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FINACIAL INSTRUMENTS FOR SUPPORTING RESPONSIBLE (ETHICAL) FOREST INVESTMENTS: A REVIEW OF INTERNATIONAL EXPERIENCES

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Introduction – What is ethical (responsible) finance?

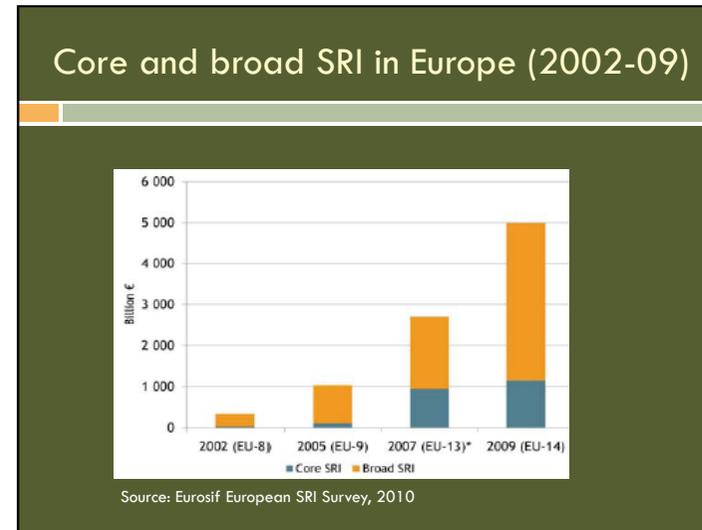
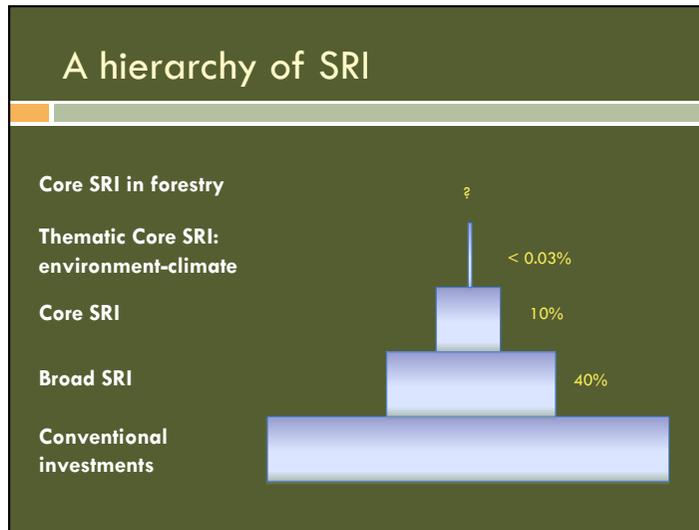
- Ethical finance is CSR tool
- A set of principles, criteria and operational tools for investing that combine investors' **financial objectives** with their concerns about **social, environmental, ethical** and **corporate governance issues**
- Various terminology: green investments, sustainable investments, (socially) responsible investments...
- Ethical finance covers both investments and finance (e.g. microfinance)

General ethical finance principles, standards, and operational tools



Investment classification in relation to social responsibility (Eurosif, 2010)

- **Conventional investments**
- **"Broad" SRI**
 Simple negative screening based on 1 or 2 exclusion criteria, engagement towards ESG practices
- **"Core" SRI**
 Norms and values-based negative screening
 Positive screening
 Best-in-class (top performing companies in a sector or category based on targeted ESG screens as efficiency or CO2 emissions)
 Thematic funds



Forestry – an expanding market

“Traditional” investments in timberland and timber production:

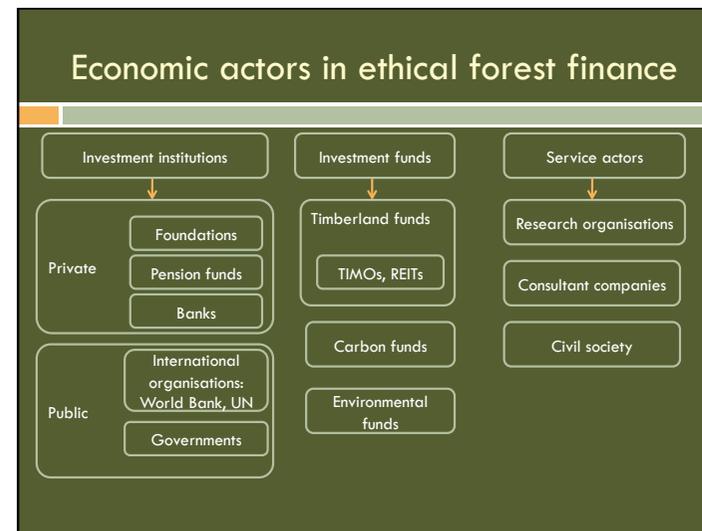
- TIMOs and timber REIT

“Innovative” investments:

- Flexible mechanisms (CDM, JI, Emission Trading, REDD+...)
- Voluntary market for C offset
- Markets for water procurement, biodiversity protection, ecotourism and other PES

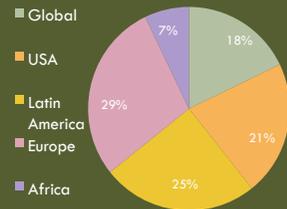
Philanthropic investments

Social Responsibility criteria for selecting and monitoring forest investment



Survey results – investors

Where are the investment organisations from?



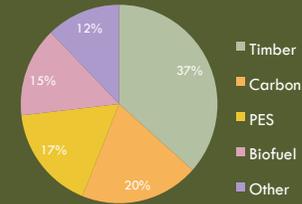
Most of organisations are specialized in forest investment (78%)

Who are the investors?

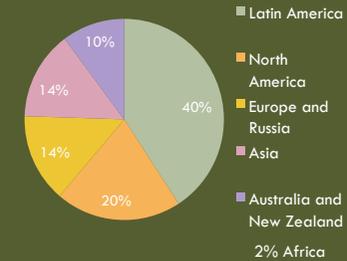
- The investors are mainly institutional: **pension funds**, insurance funds, foundations...
- The investors are from Europe (84.5%) and USA (15.5%)

Survey results - investments

What are the type of investment?



Where are the investment located?



Results – market demand for ethical finance in forest sector

- Interest for ethical investment in forestry sector is increasing
- 67% of respondents believe that this growth is mainly driven by market demand, and 33% thinks that demand is driven by suppliers push
- Investors' perceptions on future role of ethical finance in forest sector is positive: 62.5% believes that the role of ethical forest investment in the market will increase slowly, 25% thinks that it will increase sharply, 12.5% thinks that it will remain the same, none think that market demand will decrease

Results – how ethical forestry finance work in practice?

- 94% claimed the appliance of ethical criteria in investing
- Investment strategy: both negative screening and positive/best-in-class screening (88%)
- How?
 - Forest certification standards: **FSC** and **PEFC**
 - Carbon certification standards: **VCS** and **CCB**
 - policies and standards based on ethical finance initiatives

Conclusions

- There is a high interest in ethical finance among forest investment organisations
- As ethical finance is more selective, there are less environmental and social risks, thus the ethical forest investments are generally performing better comparing to conventional investments
- However, country risk, weak management, illegality, weak business planning and skills, lack of (local) demand (for sustainable products and services) combine to overwhelm the effect of ethical forest finance, especially in developing countries

Conclusions

- Many financial institutions have made, or are under the pressure to make commitments towards ethical forestry finance
- The challenge to the financial sector is in developing **consistent** and **effective** policies and criteria for ethical financing in forestry sector

Thank you for your attention!

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