# Investing in sustainable planted forests: Tools are available, but there's room for improvement

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Investors are following a growing demand for more sustainably sourced wood products. Murdani Usman/CIFOR

Industrial-scale planted forests are broadening the scope of their products from a traditional focus on timber toward bioenergy, and even ecosystem services. This change is occurring in parallel with the rapid expansion of planted forest areas. A lesser known concurrent change is the growing interest in social and environmental responsibility expressed by institutional investors. This trend is also supported by the growing field of Timberland Investment Management Organizations that manage the large plantation assets on behalf of institutional investors.

These changes may very well signal a growing sense of responsibility among investors – but they could equally suggest that investors have understood something essential: more sustainable practices in planted investments means more secure, and sustained, profits. This realization is becoming all the more important as planted forests continue to rise in investment portfolios due to their alleged contra-cyclical performance and relatively stable revenues. Upper-end estimates point to $80 billion of such assets now under management. Nothing near to negligible.

But attractive business prospects can vanish rapidly if conflict breaks out on the ground, or surrounding water supplies become polluted, for example. Consideration of these and other risks has logically led to the elaboration of a number of Sustainable and Responsible Investment (SRI) tools in the forestry sector with possible applications for industrial-scale planted forests. The function of these tools is to help ascertain whether operations are "risk-free", especially in emerging economies.

As it stands, the investment field looks more like a jungle so far – and a thriving jungle at that, with up to one-third of professionally managed assets being qualified as "sustainable and responsible" based on the application of the tools. Meanwhile, the quality of existing tools ranges from those that are overly lax and general, such as internal codes of conduct, to others that are well-focused and strict, such as multistakeholder-based standards with third-party certification.

For the sake of clarity, and to identify pressing areas for improvement, a team of researchers from the University of Padova and the Center for International Forestry Research (CIFOR) undertook a vast assessment of existing tools.

## RIGHT TOOL FOR THE JOB

The team had two aims in mind: firstly to create a database of SRI tools, and secondly to propose a framework for the evaluation of the tools' capacity to deliver on assessment. Describing the variety of tools that exist, the issues they address, and how they do so is a good first step. Even better is to take the next step to understand the robustness of the tools, and their suitability for the assigned objectives. This latter task was undertaken by considering the number of issues covered by the tools, and the level of control they had in place to ensure that the issues were properly assessed during the process. It's important to not fall into the trap of either covering too many issues too lightly, or not covering enough issues, despite doing so in detail.

In the end, analysis of 121 investments in emerging economies produced a solid database of 50 SRI tools. The database was compiled with attention paid to a number of differences among the tools, including how they work, the governance at play, and the level of control over their application to given investments. The latter point is critical. Indeed, it includes contrasting features such as mere declaration of participation to the more robust measure of third-party accreditation. And you can't assume that all of them give the same results.

It appears that management standards, bank investment policies and investment rating systems form the bulk of the SRI tools; yet this does not say much about their capacity to ensure sustainable and responsible practices associated with investment in planted forests. The good news is that the highest overall performance was found among representatives from these categories, such as the Forest Stewardship Council and the Gold Standard (management standards), ABN AMRO Forest and Plantation Policy (bank investment policy) and RepRisk (investment rating).

The bad news is that very few of the SRI tools in the extensive sample specifically address planted forests. Instead, they tend to have a broad sectoral scope on forestry, with little attention paid to the specificities of the plantation business. Another very problematic aspect is that key issues such as poverty alleviation, protected areas or prevention of encroachment – which clearly determine sustainability and responsibility of investments, to a large extent – were found not to be properly assessed by the sample tools.

## IMPROVEMENT IS REQUIRED

The research findings highlight a couple of clear messages and areas for improvement. Admittedly, a lot has been done to develop tools that aim to guide investments toward sustainable and responsible practices, and this movement should be encouraged. But we are not there yet, and we must be aware of the severe shortcomings of many of these attempts that might mislead investments and jeopardize sustainability.

Nonetheless, a few champions exist and should serve as a source of inspiration for others in the race to the top. To this end, third-party certification should become a reference and SRI tools designed specifically for the purpose of planted forests should become a priority.