



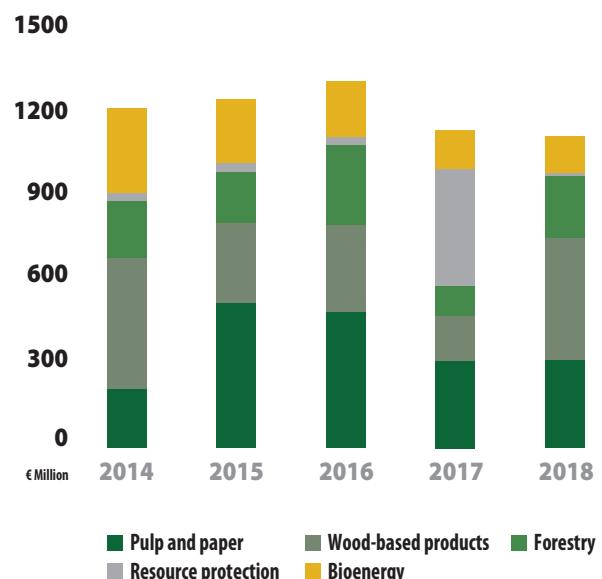
REJUVENATING FORESTS

Forestry and agriculture are at the heart of the European Investment Bank's efforts to support sustainable landscapes, foster rural economic growth and employment, and increase the availability of key renewable resources. Forests and their biomass, or the fuels developed from organic materials, are critical to efforts to decrease carbon emissions by promoting renewable fuel sources. They are also central to meeting the growing demand for innovative biomaterials. With **€6.1 billion** invested in the forestry value chain from 2014 to 2018, the EIB is one of the largest global financiers of this important sector.

Forestry contributes to a range of European Union policies, including rural development, renewable energy, biodiversity protection and climate action. Forests play an important role in maintaining soil health, reducing soil erosion and mitigating flood risks. They are also important carbon sinks, sequestering additional carbon as they grow. The recreational value of forests is extensive and varied, from hunting, tourism and non-timber forest products to health, wellbeing and enjoyment.

Sustainably sourced wood products and bioenergy can benefit both the environment and the economy if the principles of sustainable forest management and sound bioenergy production are respected. These principles require a careful balance between increasing demand for wood products and the protection and promotion of forest health, biodiversity and regeneration. Conservation and management practices need to be environmentally, socially and economically sustainable, generating benefits for present and future generations. For

Total lending (direct operations and allocations)







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that reason, the EIB Group does not support the conversion of natural forests to plantations, commercial logging in primary tropical and subtropical forests or the destruction of critical habitats.

High conservation value forests must be protected, regardless of their location. We require that all forest projects be certifiable according to international third-party accredited best practice standards to ensure the sustainable management of forests and increased wood production from sustainable sources.

Forests and other wooded land account for over 40% of the EU's land area. In recent decades, afforestation and natural succession have increased this area by approximately 0.4% a year. The standing volume of the EU's forests is also rising, with only 60% of the annual forest growth being harvested. In parallel, global demand for wood, renewable fibre and other forest products continues to grow steadily at 3% a year.¹ This demand is driven primarily by biodegradable packaging, soft tissue products and renewable energy.

Through its lending, the Bank promotes the EU Forestry Strategy and the EU Forest Action Plan, which frame EU forestry policy, as well as the EU Timber Regulation and Forest Law Enforcement, Governance and Trade (FLEGT) initiative for tackling illegal logging and improving timber traceability.

EIB Group activities support the full forest value chain, from production to processing and research, development and innovation. We can finance, either directly or indirectly (through specialised intermediaries), public and private sector entities (including SMEs) as well as timberland infrastructure funds.

¹ The EU Forest Strategy 2013: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0659:FIN:en:PDF>

OUR IMPACT

About **€3 billion** went to small businesses working in the sector, and a similar amount targeted public and private sector projects.

We invested
€6.1 billion
in forestry projects
(2014-2018)

200 000 ha
of **new trees** planted each year

350 000 ha
of degraded or damaged forests
rehabilitated each year

4 800 kt
of **CO₂-equivalent emissions**
sequestered each year

200 000
full-time equivalent temporary jobs created during implementation of projects signed 2014-2018

60 000
full-time permanent jobs created from projects signed 2014-2018



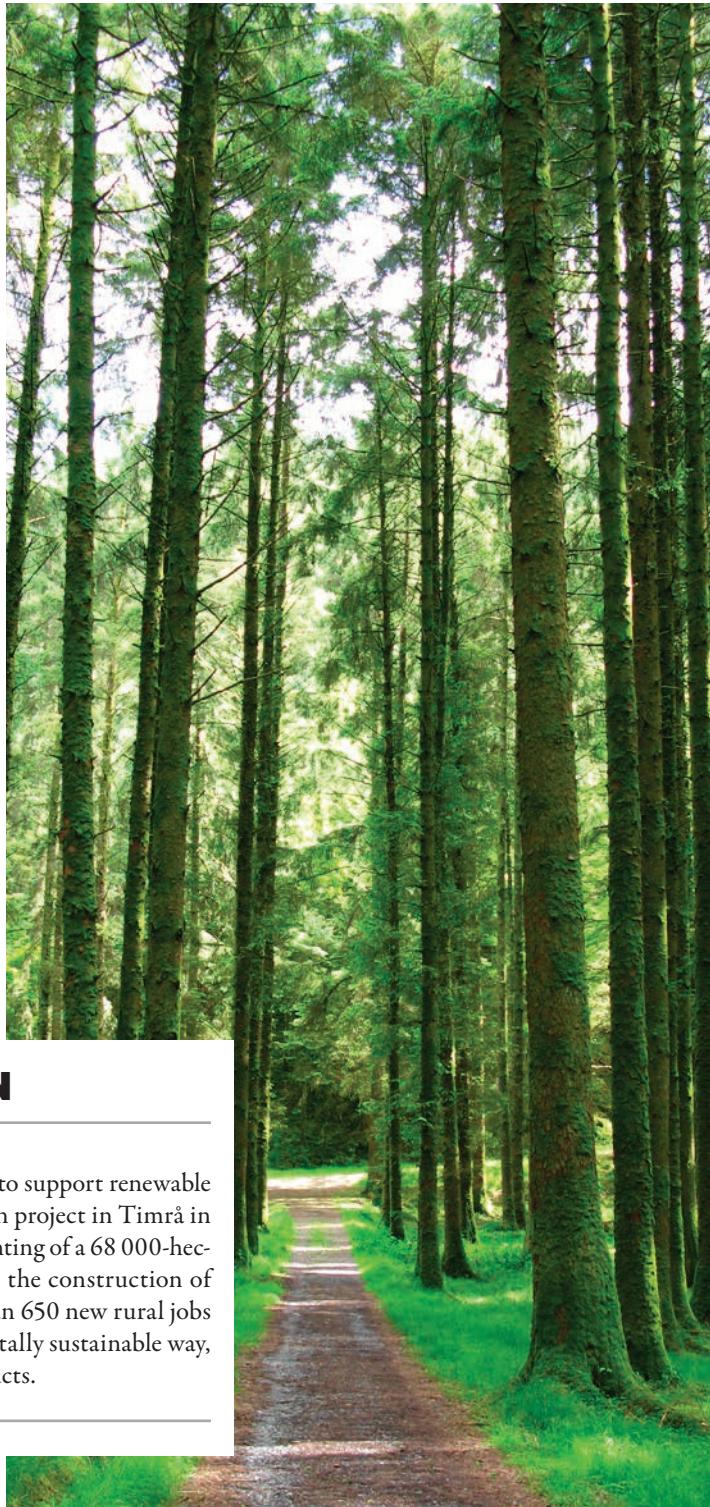
FORESTS ARE CENTRAL TO TACKLING CLIMATE CHANGE

Forests play a major role in climate change mitigation, by storing carbon in trees and soil, and adaptation, through reducing risks of erosion, flooding and landslides. The increased use of wood as a renewable raw material and for bioenergy generation offers Europe the chance to contribute to a more sustainable future and to reduce its greenhouse gas emissions, secure its energy supply and protect its natural resources, as well as maintain competitiveness.

Sustainable wood for renewable energy

The burning of wood in its various forms is still by far the biggest source of renewable energy in the EU, with half of the EU's total renewable energy consumption derived from forest biomass. According to EU Member States' National Renewable Energy Action Plans, biomass used for heating, cooling, electricity and transport could meet about 42% of the 2020 renewable energy target, which calls for 20% of energy to come from renewable sources. This is equivalent to the EU's current wood harvest. Finding the right balance between a sustainable increase in timber production within the EU and growth in imports is critical.

Moreover, while innovations and new technologies increase opportunities to process wood and fibre into higher value goods, wood by-products can also be used for renewable energy. Promising pathways include bio-refineries for new bio-based renewable materials as well as advanced, second-generation biofuels.



VERTICAL INTEGRATION IN SWEDEN

In 2017, the EIB provided a €150 million loan to SCA (now Essity) to support renewable energy and energy efficiency measures for a pulp mill modernisation project in Timrå in central Sweden. The project also included the regeneration and replanting of a 68 000-hectare forest, an area almost three times the size of Stockholm, and the construction of 4 250 km of forest roads. The project is expected to create more than 650 new rural jobs and will enable the mill to increase its production in an environmentally sustainable way, meaning it can meet the growing demand for renewable forest products.

The EIB is financing the efficient management and use of resources in a vertically integrated forest in Sweden.

FINANCING R&D IN PORTUGAL

A €35 million loan from the EIB is supporting **Amorim's investments in research, development and innovation** from 2014 to 2017 for innovation and product development in the cork industry, including energy efficiency, environmental protection and safety.



PREVENTING FIRES IN SPAIN

EIB lending has supported regional and national investment programmes aimed at preventing and containing forest fires since 2010. An EIB framework loan of €700 million will help mobilise **€1.7 billion in investments in reforestation** and afforestation, preventative silviculture (clearing of flammable undergrowth), surveillance and monitoring systems, forest fire prevention teams and brigades, and building forest road infrastructure in the Spanish regions of Castilla-La Mancha, Castilla y León, Andalucía and Galicia. The Spanish authorities expect the projects to eventually create 36 000 temporary and more than 10 000 permanent jobs. The projects will also improve more than 10 000 km of forest roads.



FOREST PRODUCTS RIPPLE THROUGH THE RURAL ECONOMY

Forests contribute to the development of the rural economy, providing about 3 million jobs in the EU.

Timber is still the main source of forest revenue, supplying sawmills, panel board and other construction material manufacturers, pellets and wood chips for bioenergy production, and the pulp and paper industry. In addition, a range of non-wood forest products and ecosystem services – from pine nuts to mushroom picking to Christmas trees, not to mention recreational activities and carbon storage – offer significant economic and, at the local level, financial returns from forests. In many parts of the world, forests have a role to play in food security and nutrition, which can be particularly important during poor harvest years. The foodstuffs gathered for direct consumption and the cash generated through the sale of non-wood forest products help support local communities.

The most important source of forest sector financing within the EU is the EU's Common Agriculture Policy through Rural Development Programmes (RDPs). The EIB actively co-finances forest-related measures under the rural development programmes of several EU Member States.

SUPPORTING RURAL DEVELOPMENT

For more than ten years, the EIB has supported national and regional authorities by financing their national contribution to rural development programmes, alongside funds provided from the European Agricultural Fund for Rural Development (EAFRD). The Bank is providing **€115 million for forestry projects** in Hungary, Poland, Romania and Slovakia through its financing for such efforts in the 2014-2020 programming period. Approximately half of this investment is in afforestation, with the rest supporting forest access infrastructure, fire and natural disaster prevention, silviculture and leisure infrastructure, as well as the processing of forest products and the restoration of damaged forests.

The rural development programmes plan to plant new forests on more than **110 000 hectares of land**. The programmes also call for nearly 5 000 hectares of forestland to benefit from resilience and environmental improvements and 1 800 hectares of new agro-forestry systems. The programmes that have received EIB financing also target 2 300 investments in the downstream processing and marketing of forest produce and over 1 000 km of forest roads to facilitate commercial, maintenance and fire-fighting activities.



A GROWING AREA FOR INFRASTRUCTURE FUNDS

The value of timberland investments worldwide has risen steadily over the past 25 years and is now estimated to exceed €55 billion. Institutional investors have emerged as a major source of capital for the expansion and growth of the forestry sector.

Timberland has an attractive risk-return profile, particularly in the current era of low bond returns. More than ever before, forestry assets are earning their place in wider investment portfolios as a counter-cyclical hedge against inflation, offering a range of tangible environmental and social benefits that are attractive to shareholders and to the wider public.

Forest ownership and management in many European countries is also highly fragmented. About 60% of

European forests are privately owned and national inventories indicate that a large share of the unused biomass can be found in small-scale or fragmented private forests. Efforts to facilitate the rationalisation and aggregation of management activities over wider areas can result in improved profit sharing in the long term. The voluntary formation of groups of forest owners and improved collaboration in the sector are important factors in sustainable forest management and wood production. Efforts to improve the situation include land consolidation programmes that facilitate the acquisition or swapping of land parcels to promote more contiguous ownership and management, and timberland funds that allow the outsourcing of management and land-use rights for a defined time period.



DASOS TIMBERLAND FUND: PIONEERS IN EUROPE AND BEYOND

Dasos Timberland Fund, a European pioneer in timber assets, targets sustainable forestry investments in and outside the EU. Dasos is building a portfolio of sustainable forestry assets, diversified by geography, age, wood fibre and end-use market. The fund adds value by promoting sustainable forest management, consolidating forest properties and improving operational efficiency. The EIB provided the Dasos Timberland Fund with €20 million in financing in 2009, and invested €30 million in 2013 in its successor fund. Those investments were followed by a further **€30 million** co-investment commitment by the EIB for a project based in the EU.

SLM SILVA FUND: CONTINUOUS COVER FORESTRY UNDER THE NATURAL CAPITAL FINANCING FACILITY

The SLM Silva Fund focuses on **sustainable forestry in Ireland**. Half of Ireland's young forest estates are privately owned. Many private owners have small plantations, and lack the know-how to manage their holdings as the forests approach maturity. Some owners are interested in exploring market options for the aggregate management of the forests. The fund acquires semi-mature plantations and transitions their management to "continuous cover forestry" or "close to nature management," an alternative to the widely used single-species clear-fell-replant system. Continuous cover forestry maintains permanent forest cover and promotes a mixed forest structure. It is a commercially viable management model that safeguards biodiversity, soil health and landscapes. The EIB financed the SLM Silva Fund with €12.5 million in 2018 under the Natural Capital Financing Facility (see next section). The fund has now reached its first close and is initiating its investment period.

WORKING WITH PARTNERS ON FINANCIAL INSTRUMENTS

Legislation governing the European Structural and Investment Funds (ESIF) and the European Agricultural Fund for Rural Development (EAFRD) provides for the use of financial instruments. Financial instruments are an alternative to grant-based support for revenue-generating or cost-saving projects in areas that are still subject to market failures and weaknesses, such as initiatives in rural areas and in agriculture and forestry.

The EIB Group supports regional and national managing authorities in the set-up, management and implementation of financial instruments in the framework of EAFRD. Some EU-level financial instruments that support the sector are funded directly by the European Commission and managed by the EIB Group.



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NATURAL CAPITAL FINANCING FACILITY NCFF (EU)

NCFF is a joint European Commission (DG ENV)-EIB instrument addressing the gap that current funding (principally public grants) is not able to fill.

The NCFF complements existing sources of financing, including funding for agriculture and rural development, fisheries, regional development and climate change. NCFF tries to enlighten the private sector about investment opportunities and to demonstrate how natural capital projects, currently perceived as small and high risk, can be scaled up to attract additional funding, complementing public budgets and EU grants without impairing the public objective of environmental protection.

The NCFF envisages the blending of the EIB's own resources with EU funds under the LIFE programme. The EU funds are subordinated to EIB financing to provide risk protection at the portfolio level. NCFF's flexible mechanism allows for direct and intermediated financing, including debt and equity products. More information can be found at <https://www.eib.org/en/products/blending/ncff/index.htm>.



REWILDING EUROPE CAPITAL

Investment rationale:

- The loan to Rewilding Europe Capital will be invested in nature-related businesses in selected areas around Europe, showing how commercial finance can contribute to nature conservation and rewilding.
- Businesses benefiting from this financing will include tourism, water management and sustainable fisheries.
- Rewilding Europe Capital was established to positively stimulate natural landscapes in Europe, and to directly support businesses fostering conservation and wild landscapes. REC achieves this by providing commercial funding to businesses that can:
 - Positively address negative socioeconomic impacts caused by rural land abandonment, which is happening in many areas in Europe;
 - Directly and indirectly support rewilding processes and activities in Europe;
 - Deliver economic returns from nature and wildlife-related sectors that create incentives to conserve natural landscapes and rural cultures and heritage connected to them.
- The areas that may benefit from the NCFF loan consist of 38 different sites located in the following rewilding areas: Western Iberia (Portugal), Velebit Mountains (Croatia), Central Apennines (Italy), Southern Carpathians (Romania), Danube Delta (Romania), Rhodope Mountains (Bulgaria), Oder Delta (Germany/Poland) and Lapland (Sweden).

Amount **€6m**
Country
Netherlands-based, investing in several EU countries
Signed **April 2017**



SUPPORTING FORESTRY IN FRANCE

The French region of Languedoc-Roussillon entrusted the European Investment Fund (EIF) with managing a financial instrument using EAFRD resources, including a contribution of €15 million from the region to support investments in the agricultural, agri-food and forestry sector.

The financial instrument provides risk coverage on a loan-to-loan basis for selected financial intermediaries, guaranteeing up to 80% of a capped amount of the total portfolio. The financial instrument falls within the framework of the FOSTER TPE-PME (Fonds Occitanie de Soutien Territorial aux Entreprises Régionales), a new generation of fund-of-funds aiming to improve access to finance.

One part of the financial instrument targets investments in forestry technologies and in methods of processing, manufacturing and marketing forest products. The target beneficiaries include forest entrepreneurs, forest loggers and forestry cooperatives.

Loans granted under the programme can be used for tangible and intangible investments, working capital and the transfer of property rights related to a business, provided the transfer takes place between independent investors. The financing is expected to strengthen the competitiveness of the targeted SMEs, improve working conditions and create jobs in the sector.





WHO WE ARE

Owning by the 28 EU Member States, the EIB supports public and private sector projects that further EU policy objectives. The Bank provides a range of funding solutions and can finance up to **50% of the total project cost**. Loans can be granted directly to large projects, while smaller operations promoted by private entities are supported through a network of local banks in the EU and our partner countries.



European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
📞 +352 4379-1
www.eib.org – 📩 info@eib.org

- ▢ twitter.com/EIB
- ▢ facebook.com/EuropeanInvestmentBank
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