

ESG SERIES: ESG FINANCING REQUIREMENTS IN TROPICAL FORESTRY

Presenters:

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CLARA MELOT

Associate Sustainable Finance Specialist,
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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

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- » Palm oil
- » Timber and pulp
- » Natural rubber
- » Assessment scores explained

SPOTT supports the financial sector and supply chain stakeholders to manage ESG risk through transparency assessments of soft commodity producers and traders.

Palm oil: a business case for sustainability

New report from ZSL and Aviva Investors examines the business case for producing, sourcing and financing sustainable palm oil.

[Read more →](#)[assessments ▼](#)

9.9% ▼ 6.2%

SIFCA Group: 13.6% –

Austindo Nusantara Jaya Tbk PT: 66.6% ▲ 3.9%

Eldorado Brasil Celulose SA: 51.3%

SPOTT.org

Freely available website
Publicly available data,
reports and analyses.

Commodities assessed:



Palm oil



Timber and pulp

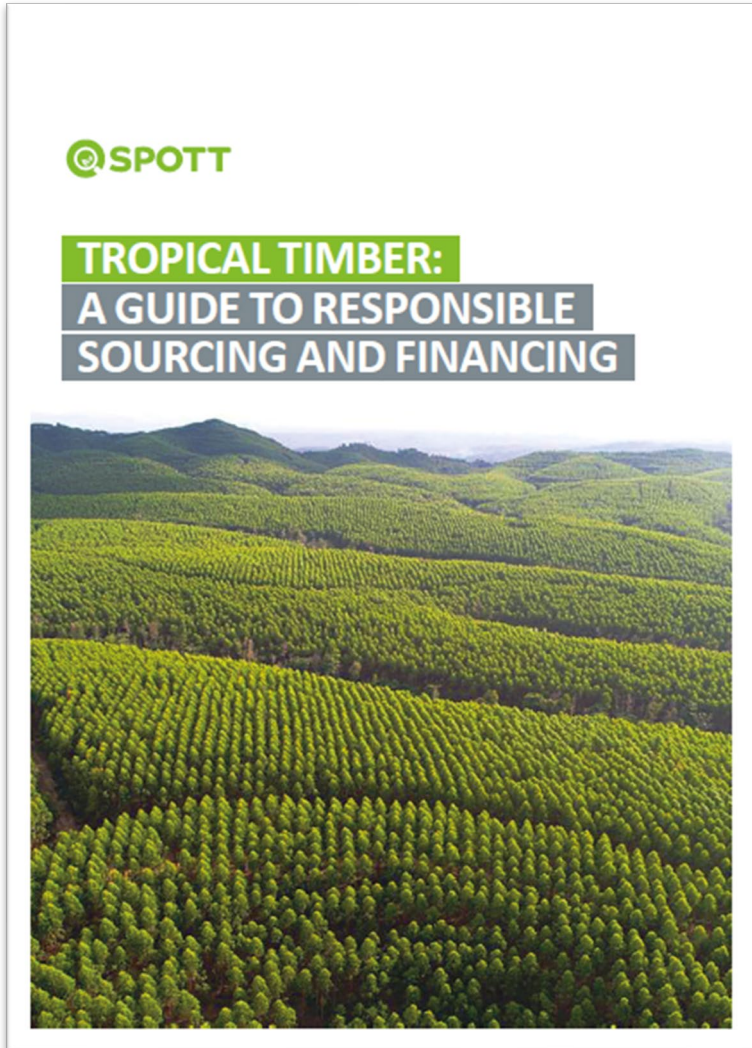


Natural rubber

SPOTT supports the finance sector and supply chain stakeholders to manage environmental, social and governance (ESG) risks by publishing transparency assessments of soft commodity producers and traders. By tracking transparency, SPOTT incentivises the implementation of corporate best practice.

Investors and buyers can use SPOTT to help meet their own commitments, and engage with companies to promote sustainable commodity production through responsible investment and sourcing.

Tropical timber: A guide to responsible sourcing and financing



An introduction to the environmental, social and governance issues associated with tropical timber for financial institutions and buyers of timber products.

www.spott.org/reports/



Financial sector case studies

www.spott.org/reports/

1: Collier Capital – Moving the needle in private equity secondaries

2: BNP Paribas Asset Management – Scoring companies on ESG criteria

3: Robeco – Engaging for biodiversity

4: New Forests – Blended finance as a tool for impact in Southeast Asia

SPOTT January 2021
Case study #1

Sustainable finance and tropical forestry

Moving the needle in private equity secondaries

Collier Capital

Collier Capital, founded in 1990, is one of the world's leading investors in private equity's secondary market – widely acknowledged as an innovator and a stand-out player at the complex end of secondaries. The firm provides liquidity solutions to private equity investors worldwide, acquiring interests in private equity funds, portfolios of private companies, and other private equity-related assets.

Integrating ESG in Private Equity Secondaries

At Collier Capital, we believe that our funds' investment performance may be materially impacted by the risks and potential opportunities associated with environmental, social and governance (ESG) factors. ESG integration assists in ensuring our fiduciary duties to investors are discharged appropriately, thereby helping to maximise value to beneficiaries.

Due to the limitations inherent within our mandate as an investor in private equity secondaries, being removed from the portfolio assets, our approach and core objective is necessarily on influencing the underlying General Partners (GPs) into whose funds we invest rather than at the level of a GP's portfolio.

Secondaries: A new frontier

The private equity secondary market is recording significant growth with the volume of transactions at US\$85 billion in 2019 (Source: Collier Capital) and we predict this growth will continue over the long-term. As secondaries have a potential to play a meaningful and important role in integrating ESG into private equity, the opportunity to be an influencer in the sector from an ESG perspective is clear.

1. A strategy which consists in buying and selling of pre-existing investor commitments to private equity and other alternative investment funds.



SPOTT January 2021
Case study #2

Sustainable finance and tropical forestry

Scoring companies on ESG criteria

BNP Paribas Asset Management

BNP Paribas Asset Management is the asset management arm of BNP Paribas, one of the world's foremost financial institutions, and offers solutions to individual savers, companies, and institutional investors. It has four investment divisions: Equities, Fixed Income, Private Debt & Real Assets, and Multi-Asset, Quantitative and Solutions (MAQS). BNP Paribas Asset Management has EUR 598 billion of assets under management and advisory as of 30 September 2020, with 500 investment professionals and almost 500 client servicing specialists, serving individual, corporate and institutional clients in 71 countries.

ESG integration as part of a wider Global Sustainability Strategy

Environmental, Social and Governance issues may impact the value and reputation of entities in which BNP Paribas Asset Management invests. Incorporating ESG standards into investment criteria in accordance with our fiduciary duty is a way to help clients achieve their investment objectives and protect their interests.

In March 2019, BNP Paribas Asset Management launched a Global Sustainability Strategy committing to adopt a sustainable investment approach in its full range of investment strategies.

This strategy integrates the key elements of sustainable investment:

- comprehensive research and integration of environmental, social and governance (ESG) factors;
- investor stewardship (including individual and collective engagement activities);
- responsible business conduct and product-based exclusions;
- and a focus on three thematic areas to promote a sustainable future.

The aim of these approaches is to strengthen the way BNP Paribas Asset Management invests, generates investment ideas, constructs optimal portfolios, controls for risk and exerts influence with companies and markets.

For more information, please refer to BNP Paribas Asset Management's Global Sustainability Strategy, referenced in the "Further Reading" section of this case study.



SPOTT 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.

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.
- **Value engagement** is a proactive approach centred on material sustainability themes that have the most potential to create value for shareholders. Three to five engagement themes are selected every year in close consultation with clients and Robeco's investment teams. The themes always focus on financially material topics that address ESG issues in a variety of investible arenas. Engagement themes run for a three-year period and we select on average ten companies per theme for engagement based on their exposure to the engagement topic and representation in our clients' portfolios.

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.



SPOTT February 2021
Case study #4

Sustainable finance and tropical forestry

Blended Finance as a Tool for Impact in Southeast Asia

NewForests

New Forests 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

New Forests has been active in Southeast Asia since 2008 and currently manages its Tropical Asia Forest Fund (TAFF) with investments in Malaysia, Indonesia, and Laos. New Forests' 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, New Forests' Responsible Investment Policy provides the basis for sustainable forestry and land use management. This Policy provides for the implementation of New Forests' 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, New Forests' Sustainable Landscape Investment (SLI) framework includes 80 ESG-related indicators we collect on at least an annual basis. These metrics allow New Forests' teams to set, manage, and track ESG issues. The SLI indicators are grouped into six categories that are most relevant to New Forests' operations:

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



Financial sector case studies

www.spott.org/reports/

- # 5: **Standard Chartered Bank** - Engaging clients on evolving requirements
- # 6: **Development Bank of the Central African States** - Supporting sustainable development in the timber and pulp sector
- # 7: **Council on Ethics for The Government Pension Fund Global (Norway)** - Monitoring for ethical investment



Standard Chartered PLC is a leading international banking group listed on the London and Hong Kong Stock Exchanges. Since the merger of Standard Bank and Chartered Bank in 1969, Standard Chartered now possesses a distinctive network that stretches across core emerging markets in Asia, Africa, the Middle East and beyond. With 85,000 employees and a presence in 60 markets, its network serves customers in close to 150 markets worldwide. More than 80 percent of its income and profits are derived from Asia, Africa and the Middle East. Standard Chartered is active in 37 countries that receive official development assistance, including 11 of the least developed countries.

Standard Chartered has a dedicated Sustainable Finance team. We believe in the critical importance of being a responsible institution through managing the potential negative impact that our activities could have through strong environmental, social and governance (ESG) risk filters. Our Environmental and Social Risk Management team was first established in 1997 and works with our Sustainable Finance team to bring together our experience and expertise in ESG risk as well as spotting opportunities and structuring solutions to drive positive impact financing.

Sustainability initiatives with bearing on forestry financing

Forestry, particularly in the tropics, is a sector affected by a number of ESG issues including deforestation and climate change, land tenure, governance and human rights issues as well as supply chain legality and traceability. Standard Chartered is a member of several initiatives which seek to help address part or all of these issues, among others: the Equator Principles, the UN Global Compact, the Natural Capital Finance Alliance, as well as the Green Bond Principles, and the Climate Bonds Initiative.

We set, and regularly review, environmental & social (E&S) standards for clients via a series of public Position Statements. In 2018 we released our Sustainability Philosophy and updated our Position Statements for undertaking business across sectors that have a high potential environmental or social impact including agro-industries (fisheries, tobacco, forestry, palm oil). We will decline – and have exited – transactions or relationships where clients show insufficient intent or progress to meeting the standards we set.

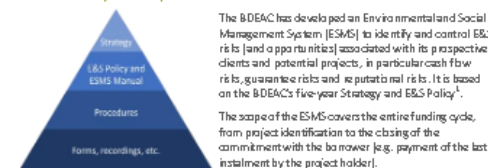


The Development Bank of the Central African States (BDEAC) is the development bank of the Economic and Monetary Community of Central Africa (CEMAC), which member states include Cameroon, the Central African Republic, the Republic of Congo, Gabon, Equatorial Guinea and Chad. The BDEAC was created through an Agreement signed on 3rd December 1975. It started its operations on 3rd January 1977. As of December 2019, its authorised capital amounted to XAF 1,200bn (over €1.83bn).

Scope of activities

The role of the BDEAC is to promote the economic and social development of the CEMAC member states, in particular by funding national and multi-national investments and projects for economic integration. It supports member states, sub-regional organisations, and economic operators in funding feasibility studies for programmes and projects, and in their efforts to mobilise financial resources and fund projects.

Sustainability and supervision of financial activities: the ESMS



All financial products, including loans, project funds, guarantees, and majority or minority shareholdings, fall within the scope of the ESMS.

The ESMS covers the entire funding cycle, from project identification to the closing of the commitment with the borrower (e.g. payment of the last instalment by the project holder).



The Norwegian Government Pension Fund is a Sovereign Wealth Fund and is invested in equities, bonds and real estate. As of 2020 The Fund's market value is about 1 trillion USD, and has holdings in roughly 9000 companies in 74 countries. It is owned by the Ministry of Finance, on behalf of the Norwegian people, and it is managed by NBIM, which is the investment management arm of Norges Bank (the Central Bank). The Council on Ethics is an independent body, appointed by the government to give advice to Norges Bank on whether the Fund's investment in specified companies is inconsistent with its Ethical Guidelines. Companies may be excluded from the Fund if they contribute to or are themselves responsible for serious violations of norms, including severe environmental damage, serious or systematic human rights violations or gross corruption. The Council on Ethics monitors the Fund's portfolio with a view to detecting whether companies should be excluded and submits recommendations for the exclusion and observation of specific companies to Norges Bank. Norges Bank makes the final decision. This decision and the Council's recommendation are made public.

Why consider the timber and pulp sector?

Commercial logging and conversion of tropical forest into plantations is considered one of the greatest threats to the preservation of ecosystems and biodiversity, particularly in the tropics. As per the fall of 2011, around 40 companies in the GPGF were engaged in logging and/or plantation operations in Asia and Africa, including 35 in Indonesia and Malaysia. That year the Council on Ethics decided to survey companies in the GPGF involved in environmentally destructive logging of tropical forest or the conversion of such forest into plantations. Four recommendations have been published that concern the exclusion of logging companies.

Timber and pulp plantations: relevant non-financial information

For plantation companies, the Council seeks to clarify to what extent the companies are in fact engaged in activities that damage tropical forest and biodiversity, the scale of the activities and what damage these cause. The Council always begins by requesting information from the company, such as the location of the licence areas, whether there are forests or peatlands in the licence areas, the state of the forest if present, Environmental Impact Assessments and High Conservation Value (HCV) area assessments reports. Based on this information as well as additional research, the Council conducts an individual evaluation of each company to assess the risk of severe environmental damage in connection with forest conversion.



SPEAKERS

ESG SERIES: ESG FINANCING REQUIREMENTS IN TROPICAL FORESTRY



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Guy Djombe,
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HILDE JERVAN

Chief Advisor,
Council on Ethics for the Norwegian Government
Pension Fund

Council on Ethics – Assessment of logging and plantation companies

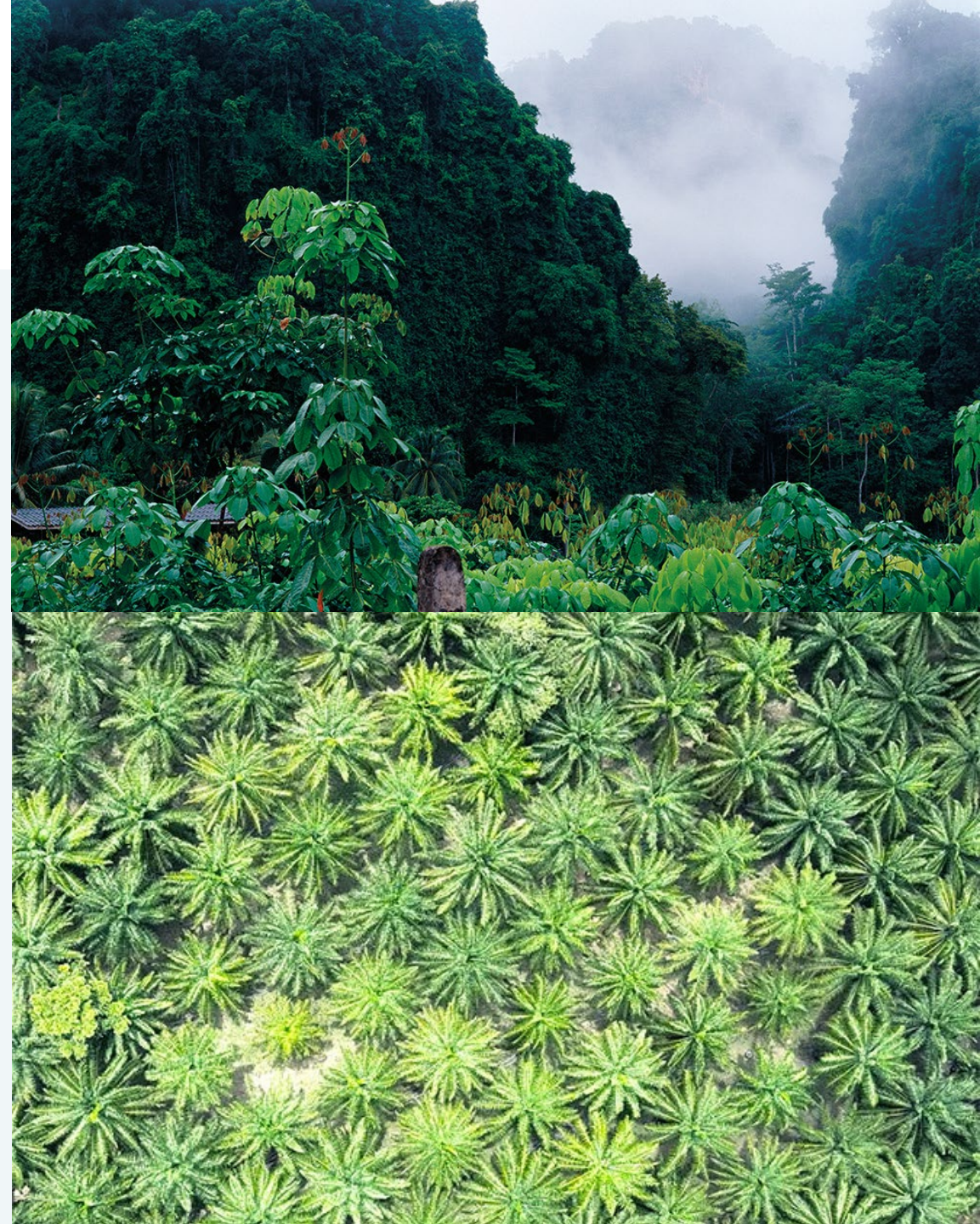
The Council investigates loss of important biodiversity based on a risk-based approach

- Screening and case by case assessment
- The scale of deforestation
- Concession areas fall within forest covered areas of important ecological values
 - Protected areas, habitats for IUCN red list species, Important bird areas, Key Biodiversity Areas
 - What is the likely loss of biodiversity (loss of species, habitats, ecosystems) and social impacts
 - Impacts on the ground



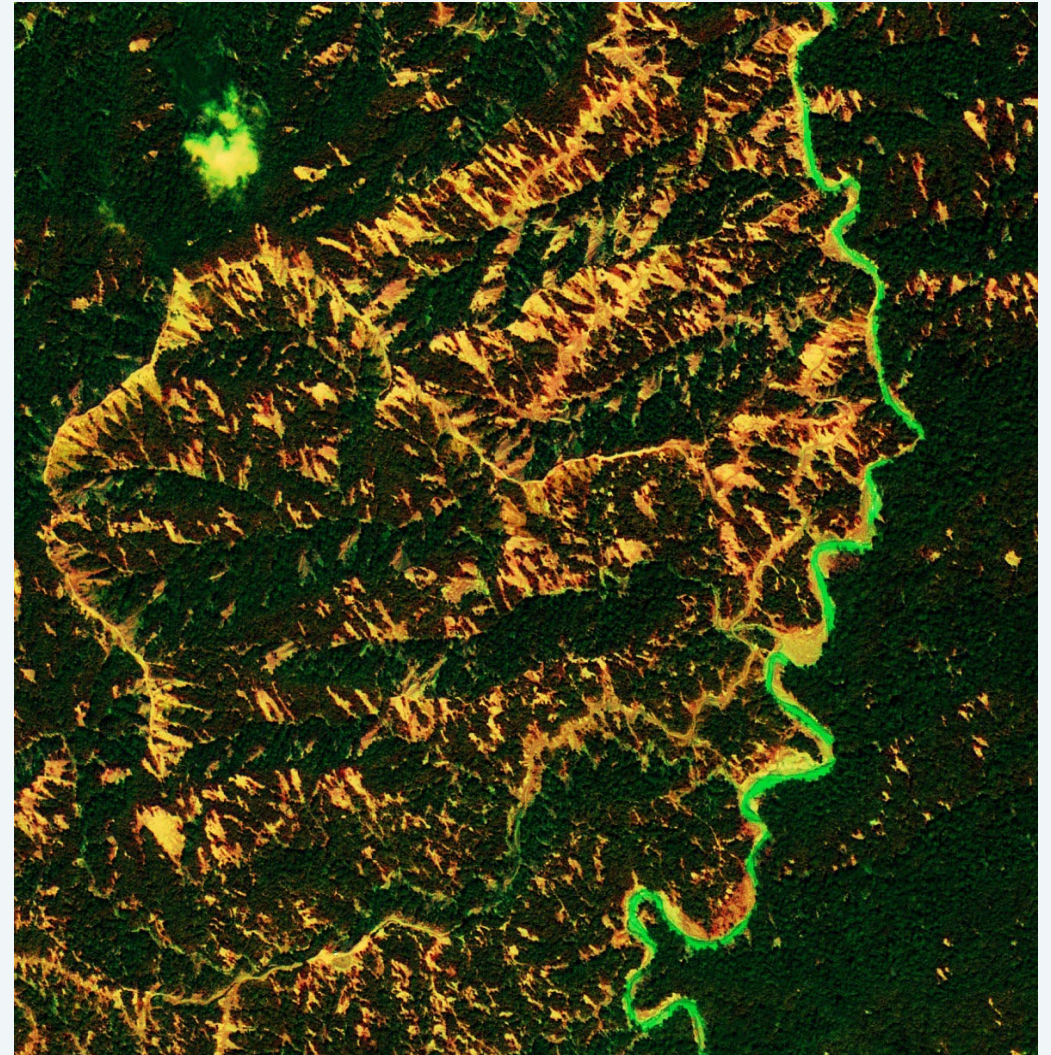
The company's actions to prevent and mitigate impacts

- Engagement with companies
- How are areas of high conservation values identified, managed and monitored?
- Measures must be sufficient to protect important conservation values and peoples' livelihoods and cultural values



Observations

- **Commitments are important, but not enough**
 - A signal of intention, but what does it mean?
- **Implementation – still a way to go**
 - How are corporate policies implemented at the concession level?
- **Transparency continues to be a challenge**
 - Little information about the location of operations, maps, HCV and ESIA reports.
- **Governance**
 - Board oversight and management systems



SAMANTHA BRAMLEY

Director,
Environmental and Social Risk Management,
Standard Chartered

Environmental and Social Risks Management at SCB



ESRM team since
1997

Sustainable Finance
team since 2019

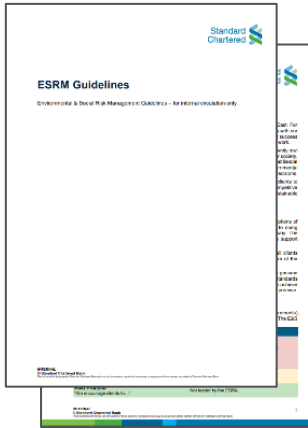


Environmental and Social Management System

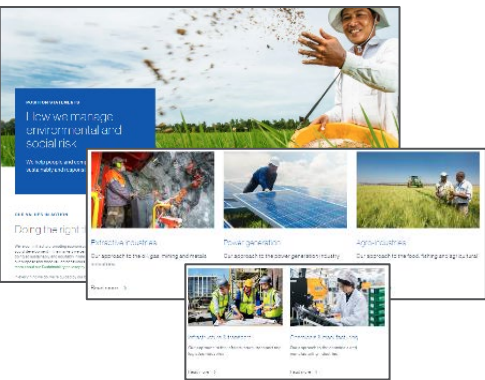
How we manage E&S risks in sensitive sectors including Forestry

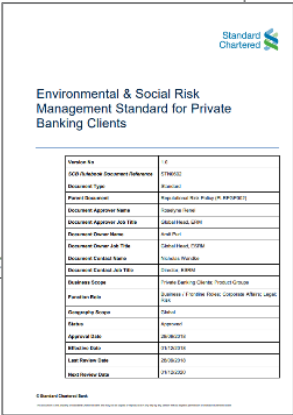



External Frameworks Policy/Guidelines Procedures - Standards Tools – Client ESRA

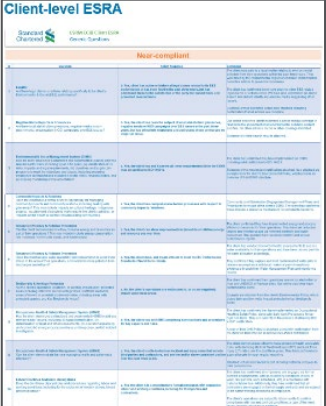




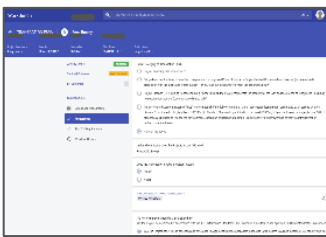
External Communication
'Position Statements'







'Transaction ESRA'





Forestry Position Statement

We will not provide financial services to clients who:

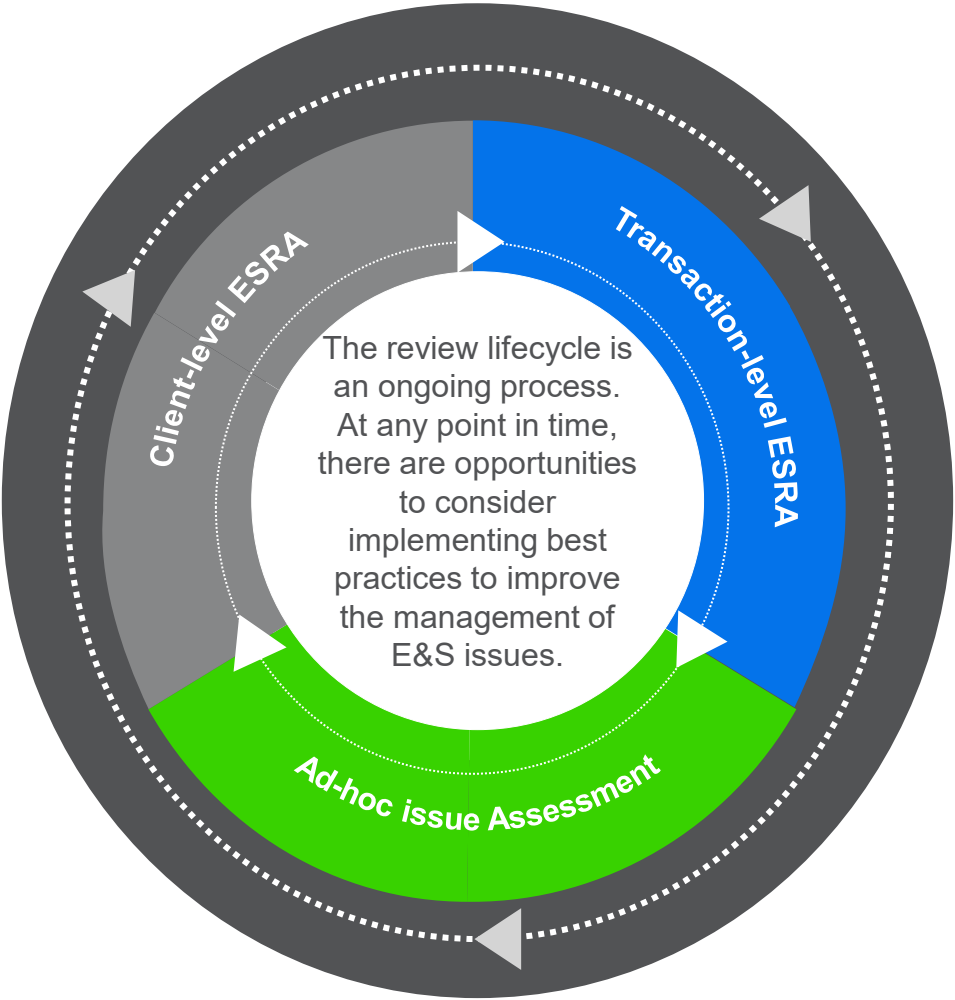
- Develop new plantations by converting or degrading High Conservation Value (HCV) or High Carbon Stock (HCS) forests, legally protected areas, or peatlands.
- Use fire in forestry or plantation operations including in the clearance and preparation of land for planting.

We will only provide financial services to clients:

- Have FSC or PEFC
- Follow an appropriate Chain of Custody Scheme

We expect clients to:

- Implement a Sustainable Sourcing Policy for timber, pulp or paper products originating from high risk countries
- Have procedures in place to ensure there is no illegal logging in their supply chain



Ensuring Compliance through Client Engagement

- Position statements (“PS”) – on a two year review cycle to ensure they remain current and topical
- Annual assessment of forestry client’s compliance with our PS - Red, Amber and Green according to their alignment
- Green = fully aligned
- Amber = time bound plan to be aligned
- Red = not yet aligned in certain aspects, potential exit pathway...

	2018	2019
Red	6%	2%
Amber	1%	1%
Green	93%	97%

Forestry client alignment with Standard Chartered Position Statement



GUY DJOMBE

Head of Environment and Sustainability
Operations Department,
Development Bank of the Central African States



ESG FINANCING REQUIREMENTS IN THE TROPICAL FORESTRY SECTOR



Intergrating environmental and social sustainability criteria in financing forestry sector projects

Guy DJOMBE
Head, Environment et Sustainability Operations Division



 English translation is available for this session by selecting “English” in the “Interpretation” menu at the bottom of the screen.

BDEAC – Banque de Développement des Etats de l’Afrique Centrale / Central African States Development Bank

1. PRESENTATION OF THE BDEAC

The Development Bank of the Central African States (BDEAC) is the development bank of the Economic and Monetary Community of Central Africa (CEMAC), which member states include Cameroon, the Central African Republic, the Republic of Congo, Gabon, Equatorial Guinea and Chad

Creation date: 03 December 1975

Beginning of activities: 03 january 1977

Presence: HQ in Brazzaville (RoC), six (06) National offices, one per countrys.



Cameroun



Congo



Gabon



G. Equatoriale



RCA



Tchad

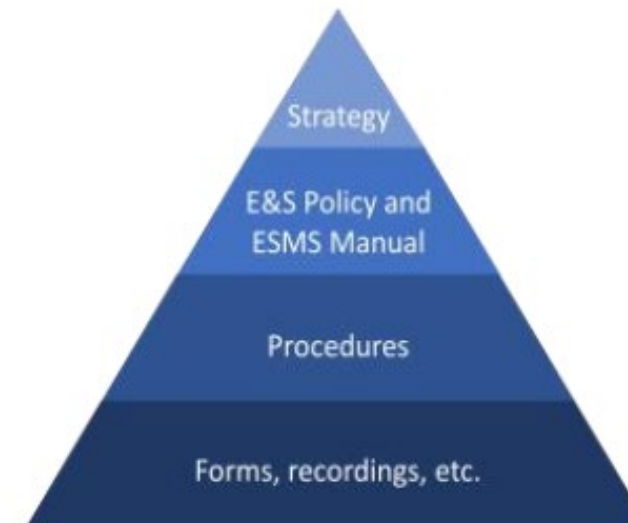
Brazzaville

April 2021

Elements of the ESMS

- Exclusion list;
- A brief for exceptions to the exclusion list ;
- A list of medium and high E&S risk sectors;
- An E&S risk category checklist ;
- A project brief for the identification committee;
- For high E&S risk financing requests, a manual for external E&S due diligence processes
- Sectoral guides on E&S risks (i.e. Forestry, energy, agro-industries)
- A management process for land acquisition and population displacements ;
- An E&S regulatory registry.

Architecture of the ESMS



The following forestry activities are eligible for BDEAC funding

Activities related to the management of, and operations in:

- Planted forests
- natural forests,
- the processing and transport of forest products,

E&S exclusions in the forestry sector

- any operation involving or requiring the destruction of critical habitats or ecosystems (“critical habitat” covers natural and modified habitats requiring specific attention)
- any commercial logging of a primary forest
- any forestry project that does not implement a sustainable development and management plan

Applications for forestry financing projects (continued)

E&S Categorisation

Transaction risk ↓	Client risk →	Cat A (High)	Cat B (medium)	Cat C (low)
Cat A (high)		Credit review / Full E&S Due diligence	Credit review / Medium E&S Due diligence	Credit review / Light E&S Due diligence
Cat B (medium)		Credit review / Medium E&S Due diligence	Credit review / Medium E&S Due diligence	Credit review / Light E&S Due diligence
Cat C (low)		Credit review / Medium E&S Due diligence	Credit review / Light E&S Due diligence	Credit review / Light E&S Due diligence



Applications for forestry financing projects (continued)

Full due diligences:

With an external consultant, it should include at least the following:

- An E&S documentation review
- A review of the reputational E&S risks of the client or project under consideration (based on publicly available information)
- A detailed compliance review of the ESIA (if not finalised in the previous phase)
- An E&S interview with the client
- A site visit
- The formalisation of an E&S due diligence report including a summary and an E&S action plan (ESAP)

Applications for forestry financing projects (end)

Decision criteria

- The bank can TURN DOWN a project with sufficient solvency and satisfactory liquidity and returns when said project does not meet environmental and social sustainability requirements;
- The BDEAC considers that its financing decisions must be mindful of both market shares and trust in its mandate.
- The Central African States Development Bank can revoke a loan when the borrower is not meeting its E&S requirements.
- The BDEAC encourage its prospective clients to implement best practice in terms of E&S risk management, energy efficiency, clean technology and renewable energy use.
- E&S commitments will be included in loan agreements going forward so as to ensure that E&S risks are monitored and that related requirements are observed by borrowers.

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PANEL DISCUSSION

ESG SERIES: ESG FINANCING REQUIREMENTS IN TROPICAL FORESTRY



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THANK YOU !

