

EFI **Bioregions** **European Investment Bank**
 Forest bioeconomy in action

Workshop Overcoming Investment Barriers in the Forest Sector

Overview of investment barriers in forests, forest management and ecosystem services.

13 September 2024 | Brussels and Online

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Current financial flows with negative impacts on nature: almost **US\$7 trillion** against a flow to NbS of **US\$200 billion**

Public and private finance flows to NbS in 2022, \$ billion (2023 US\$)

Category	Value (\$ billion)
Public Finance Flows	165
Private Finance Flows	35
Total NbS Finance	200
Public Finance Flows to NbS	165
Private Finance Flows to NbS	35
Total Public and Private Finance Flows	200
Public Finance Flows to NbS	165
Private Finance Flows to NbS	35
Total Public and Private Finance Flows	200

Public Finance Flows, 165

- Environment of land forests and freshwater, 79.3
- Sustainable agriculture, forestry and fishing, 41.3
- Environmental policy and other, 13.7
- Water resources and environment, 6.3
- Publicly provided, 0.6

Private Finance Flows, 35

- Environment of land forests and freshwater, 11.7
- Environment of marine, coastal and inland waters, 6.8
- Environment of freshwater, 4.2
- Environment of land forests and freshwater, 3.0
- Environment of marine, coastal and inland waters, 2.0
- Environment of freshwater, 1.0

Almost US \$7 trillion

\$1.7 trillion (2021) / **\$1.69 trillion** (2022)

public funding to environmentally harmful subsidies

x10 bigger than public finance flows to NbS (US\$165 billion)

55% increase from 2021

In 2022, fossil fuel subsidies to consumers **doubled**

\$5 trillion

of private finance flows with a direct negative impact on nature

x140 bigger than private finance to NbS (US\$35 billion)

=5% of global GDP

Source: UNEP, 2023

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Current financial flows with negative impacts on nature: almost **US\$7 trillion** against a flow to NbS of **US\$200 billion**

Public and private finance flows to NbS in 2022, \$ billion (2023 US\$)



Source: UNEP, 2023

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Introduction



- Forests are the **first ecosystem** at the heart of sustainable development as **provider of multiple ES**
- The **EU forestry sector** (forestry and forest-based industries) generates gross added value of approximately **€165 billion a year** and employs over **3.6 million people**. Moreover, this sector has significant untapped potential
- To meet, at global level, targets related to climate change, biodiversity and land degradation, **investments in NBS must triple in by 2030**, and quadruple by 2050. For the EU: annual investment of at least **€90 billion by 2030** in afforestation, reforestation, forest management, agroforestry and peatland restoration



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Barriers to forestry investments



a. Specific challenges compared to other forms of investments

- Relatively **long-term** investments (return is linked to the growth cycle of trees)
- Presence of **disruptive factors** (e.g. storms, fires, pests, ...) ← more frequent extreme events
- Presence of critical local and external **stakeholders** → increased transaction costs



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Barriers to forestry investments



b. Governance problems related to the action of public actors

Government intervention is needed to achieve socially desirable levels of investment, since the forestry sector generates large amount of (positive) externalities

- **Lack of coordination** between many regulations and policies: see the definition of “sustainable forest investment” (Closer to nature forest management, Carbon Removal Certification, EU Taxonomy, REDIII, ...)
- Lack of action in making the **market regulated, transparent and credible** (e.g., voluntary carbon credits, biodiversity offsets, ...)
- Delay and problems in developing **market-based payment mechanisms**, like PES (Payment for Environmental Services)



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Barriers to forestry investments



c. Market size and structure of the enterprises

- **Land ownership** (fragmentation) and **reduced horizontal integration** → no scale economies, high unit costs → high operating and transaction costs, with management challenges also in the provision of ecosystem services
- Large presence of **small and medium enterprises** in the EU's wood-based industries
- High **volatility of wood prices** → risky and uncertain investments
- **Sensitivity of wood-processing companies** to some regulations (e.g., REDIII, Land restoration, EUDR, ...)



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Barriers to forestry investments



d. Access to finance

- Lack of information and awareness in **identifying and structuring bankable projects**, their risks and expected benefits
- **Increased risks (and costs)** faced by private investors when investing in projects involving the supply of **public goods** (biodiversity protection)



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Strategies to overcoming barriers



Ensuring the **active role of the public operators** in promoting NBS and forest investments: **mix of regulatory, financial and support instruments** and innovative use of public budgets (role of the EIB, EU Taxonomy, etc.).



Collaboration between stakeholders for **co-financing** (public-private partnership, blended finance, PES): securing funding from multiple sources, **sharing risks and responsibilities** (e.g. BIOCLIMA).



Pooling of forestry projects to increase scale of investment and use of forestry investments for portfolio diversification



Testing and promoting the use of **innovative sustainable finance instruments** for NBS and the forest sector (performance-based finance, green bonds, etc.)



Deepening and promoting the **involvement of different investors: corporate** (e.g. carbon offsetting), real estate (increasing the value of buildings adopting GI and NBS), insurance companies, water utilities (NBS investments for river and source restoration and protection).

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Initiatives



Horizon BIOFIN - PROTECTING AND RESTORING BIODIVERSITY USING MAINSTREAM FINANCE (2024 -2026)

Objective: Mobilisation of mainstream finance to nature positive investments in the framework of EU Green Deal and the Sustainable Finance Taxonomy (SFT).

BIOFIN will use a multi-actor approach to create a science-led dashboard for nature-positive financial decision support, comprising:

- an interactive **NBS Database** to categorize NBS
- '**Menu of Good Governance**' options and a '**Library of Stakeholder Engagement**' will provide mechanisms for expanding corporate participation in NBS
- the '**Data Analytics & Underwriting Engine**' that provides the tools and methodologies for calculating costs, benefits and impacts of NBS-investment



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Thank you!