Making private investments work for tropical forests – a synthesis

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Context

Tropical forests are at the heart of a green economy and fundamental to human well-being. When managed responsibly, they generate ecosystem goods and services that are essential to securing stable environments for people's welfare and for their economies to flourish. On a global scale, the renewability, recyclability and versatility of forest products make them a natural choice for a low-carbon future (UN/ECE 2012).¹

Yet the future of tropical forests is under threat. Deforestation, forest degradation and unsustainable practices – both within and outside the forest sector – continue to put immense pressure on ecosystems, communities and economies. In the developing world, large areas of forests are being cleared and land is being converted to other uses in response to growing consumer demand for commodities such as beef, soy and palm oil, as well as timber and bio-fuels. As a result, tropical forests are worth more cut down than standing.

The emerging role of private business and finance

Despite its reputation as an agent of deforestation and forest degradation, private business and finance is in fact emerging as an economic driver and support for sustainable forestry. Private financing, when done responsibly, can provide the necessary level of investment to help people and forest landscapes flourish. Although traditionally considered one of forestry's greatest threats, the private sector is, perhaps surprisingly, emerging as one of its most potent potential allies.

Forward-thinking private businesses and financial institutions are leading the way, fully aware that helping forests to survive and thrive holds significant benefits. These private-sector actors recognize that the preservation of forest goods and services opens new markets and business opportunities while helping to secure community livelihoods and safeguard a natural resource base that is dwindling fast. Corporate social responsibility (CSR), risk management and resource security strategies — as well as mounting public pressure — are other key factors that drive interest on the part of private investors.

As a result, an increasing number of companies are now establishing specific “do-no-harm” policies to prevent or mitigate any negative effects on forests. They are also investing in sustainable solutions for preserving tropical forests.

Current status of private business and finance
Traditionally, the overwhelming bulk of private investment into sustainable forest management (SFM) has been channelled to non-tropical and developed countries. It is estimated that to date, around US$ 50 billion has been invested in forests by institutional investors (pension funds, insurance companies, endowments, etc.). Of this, 80% has been directed to North America.

Despite this overwhelming focus on the developed world, private money also represents the largest source of financing for SFM in the tropics, both in terms of investment and revenue streams. Indeed, US$ 15 billion is invested every year by the private sector in tropical forests, outstripping the combined investments of governments and development agencies by more than nine times. It should also be noted that private forestry business is a massive employer; more than 160 million people worldwide find work through small and medium-scale forest enterprises, especially in developing countries.

Although forests and wood production are an established part of investment portfolios in the developed world, in the tropics this is still a new and unfamiliar asset class. Experience is still limited, markets are in the initial stages of development, and tools to assess and address opportunities and risks need to be developed.

Private investment in the tropics comes from a range of sources in both formal and informal sectors. Small and medium forest enterprises (SMFEs) are particularly prominent, often making up 80–90% of the initiatives and more than 50% of forest-related jobs in the tropics. It is estimated that more than half of SMFEs operate informally in developing countries, and therefore may not be included in official statistics.

Emerging challenges
Currently, private funding is not always geared to sustainable practices, nor is it evenly invested among countries. This is particularly true in the tropics, where tenure insecurity, information gaps, informality, small scales of operation and lack of business organization and capacities present formidable barriers to securing financial investment.

This is compounded by a range of challenges that hampers business engagement and financing of SFM. Challenges include the current undervaluation of the multi-functionality of forests, which leads to dependence on a single revenue stream and product. They also include a weak enabling environment for investments (ineffective governance, policies and legislation); the long-term nature of forest production and subsequent high risk levels; lack of access to financial resources (e.g., efficiently priced and distributed loans for small and medium sized forest enterprises); and low profitability.
The crucial challenge is how to reorient, increase and incentivize private financing to make it available in adequate quantities for sustainable and competitive forest management practices and responsible and profitable forest entrepreneurship.

**Purpose of ETFRN 54**

The purpose of this issue of *ETFRN News* is to share the compelling firsthand practical experiences and perspectives of innovative private actors who are engaged with sustainable forestry businesses and financing in the tropics and subtropics.

The issue provides new insights on the current status and trends of a range of private actors in the SFM finance arena, along with varied analysis of key barriers, opportunities and lessons learned. The 23 articles provide an overview of a diversity of experiences in and perspectives on enhancing responsible private financing and business for SFM, as well as private-sector perspectives on some of the key issues at stake and approaches and strategies for the way forward. It is hoped that the issues and lessons shared in this issue, will encourage national and international discussions on how key actors can effectively scale-up private engagement in SFM and can create the enabling conditions for this objective.

ETFRN 54 is targeted at engaging private-sector parties on how to improve their operations; and at government policy and decision makers who are interested in attracting more responsible financing for forestry business.

**Structure of ETFRN 54**

Section 1 provides an overview of large-scale forest investments, with firsthand experiences provided by a broad range of stakeholders. It shows the considerations and risks that large-scale investors bear in mind when deciding whether to invest in emerging markets. It also demonstrates the mutual economic, social and environmental benefits that can be reaped if investments are targeted effectively.

Section 2 examines how small-scale forestry enterprises can help transform the livelihoods of local communities while creating viable and self-sustaining businesses. Diverse experiences from actors engaged in small-scale forestry are presented here, from the establishment of a joint wood products enterprise in Guatemala to a cooperative in China that has established a fair trade agreement with two major herbal product companies to sell organic berries to the market.

Section 3 looks at the role of intermediaries in triggering private sector engagement in forestry activities. It includes firsthand experiences of the key tools and techniques that are currently being used to help stimulate private investments. This includes the development of methodologies and strategies that aim to bridge the gap between financing and forestry, the elaboration of economic valuations that help make the case for why investment in sustainable forestry makes financial sense, and capacity-building measures that provide local actors with access to private investments.
Section 4 assesses the value of partnerships and coalitions between the private and public sectors in attracting private investment for responsible forestry. This section focuses on a breadth of experiences, including developing partnerships between the private and public sector, key principles for private investment in community forestry partnerships and benefit-sharing mechanisms for communities and companies.

Section 5 assesses the key tools and approaches that are being used in private forestry business and finance. These include integrated investment approaches for SFM, industry-level mechanisms to improve access to REDD+ financing, and the role of corporate social responsibility and transparency mechanisms in building investor trust and confidence.

**Main issues**
Several key themes and observations emerge from the articles in this issue of ETFRN News.

**Drivers of private investment**
Not surprisingly, the reasons why private businesses and financial institutions — both large and small-scale — choose to invest into SFM are broad and varied. Elson (2.2) suggests a useful way to summarize the motivations of private-sector investors using three different categories: value, social and conservation investors. By and large, value investors seek a high rate of return on capital. Social investors primarily pursue goals that are separate from the requirement to earn a return on their money. They may accept risks that are not usually justified by the rate of return. Conservation investors use capital to protect or restore a specific landscape, habitat or species. Like social investors, they are less interested in earning a financially profitable return on their capital than in having a positive environmental impact (4.3).

Whatever the driver of private investment, it is certainly clear that investing in sustainable forest management is becoming more and more attractive. This is due to competitive returns, inflation hedging and the low correlation of SFM compared to other asset classes (3.1). Institutional investors increasingly recognize forest assets as valuable long-term natural capital investments that complement their diverse portfolios (1.4). Such investors are interested in owning assets whose performance is not subject to stock market volatility, where sustainable returns can be achieved, and where the investment horizon is medium- to long-term (1.1).

Investor interest in SFM varies hugely according to the type of forest investment. The most popular type of investment in SFM is targeted to timber production. Reforestation projects also attract strong investor interest due to rapid rates of tree growth and the resulting potential for higher profits. Although water quality, biodiversity, carbon sequestration and other environmental services are gradually emerging as sources of potential value, investors still consider these to be secondary outputs to timber. This may be due in part to the fact that there are well-established and functioning timber markets; markets for environmental services by contrast are less developed (1.1).
The burgeoning markets of Latin America, Africa and Southeast Asia are emerging as key geographic areas of interest to investors. Many investor groups from the U.S. and Europe (including investment funds, endowment funds, foundations, banks, insurance companies and family foundations focusing on sustainable forest investments) recognize the higher returns these markets offer due to the comparatively higher forest growth rates and the lower costs of land and labour (3.1).

**Considerations for private investors**

**Managing risks**

One of the principle considerations for private investors is the assessment, management and mitigation of risks.

Before investing, careful consideration is given to risk factors such as government policy and investment conditions at the country level; political stability; business practices; private property rights; functioning legal and banking systems; domestic consumption of forest products; stable tax structures; and acceptable currency policy/risks (1.1; 5.2).

Assessing risks at the operational, social, environmental and governance levels is often a particularly complicated challenge in developing countries (5.2), where forest investments are still at an early stage and therefore often offer no standardized risk assessment methodologies (3.1; 4.4). As a result, investors are impeded by their limited ability to accurately assess the associated risks of investment, which in turn reduces the scale of investments in forestry.

It is clear that progress is being made, however. Several risk assessment methodologies are helping investors tackle the complex setting of multiple risk factors through best-practice guidelines. For example, Face the Future and Thauris (5.1) are developing a single audit tool, which helps provide increased transparency for sustainable forest plantation (SFP) investments. The tool increases transparency in SFP investments for various interest groups, which benefits the investors who often provide capital to different actors in the same supply chain. Chain actors can improve their management based on more reliable and more easily available information. In addition, they are better able to comply with public and private standards; this provides them easier access to premium export markets for sustainably and legally produced products. Improved transparency also benefits the general public: it reduces corruption and tax evasion, and by supporting more sustainable timber production it contributes to a healthier environment.

Haas (3.1) presents a rigorous approach to risk assessment that was developed on the basis of practical experience with forest investments in tropical regions. The approach assists investors who intend to finance medium and large forestry projects (plantation forestry, natural forest management, agroforestry, REDD+) in emerging countries. It supports the decision-making process, from project screening and investment decisions all the way through to implementation. It is designed to minimize risks by guiding the management of information and resource allocation in an effective and cost-efficient way.
It is crucial that more and more policy-makers acknowledge the need to improve the general investment regime. They also must establish risk assessment mechanisms that align the financial power of institutional investors with the political goals of sustainable development. Until that is done, forest investors have to choose between waiting for better investment conditions or creating them through their own initiative. Using risk assessment toolkits will be of significant importance in these efforts (3.1).

Assessing returns
Given the high risks of forest investments — both real and perceived — in developing countries, both at project and political levels, it follows that returns also need to be relatively high to justify the investment. This particularly applies to investments in initiatives such as land and production facilities that cannot be relocated easily if the business environment deteriorates. Factors that reduce the returns or profits from the investment can act as a deterrent. Investors hold back if emerging forest investment markets cannot show a proven track record and early movers are discouraged by uncertain investment climate. Since forest investments are characterized by a long investment period, risks that are not eliminated at an early stage will result in high exit costs (3.1).

One of the key problems is that accurate assessments of the total economic values of forests are still lacking. There is little understanding of these values, which results in SFM being seen as a low priority by policy makers and taxpayers and a lack of interest by the finance and business community in managing, conserving and sustainably developing all types of forests. A variety of approaches can be used to overcome these challenges and trigger private-sector investments and financing for SFM. The Global Mechanism is working as part of a global partnership of leading research and academic institutions, international organizations and UN agencies to develop economic valuations that reveal the real values of natural resources, including forests and lands. Compelling data is already emerging; a recent valuation study commissioned by the Global Mechanism on the Central Cardamom Mountains in Cambodia estimates the natural values of the area to be worth US$ 3.7 billion. The values determined through this method are key in guiding decision-makers on the best way to use forests and lands from an economic perspective (3.2).

Securing land tenure
Land tenure is one of the most important factors affecting private investments and financing. Secure tenure provides the foundation for forestry development and secure property rights are the foundation for competitiveness. Tomaselli (1.6) shows that having a steady source of timber supply from a legal origin was a crucial factor in allowing two forestry companies in Brazil to overcome the difficulties of competing with large-scale operations and illegal timber.

Forestry businesses must explicitly address land tenure if they want access to indigenous land. Purchasing land from indigenous peoples’ communities is not an option if a communal land tenure system is in place. Any attempt to purchase land outright will likely cause mistrust and will damage any prospects of negotiating a deal. Since land
acquisition is both an important component of and obstacle to forestry investments, forestry businesses need to engage land-owners in ways that produce shared value, such as land-lease models (4.4).

Supporting a new level of investment
Building capacities
Intermediary organizations can provide key support to companies and countries in building sufficient capacities and creating suitable enabling environments for increased private investment. In the context of private investment, intermediaries can help manage risks, bridge the knowledge gap between the forest and finance sectors and provide key guidance in helping the forestry sector attract and obtain more private investments.

The current knowledge gap between forest investors and potential investment recipients in emerging economies is a major hurdle to attracting private investment. For forest companies and financial institutions to be able to work together, several issues need to be addressed, including a lack of mutual understanding; the quality of business proposals; and unsuitable financial instruments, products and guarantee systems.

One of the key issues is trust. Most financial institutions have a distrust of forest companies, often based on bad experiences in the past (3.3). In addition, many local representatives of global insurance companies, local pension funds and even private investors have no idea of what sustainable forest management is or what their potential role as an industry can be (1.3).

A joint initiative by The Amazon Alternative (TAA) and the Finance Alliance for Sustainable Trade (FAST) is making significant gains in bridging the gap between financial institutions and forest companies (3.3). They organize training for financial institutions on all components of SFM, including its financial aspects, and support them to develop specific products that meet the needs of forest companies. The selected companies then meet with the financial institutions during round table sessions at a FAST Forestry Financial Fair.

Another area where intermediaries can make an impact is helping to build capacities and support smallholder forest producers to move up the production chain. A project funded by the ITTO in Peru demonstrates how simple and practical credit schemes — along with small amounts of seed money and technical assistance — can make the difference for small and medium forest concessionaries in effectively managing their forest and increasing their income (3.4).

Promoting small-scale forestry businesses
Small and medium forest enterprises (SMFEs) are the “missing middle” of many developing economies. They can provide improved access to goods, services, high-quality employment opportunities and markets (2.2). In fact, there are very real economic, social and environmental reasons for investing in locally controlled forestry.
However, despite the promise of substantial returns, locally controlled forestry has rarely fulfilled its investment potential. This is due to insecure commercial forest rights, lack of business capacity, insufficient organization and scale of return to offset risks, as well as a lack of trustworthy brokers (2.1).

The formation of a thriving SMFE sector, in which the rights-holders themselves have a meaningful stake, is increasingly vital. This is particularly true considering that locally controlled forests involve one billion people and a quarter of the world’s forests. They also provide US$ 75–100 billion each year in goods and services and a broad range of other economic, environmental, social, cultural and spiritual benefits (2.1).

The isolation of smallholders is one of the key barriers to their broader influence in global markets. This isolation exists at a number of different levels, including from each other, from consumers/markets, from financial and business development service providers, and from policy-makers (2.5).

The self-organization of smallholders into cooperatives is a key way of breaking this isolation. It allows them to pool resources and strengthen the potential of small forestry businesses. The formation in China of a Traditional Chinese Medicine (TCM) cooperative — comprised of 150 households from the village of Daping — shows the impact that small forestry business can have when organized into a larger collective. The TCM cooperative, which has subsequently become a certified organic operator for the sale of wild berries to the global market, has been vital in boosting the income of villagers and linking the cooperative in a fair trade agreement with two herbal product companies (2.4).

The experiences of the EcoEnterprises Fund (2.3) in Latin America demonstrate the potential of investing in community-based sustainable businesses to bring about social, environmental and economic change. In order to make small forestry businesses thrive some key factors are apparent, based on country-level experiences. These include strong management in devising effective business arrangements, valuation schemes to assess the worth of natural assets, and the effective management of growth (2.3).

**Investing in commercial timber plantations**

Sarshar (1.2) and King (1.3) discuss the value of investing in commercial timber plantations in emerging markets as a way of driving the transition of the industry away from extensive and destructive management of natural forests towards a more intensive, sustainably-managed plantation resource base. As well as taking the pressure off natural forests, sustainable forest plantations (SFPs) help sequester carbon emissions, enhance biodiversity and empower local foresters in developing countries to attract foreign investment (5.1). Investing in SFPs can also provide healthy financial returns. Investors benefit from appropriately risk-adjusted returns with low volatility and ability to hedge against inflation that at the same time deliver highly beneficial sustainable development outcomes (1.2).

King (1.3) shows how the business model of GEA Timber Ventures, a private company that establishes commercial plantation forests on private land, is helping to act as a
long-term economic driver for upland communities in the Philippines, benefiting landowners, investors and forest managers. The investor/fund provider receives benefits when the timber matures at the end of eight years. The land-owner (people’s organization/indigenous people) benefits from lease payments, workers’ wages, livelihood provisions of the project (such as water supply, schools and roads) and a share of timber revenue. The provider of management and technical services (in this case, GEA Timber Ventures, Inc.) benefits from the management fee and a share of timber revenue.

King (1.3) claims that this model can help establish a sustainable plantation forest industry that services the nation. At the local level the long-term impact of allowing indigenous people’s groups to develop and manage their own future is profound. Employment and profit sharing encourage them to commit to the project and develop social, environmental, technical and political skills that are useful in the broader community.

**Certification schemes**

Forest certification is a key tool for reducing risks, minimizing waste, improving sustainability, supporting other environmental and social services and improving business planning, monitoring and evaluation. Forest certification helps to strengthen the reputation of a company by showing it has the management competencies required to manage a business sustainably (5.3; 5.4).

Most efforts to tackle unsustainable forest management in the tropics are supported by forest certification schemes such as that of the Forest Stewardship Council (FSC). Despite ongoing criticism about control of some FSC auditors, these schemes have overall proven to be successful. FSC operates predominantly in developed and industrialized countries, however, and mostly in temperate forest areas where the production and use of timber and bioenergy are ecologically less challenging than in tropical forest regions. Latin America, Africa and Asia make up only 15% of FSC’s total certified forest areas (5.2). Certification schemes are key to ensuring that responsible investment is scaled up into SFM.

**Building coalitions**

A key theme in all the articles is the need for collaboration between different actors in the forestry world. One way to pool efforts is through the formation of coalitions or partnerships. As Behr (4.1) points out, partnerships are broad in the forestry context. They include the transfer of payments for ecosystem services (e.g., payment for watershed services); linking communities and companies (e.g., through an outgrower scheme or social agreement associated with a forest concession); jointly managing forest resources or participatory management of the resources (e.g., management of state forest reserves in Tanzania and Uganda); or conservation arrangements (e.g., sustainable use of wildlife).

The different types of partnerships provide incentives to achieve objectives. Incentives can come in many forms, including shared revenue, non-monetary benefits (such as technical assistance), or covering of costs of inputs. These are broadly considered arrangements for sharing in partnerships (4.1).
Schmidt et al. (4.2) look specifically at the formation of partnership arrangements between the public and private sector in German development cooperation. Forest-related development partnerships between GIZ and private companies are analyzed in the context of the developePPP.de programme. It aims to mobilize development cooperation by involving the private sector in a way that allows partners to use their complementary skills and resources, and to share risks and benefits in a joint project.

Behr demonstrates how to set up partnerships between communities and external parties that provide support for sustainable forest management in situations where rights are both clear and unclear. This is based on 50 case experiences and analysis of primary data from nine cases in East Africa and Latin America. The article outlines how contracts can be a useful legal instrument for reflecting the roles and responsibilities of parties involved in partnerships and benefit-sharing arrangements when rights are unclear. It also discusses how good process and practices can help support durable partnerships and benefit-sharing arrangements (4.1).

Scaling up private business and financing – the way forward
The collection of articles in this publication suggests that an increasing number of investors see engagement in tropical forestry as a unique opportunity for solid and sustainable business.

In particular, there is a burgeoning international interest in investment possibilities in developing countries and emerging markets, which are expanding rapidly. This is due to the prospects and expected longer-term market developments, and because the opportunities to expand in traditional western markets are increasingly limited.

At the same time, however, it is evident that the sustainable forestry business in tropical countries is very much at an early stage and that existing opportunities are largely untapped. The current scales of responsible private forestry investment are still nowhere near large enough; forestry-specific financial tools have yet to be developed; risk-return profiles need to be improved; and there are difficulties in measuring and evaluating non-financial assets. Questions also linger about how to adequately incorporate the People, Planet, Profit criteria in the assessment standards of business and financing proposals.

Several actions must be taken in order to reach the market scales and credibility needed to help safeguard the future of the world’s forests, in particular at the country level. Capacities must be built, networks of expertise and organizations must be expanded, and trusting relations, tools and standards, policies and institutions need to be nurtured.

This requires, among other things, joint endeavours through the development of new alliances and partnerships by key actors in forest financing. Financing institutions, forestry business (including smallholder forest producers), governments and intermediary organizations all have distinct but complementary roles to play.
In order to scale up responsible investments in SFM, these actors must jointly tackle some of the most pressing concerns identified in this publication:

- better management of risks and an improved operating environment for sustainable and high-quality investments;
- promoting enhanced cooperation between the private and public sectors; and
- providing the right incentives to attract the required levels of private investment in order to help safeguard the future of tropical forests.

Although concerted and coordinated actions are essential to address these challenges, each stakeholder group — financing institutions, private forestry businesses, national governments and intermediaries — can take the lead on specific actions, with input from other players.

**Financing institutions**

**Building awareness of forestry opportunities**

Financing institutions (institutional investors, banks, funds, insurance companies, venture capitalists, etc.) can capitalize on emerging forest investment opportunities by becoming more familiar with the business of sustainable forestry. Currently, many financial experts do not have the necessary background in forests and forest management to be able to fully tap into the diversity of investment opportunities or to design tailor-made financing instruments in specific forest contexts. Understanding the extent and efficiency of the forest value chain is critical in assessing the risk of the forest investment. This understanding is valuable not only from a CSR perspective; it also lessens reputational and business risks, while providing local employment.

**Learning to assess and manage forest-related risk factors**

Together with forest producers, government agencies and intermediaries, financial institutions can be assisted to identify and assess the risks associated with forestry investments and to develop tools and strategies to manage them.

**Developing better safeguards**

Although efforts have been made to support national government and financial institutions in avoiding unintended social and environmental impacts, more work is needed. Stakeholders must ensure that deforestation policies and safeguards are in place to deter investment in unsustainable practices and to encourage responsible financing for SFM.

**Private forestry business (including small-scale forest producers)**

**Organization and planning of production (especially by smallholders)**

The organization and planning of production through alliances and cooperatives is crucial in facilitating efficient interactions among state, industry and private companies. It is essential in the case of smallholders who are isolated from each other and from markets, policy influence and financial sources. The move towards a more inclusive and sustainable forest sector needs a better understanding of the functioning of small and medium forest enterprises (SMFEs), including how they finance themselves through formal and informal arrangements. Neglecting small-scale forest producers in policy-making and business
development is not only a missed opportunity, but also increases the risks of policy and market failures, since it may result in poorly designed instruments and regulations. A lack of knowledge of markets, understanding how to access them, and negotiation skills are critical weaknesses of most small enterprises. Another key consideration is how to link large-scale money to the needs and capacities of small enterprises.

Enhancing transparency and entrepreneurial capacities
Although progress is being made, many companies still do not produce sufficient detailed public information about their impact and dependency on forests. Greater transparency on these matters will help companies and investors to produce sound business planning that promotes investment.

National governments
Governments have the opportunity to be the instigators of change. Improving the operating environment, developing appropriate regulations and providing the rule of law and an efficient judiciary underpin sustainable and high-quality investments. It is important to seize the moment when political support at the highest level exists for rural development and to motivate increased political will where this support is absent.

Setting safeguards, conditions and incentives
Governments are vitally important in setting the conditions for private investment. This is particularly urgent since the private sector will not invest in forestry without a clear signal of support from the public sector. This might come in form of a clear policy that provides a long-term vision for the sector, a commitment to reduce inefficient bureaucratic requirements, promotion of the vital role of forest users and producers, and the provision of timely and relevant information.

Creating public incentives
Public incentives are also needed to stimulate private investments. There is an increasing awareness of this at the national level, but more work must be done to ensure that this awareness helps drive more private investment in SFM. In Latin America, for example, several development banks (which also use public money), have created credit lines for agro-forestry producers. However, the degree and the mechanisms by which public incentives can most effectively and efficiently stimulate private investments remains to be explored.

A recent study supported by FAO of an incentive programme in Guatemala suggests that public incentive schemes are actually an investment from a public policy viewpoint, since the use of public resources leads to tax revenues, job creation, and overall increased economic activity. However, the size of the “multiplier effect” varies from case to case and in relation to other public factors such as industrial development, transport, trade, etc. Donor and development agencies and NGOs can catalyze these efforts. Among important public incentives are the establishment and implementation of guarantee funds for SFM. These can support investment where the perceived risks are hard to assess and manage. Evidence suggests that the effectiveness and efficiency of such incentive schemes will
benefit from clear targeting and prioritizing regions, ecosystems, and stakeholder groups, depending on the chosen development objectives.

Removing disincentives
As much as incentives are needed to promote investments in SFM, the removal of disincentives is equally, if not more, important. Failure to anticipate and address increased investments in sectors such as infrastructure and agriculture may hinder the impacts of increased financing for forestry. What matters is the size of investments in forestry relative to other sectors. It is crucial that forestry stakeholders, as well as financial institutions, look beyond their traditional domains. Furthermore, without tackling illegal logging, sustainable forestry practices will never be able to compete, since illegal practices are characterized by lower production costs and higher returns.

Intermediaries, including development agencies
The flow of financial resources from investment sources to forestry producers is almost invariably facilitated by intermediaries, including businesspeople along the value chain, investment advisors, NGOs, donor agencies, international organizations. These intermediaries have a number of key functions, including matchmaking, developing capacity and sharing information.

Business “matchmakers”
Effective technical support is critical to increase access to private investments and build entrepreneurship. With their specific expertise and networks, intermediaries can assist in matching investors and projects. Large investors often lack the know-how and field experience to locate, evaluate and choose among various forestry investment options. NGOs can be important in linking small producers to critical markets. Intermediaries can also help build management capacity, providing the resources for the enabling investments in institutions that are often needed. They can also mediate between buyers and sellers and provide both parties with a trusted interlocutor.

Developing capacities
One key task for intermediaries is to help increase the sometimes limited capacities of many foresters in presenting viable business cases to investors. There is a strong need for brokerage services that will connect forestry business to investment opportunities; connect forest and financing expertise, knowledge and networks; establish new partnerships and alliances between public and private parties; connect small- and large-scale producers; and connect national and international bodies. At the same time, foresters require more awareness of the need to minimize risks; one reason that many potential investors are hesitant to invest in forests is their inability to assess risks due to a lack of country information and forestry expertise.

Sharing knowledge and build capacity in forestry valuation methods
This is crucial in promoting the use of forest assets as collateral and assessing a transparent asset value. Although rigorous methodologies exist to estimate forests’ worth, they are largely not known by asset evaluators who work in financial institutions. Applying
globally accepted best practices for forest asset valuation would reduce uncertainty and due diligence costs for investors, increase market liquidity and consequently contribute to the growth of forestry as an asset class.

Conclusion

While these actions are targeted individually at key stakeholders, they will be effective only if all participants are involved in their design and implementation. Strong alliances are vital to building on the growing momentum to promote and up-scale responsible private investment in tropical forests.

As this issue demonstrates, private businesses and financial institutions have growing interest in investing in the long-term sustainability of tropical forests. This is generating significant environmental, social and economic benefits that promise to transform local livelihoods, boost national economies and build resilience to climate change. Yet, the current scale of investment is only a fraction of what is needed. Responsible forestry business has a vast potential to positively influence SFM. Now is the time to take joint responsibility to unlock this potential and help safeguard the future of the world’s tropical forests.

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Endnotes

5. See www.inclusivebusiness.org.
6. The term “people, planet, profit” refers to three separate bottom lines. The first is the traditional measure of corporate profit: profits and losses. The second is the bottom line of a company’s “people account”—a measure in some shape or form of how socially responsible an organization has been in its operations. The third is the bottom line of the company’s “planet” account — a measure of how environmentally responsible it has been.