

Sowing the seeds of tomorrow's agriculture

Funds that invest in making farming more sustainable are highly impactful, but hard work!

Agroforestry is a “great opportunity”, but raising and allocating capital is “hard work”, some of the sector’s leaders say.

Funds specialising in agroforestry invest in projects or businesses that are helping to create sustainable agricultural systems that benefit the planet and local communities. Some examples of success stories are featured overleaf.

Gautier Queru, director of the Land Degradation Neutrality (LDN) fund at French investment manager Mirova, says agroforestry can offer strong impact credentials and yields, but requires a relatively long time horizon.

“It takes time for the trees to grow,” he points out. “A time horizon below eight years is difficult.”

He says that the LDN fund has a duration of 15 years. However, he points out that this is less than some infrastructure funds.

Mirova won a tender from the UN Convention to Combat Desertification to run the LDN fund, which blends public, private and philanthropic capital to support sustainable land management and land restoration projects that are implemented by the private sector.

Anchor investors – the European Investment Bank and the French Development Agency – have been joined by institutional investors, including the first North American private investor, Fondation, and insurance companies BNP Paribas Cardif and Garance.

The initiative is also backed by de-risking



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Clément Chenost, Moringa

partners that include the Government of Luxembourg, IDB Invest and the Global Environment Facility. In total, investors have announced commitments of over \$120 million out of a target of \$300 million.

“We see strong demand for real assets and people want to know what they are investing in, in the wake of the financial crisis,” Queru argues. “They also want impact and yield over the long-run – and trees can provide this.”

“The objective is to move from a niche to a mainstream market.”

He says there is potential to create value in businesses, for example by obtaining Fair trade or organic certification to command better prices and to attract payments for ecosystem services, including carbon credits.

He likens the nascent agroforestry sector to the wind and solar energy market several years ago.

But investors in these projects say raising and investing the capital is hard work.

Bernard Giraud, President of Livelihoods Venture, says it designs its agroforestry projects with NGOs but this can take up to one and a half years.

Livelihoods Venture is a Paris-based social business that advises three impact funds with a combined €200 million in assets.

Projects often find off-takers among companies that have made strong commitments on sourcing sustainable raw materials.

He says internal rates of return can be between 4% and 8%, although investors in its carbon funds tend to be corporates who are paid in carbon offsets.

Clément Chenost is director of Moringa Partnership, which operates the €84 million impact-focused Moringa fund, targeting agroforestry in Latin America and Sub-Saharan Africa.

The fund invests equity in small to

medium-sized enterprises and expects to make returns in a few years' time when it starts to exit its investments.

He says agroforestry is gradually gaining momentum among investors: "A few years ago we saw it as niche. Now we see a shift.

"It needs patient, long-term capital ... to build the food market of tomorrow."

Current investors include family offices and development finance institutions, rather than large institutions such as pension funds.

Sylvain Goupille, director of Althelia Climate Funds, says raising funds from

institutional investors is hard work:

"Launching an impact fund takes up to three years. The amount of energy and lost opportunities – it's insane!"

He says Althelia, which is part of Mirova, regards agroforestry as filling the gap between philanthropy – which has great impact credentials but does not make a profit – and traditional banking, which is for-profit but does not target a positive impact.

Yet occupying this middle ground can be challenging.

"When you become profitable,

philanthropy is not available any more," he explains. "If you are slightly profitable, banks say you are too innovative: 'Are you really for-profit?'"

He adds that it's not easy finding private investors, who are often cautious about new asset classes blended finance as well as the lack of long-term track record.

"There's a great opportunity, but do not underestimate the difficulties," he says. ■

The people quoted in this article were talking at an event on agroforestry in Paris.

CASE STUDY: Floresta Viva

A BRAZILIAN delicacy is helping finance the rehabilitation of deforested land.

In recent years, the growth of Brazilian 'heart of palm' production has been driven by natural forest species extraction, with such intensity that some species almost reached extinction.

Brazilian company Floresta Viva has since 2013 been planting Pupunha heart of palm, in association with other species, such as trees for timber and vegetable crops, in the Vale do Ribeira, on the southern coast of São Paulo State, near the endangered Brazilian Atlantic Forest.

It has also set up its own brands and bottling factory to produce and distribute its organic-certified produce, allowing the firm to cut out intermediaries.

Roberto Pini, CEO of Floresta Viva, says the project is far more profitable than grazing cattle on the land. He claims this activity can pay for itself within three or four years, and can deliver internal rates of return of 30% to 40%.

Leo Godard, an environmental, social and governance (ESG) officer at Floresta Viva, says the facility is now processing some 50 tonnes of heart of palm per month, and it commands a 20% premium to conventional produce. Godard was an agronomist working for agroecology fund Moringa, who joined Floresta Viva following Moringa's investment into the company in August 2017.

Moringa – alongside another impact investor and strategic partner, the Brazilian film director Fernando Meirelles – took a majority stake in the company and has financed the scale-up of the operations, and plans to encourage other farmers nearby to adopt the model.

Floresta Viva's Pini adds that his business will help some 200 small farmers, many of whom are battling poverty.

"There are 55 million people in poverty in Brazil," he argues. "Small farmers have to be at the centre of the concern."

