



## Global Forest & Trade Network

### Responsible Forest Finance Strategy Development Workshop

*London, UK – January 14-15, 2010*

### Conference Summary Report

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## 1. Workshop Overview

On January 14 -15, 2010, WWF's Global Forest & Trade Network (GFTN) brought together leading stakeholders in the finance sector and WWF colleagues to discuss how finance institutions (FIs) can leverage responsible forest management and trade. The meeting utilized diverse stakeholder interaction to devise potential finance sector engagement points and to discuss lessons learned. Participants included the GFTN Support Unit, GFTN managers, WWF staff working on finance, selected FIs and GFTN external partners.<sup>1</sup> The workshop was designed and organized by GFTN<sup>2</sup> and facilitated by the Consensus Building Institute, a U.S.-based, non-profit facilitation firm.<sup>3</sup>

The meeting was divided between a full participant workshop and a shorter session reserved for WWF staff discussions. The full participant workshop jointly identified the range of finance sector entry points along the forest products supply chain, as well as opportunities and risks to different finance sector engagement strategies. Participants further prioritized the engagement strategies that most effectively support responsible forest management and trade. The second part of the workshop allowed WWF staff to reflect on potential engagement points and begin initial discussions around areas that are most appropriate for the GFTN to consider.

## 2. Key Outcomes

Four conversations framed the full participant workshop:

- **What role can the finance sector play in promoting responsible forest management and trade?**
- **What are the potential entry points along the forest products supply chain?**
- **What are the opportunities and risks of different finance sector engagement strategies?**
- **What key lessons or insights can be gathered from FIs to guide GFTN's strategic focus to achieve its programmatic goals?**

Several high level conclusions were reached during the full participant workshop:

- GFTN should pursue finance sector engagement as part of its business model. This fact is underscored by the need to put GFTN in a better position to meet current impact targets and capitalize on future opportunities and also the importance of addressing increased FI interest in forestry that has resulted due to new and existing finance opportunities as well as future prospects such as forest carbon.
- Two broad strategy courses became evident: a pragmatic project based engagement model and a sector transformation model.
  - The pragmatic model directly addresses the specific financial needs of GFTN participants while reducing the flow of loans and investments into irresponsible forestry operations.
  - The sector transformation model addresses larger systematic opportunities that are potentially more complex but can usher in larger changes.

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<sup>1</sup> See Appendix 1: List of Participants

<sup>2</sup> The GFTN is WWF's initiative to eliminate illegal logging and transform the global marketplace into a force for saving the world's valuable and threatened forests. By facilitating trade links between over 300 companies committed to achieving and supporting responsible forestry, the GFTN creates market conditions that help conserve the world's forests while providing economic and social benefits for the businesses and people that depend on them.

<sup>3</sup> The Consensus Building Institute (CBI) is a non-profit institution that works to improve the way leaders use negotiations to make organizational decisions, achieve agreements, and manage multiparty conflicts and planning efforts ([www.cbibuilding.org](http://www.cbibuilding.org)).

- WWF does not need to choose between the pragmatic or sector transformation engagement models but should determine appropriate and achievable priorities, roles and timeframes.
- Finance engagement strategies need to be tailored by geographic region (or even by country) and finance sector area in order to be effective. For example, development banks that are motivated by forest carbon will have a different geographic and lending focus than international commercial banks interested in plantations, which will have a different focus than social investment funds. Further investigative work is needed to ensure accuracy in matching sectors and regions.

During the WWF staff discussions, WWF staff reviewed the outcomes of the full participant workshop and discussed the following:

- **How do we internally evaluate the suggested strategies and does it make sense for WWF/GFTN to take up any of the recommended strategies now or in the near future?**
- **What key lessons or insights around challenges and obstacles can be shared from WWF staff already working in the finance sector?**
- **How can WWF/GFTN overcome key challenges and obstacles in taking up the recommended strategies?**
- **What are the next steps?**

During the WWF staff discussions, the following conclusions were reached:

- GFTN (in close collaboration with other parts of WWF as well as partner organizations as appropriate) should pursue finance sector engagement as a part of its business model in light of: 1) the increasing finance sector interests in forest sector and its potential role in driving responsible forest management; 2) existing finance related barriers that GFTN participants are facing in achieving and maintaining responsible practices; and 3) the potential for cultivating sector wide transformation that supports the responsible forestry related sector.
- GFTN/WWF must address finance sector engagement as a cross-cutting, collaborative effort, but it also needs to ensure higher levels of alignment building at the WWF network level; effective and astute engagement with outside partners; clarification of domains; and the rationales for each.
- GFTN will review and refine the best FI engagement ideas; solicit further feedback from relevant WWF colleagues; vet and test priority ideas at the GFTN Shareholders meeting; and link these ideas to ongoing GFTN business plan development.

The remainder of this summary provides a high level synopsis of core stakeholder discussions and meeting outcomes. Power Point presentations and detailed notes are available upon request.

### **3. Briefing Sessions: GFTN Business Model; Supply Chain; & GFTN's Responsible Forest Finance Assessment Studies**

The meeting opened with brief overviews of: *The GFTN Business Model and Typical Supply Chain Model; Internal Assessment of Opportunities & Risks on GFTN's Engagement in Responsible Forest Finance Activities; Financial Barriers to Credible Certification; and Finance Sector Needs Regarding Existing Investment Screening Guides and Tools.*

The session focused on result sharing from study surveys conducted with GFTN participations, FIs and WWF staff, regarding the current responsible forest finance situation and what is needed to alleviate perceived obstacles. Key points highlighted include:

- **GFTN participants have unmet financial needs that are often too small to feature in the plans of most FIs.**
- **Some FIs are interested in this forestry sector but their risk management requirements are not being met.**
- **WWF has a role in addressing these challenges but must determine the most effective area for engagement.**

Summaries of these studies are available in the Workshop Background document.

#### 4. Full Participant Work Group Discussions and Outcomes

Participants worked in small groups to first identify key finance issues and challenges in connecting the finance sector and responsible forest operators (detailed outcomes available in Annex 1). In response to those issues and challenges, the groups identified finance sector entry points along the forest products supply chain as well as opportunities and risks in various finance sector engagement strategies. Strategy suggestions were divided in three groups – pragmatic project based engagements; sector transformation; and preparatory research that could benefit further engagement. The following is an abbreviated list of ideas generated.

##### Pragmatic Project Based Engagement Strategies

1. **Screening service and basic forest literacy for FIs:** Providing bank level training on forestry, case studies and development of a mechanism similar to the WWF Paper Scorecard as part of a screening tool for FIs.<sup>4</sup>
  - *Opportunities:* Adds value to FIs through services; influences the negative impacts; supplements data to enable screening; and easier strategy to implement.
  - *Risks:* Confuses roles of NGO and consultant; time and person intensive; and formalizing this work would be a challenge.
2. **FLEGT<sup>5</sup> & Trade standards:** Promoting FI use of legality licenses developed under FLEGT Voluntary Partnership Agreements (VPA) as part of the screening process for financing in VPA countries.
  - *Opportunities:* Builds upon national standards for FLEGT VPAs that are being developed and agreed upon with forest producing countries. These could include a way to appraise risk as they are monitored and licensed by national governments and their agencies; transparent; and could act as a first step by establishing legality.
  - *Risks:* Use is currently limited—a licensed product may take a number of years to achieve; only endorse status quo; and not deliver a better future for forest resources.
3. **Guarantee fund:** Providing capital to be deposited in a bank and used as collateral for loans to GFTN participants (possibly with a focus on small- to medium-sized enterprises (SMEs). Economic evaluation and due diligence would be completed by the bank. Evaluation of forest management, FSC certification process and conservation issues would be conducted by WWF or external partner. This could be used as stand alone model or in combination with a trade/value chain finance model.

<sup>4</sup>[http://www.panda.org/how\\_you\\_can\\_help/greenliving/at\\_the\\_office/reducing\\_paper/paper\\_toolbox/tools\\_for\\_paper\\_buyers/wwf\\_paper\\_scorecard/](http://www.panda.org/how_you_can_help/greenliving/at_the_office/reducing_paper/paper_toolbox/tools_for_paper_buyers/wwf_paper_scorecard/)

<sup>5</sup> Forest Law Enforcement, Governance and Trade (<http://ec.europa.eu/environment/forests/flegt.htm>)

- *Opportunities:* Serves as collateral (identified as a barrier); increases finance while decreasing risk; leverages traditional collateral; gives opportunities outside of normal banking operations; and multiplier effect would be attractive to donors.
  - *Risks:* Takes risk away from the client and the fund could lose money.
4. **Trade finance/Value chain finance:** Performed between a bank, producer and buyer. A bank gives the producer a loan, the buyer pays the bank for the product and the bank then pays the producer after subtracting the interest on the loan. GFTN would work with a partner to deliver this mechanism. Collaboration with FAST<sup>6</sup> and its lending members such as Root Capital<sup>7</sup> might be a natural partnership.
- *Opportunities:* Leverages risk; increases market access; works with preferred suppliers; credit process is easier; utilizes existing supply chains within GFTN; addresses some of the finance barriers faced by companies; good for all companies in the supply chain; strengthens market links and trade relationships; provides producers with both a buyer and additional capital; and helps SMEs to grow.
  - *Risks:* Limited by buyers' willingness; companies and banks may have different rules and requirements (e.g. purchasing contracts); may not be possible without cooperation between domestic and international FIs; less ownership of risk; may need on the ground monitoring; possible side-selling; would need to address how current models (mostly for coffee and fair-trade goods) could be scaled up to facilitate more trade and transaction in the forest sector.
5. **Group certification and co-op finance:** Using FSC group certification schemes to serve as a cooperative for investment opportunities. Also possible to provide small forest land owners with group support for FSC through a subsidy mechanisms (i.e. government or company-backed incentive mechanism for FSC group certification).
- *Opportunities:* Provides additional incentive for individuals to get certified; built-in organizational structure; positive driver for the group; possible donor interest; shared risk; builds on existing market links; and potentially "pooled" access to capital would be more appealing for lenders.
  - *Risks:* Only attractive for a small group of FIs; may have high transaction costs; and needs to target "ideal" group. May have limited applicability as more of these producers are pulp or plantation focused; the scheme is resource intensive; and might be less feasible in less developed regions.
6. **Influence of emerging market banks through partial ownership or lending/guarantees:** Encourage larger international banks to give a guarantee fund to a local bank, and then the local bank finances the producer.
- *Opportunities:* Increases access to financial markets; normal credit conditions; increases knowledge on sustainable forest management at local banks; and is the best place in the supply chain for intervention.
  - *Risks:* Requires access to a good product market, and technical assistance on standards is still needed.

### Sector Transformation Strategies

1. **Outreach to equity investors:** Investigate the role of equity investors—especially pension funds, sovereign wealth funds and asset managers. Equity investors essentially purchase all or part of a new or ongoing operation thereby increasing possible influence.

<sup>6</sup> <http://www.fastinternational.org/>

<sup>7</sup> <http://www.rootcapital.org/>

- *Opportunities:* Pursuing a larger sector can mobilize pressure on forest companies/forest investments to become more sustainable and result in market leader effect (one does it, others follow).
  - *Risks:* Involves a large investment in understanding a new finance sector, which is currently not fully understood.
2. **Focus on emerging market development funds:** Work in a coalition with development banks that are deploying funds into the forestry sector in emerging markets. There are large amounts of funds being deployed by development banks in emerging market with some that focus on the forestry sectors (e.g. Brazil Amazon Fund).
- *Opportunities:* Focus on key regions with major forest sector impacts and high probability of uptake. Coalitions allow for burden sharing.
  - *Risks:* Involves a major investment in relationship building; weak WWF staff capacity; and might need to outsource for help.
3. **Degraded land opportunities:** Encourage FIs to promote investments to establish certified palm oil or forest plantations on degraded land (many countries have the potential to do this, currently IFC and WRI are working on this in Indonesia). This reduces pressure on natural forests and makes use of partially abandoned but still viable lands.
- *Opportunities:* Expanding beyond natural concessions to look at investment potentials in plantations; expanding focus to include pulp, palm oil and other investments that go into the sector; outreach to domestic banks; might pressure Indonesian banks to transform governments/policy because of pressure from the stock exchange.
  - *Risks:* Navigating government and corruption challenges; do not sufficiently understand the Asian Finance Sector stakeholders or operations.

### **Preparatory / Research Actions**

During the course of the meeting the external participants indicated that the scope of the GFTN led research may have missed some aspects of the finance sector, namely institutional investors as a sub-sector and lessons learned from similar organizations and mechanisms. Participants suggested:

1. Study the impact of institutional investors in the forest sector, and request pro-bono assistance from brokerage or finance consulting houses as a starting point of FI intervention and engagement.
  2. Research and consult with other successful efforts —such as the Prince Charles Rainforest Initiative and WRI.
- *Opportunities:* Ensure appropriate strategies tailored to the most effective and efficient finance sector. Reduce chances of duplicating efforts and increase ability to build off of other successful efforts.
  - *Risks:* Must have end goal for research to avoid a perpetual research cycle that does not result in any demonstrative achievements or outcomes. Research into sub-sectors can be very time consuming as these sectors are very opaque and may not be open to NGO research.

### **5. Final Reflections from FIs and External Partners**

FIs and external partners shared several final reflections upon review of potential GFTN engagement strategies:

- GFTN should pursue finance sector engagement as part of its business model. The need to engage is both to put GFTN in a better position to meet current impact targets and capitalize on future

opportunities and to address the increased FI interest in forestry and the forest related industry due to new and existing finance opportunities as well as future prospects such as forest carbon.

- NGOs have a key, unrealized role in helping banks sort through investment opportunities as well as shifting traditional mindsets of institutional investors in forestry. This help is needed now.
- Two broad strategy courses became evident, a pragmatic project based engagement model and a sector transformation model.
  - The pragmatic model directly addresses the specific financial needs of GFTN participants while reducing the flow of loans and investments into irresponsible forestry operations.
  - The sector transformation model addresses larger systematic opportunities that are potentially more complex but can usher in larger changes.
- WWF does not need to choose between the pragmatic or sector transformation engagement models but should determine appropriate and achievable priorities, roles, and timeframes.
- Finance engagement strategies need to be tailored by geographic region (or even by country) and finance sector area in order to be effective. For example, development banks that are motivated by forest carbon will have a different geographic and lending focus than international commercial banks interested in plantations, which will have a different focus than social investment funds. Further investigative work is needed to assure accuracy in matching sectors and regions.
- The GFTN may find the most leverage appealing to FIs (not large commercial banks) who seek exclusively sustainable clients.

## 6. WWF Staff Discussions

WWF staff convened on the final afternoon to conduct an initial evaluation of suggested engagement strategies based on ideas that are best suited for GFTN and ideas that are better suited for other WWF programmes. Further delineation for GFTN items was discussed based on ideas that fit within the current model and ideas that are more appropriate for future engagement. Higher level outcomes included:

- GFTN (in close collaboration with other parts of WWF as well as partner organizations as appropriate) should pursue finance sector engagement as a part of its business model in light of: 1) the increasing finance sector interests in forest sector and its potential role in driving responsible forest management; 2) existing finance related barrier that GFTN participants are facing in achieving and maintaining responsible practices; and 3) the potential for cultivating sector wide transformation that supports the responsible forestry related sector.
- GFTN/WWF must address finance sector engagement as a cross-cutting, collaborative effort, but it also needs to ensure higher levels of alignment building at the WWF network level; effective and astute engagement with outside partners; clarification of domains; and the rationales for each.
- GFTN will review and refine the best FI engagement ideas; solicit further feedback from relevant WWF colleagues; vet and test priority ideas at the GFTN Shareholders meeting; and link these ideas to ongoing GFTN business plan development.
- Human resource capacity will increasingly become an issue that will need to be addressed. Multiple options exist for this including outsourcing and programmatic partnership with external partners. Further discussion is needed.

## 7. GFTN Next Steps

From the WWF staff discussion, the following next steps were identified:

1. Review and refine the best FI engagement ideas and determine:
  - i) Ideas for GFTN to address now
  - ii) Ideas for GFTN to bring to the Shareholders for future consideration as a part of next Business Plan beyond FY12
  - iii) Ideas for the wider WWF Network as well as external partner organizations to lead
2. Solicit further feedback from relevant WWF colleagues on refined and prioritized ideas
3. Vet and test priority ideas at the GFTN Shareholders meeting, and link these ideas to ongoing business plan development
4. Continue to collaboratively strategize with different programmatic areas (e.g. Conservation Finance, Responsible Forest Finance, International Finance, Network Initiatives, and other relevant programmes and) to clarify who will lead various engagement strategies within respective domains of work.

## Annex 1: Key Finance Issues and Challenges along the Supply Chain

### For End-users<sup>8</sup>:

- Dealing with multiple SMEs, especially in regions where demand for FSC products far exceeds supply.
- Retailers seek to push costs of responsible production down the supply chain and in many circumstances consider their buying of FSC products to absolve them of further support for their suppliers to achieve responsible forest management and trade. Communities lack access to finance and other critical resources
- Forestry is not attractive for most banks unless other Corporate Social Responsibility elements are included.
- Banks are interested in gaining a better understanding of risks and building long-term relationships with clients in the forest sector

### For Processors<sup>9</sup>:

- SMEs have the most difficulty accessing finance given capital needs, certification costs, lack of collateral, poor business understanding and planning skills and poor quality business plans and finance applications.
- Local banks consider SMEs risky to work with and charge high interest rates as a result.
- Medium enterprises need to be able to scale up, but growth requires extra money that is not readily available.
- Small, medium, and large companies need to be able to assure large buyers that they can consistently deliver the same quality, quantity, and environmental status in a reliable manner.

### For Forest Operators:

- Access to finance is complicated by scale of operations (e.g. differences in forests around the world), type of operations (e.g. family-run vs. larger patronage arrangements), ownership, capacity, and alternative land use pressures.
- Perception is that forest products buyers largely do not care about promoting responsible forestry (and therefore forest managers do not feel the market pressure).
- Operators claim that they do not have sufficient capital to transition to sustainable forestry.
- Lack of knowledge about how to engage the sustainable timber market should they make the transition.
- Banks think they can make more money investing in other areas.
- The finance sector prefers short-term returns over longer-term investments like forestry

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<sup>8</sup> End-users of forest products include large retailers, home improvement stores, specialty furniture and flooring companies, construction companies, publishers, paper companies and tissue and personal hygiene corporations.

<sup>9</sup> The GFTN works with processors and manufacturer of forest products which can range from small sawmill operations to China's largest flooring manufacture.

## APPENDIX 1: WORKSHOP PARTICIPANTS

### **GFTN Support Unit**

Hisayo Fujikawa	WWF - GFTN Support Unit
Ian Gray	WWF - GFTN Support Unit
George White	WWF - GFTN Support Unit
Deidre Zoll	WWF - GFTN Support Unit

### **WWF Finance**

Mark Eckstein	WWF - International Finance
Cherie Tan	WWF - Forest Finance

### **Finance Institutions**

Kristen Arup	Merkur Cooperative Bank
Mark Campanale	Private Equity Investor
Angelique Custers	Rabobank
Courtney Lowrance	Citi
Corinne Raux-Foggon	Standard Chartered
James Stacey	Earth Capital

### **External Partners**

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Simon Petley	EnviroMarket

### **GFTN Managers**

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Luis Silvia	WWF - GFTN-Iberia
Julia Young	WWF - GFTN-United Kingdom

### **Facilitators**

Merrick Hoben	Consensus Building Institute
Rachel Milner Gillers	Consensus Building Institute