



Investing in Africa

Introduction

Responsibly managed plantation forestry in Sub-Saharan Africa has the potential to offer attractive returns for development finance institutions and institutional investors.

New Forests launched an African Forestry Strategy to allow institutional clients to access these potential returns and take advantage of the positive tailwinds we see for the sector, including:

- Rising demand for all types of wood products from a growing and gentrifying population;
- The potential for higher value import substitution;
- Urbanisation and housing demand;
- Carbon market opportunities;
- Institutional investors increasingly being attracted to the sector from an expansion of green initiatives, with capital being deployed for sustainable development outcomes.

Integrating plantations into sustainably managed landscapes can also lead to climate change mitigation through forest protection, restoration, and biodiversity enhancement. Further, focusing on sustainable development outcomes can also bring the added value of economic and social opportunities for local communities.

This paper introduces the African forestry landscape and provides an overview of how it is becoming an increasingly attractive asset class for development finance institutions and institutional investors.

An introduction to New Forests' African Forestry Strategy and how this market can be accessed is provided in the last section.



Key takeaways for forestry investors in Sub-Saharan Africa

Forestry in Sub-Saharan Africa (SSA) has a long history that dates back thousands of years. Indigenous people across the region have relied on natural forests for their livelihoods, providing them with food, shelter, medicine, and other essential resources.

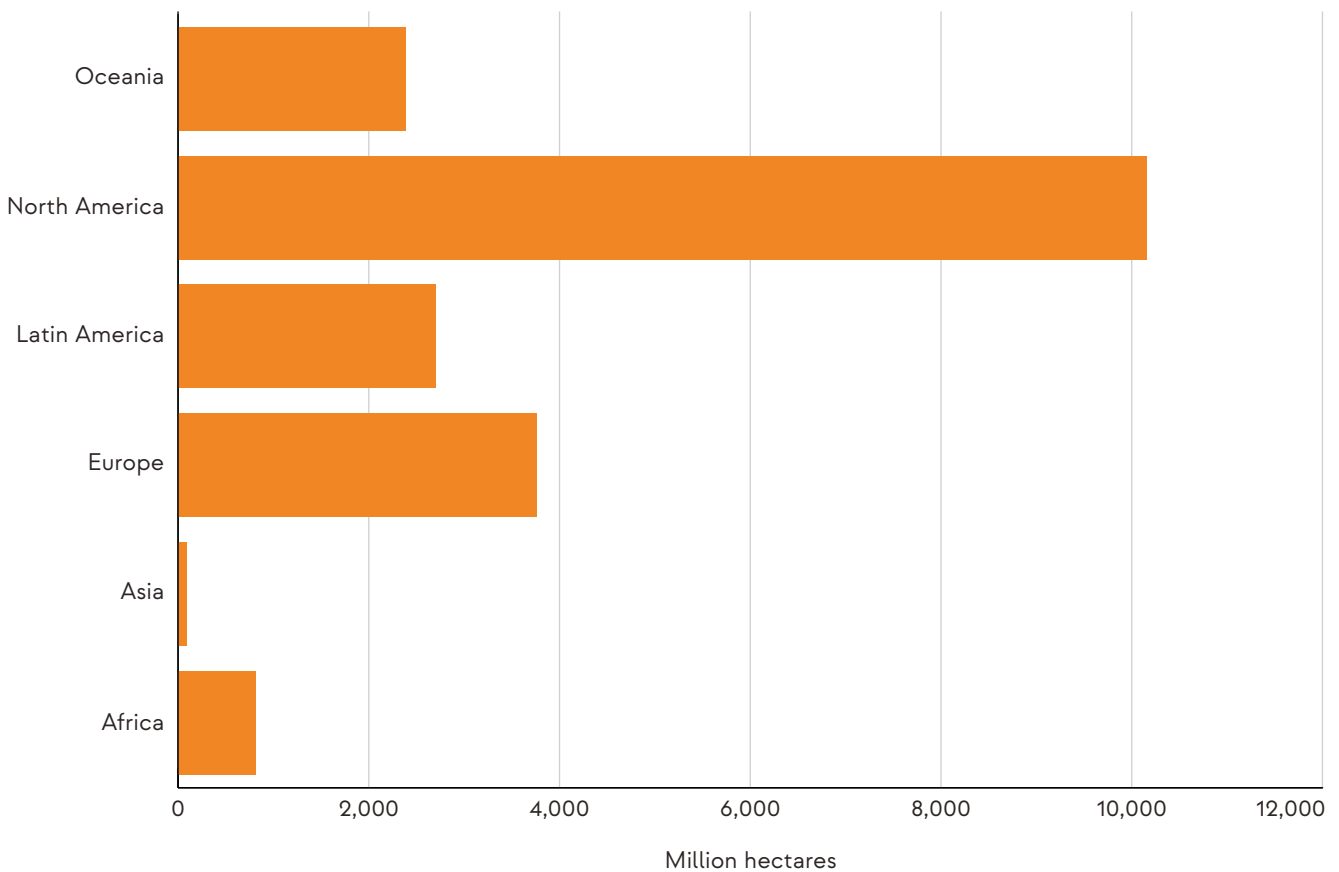
In recent years, the SSA timber sector has grown into an asset class that can offer a stable, long-term investment return, with little direct correlation to the performance of other asset classes.

As it has become more recognised as an asset class, state and privately-owned timber assets have been purchased and/or leased by dedicated investment funds, facilitated and managed by timber investment management organisations (TIMOs).

Typical investors in these projects include development finance institutions (DFIs), pension funds, family offices and high-net-worth individuals.

The chart below demonstrates global forestry ownership by financial investors in Africa. As shown, ownership by financial investors is much less developed than other regions. Much of the natural forest timber resources have been depleted and there is a need for capital investment to establish sustainable timber plantations and associated wood processing industries. Whilst Africa may have higher investment risk characteristics, it is expected to benefit from rising demand for all types of wood products from growing demographics, a developing economy and urbanisation.

Global forestry ownership by financial investors, 2021



Source: RISI Global Timberland Overview Figures, as at 2021.

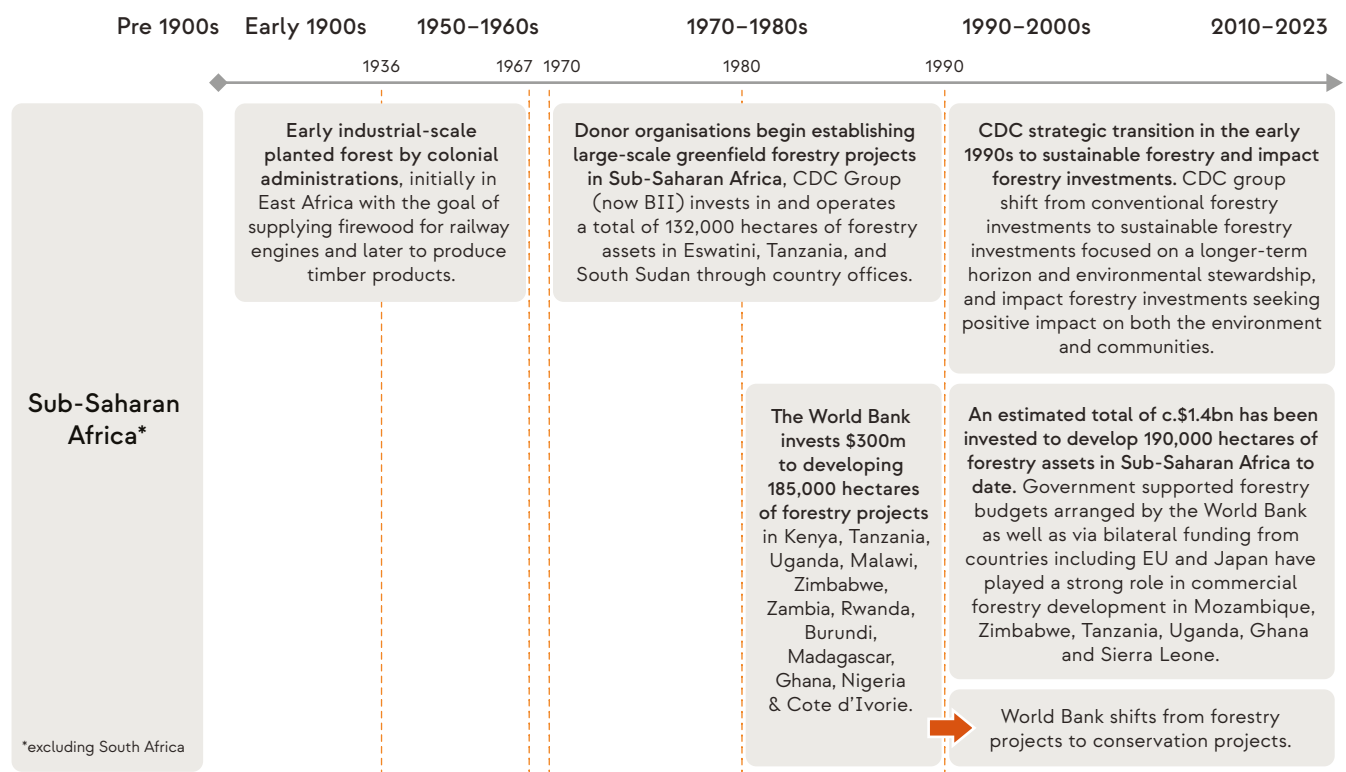
The African forestry sector

The African commercial forestry sector began with private sector-led projects in South Africa in the 1800s, and the forestry sector in South Africa is still thriving today, with 1.2 million hectares of planted forests and global processing players in the timber, pulp, and paper industry. Government supported investments driven by \$300 million of funding from the World Bank in the 1980s led to the development of 185,000 hectares of forestry projects outside of South Africa, across Kenya, Tanzania, Uganda, Malawi, Zimbabwe, Zambia, Rwanda, Burundi, Madagascar, Ghana, Nigeria, and Cote d'Ivoire.¹ A history of the sector is provided in the timeline below.

In the past few years, there has been greater interest in establishing fast growing plantations, as the rate of harvesting of the natural forests is no longer sustainable. Forest Stewardship Council (FSC) certification and the market demand for forest products (particularly from Europe, USA and Japan) that are certified to originate from sustainably managed forests has also played a role in encouraging sustainable management of natural forests and the establishment of planted forests to reduce the demand on natural forests.

As the private sector has become more invested in the forestry sector, there has been a pattern of governments reducing their ownership of the plantation resources. This has typically taken the form of state-owned plantations being leased or sold to private sector companies and the government forestry departments taking on a stronger policy and regulation role and being less involved in actual operations. Examples of these arrangements include the licencing of private companies to establish plantations on Central Forest Reserves in Uganda and the leasing of large State-forest areas to private companies in South Africa. The emergence of timber investment management organisations (TIMOs) also bears testimony to this pattern where state and privately-owned timber assets have been purchased and/or leased by dedicated investment funds, facilitated and managed by TIMOs. Investors have typically been development finance institutions, pension funds, family offices and high-net-worth individuals.

Timeline of Commercial Forestry across Africa



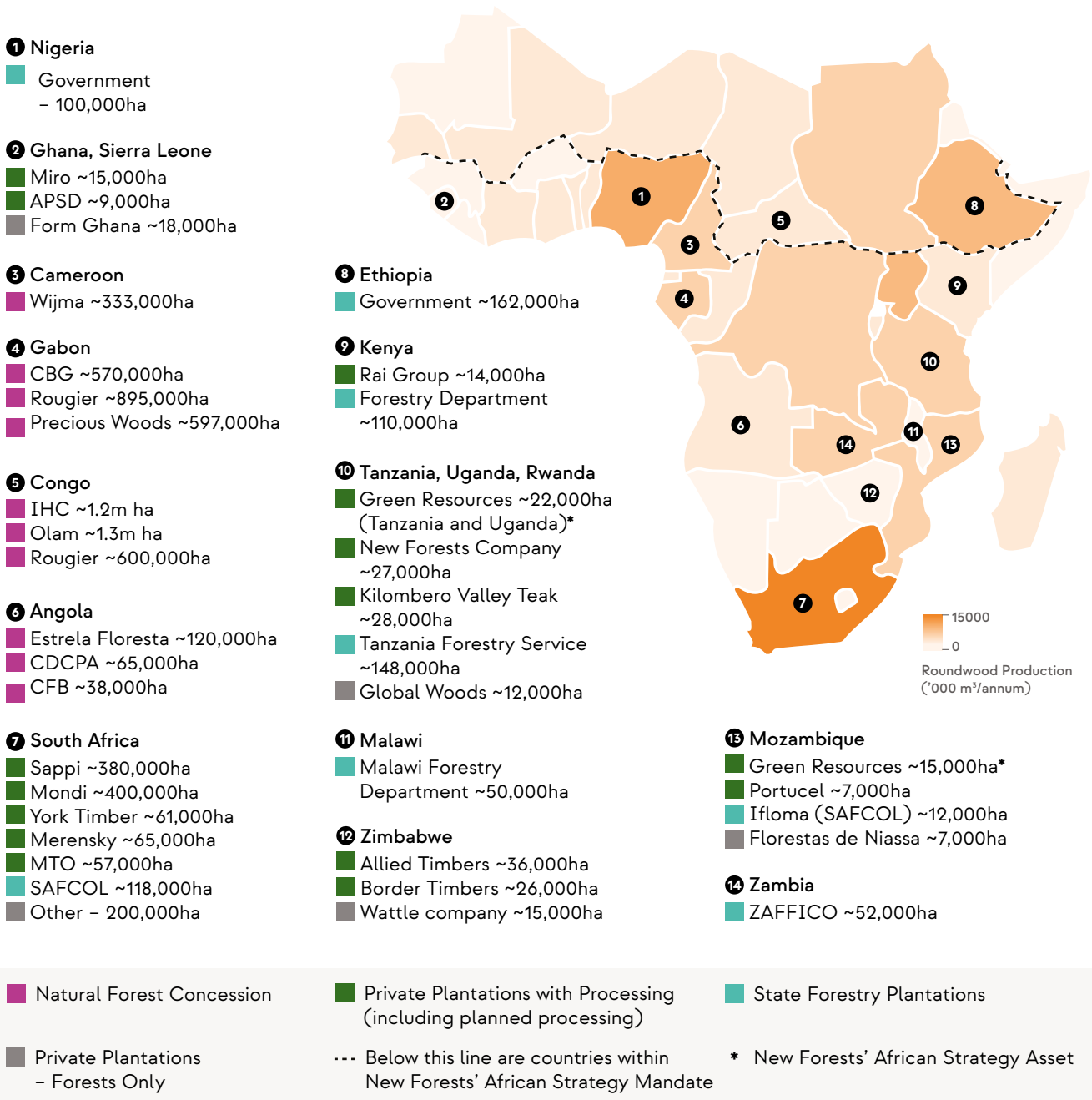
Source: Gats by Africa, February 2024 report.

1 BII Forestry Paper, January 2024, 'Strategy and Impact Thesis'.

The forestry industry in Sub-Saharan Africa is on the cusp of further extensive growth, which will offer many opportunities for international investors looking to invest in sustainable industries. There is a drive towards innovative investment structures, such as de-risking elements, blended finance and payments for sustainable development outcomes. Indeed, a new kind of forestry asset class is emerging, based on a mixed model of timber production, conservation and community engagement.

The graphic below shows existing forestry operations in Sub-Saharan Africa.

Existing forestry operations in Sub-Saharan Africa



Forestry products

SSA countries produce both timber and non-timber forestry products:

Timber products include:

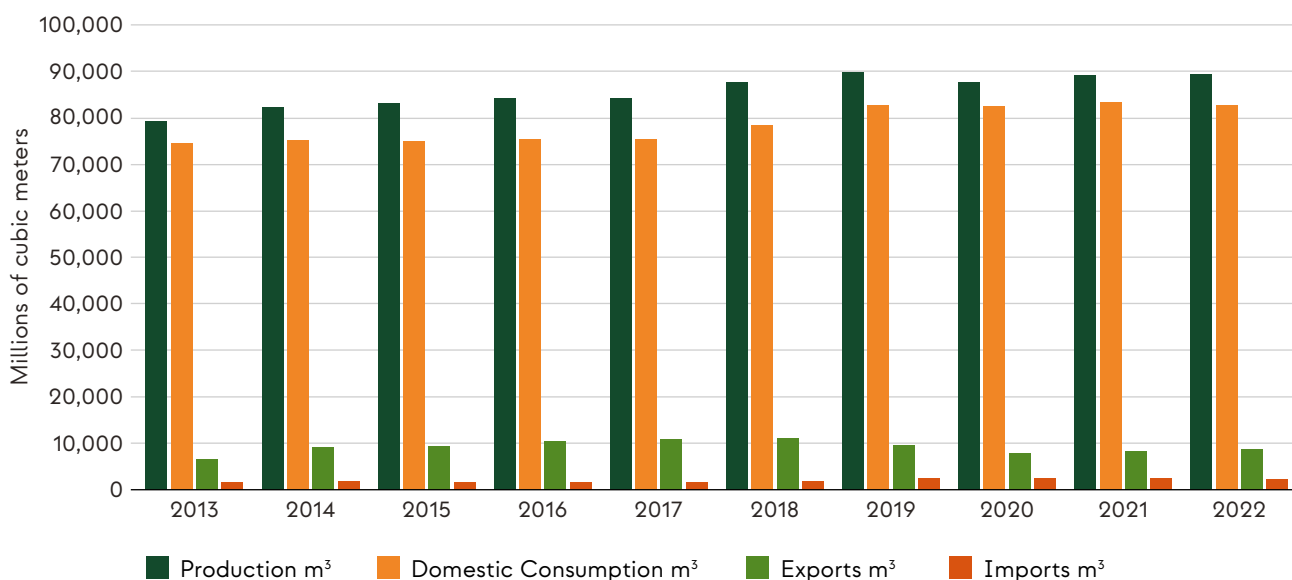
- Sawn wood – used for residential and industrial construction and the manufacture of furniture items;
- Veneer timber which is used for plywood, laminated veneer lumber and decorative purposes;
- Fibre products for paper, chipboard and MDF;
- Poles which are used for electricity poles, building and fencing.

Non timber forest products (NTFP) include:

- Carbon credits;
- Biofuel;
- Biochar;
- Biodiesel;
- Extractives such as resin;
- Food and medicinal products.

The chart below shows annual wood flows for a selection of African forest products. As shown, domestic consumption accounts for most of the wood production. This is detailed further in the next section, 'The market potential', which discusses housing as likely to be the biggest demand for African forestry products.

Annual Wood Flows of Sub-Saharan Africa (round logs, sawn wood, veneer and plywood)



Source: ITTO 2023.

The market potential

Housing and other construction

The biggest demand for African forestry products is likely to come from Africa itself as the continent continues to grow. Sub-Saharan Africa's population is growing at the fastest rate in the world (2.7 per cent per annum) while GDP across the region is forecast to grow at an annual real rate of 5 per cent through to 2050.

This has resulted in increasing urbanisation and a corresponding demand for housing, something that requires large amounts of forestry products. As an example, Kenya has an annual housing demand of 250,000 units but only an estimated supply of 50,000 units, resulting in a housing deficit of 2 million units or 80 per cent.

Connectivity and poles

Electrification, and more recently, the provision of optic fibre for internet connectivity, are the primary drivers of the demand for wooden poles in SSA.

Funding and promotion of electrification projects in Africa has been recognised as essential for driving economic growth and addressing energy poverty in the region. To this end, there are many public and private programs, focussed on initiatives such as clean energy solutions and promoting renewable energy that require wooden poles.

Eucalyptus plantations produce a high proportion of poles as the trees are straight, strong and allow the penetration of wood preservatives which are essential for the longevity of the product.

Import substitution

As the below chart highlights, Africa may export more forest products than it imports, but the value of what it imports averages approximately four times the value of the exports - i.e. Africa exports low-value forest products and imports high-value forest products.

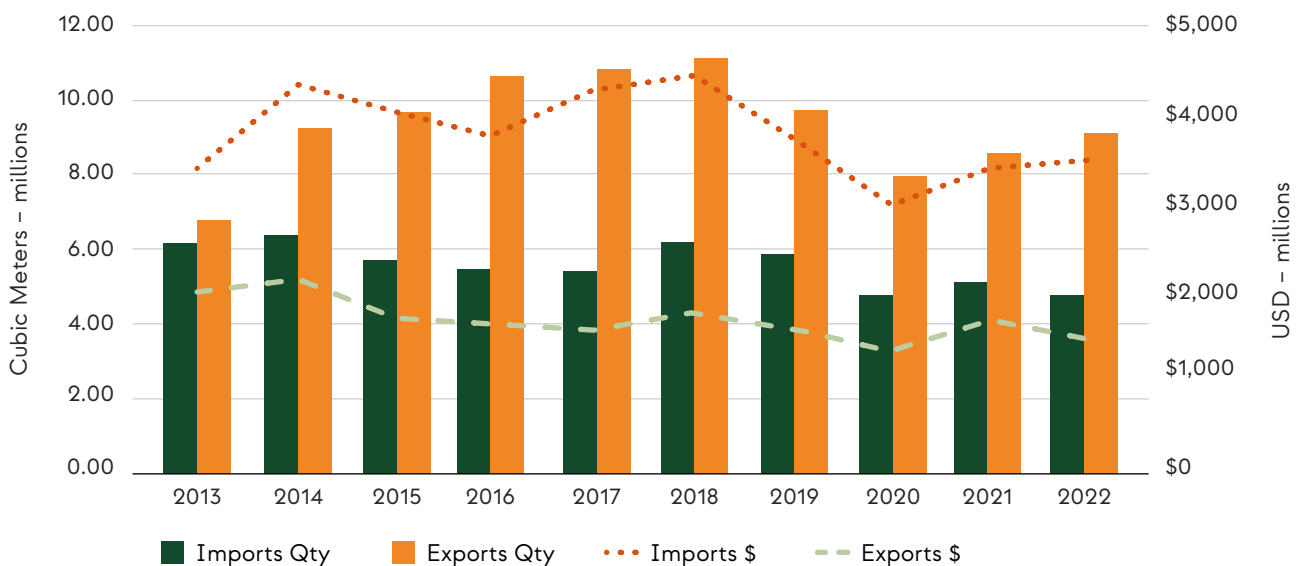
This presents an obvious opportunity for the addition of value to the products produced in Africa to substitute imported forest products with locally produced products.

Given the less well-developed infrastructure and access to technical know-how, significant investment is needed in processing capacity from highly skilled managers, something which is a focus of New Forests' current investment strategy.

One area where value can be added relatively easily is in the manufacturing of furniture. Currently, the value of wooden furniture imports into Sub-Saharan African countries is many multiples of the value of exports, further emphasising the opportunity for value addition in this space.

There are many fledgling furniture manufacturing enterprises in SSA countries, some of which will offer investable opportunities within a downstream integration of the forestry value chain.

Annual African Trade in Forest products



Source: ITTO 2023.

Green initiatives

Almost all the SSA countries have national “greening” initiatives to promote sustainable development, conservation of natural resources, mitigate the negative effects of climate change and encourage sound environmental stewardship.

The larger timber plantation companies operating in SSA have mostly also adopted Forest Stewardship Council (FSC) certification and associated management guidelines, highlighting a strong focus on the elements of sustainability, namely environmental, social and economic aspects of afforestation. All factors which are attractive to international investors.

Carbon opportunities

There is also additional carbon value in investments within African forestry. In particular, New Forests’ African Strategy is focused on generating additional climate change mitigation through carbon credits following New Forests’ significant experience in high quality voluntary offset carbon standards.

Please see our carbon market report (*Harmonising Profits and Planet: The Transformative Power of Nature-Based Solutions and Carbon Credits in a Changing World*) for more information.



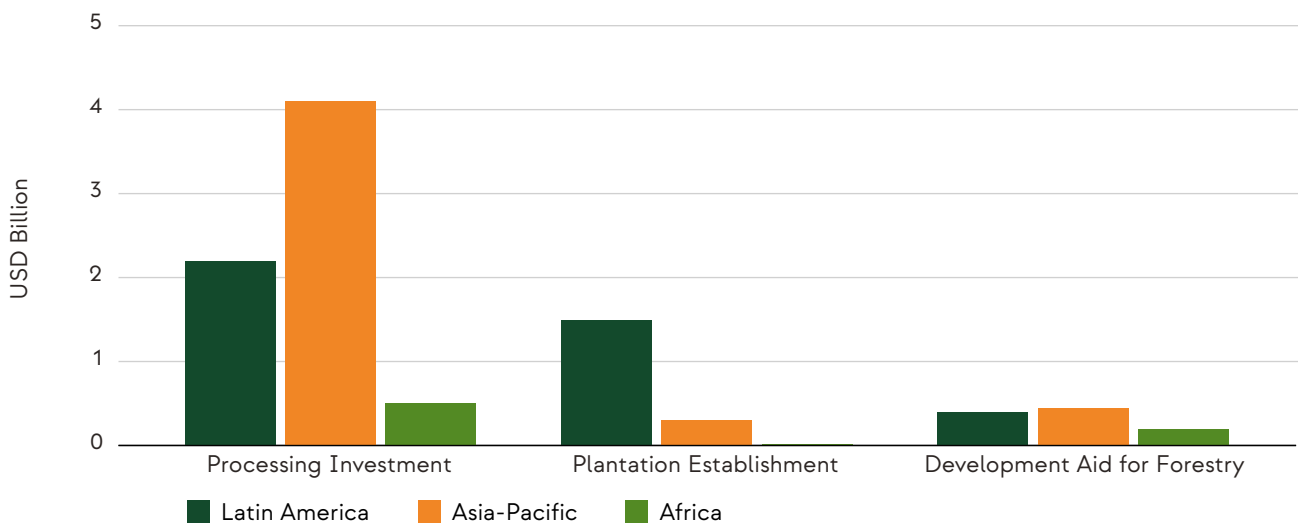
Investment opportunities

The scale, range and diversity of the forestry space in Sub-Saharan Africa offers an investor a kaleidoscope of opportunities. These include possible partnerships with government forestry operations, direct investment or purchase of private companies or co-investment with communities and others in both new forestry operations (“greenfield”) and existing operations (“brownfield”). There are also a number of opportunities in the natural forestry sector although planted forests have been the primary focus of forestry investment to date.

Institutional investors in particular have a lot to gain from making meaningful allocations to this growing African industry.

Africa has been historically under-invested in the development of commercial plantations and processing assets as attention has been focused in other developing areas of the world. This is demonstrated in the table below.

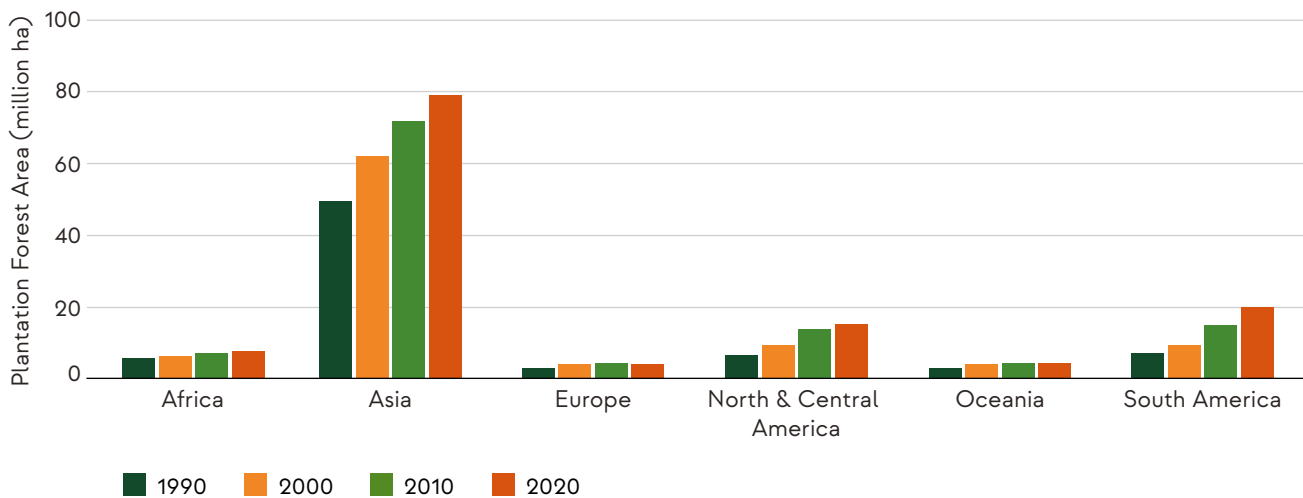
Forestry and Wood Processing Average Annual Investment 2010-2015



Source: Indufor.

Areas of plantation forests have expanded slower than any other region globally over the past 30 years. This has placed additional pressure on Africa’s existing natural forest resource.

Plantation Forestry Area 1990-2020



Source: FAO Global Forest Resource Assessment 2020.

The African plantation forestry and processing sector is therefore significantly below the capacity needed to meet the growing demand for African wood products, both inside Africa and through export markets.

New Forests believes that Africa has significant potential for forestry and wood processing investment due to competitive growing and processing costs, strong potential growth rates, large areas of land zoned for forestry, a large growing domestic markets, and good access to Europe and Asia.

Positive trends New Forests is seeing to shape investment in African forestry include:

- The forest industry is shifting to timber plantations for incremental supply as harvesting of natural forests plateaus.
- Pulp markets are evolving with declines in newsprint, printing, and writing papers, but offset by increasing demand for packaging, bioenergy, biofuels, and other products.
- There is rising institutional ownership of high productivity timber plantations globally.
- Sustainable forest management is central to meeting investor expectations and consumer demand and has the potential to provide critical nature-based climate solutions at scale.



New Forests' African Forestry Strategy

In 2023, New Forests established the African Forestry Strategy, a perpetual capital vehicle, which has a mandate to invest across the forest landscape in plantation forestry assets, sustainable natural forest management, and processing assets in Sub-Saharan Africa.

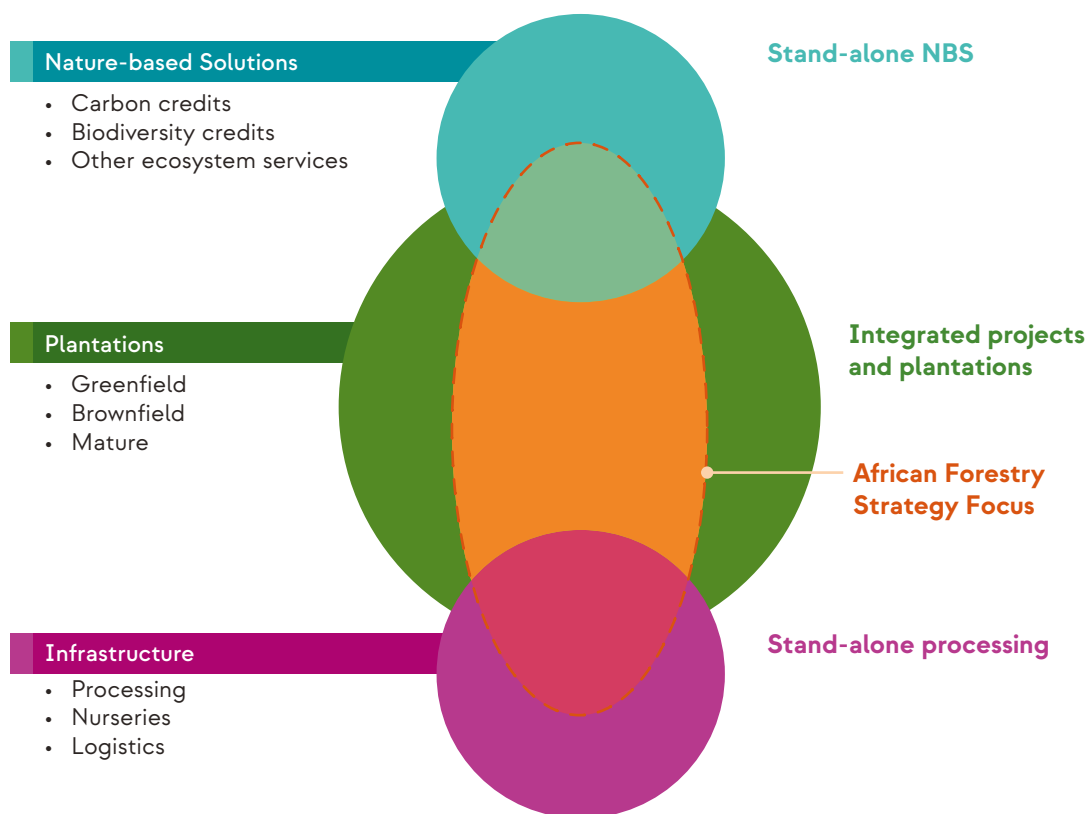
This Strategy has been designed to support the growth of the plantation forest sector while also seeking to support forest conservation, restoration of degraded land and expansion of community-based forestry programs.

Drawing on New Forests' approach to sustainability, the Strategy will focus on four key areas of impact: climate change mitigation, biodiversity conservation, gender and diversity, and community and livelihoods. This strategy has raised US\$200 million from three investors, with a target of US\$500 million over the next few years.

New Forests' African Strategy takes into consideration the below factors:

- The forestry assets in SSA tend to be nascent, diverse, and require significant process and structural support to help them grow and develop.
- Current and potential investors are interested in the growing market for green investments and ecosystem services.
- There is an opportunity to optimise land-use through the mixed landscape approach as well as new capital structuring solutions such as permanent capital vehicles.
- There is access to capital beyond fund investments that can facilitate further economies of scale and help execute on a diversified strategy.

New Forests' African Forestry Strategy







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