2.3 EcoEnterprises Fund’s experience in sustainable forestry

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Investing in nature and communities

There is a long tradition of undertaking conservation with innovative strategies to preserve the precious ecosystems and the underlying resource base on which we all depend. About a decade ago, the concept of using market forces to bring about positive environmental and social impact was in an embryonic stage. New approaches and tools were developed to address the degradation of the natural world. Some of the most important initiatives — such as organic agriculture and sustainable forestry with certification regimes including that of the Forest Stewardship Council (FSC) — began to take shape as an industry force at that time. At the same time, there was a growing realization that working with rural communities to manage local natural resources as a means to generate sustainable income would be key to the long-term health and well-being of the people and the environment.

EcoEnterprises Fund filled the gap for small emerging businesses focused on sustainably managing local natural assets, such as the Amazonian rainforest and the Talamanca Biological Corridor. It was a pioneer in this niche. For more than a decade, the fund proved that impact investing — which pursues monetary objectives while also generating social and environmental returns — helps address the needs of communities at the bottom of the economic pyramid that live in or adjacent to significant ecosystems, watersheds and biologically critical habitats while delivering returns for investors.

EcoEnterprises Fund’s first fund under management, Fondo EcoEmpresas, S.A. was launched in 2000. It invested in community-based sustainable businesses in Latin America in order to bring about social, environmental and economic change. EcoEnterprises Fund’s second fund, EcoEnterprises Partners II, L.P., was established in December 2011. It builds on the success of previous efforts.

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Opportunities

It is widely recognized that the current deforestation rate has a direct impact on climate, landscapes and flora and fauna. Between 2000 and 2010, South America suffered the world’s largest net forest losses: approximately four million hectares per year. In Latin America, deforestation occurs in part because rural poor people depend on a subsistence agriculture economy. A critical component of EcoEnterprises Fund’s investment mandate is to encourage sustainable forestry practices through long-term management of this disappearing resource. This will help to maintain the quantity and quality of the forests while safeguarding their environmental functions.

The companies in EcoEnterprises Fund’s portfolio champion new products and services. This transforms a field that, although still young, now has a proven record of performance. Over the years, the fund has supported much innovation and expansion. This includes start-ups, established companies that are already in the value-added forestry products business, and companies who complement their activities in agriculture, non-timber forest products (NTFPs), aquaculture and ecotourism with a forestry component. With greater connectivity of global markets, companies have found success in strengthening relationships along the value chain: buyers, local communities, certifying agencies, environmental groups and small producers. This helps companies secure raw materials, operate more effectively, maintain the long-term sustainability of the company brand and ensure their competitiveness in the marketplace.

The EcoEnterprises Fund is structured as a ten-year fund. It limits its investments in forestry to expanding manufacturing and value-added processing in wood products, product diversification and increasing sales capacity. Similar opportunities are present in the sustainable NTFP market, although because the sector is highly fragmented — with unusual and niche products such as nuts, fruits, resins, leaves and medicinal plants — investment deals are less common. EcoEnterprises Fund’s experience has shown, however, that the harvesting of forest products other than timber can provide financial incentives for keeping forests intact, maintain biodiversity and diversify the income base of indigenous communities.

Agroforestry is another productive investment area. This sector is increasingly important due to food security issues. Reforestation efforts that enhance carbon and watershed benefits are a key component of these efforts. In the case of sustainable coffee and cocoa production for the local and export markets, these products are integrated into timber production along with a variety of fruiting shade trees. This generates income while preserving the environment and local animal habitat.
Types of projects
Investments in forestry and NTFPs accounted for 30% of EcoEnterprises Fund’s first fund. These are some examples:

- High-quality wood flooring: The first company in Bolivia to receive FSC chain-of-custody certification sold non-traditional wood species to high-end customers in the U.S. and Germany.
- Natural charcoal from sustainably harvested oak purchased from local communities: One of the first companies to produce and sell high-quality FSC-certified charcoal for barbeque use in Mexico sponsored FSC-certification on over a million acres of forestland owned by ejidos (communities), which spurred interest in FSC’s programme throughout the country.
- Handcrafted garden furniture from wood supplied by indigenous peoples: A company manufactured FSC-certified garden furniture and other consumer wood products for export to large home improvement stores in the U.S. and Europe.
- Forestry management in Central America: A company dedicated to sustainable forestry practices through reforestation activities certified by FSC grew through merging with and acquiring various local sustainable forestry companies.
- A natural solution for insects: A company sustainably harvested and processed seeds of an Amazonian palm to produce andiroba oil, which has been used by the indigenous people as an insect repellent. The product was sold on the Brazilian and export markets.
- Acai juice smoothies: The company that introduced the acai berry from Amazonian rainforest to the U.S. and Europe was also the first to obtain organic and Fair Trade certification. Acai, a new so-called “superfood,” has traditionally been an indigenous food for local people.

Lessons learned
These are some of the lessons learned in more than ten years of experience in impact investing. When these issues are addressed, risks can be diminished.

The bottom-line is key to long-term sustainability
The business must be viable in order to achieve results (profitability, environmental benefits and positive social impacts). This is not an easy objective for small and growing companies involved in value-added forest products. There are the challenges common to any small business: lack of access to capital, changes in local laws, market limitations, access to raw material, cash management and limited institutional capabilities. In addition, there is the question of whether the market is willing to pay for the sustainability aspect of a business. Market access is difficult to begin with, and companies must have FSC-certification to capture the export market. In many cases this certification does not give them an advantage. Many companies add fair trade and organic certification if applicable. A company’s performance depends on its ability to navigate these hazards.
**Strong management is the main predictor of success**
The importance of the personality and dedication of the company leadership cannot be overstated. The EcoEnterprises Fund has supported many entrepreneurs who did not have business or financial skills, but those who are driven by their mission — and more importantly, are open to learning and advice — are often able to overcome difficult odds. Managers who are unable to recognize strengths and weaknesses often do not make the adjustments necessary to strengthen management teams or supplement skill sets. This is the case at the community level as well. A leader who pursues the best interests of the local people while understanding what can and cannot work for the company is best able to devise effective and lasting business arrangements.

**Expectations must be managed and formalized**
In order to succeed, a sustainable business that relies on the long-term availability and management of a resource base must be committed to community engagement. Any imbalance in expectations by the parties involved can be worsened by previous negative experiences, such as broken promises, contract breaches, land tenure issues and power struggles. Working partnerships between a company and the local community must include a practical action plan with measurable steps that can be evaluated through ongoing coordination and communication. Whether through a contract, Memo of Understanding, letter of intent or another legal document, this approach makes the partnership official; it should set out terms and conditions for all parties. Positive results require communication, negotiation, learning, practice and sharing common goals. The long-term success of the initiative will also be helped by giving voice to the local population, especially women and indigenous people.

**Patient and hands-on investors are needed**
Investors should be involved intimately in the business, providing technical assistance and operational support. With small community-based businesses, this is a critical aspect to not only foster company growth and learning, but to realize social and environmental objectives. Moreover, a long-term perspective is required; although markets are growing, the demand for certified products or NTFP goods is still developing. Return on investment cannot always be achieved in the short-term. A long lead time may be necessary when dealing with consumer education, capacity-building for local partners, and the biological constraints of the forestry resource.

**Monetizing “natural assets” is slow in coming**
Given the fund’s conservation focus, carbon markets, biodiversity offsets and payment for ecosystem services are of particular interest. It is hoped that small companies and partner communities will benefit from valuing the natural resource base to include products other than timber. This can complement the core businesses and gain higher returns through multiple sources of revenues. These valuation schemes have not yet been standardized or implemented by small companies due to cost, lack of market and verification issues.
Managing growth is difficult
Managing growth is one of the greatest challenges. One difficulty is having sufficient cash and managing it effectively. Achieving FSC certification and absorbing the costs of community certification adds more pressure. A related problem is obtaining raw materials, whether this is timber or NTFPs. Once a market is established, demand may rise faster than supply; this could result in overharvesting of the resource. Management activities must minimize the intensity of this impact, spread the purchasing across many suppliers and closely monitor the projects.

Case study: Sambazon
American brothers Ryan and Jeremy Black are avid surfers who often travel to exotic destinations. During a trip to Brazil, they tried a popular local drink made with the native açaí (ah-sigh-EE) palm berry. Açaí comes from the Amazonia palm tree *Euterpe oleracea*, the same tree from which heart of palm is harvested. Açaí has been a traditional staple of the indigenous communities of the Amazon and reputedly has a high level of antioxidants and essential fatty acids. After trying it, the brothers were struck by the idea for a new business. They raised enough money to buy a container of frozen açaí pulp and imported it into the U.S. In 2000, Sambazon (Saving and Managing the Brazilian Amazon) was born.

On a shoestring budget, Sambazon staff went door to door selling açaí to juice bars in Southern California. Famous surfers became the first advocates for the juice. The Blacks also marketed açaí to athletes in extreme sports. The brothers took advantage of public events, trade shows and athletic promotions and sponsoring events at high-visibility venues.

Sambazon has been a leader in the multibillion-dollar juice, smoothie and energy drink business. In January 2003, the company served approximately 350 retailers; this multiplied to 1,000 by the end of that year. Sambazon’s branded product is now available in nearly all juice and coffee bars, supermarkets and cafes. From an initial investment of $200,000, made through “angel” investors and a few co-financiers, the company was able to leverage additional financing from the Overseas Private Investment Corporation and investors from the organic community. Sambazon is now a multimillion-dollar enterprise. In 2009–10, the company fueled expansion through equity and working capital provided by shareholders such as Stonyfield Farms.

Sambazon has managed to maintain its advantage in the marketplace through product innovation, marketing and a reputation for a high-quality product with a strong environmental ethic. Sambazon’s commitment to preserving the Amazon and providing a sustainable, income-generating activity for local growers has become part of its brand marketing. The company organically certifies its entire supply chain and has pursued Fair Trade certification.
In order to maintain the environmental integrity of its brand, Sambazon launched the Sustainable Amazon Partnership (SAP), which includes several community outreach efforts. With the demand for açai on the rise, the price of the fruit has tripled in recent years, but Sambazon’s relationships with cooperatives and growing communities have helped it obtain improved terms of trade.

The SAP’s first focus was developing a set of indicators to help measure the company’s environmental and social impact and demonstrate the benefits of wild harvesting. The EcoEnterprises Fund’s first fund was proud to support this effort through its technical assistance facility.

Through its business activities and the SAP, Sambazon supports education and training and development of economic opportunities for local communities. The company’s efforts include sponsoring organic cultivation practices, funding reforestation programmes that use native species and underwriting an acai seed jewelry company.

Conclusion
EcoEnterprises Fund looks forward to the next decade of investing in sustainable forestry initiatives. The initiative’s first fund supported innovative efforts in the marketplace; the second fund supports companies that pursue these novel business strategies. The fund will invest in businesses that scale up these results to achieve the greatest environmental and social benefits and financial returns.

Because of Latin America’s valuable natural resource base, the region has a comparative advantage; social and economic trends across the region favour the development of environmental and socially-compatible businesses. There is a recognition that the natural environment is able to fuel long-term economic growth, ensure food security and reduce poverty. Innovative market solutions and new business models can provide for local communities and preserve critical ecosystems; they present a significant investment opportunity. These companies serve as examples to emulate as they work to protect the environment and change the way that business and conservation operate.

Endnote