

# ESG SERIES: ESG PERFORMANCE AND IMPACT IN THE TROPICAL FORESTRY SECTOR

Presenters:

**Clara Melot**, SPOTT Engagement and Impact Manager, Zoological Society of London

**Adam Ng, PhD**, Sustainable Finance Expert, WWF Malaysia

**Justin Mercer**, Environmental & Social Manager, New Forests

**Laura Bosch**, Engagement Specialist, Robeco



# **PANEL DISCUSSION**

## **ESG PERFORMANCE AND IMPACT IN THE TROPICAL FORESTRY SECTOR**



**Clara Melot**  
SPOTT Engagement &  
Impacts Manager,  
Zoological Society of  
London



**Adam Ng, PhD.**  
Sustainable Finance Expert,  
WWF  
Malaysia



**Justin Mercer**  
Environmental & Social  
Manager,  
New Forests



**Laura Bosch**  
Engagement Specialist,  
Robeco



# CLARA MELOT

SPOTT Engagement and Impact Manager,  
Zoological Society of London



# **Sustainable finance and tropical forestry:**

## **ESG Performance and Impact in the Tropical Forestry Sector**

Clara Melot, Sustainable Finance Specialist

Zoological Society of London

26 February 2021





# What is SPOTT?

- **SPOTT.org** is a **free online platform** dedicated to supporting transparency amongst upstream commodity producers
- SPOTT assesses (**>200**) the world's largest producers and traders of palm oil, timber & pulp and rubber. It is a **free source of ESG data**
- Companies are assessed on the public disclosure of their policies, operations and commitments – **100+ indicators across 10 ESG categories**
- Used by financial institutions and supply chain companies to inform investment & purchasing decisions
- The **SPOTT initiative** as well as this webinar and the publications it presents are funded by UK aid from the UK government; however, the views expressed do not necessarily reflect the UK government's official policies.



**SPOTT**

Tracking transparency, supporting sustainability

[www.spott.org](http://www.spott.org)



# How does SPOTT assess companies?

- The **annual assessment** process relies on regular, **constructive engagement** between the SPOTT team and assessed companies
- Opportunity for companies to understand industry expectations, **respond** to ZSL, and potentially **improve disclosures** ahead of the final review and publication on SPOTT
- Supporters and engagement increase the incentive for companies to meet industry expectations and improve their transparency
- Got to **SPOTT.org** or get in touch for more information on coverage, methodology or data downloads.





# Timber and pulp: ESG policy transparency assessments

Latest update: July 2020 | Next scheduled: July 2021

[Download data \(CSV\)](#) | [View summary \(PDF\)](#)

SPOTT assesses multiple timber and pulp producers and traders on the public disclosure of their policies... [Show more](#)

[Modify score weighting](#)

[Add filter\(s\)](#)

Disclosure types: ☐ Organisation ☒ Policy ☐ Practice <sup>?</sup>

[Show overview](#)

Company	Rank	Total score	Change	Disclosure	Engaged	Headquarters	Landbank	Market cap	Media
Interholco	1	90.7%	-4.0%			Switzerland	801.7 KHa	Private co.	18
Precious Woods	2	89.1%	+11.7%			Switzerland	1,103.5 KHa	Private co.	6
Woodbois	3	75.9%	+6.4%			United Kingdom	337.5 KHa	\$17.6M	3
Duratex	4	75.8%	+10.2%			Brazil	139.2 KHa	\$1,870.8M	8
Klabin	5	73.6%	-4.9%			Brazil	257.0 KHa	\$4,316.3M	11
Compagnie des Bois du Gabon	6	73.3%	+5.8%			Gabon	568.5 KHa	Private co.	4
Olam International	7	70.8%	-7.6%			Singapore	2,200.0 KHa	\$3,206.4M	24
▲ APP (Asia Pulp and Paper)...	8	69.9%	-4.5%			Indonesia	1,082.8 KHa	Private co.	228
Maderacre	9	69.5%	+2.1%			Peru	209.1 KHa	Private co.	0
▲ APRIL	10	62.9%	-10.7%			Singapore	445.7 KHa	Private co.	113



# Assessing/addressing 'E' concerns in forestry supply chains

## Deforestation can occur

- **Commitment to zero deforestation or zero conversion of natural ecosystems?**
- Evidence of monitoring deforestation?
- **Does the company disclose its landbank and publish Maps of its concessions?**
- Do concessions overlap or conflict with other land types and designations (HCVs, protected areas harbouring valuable biodiversity)?

## Biodiversity loss and forest degradation can occur

- **Does the company conduct HCV, HCS and environmental/social impact assessments prior to logging operations or plantation development?**
- HCV and HCS assessments, Social and environmental impact assessments (SEIAs) available?
- Associated management and monitoring plans available?

## Climate risks and climate impacts

- **Has the company carried out a climate-risk assessment?**
- GHG emissions intensity? Emissions from land use change?
- Commitment to no planting on peat of any depth? Best management practices for soils and peat?



# Assessing/addressing 'S' concerns in forestry supply chains

## Land conflicts can occur

- **Commitment to applying FPIC processes (at least for all new developments)?**
- Details of free, prior and informed consent (FPIC) process available?
- Can it evidence obtaining FPIC?

## Community conflict can occur

- **Commitment to respecting human, indigenous and local communities rights?**
- **Does the company have a grievance mechanism accessible to a wide range of stakeholders?**
- Details of complaints and grievances disclosed?
- Examples of local stakeholder engagement to prevent conflicts?

## Accident-prone industry

- **Commitment to address occupational health and safety?**
- Provision of personal protective equipment and related training?
- Time lost due to work-based injuries?
- Number of fatalities as a result of work-based accidents?



# Assessing/addressing 'G' concerns in forestry supply chains

## Timber legality is a key concern

- **How much of the company's productive area (or supply) is verified as being in legal compliance by a third party?**
- If not 100%, when is the 100% target set for?
- **Procedures to trace raw materials to country of harvest / Forest management Unit?**
- Percentage of supply traceable to country of harvest/ Forest management Unit?

## Some operators have insufficient processes to support sustainability

- **How much of the company's productive area (or supply) FSC certified?**
- If not 100%, when is the 100% target set for?
- **How much of the company's productive area (or supply) PEFC certified?**
- If not 100%, when is the 100% target set for?

## Risks travel down the supply chain. Leakage is a concern.

- **Does the company's sustainability policy apply to all of its suppliers?**
- Number or percentage of suppliers assessed and/or engaged on compliance with company's policy and/or legal requirements?
- Suspension or exclusion criteria for suppliers?
- Action plans? KPIs?



# Timber guide and Case studies

[www.spott.org/reports/](http://www.spott.org/reports/)



## TROPICAL TIMBER: A GUIDE TO RESPONSIBLE SOURCING AND FINANCING



February 2021  
Case study #3

### Sustainable finance and tropical forestry

Engaging for Biodiversity

**ROBECO**  
The Investment Engineers

*Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 30 September 2020, Robeco had EUR 158 billion in assets under management, of which EUR 138 billion is committed to ESG Integration. Robeco is a subsidiary of Orix Corporation Europe N.V. More information is available at [www.robeco.com](http://www.robeco.com).*

#### Active Ownership and Engagement at Robeco

Active ownership is a key tenet of sustainable investing, which is integral to Robeco's overall strategy. We engage with companies on behalf of our clients in a constructive manner. We engage with them worldwide, covering both equity and credit portfolios, on a wide range of themes aligned with the United Nations' Sustainable Development Goals (SDGs). Our engagement program has been in place since 2005 and encompasses individual engagements, as well as collaborations with other investors. We distinguish between two types of engagement:

- **Enhanced engagement** focuses on companies that severely and structurally breach principles of the United Nations Global Compact (UNGC) and/or OECD Guidelines for Multinational Enterprises. This type of engagement is aimed at eliminating the identified breach, and installing proper management systems to prevent such a breach from recurring. We allow for a maximum of three years of engagement with a company in this program, and exclusion is considered in case the engagement is unsuccessful.
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For more information on Robeco's Active Ownership activities, please refer to our 2020 Active Ownership brochure referenced in the "Further reading" section of this case study.



February 2021  
Case study #4

### Sustainable finance and tropical forestry

Blended Finance as a Tool for Impact  
in Southeast Asia

  
**NewForests**

*NewForests is a sustainable forestry asset manager headquartered in Australia with additional offices in New Zealand, Singapore, and the United States. We manage approximately USD 5 billion in assets under management across nearly 1 million hectares of forests and land. Our global experience partnered with our local knowledge enables us to manage forestry and land assets for financial returns and sustainability outcomes. We believe the forest sector is at the nexus of some of the greatest challenges facing the world today, including climate change, biodiversity loss, resource scarcity, and the need for sustainable development that promotes social inclusion and equality. Our vision is to see forestry as a sector helping to lead the transition to a sustainable future.*

#### Frameworks for Impact

NewForests has been active in Southeast Asia since 2008 and currently manages its Tropical Asia Forest Fund (TAFF) with investments in Malaysia, Indonesia, and Laos. NewForests' internal frameworks for investing in emerging markets aim to advance environmental and social (E&S) benefits locally, while addressing global climate change mitigation demands.

First, NewForests' Responsible Investment Policy provides the basis for sustainable forestry and land use management. This Policy provides for the implementation of NewForests' Social and Environmental Management System (SEMS), aligned to the ISO 14001 2015 standard, which contains the specific requirements for asset management, including certification, risk identification, roles and responsibilities, reporting, and biennial auditing.

Additionally, NewForests' Sustainable Landscape Investment (SLI) framework includes 80 ESG-related indicators we collect on at least an annual basis. These metrics allow NewForests' teams to set, manage, and track ESG issues. The SLI indicators are grouped into six categories that are most material to NewForests' operations:

- Productivity,
- Ecosystem services,
- Land use planning,
- Shared prosperity,
- Risk management, and
- Governance.







Developed by the Zoological Society of London (ZSL), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice.

SPOTT assesses commodity producers and traders on the public disclosure of policies, operations and commitments related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

[Clara.melot@zsl.org](mailto:Clara.melot@zsl.org)

[SPOTT.org](https://SPOTT.org)

[@ZSLSPOTT](https://twitter.com/ZSLSPOTT)

**ADAM NG, PHD.**

Sustainable Finance Expert,  
WWF  
Malaysia





# ESG Performance and Impact in the Tropical Forestry Sector

CFA Society Malaysia & SPOTT

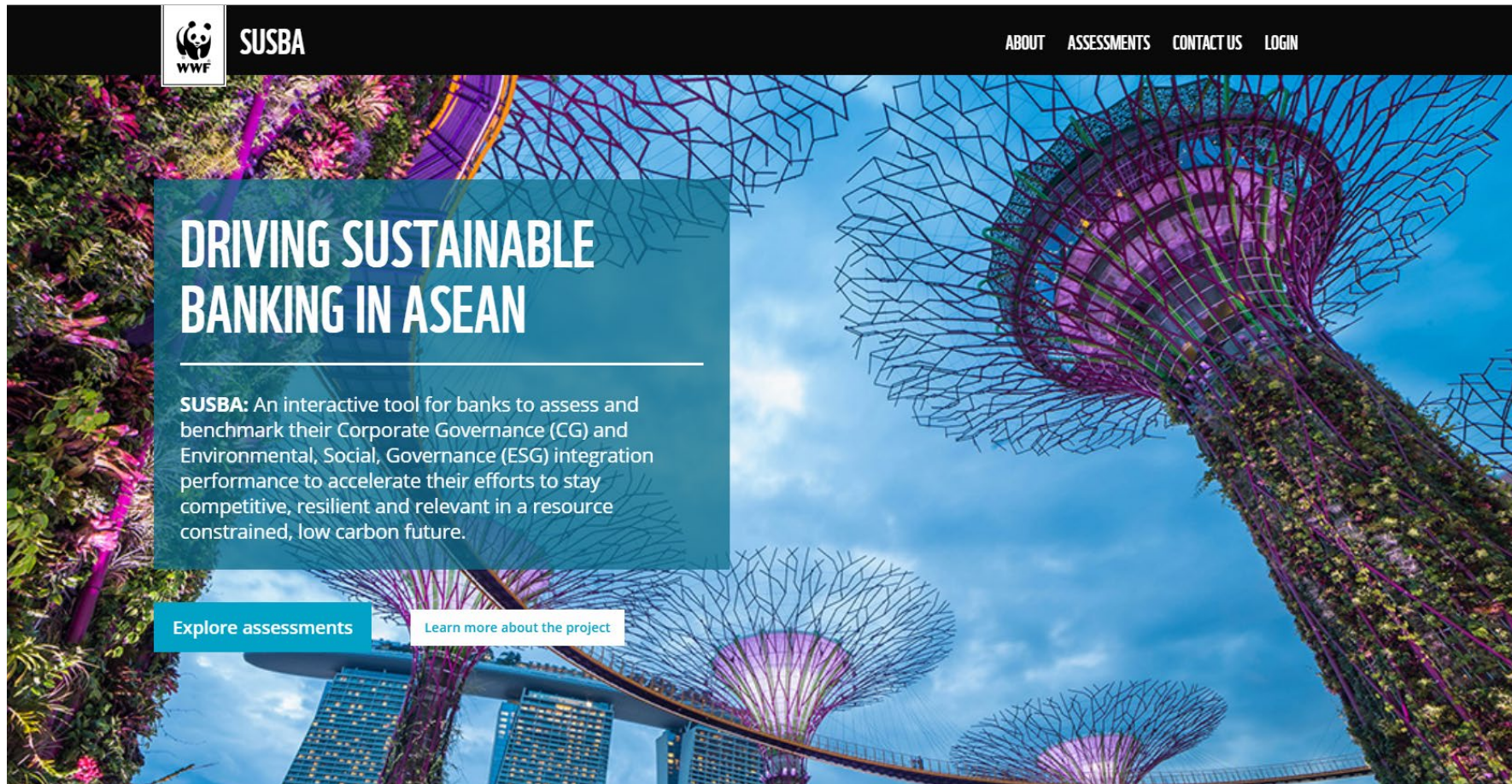
26 February 2021

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# DRIVING SUSTAINABLE BANKING IN ASEAN AND BEYOND

WWF's Sustainable Banking Assessment allows banks and other stakeholders to benchmark banks' approaches to ESG



# MOST BANKS IN ASEAN HAVE NOT MADE PUBLIC STATEMENTS OR DISCLOSED COMMITMENTS AND METRICS ON "NO DEFORESTATION"



Acknowledgement

36%

banks acknowledge biodiversity loss and/or deforestation risks in its clients' activities



Clients' commitments

8%

banks require clients in sectors highly exposed to deforestation (e.g. soft commodities, infrastructure, extractives industry) to adopt "no deforestation" commitments



Disclosure

8%

banks disclose the percentage of its soft commodities clients that have time-bound plans to achieve full certification of their operations against credible, multi-stakeholder sustainability standards

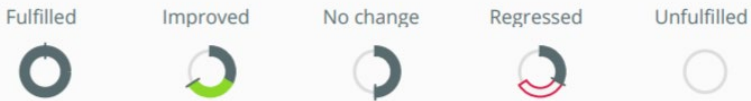
Only 3 ASEAN banks explicitly require "no deforestation" commitments from high-risk clients as a condition for financing





## Sectors & Issues Assessment - Palm oil (ASEAN)

Bank commitments		Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Average
1.1. Sector approach								
1.2. Disclosure								
1.3. Monitoring								





# SUSBA SECTOR POLICIES (PALM OIL) IN ASEAN



Client expectations		Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	Average
2.1. Upstream (growers/plantations and mills) - own operations								
2.2. Upstream (growers/plantations and mills) - suppliers/third parties								
2.3. Downstream (refining and trading)								
2.4. Downstream (manufacture and retail)								
2.5. Crosscutting								

Fulfilled

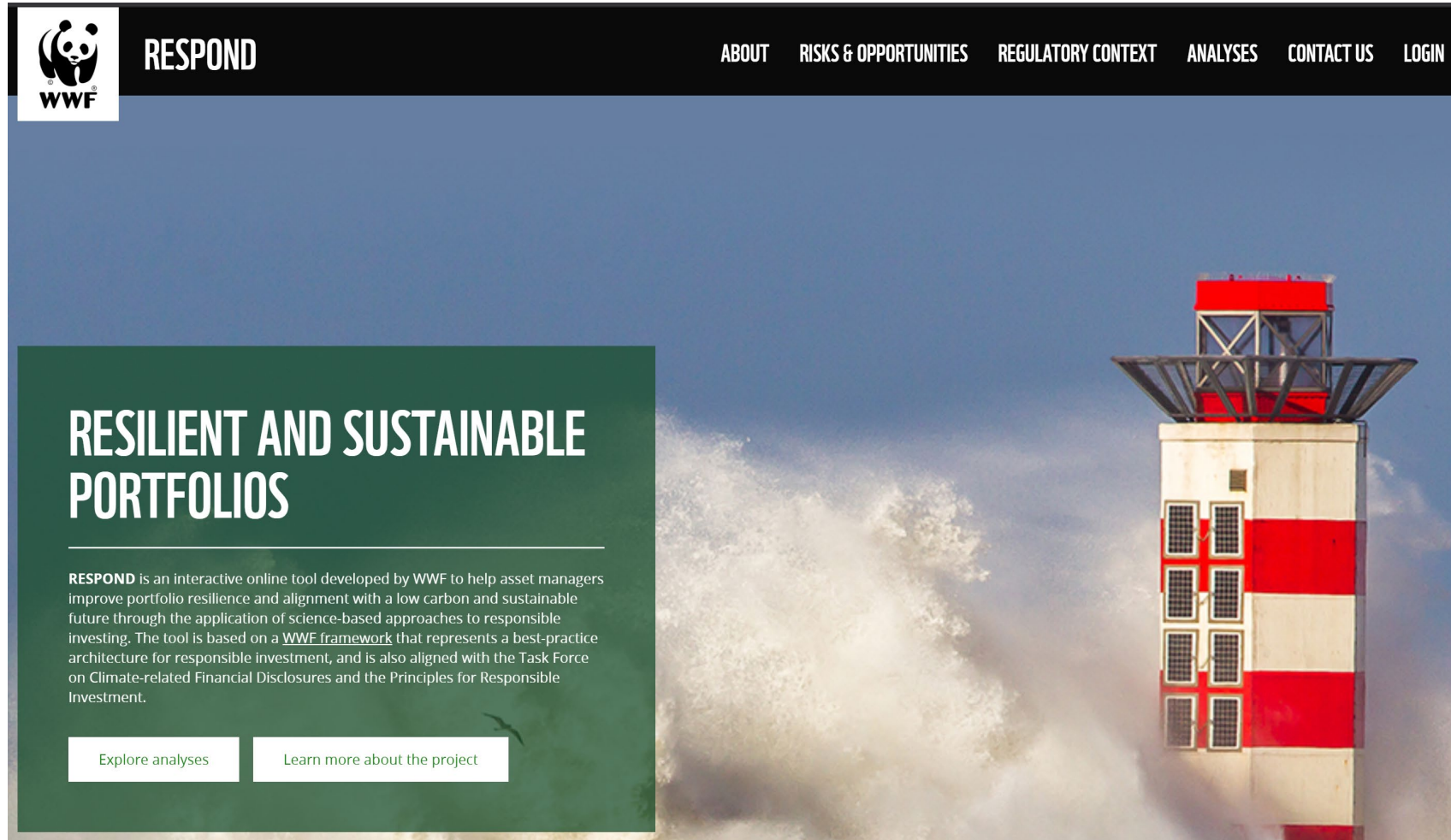
Improved

No change

Regressed

Unfulfilled

# RESPOND IS A TOOL FOR BENCHMARKING INVESTORS' APPROACH TO ESG

The image shows the top half of the WWF RESPOND website. The header is dark with the WWF logo and 'RESPOND' on the left, and navigation links (ABOUT, RISKS & OPPORTUNITIES, REGULATORY CONTEXT, ANALYSES, CONTACT US, LOGIN) on the right. The main content area features a large background image of a red and white lighthouse on a rocky shore with waves crashing. On the left, there is a green box with the title 'RESILIENT AND SUSTAINABLE PORTFOLIOS' and a paragraph describing the tool. Below the text are two buttons: 'Explore analyses' and 'Learn more about the project'.

**WWF** **RESPOND**

ABOUT RISKS & OPPORTUNITIES REGULATORY CONTEXT ANALYSES CONTACT US LOGIN

## RESILIENT AND SUSTAINABLE PORTFOLIOS

**RESPOND** is an interactive online tool developed by WWF to help asset managers improve portfolio resilience and alignment with a low carbon and sustainable future through the application of science-based approaches to responsible investing. The tool is based on a [WWF framework](#) that represents a best-practice architecture for responsible investment, and is also aligned with the Task Force on Climate-related Financial Disclosures and the Principles for Responsible Investment.

[Explore analyses](#) [Learn more about the project](#)

The image shows the cover of the WWF Sustainable Finance Report 2021. It features a vertical split image: the top half shows a mangrove tree on a beach, and the bottom half shows a school of fish swimming over a sandy seabed with green seagrass. The WWF logo and report title are in the top left corner. The title 'RESPOND - RESILIENT AND SUSTAINABLE PORTFOLIOS' is in large blue letters, with '2021 REVIEW OF RESPONSIBLE INVESTMENT PRACTICES' in smaller blue letters below it.

**WWF**  
SUSTAINABLE  
FINANCE  
REPORT  
2021

## RESPOND - RESILIENT AND SUSTAINABLE PORTFOLIOS

2021 REVIEW OF RESPONSIBLE INVESTMENT PRACTICES

# STATED AIMS TO INTEGRATE VARIOUS NATURAL CAPITAL ISSUES IN INVESTMENTS DO NOT TRANSLATE INTO EXPECTATIONS TOWARD INVESTEE COMPANIES AND ARE NOT SPECIFIED IN VOTING POLICIES



Recognition

80%

Asset managers (AMs) publicly recognize that nature loss poses long-term risks to business and society



Investment  
policy

80%

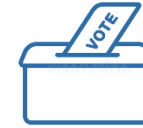
AMs have a policy or statement explaining that deforestation and biodiversity loss are incorporated into its investment decision-making



Certification

30%

AMs expect all companies to obtain certification from or otherwise support relevant multi-stakeholder sustainability standards (e.g. ASC, MSC, RSPO, FSC, SuRe, etc.) to address deforestation and biodiversity loss



Voting  
policy

23%

AMs' voting policy have a statement on how deforestation or biodiversity issues will be voted



# LAURA BOSCH

Engagement Specialist,  
Robeco

# Stewardship in practice

## What it means to be an active owner

Our duty as an asset manager towards the companies we invest in:



### Voting

We **encourage good governance** and sustainable corporate practices, and safeguard shareholder value through voting and (co-)filing shareholder proposals.



### Engagement

We **create value & impact** by improving the conduct of companies we invest in, by means of our value engagement program.

We **act on the misconduct** of companies we invest in the enhanced engagement program.



#### Activities

Engagement – active dialogue with companies

Voting – exercising our rights as a shareholder



#### Results

255 Engagement cases per year

>5900 shareholder meetings voted



#### Impact

Improved corporate behavior on sustainability & the SDG's

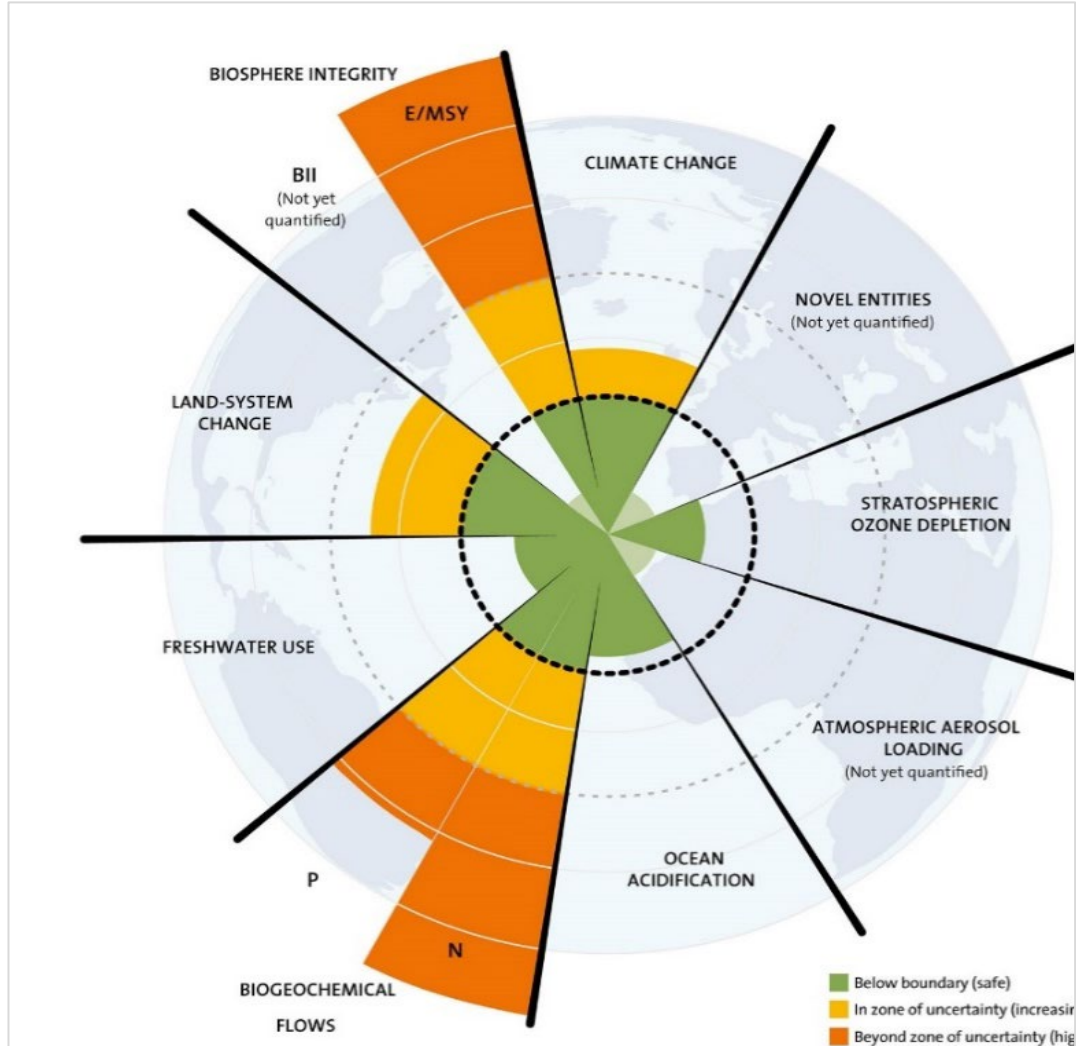
Filing shareholder proposals that lead to corporate action

## Summary UN PRI Score card

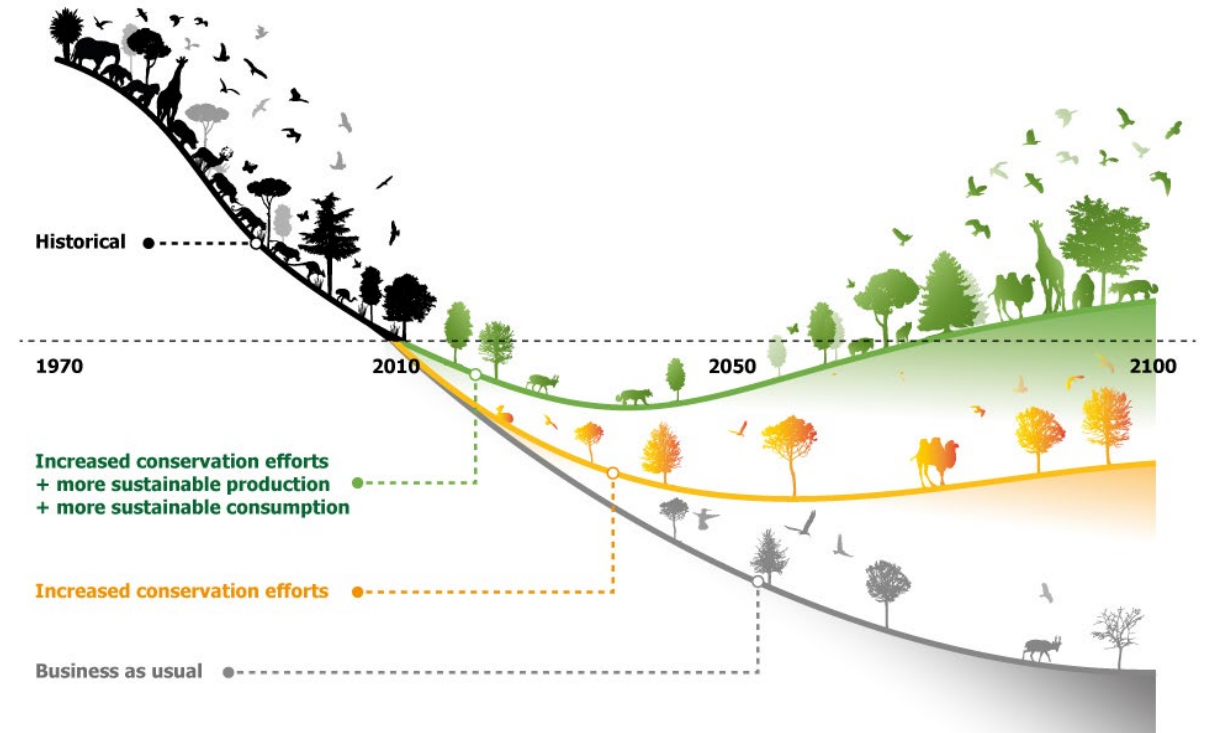
Module name	Robeco	Median	
Strategy & Governance	A+	A	<div><div></div></div>
Indirect - Manager Selection, Appointment & Monitoring			
Private Equity	A+	A	<div><div></div></div>
Direct & Active ownership modules			
Listed Equity - Incorporation	A+	B	<div><div></div></div>
Listed Equity - Active Ownership	A+	B	<div><div></div></div>
Fixed Income - SSA	A	B	<div><div></div></div>
Fixed Income - Corporate Financial	A+	B	<div><div></div></div>
Fixed Income - Corporate Non-Financial	A+	B	<div><div></div></div>

# Why biodiversity loss matters?

Planetary boundary is beyond the zone of uncertainty



Source: Steffen, Will, et al. "Planetary boundaries: Guiding human development on a changing planet" (2015)



This artwork illustrates the main findings of the article, but does not intend to accurately represent its results (<https://doi.org/10.1038/s41586-020-2705-y>)

Source: IIASA based on Leclère, David, et al. Nature (2020)



# How we engage on biodiversity

Engaging on biodiversity loss linked to commodity-driven deforestation



Zero Deforestation



Biodiversity Impact Assessment



Biodiversity Restoration & Circular Economy



Sustainability Reporting



Social Management

Sectors:

- ◆ Consumer Staples
- ◆ Consumer Discretionary
- Healthcare
- ▼ Materials

Commodity exposure:

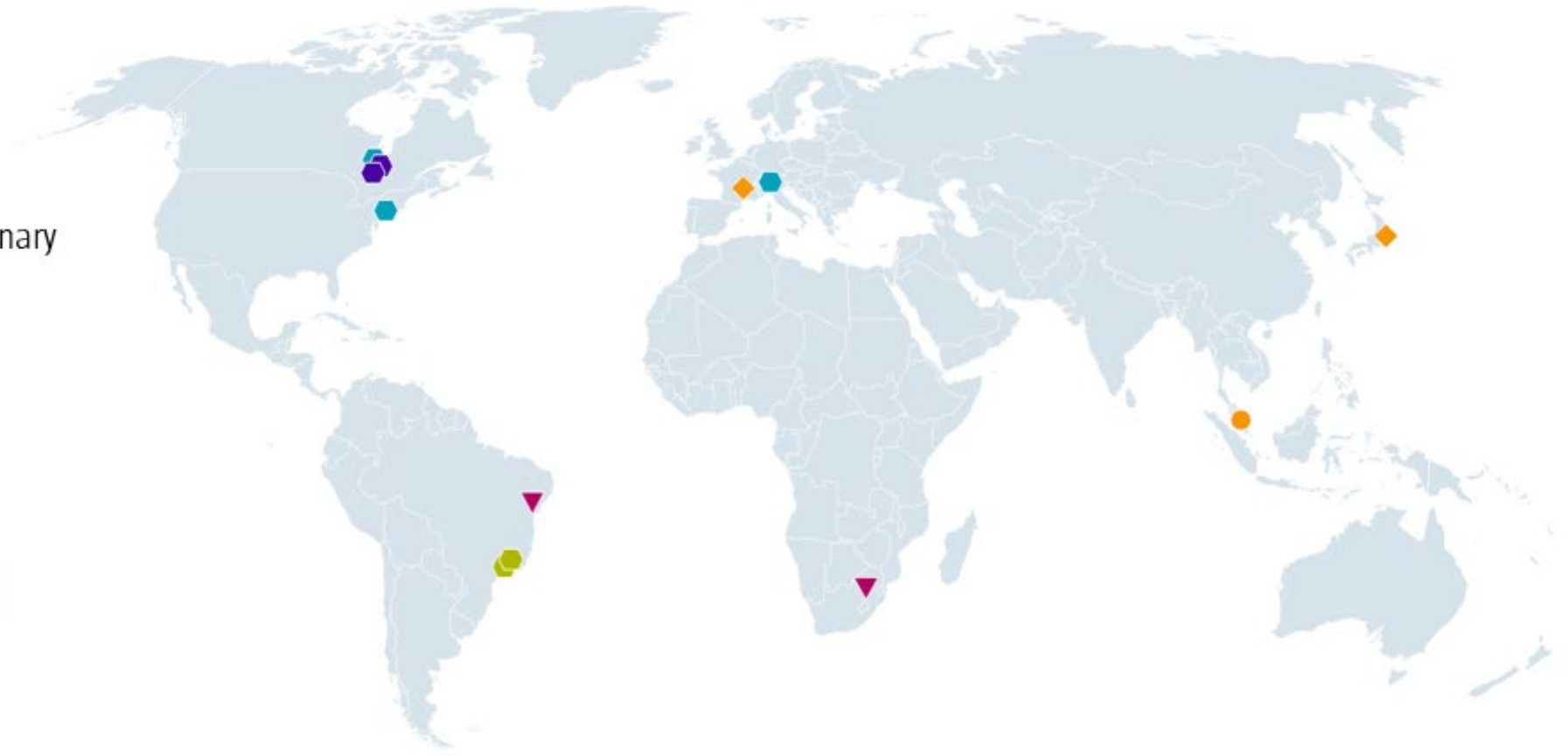
Cocoa

Natural rubber

Tropical timber and pulp

Soy

Beef



# Robeco's commitments on biodiversity

## Current efforts and next steps

### The Finance for Biodiversity Pledge

- > Robeco and 25 other financial institutions launched the Finance for Biodiversity Pledge, which calls on global leaders to agree on effective measures to reverse nature loss in this decade to ensure ecosystem resilience.
- > By signing the Pledge, Robeco took the following commitments, to be delivered by 2024:



- 1 Collaborating and sharing knowledge;
- 2 Engaging with companies;
- 3 Assessing impact;
- 4 Setting targets;
- 5 Report publicly on progress.

### Robeco's internal Biodiversity Taskforce

- > Mandate to develop criteria for biodiversity, assess impacts to identify investments with significant positive or negative impacts on biodiversity, and set biodiversity targets to reduce the overall impact of our portfolios on biodiversity.





# JUSTIN MERCER

Environmental & Social Manager,  
New Forests

A wide-angle landscape photograph of a tropical region. In the foreground, a dense green forest covers a hillside. A small cluster of buildings with bright blue roofs is situated on a cleared patch of land. In the background, more forested hills and mountains are visible under a sky filled with large, white, fluffy clouds.

# Blended Finance as a Tool for Impact in Southeast Asia

SPOTT Case Study – February 2021



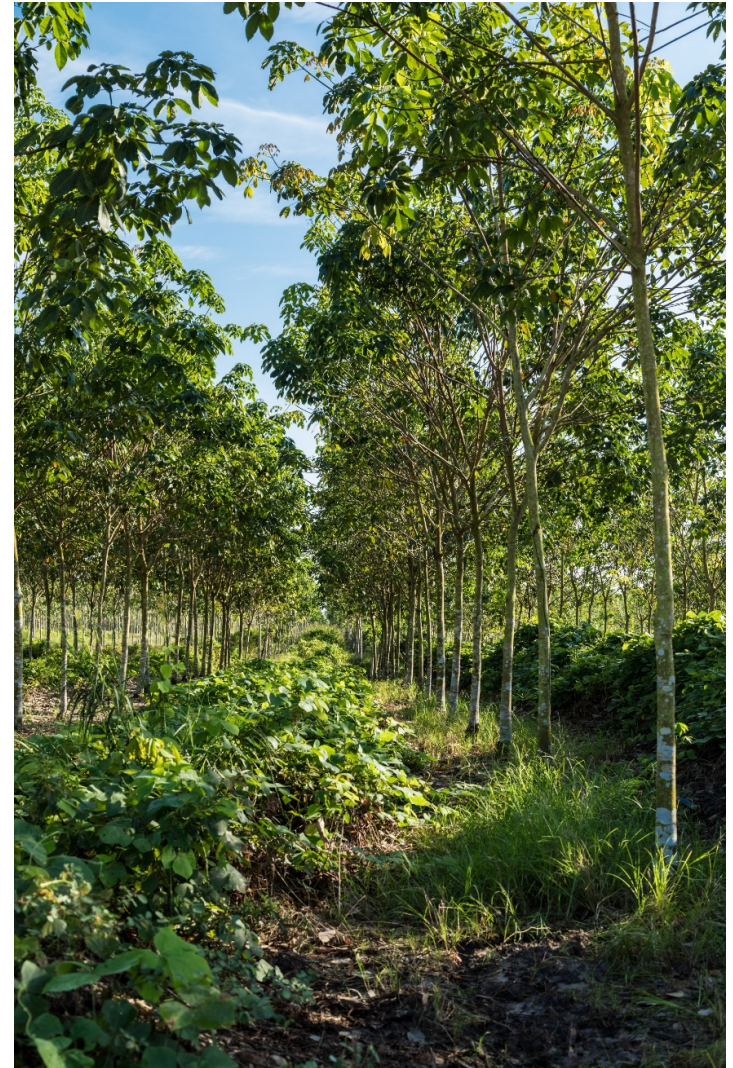
# New Forests Overview

- Founded in 2005
- AUD 6.6 billion in assets under management
  - 1 million hectares of land
- Our main tools for managing impact include our:
  - Responsible Investment Policy
  - Social & Environmental Management System (SEMS)
  - Sustainable Landscape Investment (SLI) framework



# New Forests in Southeast Asia

- New Forests has been operating in Southeast Asia since 2008
- Regionally-specific team in Singapore
- Our Tropical Asia Forestry Fund (TAFF) includes three company investments in Indonesia, Malaysia, and Lao PDR
  - 100% are Forest Stewardship Council Forest Management certified
- In developing markets, New Forests also uses the IFC Performance Standards as the benchmark for best practice E&S management, following Environmental & Social Action Plans to achieve objectives.





# TAFF Impact Management (Examples)

## **Mekong Timber Plantations, Lao PDR**

- Smallholder farmer program
- Youth inclusion program

## **Acacia Forest Industry, Malaysia**

- Contractor training
- Small business development

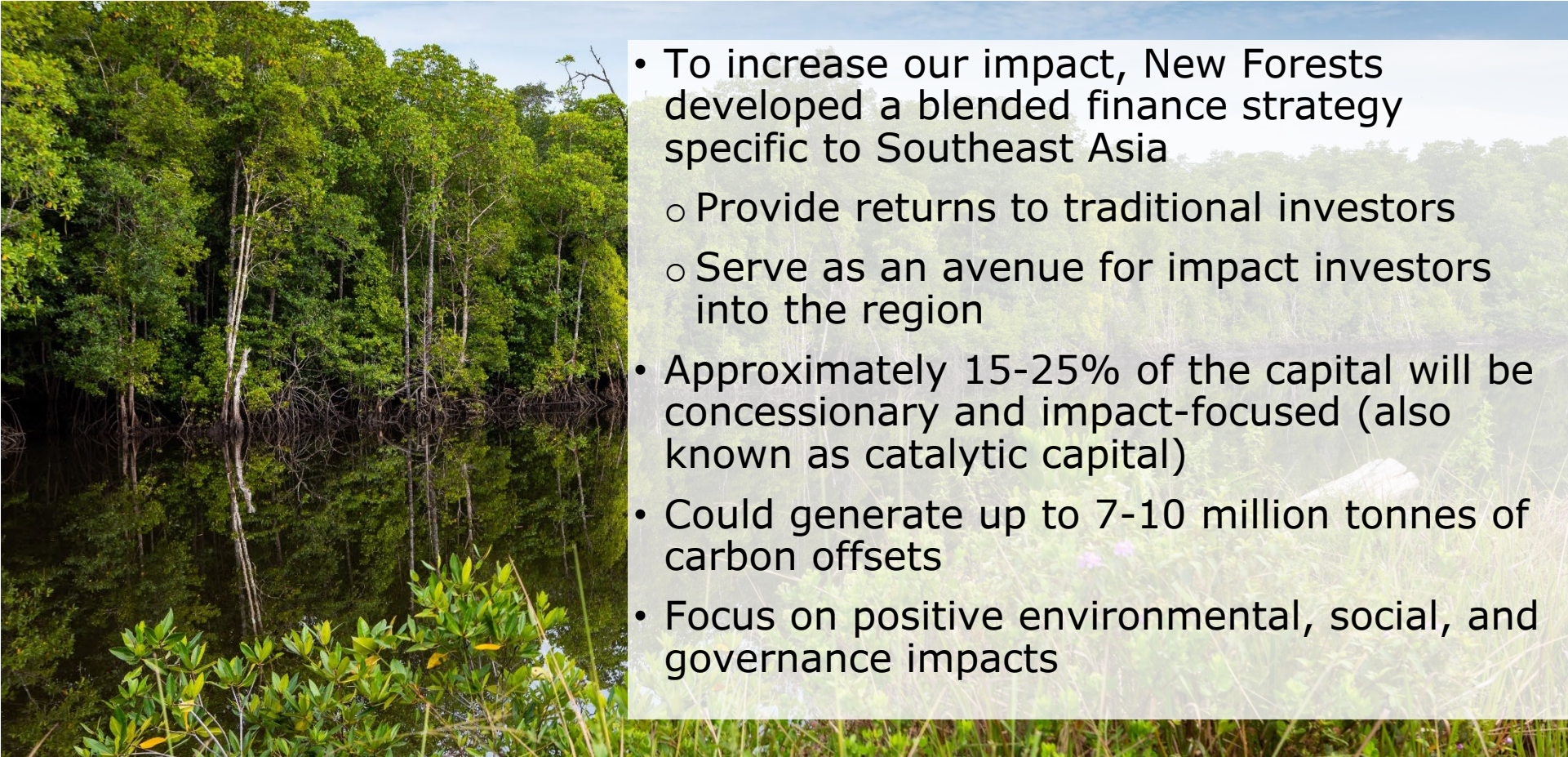
## **Hutan Ketapang Industri, Indonesia**

- Biodiversity Monitoring
- HKI Landscape Program





# Blended Finance in Southeast Asia



- To increase our impact, New Forests developed a blended finance strategy specific to Southeast Asia
  - Provide returns to traditional investors
  - Serve as an avenue for impact investors into the region
- Approximately 15-25% of the capital will be concessionary and impact-focused (also known as catalytic capital)
- Could generate up to 7-10 million tonnes of carbon offsets
- Focus on positive environmental, social, and governance impacts



# Focused on Impact

- Future managed investments in Southeast Asia would likely focus their impact on:
  - Climate mitigation
  - Biodiversity enhancement
  - Livelihoods benefits
- New Forests identified 18 Impact Activities aligned with these goals
  - Track using the SLI framework
  - Dedicated management
- Alignment with the SDGs

SUSTAINABLE DEVELOPMENT GOALS







# Questions?

For more information visit [newforests.com.au](http://newforests.com.au)



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**THANK YOU !**

