REGENERATIVE AGROFORESTRY (OR PRIMARY SECTOR) FINANCE

Active and passive equity are two new complementary financial solutions (or asset classes) that typically make up 100% of funding. The active equity holder typically is a user of finance, with interests to control or operate assets or activities. The passive equity holder is a provider of finance, seeking a return on investment (in whatever form), without interests to control and operate assets or activities. Passive equity holders tend to seek an exit from the investment proposition over time. Like debtors can pay of their debt to creditors, active equity holders have abilities to buy out passive equity holders.

Suppose a pension fund wants to shift its portfolio from extractive activities to regenerative activities. Together with other investors, through a pooled investment vehicle, it can buy a passive equity stake in a large plot of degenerated land with agricultural potential. The remaining stake is bought by a cooperative of farmers that becomes an active equity holder in the land, with a right to buy out the passive equity holders over time.

Both the active and passive equity holders share in the production results of the land according to their ownership percentages. Should soil quality and other indicators point to a regeneration of land, the active equity holder is rewarded with a relatively higher share in the production results, as the value of the land has gone up and the passive equity holders are therefore (more than) compensated for a lower share in the revenues.

With the increased land value, the active equity holder's larger share in revenues can ensure that the buy out dynamics of the increased land will become less favourable for the active equity holder. Higher future land values, due to regeneration, will incentivise the active equity holder to regenerate.

Should the cooperative as active equity holder deplete the land, with deteriorating land values as a result, it would get a disproportionally smaller share of production results, as the value of the land decreased, adversely affecting the position of the passive equity holder. With a decreased revenue share, it will be harder for the cooperative to take over the stake of the passive equity holder, if at all.

Still, the farmer will not end up in debt. It can be agreed that the pension fund, as (indirect) passive equity holder, can buy out the cooperative and find more regenerative uses or solutions for the land, should the land degenerate beyond a certain threshold.

With active and passive equity, it is possible for both users and providers of finance to gain financially when land is being regenerated, while the active holder maintains control and can obtain full ownership over time and without debt. Ecosystem interests are easier to embed into active and passive equity structures than into traditional debt or equity.