

Investing in Forest Restoration and Conservation in Tropical Asia

Briefing note for forestry investors based on the proceedings of the 2nd Asia-Pacific Rainforest Summit 2016
Bandar Seri Begawan, Brunei Darussalam – 3-5 August 2016

From 3-5 August 2016, representatives of business, government, and civil society gathered to address the opportunities for public-private partnerships and the harnessing of private sector investment to drive forest restoration and conservation in the Asia-Pacific region. The 2nd Asia-Pacific Rainforest Summit was hosted by the Government of the Brunei with coordination support from the Australian Government. New Forests joined the summit as a member of the Asia Pacific Rainforest Partnership (APRP), a private sector roundtable that launched in December 2015 to foster private-public cooperation on forest conservation, restoration, and REDD+. In this briefing note, we present some of the key policy proposals and the opportunities they present for private sector engagement in forest restoration and conservation.

The Asia-Pacific Rainforest Summit builds on the 2015 United Nations Sustainable Development Goals (SDGs) and the Paris Agreement, which both recognise that forests have a vital role in contributing to a variety of international goals, including climate mitigation, biodiversity conservation, and sustainable livelihoods.

- **Forestry in the SDGs** – The 2015 SDGs aim to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda.¹ With global support, these goals and their associated targets set the sustainable development agenda across 17 thematic areas. The most direct inclusion of forests is through *Goal 15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss*. Moreover, links to forests management issues have been drawn to every one of the 17 SDGs.
- **Forestry in the Paris Agreement** – Forests were formally recognised in the Paris Agreement. Article 5 requires that the UNFCCC Parties take action to conserve and enhance greenhouse gas sinks and reservoirs, including forests. REDD+ is included with reference to the role of sustainable forest management and conservation, and more than 60 countries have included REDD+ in their intended national determined contributions, i.e. their national climate change strategies.

Private Sector Is Providing Solutions

The APRP has been working throughout 2016 to demonstrate the role of the private sector in contributing to forest conservation and restoration goals while also ensuring governments and other stakeholders are engaged with the private sector. As a contribution to the summit, the APRP roundtable prepared a set of project concept notes to describe existing and planned private sector actions to restore and conserve forests. The roundtable also produced a set of

¹ See <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>.

policy briefs outlining private sector perspectives and recommendations across a range of policy issues to be discussed at the summit. These include the regulatory environment necessary to foster restoration and conservation; the challenges and opportunities in conservation finance; the emergence of investment using a landscape approach; monitoring and reporting of private sector contributions to climate and environmental objectives; and the business case for investment in forest restoration and conservation. New Forests prepared a case study of how its Tropical Asia Forest Fund seeks to apply a landscape approach within its investment program in Southeast Asia and how such investment can include forest restoration and conservation. This case study can be accessed with the [package of policy briefs](#).²

Forest Issues Are About More than Forestry

There is broad consensus that the private sector must incorporate social and environmental objectives in business operations and that the management of forests has moved beyond being about *just forests* to being about a range of sustainable development issues. This means that while the private sector is effectively in a position to impact a range of development outcomes, at the same time it must navigate an increasingly complex operating environment where there are numerous stakeholders every operation. Complicating this, the business case for integrating restoration and conservation alongside productive land uses such as forestry, rubber production, and agriculture has been elusive, particularly in the absence of financial value for the natural capital represented by forests, wetlands, and other ecosystems. This creates a challenge for the private sector: how can we proceed with concrete actions when the economic and political framework in which these take place is still developing and the institutions to support good forest governance are still evolving?

The summit responded to this challenge with a complementary set of plenary discussions on the following: implications for forests from the Paris Agreement; the actions of industry leaders who are already taking significant steps to restore and conserve forests; financing mechanisms for forest conservation and REDD+; and opportunities for public-private-community partnerships for combined efforts. In the rest of this briefing note, we summarise some of the outcomes of these discussions, from the perspective of forestry investment in tropical Asia.

The Forest-Climate Debate Is Over

Forest-climate impacts have come to dominate the public discourse on forests over the past decade, and it was asserted more than once that perhaps it is time to move past this single focus. The intense forest-climate debate has led to the development of robust technical guidelines for REDD+, generation of significant debate around the role of forests in mitigating and adapting to climate change, and a call to action on the role of the private sector. These discussions culminated in greater recognition of the importance of forests in addressing climate change as part of the Paris Agreement.

However, what these agreements have not done is identify mechanisms to increase investment and action from the private sector. Two reasons for this were noted. The first is that, as with many bureaucratic processes, the perfect can become the enemy of the good. So in the case of forests, policymakers can become bogged down in the details of monitoring, reporting, verification (MRV) as well as forest carbon specific issues such as additionality, leakage, and permanence. In reality, the science and technology is able to account for and assure carbon emissions reductions in a way that can provide business and policy certainty. The second reason is that much of the international progress has occurred at the national level, with climate funds, governments, and funders focused on high-level national programs, while impacts are happening on the ground. Both of these issues create uncertainty for private investors. So while REDD+ has become one of the great hopes of the international forest conservation community, there is still a

² See http://www.cifor.org/wp-content/themes/dw-focus-child/asia-pacific-rainforests-summit/pdf/APRP_PSR_ProjectsPolicyBriefs2907%20V5.pdf.

gap between expectations and actions. The issue now is to move beyond debating the forest-climate debate and find ways to incentivise action from a variety of private actors who have impacts on forests, including not just the forest sector but also fisheries, mining, infrastructure, energy, and – very importantly – agriculture.

Integrated Approaches

With REDD+ and forest conservation goals now expected to interact with multiple industries, piece-meal approaches cannot deliver results at the scale that is needed. The summit participants recognised the coordinating role of governments in creating strong institutional and governance frameworks that will support more integrated approaches to managing overall forest impacts. These include integrated management approaches such as a landscape approach, the rise of Forest Landscape Restoration (FLR), and increasing needs for more effective partnership through public-private-people (PPP) collaborations.

From a government perspective, the Asia Pacific region has been working toward developing a unified commitment to FLR, which would see extensive rehabilitation, forest restoration, and an increase in forest cover. FLR is a broad umbrella term that can encompass a great range of activities, ranging from purely conservation-oriented restoration aiming to re-create natural ecosystems to broad-scale reforestation efforts, even with exotic species, that are focused primarily on increasing forest cover – whether for watershed protection, carbon sequestration, timber products, or multiple objectives. Nearly all stakeholders can support some form of FLR, making it common ground for action. There is even a new academic initiative led by Australian researchers seeking to develop a set of criteria and indicators for best practice in FLR, which could be applied globally and used to help governments and investors assess the risk and sustainability of FLR projects.

More broadly, a landscape approach is also of growing interest to many stakeholders, as evidenced by the emergence and success of events such as the Global Landscapes Forum. The APRP policy briefs examined the opportunities and challenges of implementing a landscape approach. At large scales, landscape approaches require extensive coordination among actors and are an important area for PPP partnerships, which became a central theme of the summit.

There was broad support that local communities must be included as part of effective engagement in order to have sustainable outcomes. In Southeast Asia forest-dependent communities and those in rural areas often lack clear tenure and rights to the resources on which they depend. In addition, some communities may even be agents of deforestation as part of traditional and new livelihoods, subsistence, and development activities. The summit participants therefore emphasised the importance of integrating livelihoods and community development needs into resource management planning as well. Moreover, New Forests believes these elements must be included into business strategy such that responsible business can create shared value by addressing the challenges facing local communities.

Market Signals for Conservation Must Be Strengthened

New Forests participated in a plenary discussion on industry leadership in the areas of forest restoration and conservation. The panel included four companies – Asia Pulp and Paper, Wilmar, PT Rimba Makmur Utama (a REDD+ conservation project developer), and New Forests – all of whom called on governments to provide improved market signals for conservation of forests and promotion of ecosystem services. This panel was not alone in this viewpoint. The concept of market incentives emerged as a theme throughout the summit. For example, the Indonesian government suggested progress has been achieved through “green markets” to encourage sustainable forest management through improved legality and timber assurance frameworks that can help meet overseas demand for sustainable timber products. As another example, forest

carbon offset frameworks from Australia, New Zealand, and California were noted as successfully harnessing private sector action – including evidence from New Forests’ investment program for California carbon offsets.

In the current international policy setting, there is ongoing uncertainty regarding when forest carbon will be valued in a way that provides a price signal to encourage tropical forest conservation. On the other hand, we can be certain that sustainable development will remain a global priority, and so the challenge for investors is to find ways to link responsible production and conservation together as part of operating a sustainable business. In addition, as natural capital accounting approaches continue to develop, we may see the ability to ascribe financial value to the underlying ecosystem services that support forestry investments and which are maintained and promoted through responsible forest and landscape management.

Investment Opportunities

The summit also included assessment of the state of investment in Asia Pacific forests. Broadly speaking, there is an expectation that private sector capital can be attracted to forest conservation and restoration at scale. While it may seem obvious to some, there are many stakeholders who do not understand that for this to happen there must be a commercial basis for private sector action. In the development context, “investment” may refer to finance mechanisms such as philanthropy and aid that do not expect a rate of return. This often leads to misunderstandings with civil society and government as to what is an attractive investment and how to think about encouraging and leveraging private capital.

A panel on finance argued that we must move toward simple financial products, which can be understood by the market. To this end, there is a fast-growing segment of green bonds and forest bonds, which can be funnelled toward suitable projects. The Climate Bonds Initiative has made strong progress in defining the standards that such bonds should meet in order to deliver on their green promise. In some cases, forest bonds are re-risked through government or inter-governmental organisation guaranties. Bonds can also offer exposure to multiple projects, allowing investors to contribute to a range of impacts across several investments within the bond, and can also provide greater liquidity. However, the reality is that there are still few economic reasons to undertake active restoration projects in Southeast Asia, and so forest bonds need to look for projects with conventional cash flows where conservation is likely to be a strong co-benefit rather than a primary focus.

Another way to finance forest restoration and conservation is through engaging directly in the primary production at the base of the supply chain. This is what New Forests does through investing in forests, land, and forestry companies operating throughout the region. With equity investment it is possible to set standards that will include conservation, and where possible also restoration, while delivering commercial returns through the production of sustainable goods like timber and natural rubber. Such an approach is attractive for those looking to have direct influence in forest management and in delivering sustainable development impacts. However, forestry funds offer limited liquidity and investors must be will to invest for time frames of ten years or longer. This time frame is beneficial for the restoration agenda, however, as it provides a reasonable opportunity for the benefits of restoration to start to become evident.

Conclusions - The Scope for Sustainable Landscape Investment

There is sustained momentum from the Paris Agreement and numerous commitments by governments and businesses to forest restoration, conservation, and the integration of more holistic sustainable development goals. We also know that responsible forest management delivers social, environmental, and economic benefits. A continued focus on whether or not REDD+ can catalyse investments into forest conservation and restoration may mask the

significant opportunity to invest in the transition of supply chains to more sustainable production models that integrate production and conservation functions within a landscape.

In New Forests' view, the business rationale for combining production and conservation activities already exists. As a long-term investor, New Forests believes our Sustainable Landscape Investment model will deliver superior performance by taking a combined focus on productivity, land use planning, ecosystem services, shared prosperity, risk management, and governance. This model is aligned with the trend toward greater sustainable development outcomes through investing in forests and forest-related sectors. For example, in 2015 our Tropical Asia Forest Fund invested in PT Hutan Ketapang Industri (HKI), which operates within a 100,000-hectare concession in West Kalimantan, Indonesia. The HKI business is implementing a landscape approach to integrate multiple land uses and support a combination of commercial rubber plantation, forest restoration and conservation, and livelihoods plantings as part of a broader community engagement program. With combined production and protection models like this, there is an opportunity to develop scalable investment models for landscapes and forests across Southeast Asia.

Sustainable Landscape Investment



While we continue to support the development of effective governance and institutions to achieve objectives such as FLR, sustainable development, and integrated landscape approaches, forestry investors must take into account these aspirations and trends in the ways in which we invest. The challenge moving forward is to develop effective partnerships such that the Sustainable Landscape Investment model can be applied effectively in forestry investments in Southeast Asia. As highlighted by the 2nd Asia Pacific Rainforest Summit, involving multiple stakeholder groups and creating effective partnerships are critical factors of long-term success in forest management, restoration, and conservation.

New Forests looks forward to continuing to build upon the track record we have established as we promote responsible investment in the forests and landscapes of the Asia-Pacific region.

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