

Sustainable finance and tropical forestry

Blended Finance as a Tool for Impact in Southeast Asia



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.



In emerging markets, New Forests also conducts a gap analysis for all acquisitions against the IFC Performance Standards (IFC PS). The IFC PS provide additional E&S guidance and are particularly useful to guarantee community and indigenous rights are upheld. Finally, all New Forests-managed investments in Asia have an Environmental and Social Action Plan that identifies top E&S risks and the pathway to mitigate these issues, as well as opportunities for impact.

Learning from TAFF

New Forests' business as usual for E&S management is already ambitious, particularly compared to the baseline E&S performance of the sector, and we have demonstrated impact success in our TAFF investments. Some highlights from TAFF include:

- At Mekong Timber Plantations (MTP) in Laos, New Forests is working to revitalize a smallholder farmer program that was underdeveloped when we took over ownership of the company. We sought to learn from the lessons of the prior owner in a relatively failed and low performing program to launch into a new more inclusive and effective smallholder program. New Forests initiated an updated pilot program in 2019, and while COVID-19 caused unexpected delays, we are excited to be continue learning from the local communities how to improve the program and apply lessons learned in the context of future investments. We use our SLI framework to track smallholders engaged and area planted.
- MTP and New Forests' investment in Malaysia, Acacia Forest Industries, completed a joint project focused on training and development for local contracting businesses, including those doing land preparation, planting, harvesting, and transport. The program used external experts to conduct safety and small business training, aimed at supporting the contractors to strengthen and grow their businesses. New Forests' SLI metrics track training and development (including total hours of training) and health and safety performance.
- Finally, New Forests' rubber plantation in Indonesia, Hutan Ketapang Industri, used High Conservation Value assessments to develop their "No Deforestation Toolkit" and responsible plantation establishment program. New Forests supported the HKI team in ensuring its toolkit was fit for purpose and could be used in field-based settings to help staff and contractors correctly classify forest cover types and ensure plantation development and land preparation did not compromise HCV areas.



Taking impacts to the next level

New Forests is prepared to build off our prior E&S experience with future investments in the Asian region. The inclusion of specific Impact Activities into our management practices is designed to ensure consistent, intentional projects are incorporated into business planning and strategy. In thinking about developing any new investment vehicles, New Forests wants to significantly scale up its positive E&S outcomes.

“ *New Forests is designing structures to leverage what’s known as catalytic capital from investors who want to encourage greater levels of investment into business models at the forefront of sustainable development. New Forests’ team expertise in managing high-impact investments will support the companies we work with to build their ESG capabilities and deliver these results.* ”

**Geoffrey Seeto, Managing Director
NEW FORESTS ASIA**

To do this, we have determined that a blended finance structure should catalyse a high level of impact by encouraging mainstream investors to enter an emerging market, while also being attractive to impact investors. Therefore, we expect the structure to catalyse (1) scaled institutional investment and (2) higher levels of positive impact related to investments. New Forests’ models indicate that by including between 15-25% of concessional capital alongside mainstream institutional funds, a pool of possible assets identified by New Forests could generate approximately 7-10 million tonnes of carbon offsets. In order to consider an investment in the Asian region, New Forests would expect the proposed investment to demonstrate the dual potential for traditional forestry returns and ESG impact.¹

Roadmaps to impact

Each future investment is expected to have focused Impact Activities that relate back to the key objectives of climate mitigation, biodiversity enhancement, and livelihoods benefits, aligned to the United Nations Sustainable Development Goals (SDGs).

New Forests has identified 18 Impact Activities focused on these three key themes that are well aligned with the SDGs, though others may be added should relevant opportunities arise. Example activities may include:

- Environmental plantings,
- Riparian zone restoration,
- Smallholder agroforestry,
- Community joint ventures.

Progress towards the Impact Activities can be tracked and managed by New Forests’ Singapore-based E&S Manager, and New Forests expects to embed Impact Activities throughout its investment process, starting with assessing opportunities in due diligence through to managing the portfolio of investee companies with a suite of projects to deliver ESG impact.

Minimum expectations

Beyond aligning with New Forests’ policies, New Forests’ Asian investments are expected to follow international best practice for certification. New Forests prefers Forest Stewardship Council (FSC) certification for all the investments it manages; at the time of acquisition, investments must either have FSC or be projected to achieve it within a target timeframe, usually three years.² FSC certification requires compliance with international guidance and best practice and allows for external verification.

Additionally, the proposed blended finance structure follows New Forests’ assessment of best practice for impact investing, by including alignment with the Development Finance Institutions’ Blended Finance Principles.³

Call to action

New Forests expects that the investments it manages in Asia will be leading examples of impact investing in Southeast Asia. New Forests believes that through dedicated Impact Activities, ESG management, and certification, the investments it manages can provide significant benefits to local ecosystems and surrounding communities. New Forests aims for these investments in Asia to be examples which will encourage other companies to:

- Consider impact investing in their portfolio allocations,
- Expand industry understanding of the potential for forestry to be a climate solution,
- Realise the potential of emerging markets for ESG impact, and
- Mainstream blended finance opportunities across sectors.

Further reading

- New Forests' 2019 Sustainability Report: <https://newforests.com.au/wp-content/uploads/2020/04/New-Forests-2019-Sustainability-Report.pdf>
- Sustainable Landscape Investment in Southeast Asia overview: <https://newforests.com.au/wp-content/uploads/2018/07/NEW-FORESTS-Sustainable-Landscape-Investment-in-Southeast-Asia.pdf>
- Case study from Mekong Timber Plantations: <https://newforests.com.au/wp-content/uploads/2021/02/New-Forests-Sustainable-Investment-in-Southeast-Asian-Plantation-Forestry.pdf>
- New Forests' Responsible Investment Policy: <http://www.newforests.com.au/RIpolicy>

1. *This document is intended for discussion and illustrative purposes only and does not represent advice or a recommendation to buy or sell, nor a solicitation of an offer to buy or sell, any security or other financial product. If applicable, this document is subject to the terms and conditions set forth in the final fund disclosure documents relating to any potential investment vehicle and the related investment documents. Each prospective investor should consult its own advisers as to the legal, business, tax and other related matters concerning any investment.*

2. *New Forests may elect to use an alternative certification should FSC not be appropriate for an investment.*

3. *Learn more at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-details/bf-dfi*

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Developed by ZSL (Zoological Society of London), 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, processors and traders on their public disclosure regarding their organisation, policies and practices 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.

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