensive sectors, is being driven by the Science-Based Targets Initiative Forest, Land and Agriculture (FLAG) project. Deforestation and land-related emissions are often not fully incorporated into companies' science-based targets primarily due to a lack of available standards, guidance and methodologies.

Several of the Forest Ventures interviewed expressed the tension that can exist between achieving higher impact or higher financial returns. In particular, they lamented the additional reporting burden for capital that still requires a competitive financial performance.

Reporting around nature-related risks and standardising accounting for land use emissions will be important steps for investors to be able to make more informed decisions and eventually price in all climate and nature-related risks, favouring regenerative, high-impact businesses.

Box 7 : A Taskforce for Nature-related financial disclosures

The newly established Taskforce on Nature-related financial disclosures to focus on nature and biodiversity is a welcome step to complement the activities of the Task Force on Climate-Related Financial Disclosures (TCFD) focusing on physical and transitional climate-related risks. Environmental degradation and natural capital loss are also material risks that can create systemic challenges to global financial systems and threaten their stability and therefore need to be measured and managed. The task force is a collaboration between Global Canopy, UNDP, UNEP FI and WWF supported several financial institutions (e.g. AXA; BNP Paribas; DBS Bank Ltd; Coöperatieve Rabobank U.A.; FirstRand Group Ltd; International Finance Corporation, Standard Chartered; Storebrand Asset Management; Yes Bank; World Bank) with the support of the UK, French, Dutch and Swiss government.[27] The TNFD aims to develop a reporting framework for nature-related financial disclosures over the next two years. The framework is expected to eventually converge with the TCFD and provided an overarching disclosure approach for companies for both climate and nature-related risks.

Box 8 : The Science-Based Targets Initiative

The Science Based Targets Initiative (SBTi), was created in 2015 and focuses entirely on climate impact targets. The SBTi has developed guidance for dividing our total remaining carbon emissions budget and dividing it among different sectors and specific organizations within those sectors. So far 930 companies have embarked on the process of setting SBTs for climate and 411 have approved targets. To date, more than 50 financial institutions have publicly committed to set emissions reduction targets through the SBTi.

Targets adopted by companies to reduce GHG emissions are considered "science-based" if they are in line with what the latest climate science says is necessary to meet the goals of the Paris Agreement—to limit global warming to well-below 2°C above preindustrial levels and pursue efforts to limit warming to 1.5°C.

ii. Incentivise traditional lenders

High transaction costs, high cost of capital and small-scale investments are key barriers to investing in regenerative businesses linked to agriculture and land use. Profitability is also an issue. Recent research finds that the risk of lending to agri-SMEs in East Africa is 2x higher and returns are 4-5% lower vs. lending to other sectors, especially for loans in the $25k-$500k range. Using development and philanthropic capital to mitigate risks in a targeted way and help aggregate projects is key.

One option would be to create a first-loss facility for loans to agri-SMEs in developing countries, where cost of capital and origination costs pose greater barriers. First-loss capital takes a position that will suffer the first economic loss if the assets below it lose value or are foreclosed on (this can also be provided through a grant or guarantee).

Providing a first-loss capital cover to local financial institutions that can then extend loans to local players is key to (i.) build capacity amongst local financing institutions and (ii.) ensure provision of loans in local currency. This is not always the case for blended finance vehicles backed by international investors.

Government and development capital providers could work with domestic financial institutions in Indonesia to expand their agriculture and forestry portfolios by de-risking the loans they extend and providing origination incentives. A programme could be developed specifically to support Forest Ventures in the land use space.

Box 9 : Aceli Africa

Aceli Africa's goal is to improve the financial attractiveness of lending to agricultural SMEs by increasing the capital supply, providing technical assistance and generate data and learnings for policy changes benefitting agricultural SMEs. Research led by Aceli Africa found that lending to the agriculture sector is limited because of low margins and high opportunity costs.[28] To de-risk investments, Aceli Africa assists local agricultural SME lenders by providing 2-8% of the qualifying loan amount ($25,000 to $1.5 million; aligned with gender inclusion, food security, nutrition, and/or climate resilience goals) into a reserve account, which can be drawn on to cover first losses of any qualifying loans across the local lender's portfolio.[29] Aceli Africa's second intervention is to reduce the cost of originating and serving - especially rural - agricultural SME loans, through its "origination incentives" for loans ranging from $25,000 to $500,000. Additionally, Aceli Africa has $10 million reserved for technical assistance in form of business and finance training to agricultural SMEs, through which it hopes to increase the investable pipeline for lenders.

iii. Scale and target public funding to de-risk investments and support pipeline development for regenerative ventures. More broadly, governments and development finance institutions, especially multilateral development banks (MDBs), need to rapidly scale up their financial support for the new food and land use economy. Allocations are currently low, estimated at less than 3 percent of global climate finance.[30] Moreover, of the more than $700 billion in public subsidies, only 15 percent generate positive environmental outcomes.[31] These subsidies need to urgently be allocated – a campaign that is mostly recently led by the Just Rural Transition initiative, with the support of the World Bank and the UK Government (see box 10).

Box 10 : Policy Action Coalition (PAC) to Repurpose and Reinvest Public Support for Food and Agriculture

The PAC is part of the Just Rural Transition initiative launched at the UN Climate Action Summit in 2019. The initiative's goals are to create resilient and sustainable food systems by bringing stakeholders together to co-create solutions. The PAC gathers members governments and knowledge and implementation partners that work to (i) develop the case for action for the repurposing and reinvestment of agricultural subsidies that are driving deforestation and not incentivising regenerative agricultural practices; (ii) convene multi-stakeholder dialogues in partner countries to advance policy reform; (iii.) create a peer-to-peer learning platform for policymakers.

Photo credit:
Feri Latief

Annex 1

Investment readiness assessment

Introduction

The assessment contains key aspects that private investors generally review when evaluating potential investment opportunities. In general, investors focus on risk management, therefore showing why the investment will not "go wrong" is equally important to selling the opportunities (i.e. why investors should invest). This risk management is translated into assessment towards various matrixes in the following pages, with sub-aspects and guiding questions to help with the assessment. Most of them should be included in the fundraising deck, however some of them are not part of the deck but instead is a separate document or can be assessed from observation and interaction, e.g. readiness to make pitches, management team's cohesion, or the accounting system. This later type of information is marked with "(ND)"

Besides the general assessment of the company, it's also important to assess investor specific's criteria or requirements, which are not included in this general assessment. There are some key explicit/more straightforward criteria, such as expected IRR, payback period or length of investment, ticket size, minimum operating time for the company, minimum revenue, focus region, or focus commodities. But there are also harder-to-assess criteria, especially for equity investors, i.e. strategic fit to investors' focus and expertise, as well as alignment with their existing portfolio.

1. **Feasibility of the business model:** How close is the company to break even and/or make profit? What is needed to achieve it? (e.g. 1M capital injection for ABC purpose will help the company to achieve XYZ). Key assumptions to check:	High quality info available (Y/N)	Page number of the information (if relevant)	Notes or action(s) to be taken (if any, especially when the answer for the previous box is a "No".)
Products/services offered: what are the products/ services offered? What are the problems that this product/service trying to solve?			
Revenue model: How is the company making money from those products or services, and how are the margins calculated (and how is the margin compared to the competitors)? Do they have a balanced product portfolio to maximise revenue?			
Commercial and market viability of the product/ service: what how is the costumer pipeline? Who will be the client/buyer beyond the one engaged in pilot? How does the company plan to acquire this?			
Unique Selling Points: What are the key specific strengths of the company? How the products/ services stand out in the market? If the company is the first mover, how do the company ensure new companies will not overtake their market share?			
Growth forecasting: How will the company grow in the next 3-5 years (in terms of revenue/ sales, EBITDA, cashflow, etc). what are potential scenarios and what assumptions are being used?			
2. The Management Team			
Capacity and competencies: who is part of the management team? Do they have right combination of expertise to grow the business? Do they need additional capacity (e.g. new CFO)?			
Cohesion: How is the team dynamics? Have they been working together for long time? How is conflict between core team being managed and solved? (ND)			
Fundraising experience: how familiar are they with a commercial fundraising process? (ND)			
3. The financial situation (historical and forecast)			
Cashflow: does the company hold any cash/what are the real cashflows?			
PNL: What is the EBITDA or operating margin? How has it been evolving (historical) and how will it grow (related to growth forecasting in #1)?			
Standard and system: Does the company have accounting standard/systems and audited financial statements? (ND)			
Debt position (if any, ND): - What is the debt coverage ratio (DCR, the ratio of operating income available to debt servicing for interest, principal and lease payments)? - What is the availability of collateral: does the company own assets that can be used as a collateral or guarantee?			
4. Existing and future potential funding sources, including exit strategy for equity investors			
Existing investors: who has invested in the company to date and how are the existing investors helping the company to grow?			
Potential investors: who are target investors in the next financing round and what strategic role they will bring to the company beyond funding?			
Exit strategy for equity investors: who are potential investors for the next growth stage and financing round? What are the exit opportunities and how long is the time horizon?			
5. Risk management			
Risk assessment: has the company conducted a robust risk assessment for the business (including reputational risks)?			
Risk mitigation: How are risks being mitigated and monitored robustly?			
6. Company structure, ownership, and governance			
Current ownership: Who are the current owners of the company? If this a family owned business, does the next generation (e.g. the children) plan to continue? (ND)			

Decision making: How are decisions being made in the company/is there a clear and robust decision-making process? How are the decisions communicated to shareholders and relevant stakeholders? (ND)			
Post-investment ownership and governance: has the structure for the new investors been defined? What does the shareholding/ownership structure look like as the company? What are the role and representation of the new investors in the board? (ND)			
7. Readiness to make a pitch			
Pitch deck: Is there a robust pitch deck that addresses all the above aspects and with clear executive summary?			
Presentation/pitch: Is the team ready to make the pitches/presentation to investors? Is any practice needed before presenting to the investors? (ND)			
8. Documentation to be prepared in the “due diligence binder” (ND), non-exhaustive list			
General corporate and legal documents, e.g. articles of incorporation; bylaws; minutes of all Board of Directors, committee, and shareholders meetings; shareholder list and agreements; management and operational structure chart of the company; company’s policies (HR, finance, admin, etc); annual and quarterly reports; registrations, business licenses, permits; litigation documents; partnerships agreements with key stakeholders,			
Financial and taxation documents, e.g. audited financial statements for at least the last 3 years, monthly income statements for the most recent 12-24 months, detailed financial projects with supporting information; tax returns, debt agreements,			
Commercial and market documents: costumers/clients contracts, marketing and advertising materials			
Others: CV of founders and key management personnel, list of the company’s employees (with information on title and compensation package), evidence of assets (e.g. detailed description of plant or facility owned), intellectual property rights (e.g. patents, licences, trademarks, copyrights, etc), insurance			

ABOUT THE BLENDED FINANCE TASKFORCE

The Blended Finance Taskforce was launched in 2017 by the Business & Sustainable Development Commission. The Blended Finance Taskforce is a partnership that brings together actors from across the development and finance communities to accelerate the mobilisation of capital and finance the SDGs through thought leadership, convening and capital matchmaking. The Taskforce has produced leading research, implemented a comprehensive action programme to unlock capital for the SDGs, and supported the development and scaling of numerous blended finance vehicles and country platforms. The Taskforce has helped mobilise billions of dollars for the SDGs including through its support for the “Tri Hita Karana Forum for Sustainable Development”.

ENDNOTES

1 Curtis, P., Slay, C., Harris, N., Tyukavina, A. and Hansen, M., 2018. Classifying drivers of global forest loss. Science, 361(6407), pp.1108-1111. https://science.sciencemag.org/content/361/6407/1108

2 Food and Land Use Coalition, 2019. Growing Better: Ten Critical Transitions to Transform Food and Land Use. https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09/FOLU-GrowingBetter-GlobalReport.pdf

3 Vivid Economics, 2020. The inevitable forest finance response: Investor opportunities.https://www.unpri.org/download?ac=11981

4 Food and Land Use Coalition, 2019. Prosperous Forests. https://www.foodandlandusecoalition.org/wp-content/uploads/2019/11/FOLU-Prosperous-Forests_v6.pdf

5 Economics of Ecosystems and Biodiversity Initiative, n.d. quoted in Rainforest Action Network, n.d. Indonesian Rainforests. https://www.ran.org/indonesian-rainforests/#:~:text=Economic%20Value%20of%20Rainforests&text=According%20to%20the%20authoritative%20Economics,for%2021%25%20of%20Indonesia's%20GDP

6 Kementerian Lingkungan Hidup dan Kehutanan, 2020. Laporan Investarisasi Gas Rumah Kaca (GRK) dan Monitoring, Pelaporan, Verifikasi (MPV). http://ditjenppi.menlhk.go.id/reddplus/images/adminppi/dokumen/igrk/lapigrkmrv2019.pdf

7 Carbon Brief 2019. The Carbon Brief Profile: Indonesia. https://www.carbonbrief.org/the-carbon-brief-profile-indonesia.

8 Climate Bonds Initiative, 2020. Sustainable Debt Global State of the Market H1 2020. https://www.climatebonds.net/files/reports/cbi-sustainable-debt-global-sotm-h12020.pdf

9 International Finance Corporation, 2018. Sustainable Finance Case Study: Indonesia https://www.ifc.org/wps/wcm/connect/20ff87c3-e8d8-4c6e-8f83-40cae86f5d93/SF+Case+Study+-+Indonesia+July+7+.pdf?MOD=AJPERES&CVID=lVXUH14

10 Climate Bonds Initiative, 2019. ASEAN Green Finance State of the Market 2019. https://www.climatebonds.net/files/reports/cbi_asean_sotm_2019_final.pdf

11 Global Impact Investing Network (GIIN), Intellecap, 2018. Indonesia: An Introduction to the Impact Investing Landscape. The Landscape For Impact Investing In Southeast Asia. https://thegiin.org/assets/Indonesia_GIIN_SEAL_report_webfile.pdf

12 Angel Investment Network Indonesia (ANGIN), 2020. Investing in Impact in Indonesia. https://www.angin.id/2020/10/05/investinginimpact.

13 Mafira, T., Mecca, B., Muluk, S., 2020. Indonesia Environment Fund: Bridging the Financing Gap in Environmental Programs. Climate Policy Initiative http://climatepolicyinitiative.org/wp-content/uploads/2020/04/Indonesia-Environment-Bridging-the-financing-gap.pdf

14 Ibid

15 Kontan, 2021. Badan Pengelola Dana Lingkungan Hidup (BPDLH) https://www.kontan.co.id/tag/badan-pengelola-dana-lingkungan-hidup-bpdlh>

16 OECD iLibrary, 2020. Indonesia | Financing SMEs and Entrepreneurs 2020 : An OECD Scoreboard. https://www.oecd-ilibrary.org/sites/67ce6854-en/index.html?itemId=/content/component/67ce6854-en

17 Mandiri, 2021. Kredit Usaha Rakyat. https://www.bankmandiri.co.id/en/kredit-usaha-rakyat-kur-

18 Tri, R., 2020. Realisasi Penyaluran KUR Sektor Produksi Kurang dari 60 Persen. Bisnis Tempo. https://bisnis.tempo.co/read/1365494/realisasi-penyaluran-kur-sektor-produksi-kurang-dari-60-persen/full&view=ok

19 Johnston, D., Smit, H., Bronkhorst, E., Dorth, MM., Adjaffon, I., Cavallo, E., 2018. Innovative Replanting Financing Models For Oil Palm Smallholder Farmers In Indonesia. https://www.tropicalforestalliance.org/assets/Uploads/TFA2020-Innovative-Replanting-Models-2018-online.pdf

20 Global Impact Investing Network (GIIN), Intellecap, 2018. Indonesia: An Introduction to the Impact Investing Landscape. The Landscape For Impact Investing In Southeast Asia. https://thegiin.org/assets/Indonesia_GIIN_SEAL_report_webfile.pdf

21 Angel Investment Network Indonesia (ANGIN), 2020. Investing in Impact in Indonesia. https://www.angin.id/2020/10/05/investinginimpact

22 GOV.UK, 2021. £150 million government investment to save the world's rainforests. https://www.gov.uk/government/news/150-million-government-investment-to-save-the-worlds-rainforests

23 Blended Finance Taskforce, 2020. &Green Fund. https://www.blendedfinance.earth/blended-finance-funds/2020/11/16/and-green-fund?rq=%26green

24 MacArthur Foundation, n.d. Catalytic Capital Consortium. https://www.macfound.org/programs/catalytic-capital-consortium/#:~:text=To%20implement%20the%20C3%20initiative,across%20diverse%20sectors%20and%20geographies.&text=The%20investments%20related%20to%20C3%20are%20funded%20solely%20by%20MacArthur

25 Venture builder include accelerators, incubators, and many other active early stage investors, like VCs, that help build early stage forest ventures by providing capital and additional services (which could be advice/guidance in the shape of a board seat, or could be support in financial modelling, or access to a TA fund to pay for other services that they require)

26 Based on Partnership for Forests and MFP4 data

27 Taskforce on Nature-related Financial Disclosure (TFND), n.d. Who we are. https://tnfd.info/who-we-are/meet-the-team

28 Aceli Africa, 2020. Bridging the Financing Gap: Unlocking the Impact Potential of Agricultural SMEs in Africa. https://ams3.digitaloceanspaces.com/aceliafrica/wp-content/uploads/2020/09/08173725/Aceli-Africa_Full-Benchmarking-Report.pdf

29 Aceli Africa, n.d. Approach. https://aceliafrica.org/what-we-do/approach/

30 Multilateral Development Banks. 2020. Climate Finance. https://reliefweb.int/sites/reliefweb.int/files/resources/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf

31 Food and Land Use Coalition, 2019. Growing Better: Ten Critical Transitions to Transform Food and Land Use. https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09/FOLU-GrowingBetter-GlobalReport.pdf

Photo credit:
Partnerships for Forests

MINISTRY OF ENVIRONMENT AND FORESTRY
REPUBLIC OF INDONESIA