3.6 Increasing investors’ interest in sustainable forestry

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Introduction
The Finance Alliance for Sustainable Trade (FAST) is exploring how the measurement of the social, environmental and financial impacts of investments can help to increase investors’ interest in sustainable forestry, augment the flow of capital, and facilitate access to financing for small and medium forest enterprises. This initiative is based on the Shared Impact and Assessment Measurement Toolbox developed by FAST to measure the impact of investments in sustainable agriculture.

A series of interviews were conducted¹ to assess the challenges faced by forest producer organizations and the potential role of impact measurement in promoting investments in sustainable forestry. The main finding was that impact measurement could be a way to provide more information to investors and complement their risk assessments. This measurement process must capture positive impacts and identify good business cases that might otherwise be overlooked, in order to engage investors over the long term. Investors can also have positive impacts in the short-term — for example, providing nutritious meals for workers may instantly increase productivity — but it takes time to train enterprise staff to collect and store impact data and for positive impacts to become apparent.

Another finding is that investments generate a positive impact only if the enterprise has been able to market its products. Informing buyers about the positive impacts of buying from forest producer organizations may increase their interest in these organizations and strengthen customer relationships. Furthermore, positive impacts may encourage buyers to support producers and hence increase producers’ access to finance.

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Coatlahl cooperative, Honduras

According to Sergio Herrera of the Coatlahl forest management cooperative in Honduras, there is little land available in the country for forest producer organizations. Much of the land has been occupied by migrant farmers, bought by private investors, or classified as a protected area. Communities that want to manage natural forests can establish a cooperative or a community enterprise, although there is strong competition from plantations, since wood from plantations is cheaper to produce than wood from natural forests.

Natural forests tend to be located in more remote areas than plantations, which are located in accessible areas with more employment opportunities. Creating jobs within natural forests can therefore have a greater socio-economic impact, and socially oriented investors should be aware of these differences. When the demand for wood falls, “the challenge is to prove that trees still have a value. People lose interest in natural forests and the temptation to turn the land into other uses is strong” (Sergio Herrera, pers. comm.).

To obtain higher prices, adding value to raw wood is essential. Producing furniture has proved to be profitable because the market demands high quality. Joining forces allows producer organizations to satisfy requests for large quantities of wood and to lower the risk of noncompliance with a contract. When measuring the impact of an investment, special attention should be paid to the stability of supply and demand, in order to assess the ability of the producer organization to comply with buyers’ requests. Collecting impact data encourages investment in sustainable forestry because it provides more information for investors, but enterprises need to be trained to collect this data. Producer organizations could make a significant contribution to this process. Certified enterprises are better able to provide impact data, but other small and medium forest enterprises also need to understand the reason for collecting it.

Data such as indicators of carbon stocks may not be easy to collect, but this information would help attract investors. Collecting it would be costly for small enterprises, and staff would need to be trained in the technical aspects. Two essential factors for the effectiveness of producer organizations are the mercadeo apadrinado and market research to identify developing sectors and niche markets. Impact data would increase transparency and attract buyers who are interested in knowing how revenues are used.

The Sicirec Group, Bolivia

According to Popko van der Molen of the Sicirec Group, measuring impacts will certainly help to attract investors to the sustainable forestry sector. Working with the Sicirec Group, FAST has been addressing investors’ perspectives on impact measurement in Bolivia. The Sicirec Group includes Sicirec Investment Management BV, an asset manager that specializes in reforestation and afforestation projects. The company has been
discussing two potential approaches to impact measurement: incorporating the social and environmental dimension of impacts into economic impacts; or measuring the social and environmental dimensions as discrete components, separate from economic impacts. They decided that for the sake of transparency, the three dimensions should be kept separate, so that the costs and benefits of each impact dimension are clearly visible.

Transparency is essential, and a composite index that incorporates the net effects of the three dimensions would be a good communication tool to circulate among investors. A catalogue of impact indicators, broken down by dimension, would also be useful. Sicirec’s project in Bolivia followed an interesting trajectory: it started as a social and ecological project funded by FAO and developed into a partnership after finding enough smallholders to join. Investors were interested in the project because of the existence of records of past work with NGOs and smallholders, and especially because of its transparency, which helps investors assess and manage risks. Sicirec has no specific investment preference in term of equity or debt, but the company wants investors to know that if they want social and environmental as well as economic benefits, they need to work on a long-term basis.

The need for transparency and information to attract investors also supports impact measurement, which can fill the information gap that deters investors from the forestry sector. In previous work, Sicirec developed a rating system that focused on only two dimensions: financial and environmental. The social dimension was not included because national legislation guarantees social impacts that greatly exceed any effects that projects could achieve on their own.

Social and environmental laws and regulations would simplify data collection by small and medium forest enterprises if they required compliance with social and environmental indicators. In defining impact indicators, one of the main criteria is not to increase staff workload, but as far as possible use data that is already being collected for other purposes, such as compliance with national laws, certification purposes, etc. One condition for success of the plantation project is the expansion of plantations to 10,000 or 20,000 hectares (ha) to reach economies of scale; this would increase financial, social and environmental benefits.

The Cochabamba cooperative, Bolivia

The main difficulty in establishing this new forestry enterprise was overcoming the reluctance of investors to adopt a long-term view. Standing forests contain mature trees that are ready for harvesting, whereas new plantations take decades to mature before they produce useable timber. In the intervening years, many potential hazards are encountered, so investors also need to have an appetite for risk.

In the Bolivian Amazon, as elsewhere, conventional concession owners face mounting costs as forest resources are depleted. They have to go farther afield to find mature trees of commercial species, using ever more resources to recover their timber. The world is finally waking up to the fact that it is dangerously close to a tipping point in the treatment of natural resources, with severe implications for the climate and ultimately for human survival as a species.
Trees grown in plantations are grouped in accessible locations and so can be managed, harvested and transported far more efficiently in the long term. The forestry industry is thus keen to invest in new plantations for its own long-term commercial interests; this fact should be explicitly addressed when measuring impacts. The indicators should assess the time required for dividends to be generated and the overall payback period.

The Cochabamba Project is a nonprofit cooperative society based in the UK that was established to act as a catalyst for such investment. Although it offers the prospect of a financial return, including a modest amount of interest, its members are primarily focused on social and environmental impacts rather than financial results, and on establishing proof of concept for more conventional investors to follow in due course.

The society has a controlling interest in Sicirec Bolivia Limitada, the project manager, which is responsible for certifying and selling the carbon credits generated by project activities. It is attempting to bring 12 new plantation-grown Amazon species to market, but needs to keep increasing in scale. Quality will come only with time as the trees mature. In a depressed market, trees would be allowed to grow and would not be harvested.

There is a need to educate national and regional authorities about this approach. They are unfamiliar with the model, which aggregates its timber from hundreds of individual smallholders rather than dealing with a single concession owner. Regulations and procedures have to be simplified to encourage this model.

Although this type of forestry is commercially attractive in its own right, the main benefits are its social and environmental impacts. However, it is very hard to establish reliable, quantitative data, particularly on household income, and it also takes a long time for any emerging trends to become apparent. Impact indicators should be based on data collected for certification purposes or data required by law; this would reduce data collection work by the enterprises and also enhance data reliability.

The company is frustrated by the shortcomings of the carbon market, which they see as too focused on carbon accounting methodology while losing sight of the much greater value of sustainable land use. A typical smallholding in the Bolivian Amazon is about 30 ha, all of which would benefit from improved carbon stocks and biodiversity, not to mention avoided deforestation. Despite this, the Arbolivia project is able to sell credits only for its commercial tree lots, which account for about 1.5 ha. More capital would make all the difference for the producer organization, but a longer-term mentality among investors is also needed.

**Governance and decision-making**

“When dealing with many smallholders, governance and decision-making are key efficiency factors for producer organizations,” says Anko Stilma of Sicirec Bolivia. Decisions must
reflect the will of most smallholders to ensure a solid social base. The smallholders of the ArBolivia project have signed shared investment contracts with Sicirec Bolivia Limitada. They are organized in forestry committees that also include ArBolivia staff members. Regular meetings are organized to exchange information about each other’s work.

Impact indicators must address governance and decision-making, involve all parties, and measure the level of stakeholder dialogue, conflict resolution and inclusion of small producers in the project. Sicirec Bolivia’s focus is on plantations, but it also has agreements with indigenous communities who have rights to large areas of primary forest. Access to land is not a problem for these communities, but lack of access to capital and to knowledge to manage their resources and add value sustainably certainly are. This puts them at the mercy of intermediary companies who exploit indigenous-owned forests and generate very little added value for the communities.

Sicirec Bolivia’s model involves co-administration of the forestry enterprise with the community. The community supplies labour, timber and non-timber materials, and Sicirec provides machinery, capital and marketing. Full transparency helps ensure a well-balanced distribution of revenues.

International cooperation in the form of grant funding is an approach that needs to be reconsidered. There seems to be a connection between the impacts and the role of a grant. “During the early stage of high impact producer organizations,” states Issam Chleul of the Africa Impact Group, “there is a period of uncertainty around the right business model. Uncertainty about which business model to use increases risks. Only grants can support producer organizations during that stage, so they can prove their feasibility and then seek loans and investments.”

There is a possibility that Sicirec could act as an intermediary to provide smallholders with access to the forestry market in the future. Certification may also help provide access to niche markets, but these exist mainly at the international, not the domestic, level.

The continuity and durability of relationships and interventions is important. Often, government representatives change, and the project and processes have to be re-explained to new staff members. Similarly, Sicirec conducts training activities at the smallholder level, but if workers leave, the training process needs to be repeated for new workers.

**Idepro – from producers to entrepreneurs**

In Bolivia, an important part of the process to obtain land is the development of a General Forest Management Plan and subsequent annual forest operating plans. The problem of overproduction, which depresses prices, is not always under the control of producer
organizations. There are certain periods in a year when timber can be harvested from the forest, and in these periods, timber prices decrease because of the wide range of wood available.

Only those companies that are capable of mobilizing capital can control the production of timber. These companies, unlike most producer organizations, can store logs until market prices rise. Generally, producer organizations do not have start-up capital or any mechanisms to capitalize their economic assets, so they must use intermediaries to reach the market. This triggers strong competition between producer organizations and those forestry companies with the logistical and financial capabilities to stockpile wood.

A producer organization is not a private company; it is established for territorial and cultural reasons. Producer organizations focus primarily on social issues such as education and health. These organizations choose their directors, who are not specialists. The leaders need to delegate to others the functions of providing transparency, control and accountability.

It is essential to strengthen the entrepreneurial capacity of producer organizations in all functions: human resources, financing, tree harvesting, organizational relationships and — last but not least — access to financing. This will help to liberate producer organizations from having to compromise with intermediaries in order to sell their products.

**Conclusions**

There is a strong interest in impact measurement as a way to provide information for investors and to encourage the flow of capital to sustainable forestry. Impact measurement data collected over time can track investment performance, and also help to identify good (social and environmental) business cases. The survey findings suggest that impact measurement data collected over time could not only track investment performance but also help identify good (social and environmental) business cases. Small and medium-sized forest enterprises should be encouraged to collect impact data. FAST will continue to support and develop impact measurement in order to facilitate efficiency and transparency in financial markets, and to promote investments in sustainable forest producer organizations.

**Acknowledgement**

The opinions of the author do not necessarily reflect those of the Finance Alliance for Sustainable Trade.

**Endnotes**

1. Interviews were held online in March–April 2015, with the participation of Sergio Herrera, Coatlhal; David Vincent, Cochabamba Cooperative; Popko van der Mol, Sicirec ltd; and Gary Montano, Idepro.

2. This is a translation from the original, which was recorded in Spanish.

3. In this market NGOs would facilitate a connection between producers and potential buyers.