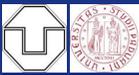


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Planted Forests

Influence of corporate responsibility on financial return in forest plantations: case studies from South America, South East Asia and Africa



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Contents

- Sustainable Responsible Investments
- Systems for investments classification
 - value chain allocation
 - market impact priority
 - quality assessment (principle-criteria analysis & experts)
 - scoring (with field tests)
- An example: Argentina plantations

Sustainable Responsible Investments

Sustainable Responsible Investments (SRI) is a generic term covering any type of investment process that combines investors' financial objectives with their concern about Environmental, Social and Governance (ESG) issues.

(EUROSIF, 2010)

The screenshot shows the Ethical Forestry website. At the top, there is a navigation menu with links for Home, In The Press, Investment, ESG, Contact Us, and My Account. Below the navigation is a banner for 'Ethical Forestry' with the tagline 'Sustainable Timber Investments'. A prominent message reads 'PENSION SHOCK!' with a sub-message: 'You're planning for the 1% of returns you're getting on cash from 2008 and your likely 4% return needs to be replaced by a high return forestry investment to help secure the future you need for life.' Below this is a section titled 'FORESTRY INVESTMENT OPTIONS' which states: 'We currently offer three timber investments. The following principles are based on positive investment strategy. The first two investments do not require investment requirements. Please contact us for a detailed quotation.' It lists 'Timber Investment 1: Making 12 Year Investment Plan' with details: '€21,000 invested over 12 years' and 'Total projected payout: £98,700'. A sidebar on the right titled 'Latest News' contains a snippet about an alternative investment with a growth track record.

(www.ethicalforestry.com)



(www.iwc.dk)



(www.plantingempowerment.com)



(www.forestfinance.de)

7 SRI strategies

1. Norms-based screens (EU Timber Regulation?) ↑↑↑
2. Exclusion (no GMO) ↑↑
3. Best-in-Class selection ↑
4. Sustainability themes (climate change & forestry)
5. ESG financial integration (risk analysis)
6. Engagement and voting (long term)
7. Impact investment (microfinance, community & social)

(EUROSIF, 2012)

SRI market is growing!

Europe (14 countries) €Mn	2009	2011	CAGR
Sustainability themed	€ 25,361	€ 48,090	37.7%
Best in Class/Positive Screen	€ 132,956	€ 283,206	45.9%
Norms-based screening	€ 988,756	€ 2,346,308	54.0%
Exclusions	€ 1,749,432	€ 3,829,287	47.9%
Engagement/Voting	€ 1,668,473	€ 1,950,406	8.1%
Integration	€ 2,810,506	€ 3,204,107	6.8%

- annual growth > 35% per year in Europe since 2009
- mainly institutional investors (e.g. pension & insurance)
- increasing uptake in the retail sector

(EUROSIF, 2012)

Norms-based screening

- FLEGT and the related VPAs
- Lacey Act
- Australia's Illegal Logging Prohibition Bill
- EU Timber Regulation
- EU **Transparency and Accounting Directive** (9 April 2013)



- excess of public regulation?
- effective monitoring and control system?
- reduction in uptake of voluntary tools?
- potential loss of credibility?



ESG financial integration (risk analysis)



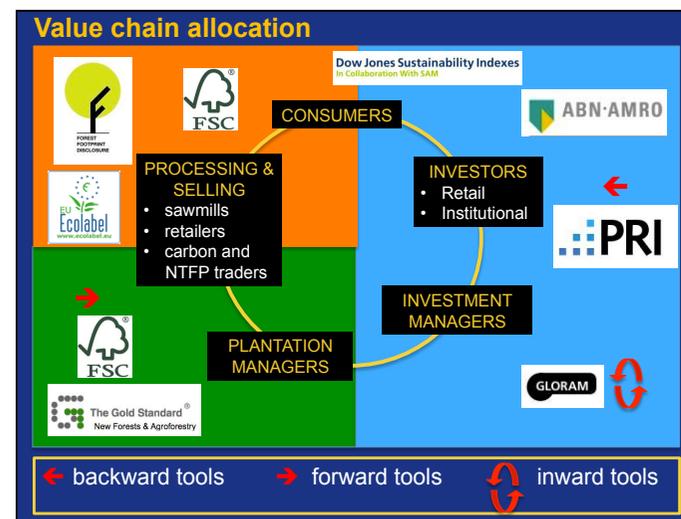
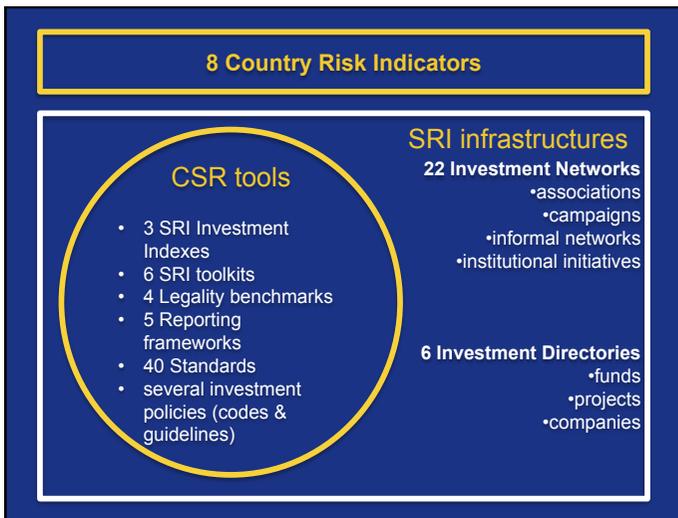
Code	Description	Risk Category		
		L	M	S
Activity scale: L (large) – M (medium) – S (small)				
0150	Hunting, trapping and game propagation including related service activities	A	B	C
0200	Forestry, logging and related service activities	A	A	B
2230	Reproduction of recorded media	B	C	C

CSR tools

Set of common tools (standards, guidelines, codes, etc.) to assure responsible management of plantations

- 8 Country Risk Indicators
- 69 CSR tools applied to forest plantation investments
- 28 SRI infrastructures involving forest plantations

Logos include: EQUATOR PRINCIPLES, THE GLOBAL COMPACT, The Gold Standard® New Forests & Agroforestry, FSC, PRI, ISO 26000, and Dow Jones Sustainability Indexes In Collaboration With SAM.



How to classify?

three independent sub-classification THAT can be integrated



5 STEPS:

1. Country screening → country indicators (no weight)
2. Project applicability → exclusion list
3. Project indicators → CSRHUB method
 - community
 - employees
 - environment
 - governance
4. Scoring → AAA to D (Standard & Poor's ratings)
5. The PLUS "+" → level of control (AAA+ AA+ ... to D)

NEXT STEPS:

- **Market impact priority:** to select the most relevant CSR tools → area of planted forest affected, investment turnover, % share of forest asset inside portfolio
- **Peer review by independent experts**
- **Individual tools comparison** to define best reference path of CSR (Holvoet and Muys, 2004)
- **Field testing** (pre-feasibility complete in Argentina, Brazil and Vietnam, next Uganda. 80 investment agencies listed 4 first contact)

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Retail investors in Argentina

CASE 1

- Corrientes Province
- 80.000 hectares *Eucalyptus spp.* & *Pinus spp.*
- ISO 14000
- SCORE = BBB



CASE 2

- Corrientes Province
- 40.000 hectares *Eucalyptus spp.*
- Certified B Corporation
- FSC certified plantation & sawmill
- CDM registered
- SCORE = AAA+



Thanks, questions?

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Objectives and research questions

While the importance of **private funds** in forest plantations **increases**, there is little or **no understanding** on the use of **Corporate Social Responsibility (CSR)**.

Objectives:

1. Develop a system to classify investments based on socio-economic criteria
2. Identify the relation between CSR tools and financial return
3. Design CSR based strategies to maximize socio-economic benefits

Question:

How do CSR tools affect the socio-economic and financial dimensions of forest plantation investments?

CSR theories

a different understandings of the relationship between business and society may lead to different approaches to CSR:

- **Instrumental theories:** CSR is considered only as a tool to achieve economic goals. Long term profit maximization (Friedman, 1970)
- **Political theories:** business has power and it impacts the society that it operates in. Social demand (Davis 1960)
- **Integrative theories:** business depends on society in a broad sense. Social demand integration. (Preston and Post, 1975)
- **Ethical theories:** ethical standards facilitating good business-society relationship. Achieving a good society. (Freeman, 1984)

Impact Investment



Field testing

PARADIGM (approximate period)	Land Ownership/ Forest Management	Understandings / Goals of Plantations
INDUSTRIAL POST-COLONIAL (NATIONAL) (1950-present)	Central control, National Forest Departments	Economic goals, "progress" (technocratic forestry)
PROTECTIVE (ca. 1960-present)	Public; State and community land (generally non-exclusive) National Forest Administration	Protective function
SOCIAL (ca. 1970-present)	State and village common land, regulated community use (non-exclusive) Participatory management	Equitable growth (responsible forestry)
NEOLIBERAL (ca. 1980-present)	Exclusive, private land accumulation Private	Profit
NEOLIBERAL MODIFIED (ca. 1990 - present)	Exclusive, with partnerships agreements Outgrower schemes	
GLOBAL POLITICAL (1992-present)	Project dependent, i.e. state, private, Lease agreements. Project-defined, according to developed standards	Resources supply - Climate Change - Biodiversity - Desertification

(Shulecka, 2013)

