Making money through nature conservation

The **"Sicirec Formula"**

(applied to the **ArBolivia** project)

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Making money with nature conservation.

Is this possible ? Yes, it is! Sicirec developed the Sicirec Formula and has now been applying it in the ArBolivia plantation forestry project for several years, demonstrating that it has indeed become possible .

The cost of preserving nature

In general the rule holds that on the one hand protecting and restoring nature costs money and on the other hand making money is only possible at the expense of nature or at best is ecologically neutral.
Economic values and values of nature have therefore always been and still seem to be opposed to one another.

Nowadays it is becoming more and more popular among investors to take into account the extent to which an investment is environmentally friendly. Companies are increasingly making an effort to please their shareholders by making their activities as “sustainable” as possible. People, Planet, Profit is a common slogan for indicating sustainability.

However, being more sustainable almost invariably implies doing *less* damage to the environment. This is how companies and their investors try to reduce their use of resources, levels of pollution and their negative impact on biodiversity.

What is missing from these strategies are steps to actually repair environmental damage and to protect natural values and biodiversity in an effective and lasting way.
Slowing down damage is one thing - actually *protecting* and *restoring* nature is quite another. That takes a great deal of extra effort and investment. In general, nature conservation is a costly affair and whilst more and more people and institutions do recognise the need to invest more in preserving and restoring biodiversity, the hard economic reality is that the real cost of proper protection and repair means that biodiversity continues to dwindle at an alarming rate.

Generally speaking, the intensive search for methods to finance the reduction of pollution and the destruction of nature has not as yet produced any effective methodologies that can be utilised on a wide scale. Almost everywhere the actual preservation of nature appears to be too expensive to be maintained on a permanent basis.
Nature conservation still depends mainly on charity and survives on subsidies, a status that is intrinsically unstable.

The Sicirec Formula

In view of the above considerations it is of the utmost importance that we develop methods to combine nature preservation with profitability. Only if this can be achieved will Nature conservation escape from “subsidy” mode and gain any sort of stability for the long term.
This is exactly what the Sicirec Formula and the ArBolivia project are all about.

The Sicirec Formula implies a pattern of land use in which some areas concentrate on optimising financial profitability and other areas are devoted entirely to nature conservation. This results in a mosaic of productive land, embedded in a coherent network of ecological pockets and corridors. Land owners are only allowed to participate in the project if they are willing to set aside a minimum of 20% of the land entirely for nature conservation.
As a result, this ecological aspect of the project makes cheaper financing possible and it actually pays off to apply the Sicirec Formula and make the project really “green”.

Our goal is to demonstrate that the Sicirec Formula works, producing profit for investors as well as for nature. Once this has been demonstrated unequivocally, we believe that this method of organisation and of financing will spread rapidly all over the world, helping to finance nature conservation on an unprecedented scale – both within and intertwined with the productive and inhabited areas of our planet.

The Teak investment market

For several decades more and more people have been looking for ethical investments that are beneficial to the environment and to the welfare of people instead of just for their own pocket. As a response to this demand, many companies and projects have offered investment opportunities to the public claiming to provide the combination of profit and green credentials.
An example is the Dutch investment market where for 20 years or more a multitude of plantation forestry companies have offered their investment schemes, in response to the desire of investors for “green” investment opportunities.
After two decades it has become clear that very few of these plantation forestry projects have matched up to their promises. Most of them have neither been able to generate any decent profits for their investors nor produced any ecological added value.

In the end the majority of plantation forestry projects offering such investment schemes have turned out to be either too small in size, too poorly managed, simply too much lacking in forestry expertise, or a combination of all these shortcomings - and have subsequently ended in failure and recrimination. In addition to the financial failure, the ecological added values promoted in the sales literature were rarely implemented, at least to any meaningful extent. In all too many instances investment schemes were obviously set up purely as a front for attracting investors, without ever leading to any serious attempt to establish an enduring project.

The bottom line is that in all these cases it appears that it has not been possible to combine profitability with nature preservation in any meaningful way.

Sicirec’s role and expertise

Right from the very beginning of the Dutch plantation forestry boom, Sicirec acted as a representative and service point for private investors in tropical plantation forestry projects. Sicirec provided investors with a proprietary trading platform for forestry investments and collated information about the characteristics and qualities of the various projects. In the course of time the various shortcomings of the many plantation forestry projects on the Dutch market became more

and more clear and Sicirec developed a quality rating system to help investors assess the values and potential of their investments, both positive and negative.
Over time Sicirec has gathered a vast amount of knowledge and expertise in the requirements and potential shortcomings of such projects and has acquired a good overview of the risks and pitfalls involved.

One particular Teak plantation project, Bosque Puerto Carrillo, now called Pan American Woods received particular attention from Sicirec when it approached the brink of liquidation in 1997. Having stepped in to stave off liquidation and organising the refinancing of the company, Sicirec assisted the management for a couple of years through a directorship, during which time the 3000 hectares plantation forestry company was stabilised and was subsequently able to start paying out dividends for the first time. Today Pan American Woods is one of the very few successful plantation forestry projects in Central America and larger investors have recently bought significant stakes in the business from the smaller initial investors.

Since 2007 Sicirec has changed its role from advisor and service agency to actively becoming involved in plantation forestry itself as a project management company, applying its accumulated expertise to tackling the risks and pitfalls mentioned above. Our goal is to show that plantation forestry can indeed be set up successfully in these regions and can be profitable for all parties involved, if it is done in the right way.

ArBolivia

In 2007 Sicirec has started its own plantation forestry project in Bolivia, under the project name ArBolivia. The Sicirec Formula has been applied in the ArBolivia project , which has been structured to tackle and avoid all the usual mistakes that were customary in the Dutch market over the past two decades.

This has resulted in a project with the following characteristics.

- Economically viable scale (7200 hectares at outset).
- Planting some 20 different, mainly indigenous, tree species (careful site-species matching).
- Cooperation with local smallholders (no land costs for project and livelihood improvement for smallholders).
- Embedded in local political and social structures (stability and social acceptance).
- Experienced management (with technical forestry and financial expertise)
- Convergent Interests of investors, land owners and management
- Use of the Sicirec Formula (ecological added value guaranteed in exchange for easier financing).
- Use of financial leverage through sales of environmental services like CO_2 credits, Tree Planting Certificates, etc.
- (Green) Bank Loan facilities (additional financial leverage).
- Tradability of investments (exit strategy and liquidity provided).

The ArBolivia project started planting in 2007 and has now realised about 1600 of the 7200 hectares. Some US$ 3 M has been invested to this date. The organisational structure has been set up and tested on the ground and has been adjusted in practice, as deemed necessary.
In short, the ArBolivia project is already well and truly up and running.

Today the ArBolivia project can and does offer an attractive financial return together with ecological added value and social added value. As such it is, as far as we know, the first of its kind in the world.

Advantages for the local population

- Farmers retain ownership of their land.
- Livelihood improvement for participating farmers by means of:
    - direct payment for labour
    - fair trade timber prices
    - microcredit, with trees as collateral
    - land use plan for whole property of the participating smallholders
    - assistance with improving agriculture techniques.

Deal

Basic to the formula of the ArBolivia project and basic to the Sicirec Formula is the deal with the land owners: they get help with financing and with capacity building, see the list above, in exchange for setting aside a % of their land for permanent ecological protection.
In this way, the financial design is such that all parties win, including the environment.

Financial principle of project

- The project has an exceptionally high social impact. It also has an exceptionally high and lasting positive effect on the local biodiversity. These goals put an extra long term burden on organisation and overhead.
- However, the resulting additional logistic costs are more than compensated by selling carbon credits, tree planting subsidy certificates (TPSC's) and access to low-cost (Green) Bank Loans. These financing sources cover a significant part, maybe even all of the investments needed until break even, providing a very attractive rate of return for equity investors.
- Net timber revenues are split equally between smallholders and investors.
- The size of the project enables us to cut out intermediary timber traders and realise fair-trade prices for the smallholders. Their 50% pay out by Sicirec is many times more than 100% from local timber traders.
- The project formula is financially very attractive for investors and at the same time it produces lasting ecological and social added value. ArBolivia therefore has high environmental and social impacts and is highly profitable for all involved.
- The secret is in the novel combination of a set of new financing tools and of special social and organisational structures.
- In order to guarantee for the long term a parallel interest between the organisers and the investors, the organisers and supervisors/ guardians of the targets and goals of the project together receive 10% of the net revenues.

Investing in ArBolivia

The ArBolivia project is now looking for investors who wish to participate in this pioneering and vital endeavour. Investments can be made on two levels.

- Investments from € 5,000 and up.
- Investments of € 1,000,000 and higher .

Investors can subscribe to a certified share offer of the participation company Sicirec Project Finance BV (SPF). This company invests in the ArBolivia project and subsequent projects that will also be set up according to the same formula. The company will oversee the goals and methods as well as the quality of management of the projects in which it invests. SPF not only profits from the sales of produced timber, but also from the sales of CO_2 credits and other environmental services.
SPF offers an attractive rate of return of around 10% or higher and also provides an informal market for its share certificates.

For investors of € 1,000,000 and higher we can offer the opportunity for a significant uplift on returns over and above the already attractive rate of return that could realistically exceed 20% per annum over a 30 year term and longer.
Furthermore, investors who are able to provide financial guarantees for the outstanding capital requirements of the project until break even in 2005/2006, could realistically achieve an IRR of 30% or more. Guarantors will actually need to invest only a proportion of the funds which they commit to provide as a guarantee. The more environmental services such as CO_2 credits etc. are sold and the more the amount of (Green) Bank Loans that can be obtained, the lower the proportion of the guaranteed sum that will actually be needed and the higher the rate of return.

In all these cases the fall back scenario still produces an expected IRR of around 10%.

It is conceivable that the sales of Carbon Credits and Tree Planting Subsidy Certificates may in fact provide all the finance needed until break even. In this case the actual investment by the equity investor(s) at or before break even could be reduced to zero (see table below). This creates highly significant “upside” potential for the investor(s), since the pay out to the investor stays the same, since it is based on the amount guaranteed and not on the amounts actually paid down until break even.

(This high upside potential is not capped for this project in order to make it attractive for larger investors. ArBolivia is the first project of its kind and is therefore to some extent experimental. For subsequent projects, the upside IRR potential will be capped.)

Required equity in different scenarios

Required equity in different scenarios in USD			
Planting season	**Conservative**	**Likely**	**Optimistic**
2010-2011	2,400,000	100,000*	<<100,000*
2011-2012	2,300,000	100,000	<<250,000
2012-2013	3,400,000	300,000	<<250,000
2013-2014	900,000	2,700,000	<<200,000
2014-2015	1,000,000	1,300,000	<<100,000
Totals	**10,000,000**	**4,500,000**	**<<900,000**

* Investor initially will have to provide USD 500,000 - USD 1,000,000 but this will be reimbursed once the (green) bank loan has been provided. This is expected in the same planting season.

Estimated IRRs in the various equity drawdown scenarios

Estimated revenues, investment and IRR's for investor in USD			
Period	**Conservative**	**Likely**	**Optimistic**
2016-2020	6,300,000	3,600,000	3,600,000
2021-2025	5,800,000	4,400,000	3,300,000
2026-2030	5,000,000	5,000,000	5,000,000
2031-3035	15,200,000	15,200,000	15,200,000
3036-2040	12,500,000	12,500,000	12,500,000
2041-2045	6,000,000	6,000,000	6,000,000
2046-2050	8,500,000	8,500,000	8,500,000
Total revenues	**59 M**	**55 M**	**54 M**
Total investment*	**10 M**	**4.5 M**	**<< 0.9 M**
Estimated IRR	**10 %**	**16 %**	**>> 30 %**

* Investment until break even.

- A **conservatively** calculated IRR of 10% on the guaranteed, and invested, sum over 35 years. This is the most conservative estimated return.
  (The guaranteed sum in this scenario amounts to USD 10.0 million. The investor will, over a 35 year period, receive pay outs in the sum of USD 59.0 million.)

- A **realistically** calculated IRR of 16% on capital invested of USD 4.5 million over 35 years.
  (In this scenario the investor will have to guarantee the USD 10.0 million but will actually have paid USD 2.7 million in 2013 and USD 1.3 million in 2014. The investor will, over a 35 year period, receive pay outs in the sum of USD 55.0 million. These pay outs are lower than in the conservative scenario because of interest on the Bank Loans. The IRR is however substantially higher because of the lower amount of capital invested)

- An **optimistically** calculated IRR of 30%, and higher on capital invested of USD 0.9 million over 35 years.
  (In this scenario the investor will have to guarantee the USD 10.0 million but will only actually have paid USD 0.9 million or less until break even. The guaranteed sum can also be reduced within the first couple of years. The investor will, over a 35 year period, receive pay outs in the sum of USD 54.0 million.)

In the conservative and in the likely scenarios, the investment will have been paid back by 2023, whereas in the optimistic scenario the investment will have been paid back by 2018.

In the likely and optimistic scenarios the full USD 10.0 million has to be guaranteed in the beginning but the amount can immediately be reduced once revenues from Carbon Credits and Tree Planting Subsidy Certificates (TPSC's) and/or (Green) Bank Loans have been realised. These sales will generate between USD 8.5M and USD 20M. The more of these sales can be realised before break even, the less of the equity guarantee will be called and the higher the IRR.

More information

Investors who are interested in this novel opportunity to make a profit through nature conservation may refer to the following documents:

- Executive summary of the ArBolivia plantation forestry project (2 pages)
- ArBolivia Plantation Forestry (comprehensive, 13 page hand out with project data)
- Sicirec Group: Making Profit with Nature Preservation (ArBolivia short ppt presentation, 12 pages)
- Conservation of Biodiversity using the Sicirec Formula (short article, 6 pages)
- Goals and Method, the Sicirec approach to sustainable plantation forestry (5 pages short ppt presentation summary in bullets)
- Prospectus of SPF

Contact

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