

Sustainable finance and Tropical Forestry

Supporting sustainable development in the
timber and pulp sector



Development Bank of the Central African States

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 1200bn (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



The BDEAC has developed an Environmental and Social Management System (ESMS) to identify and control E&S risks (and opportunities) associated with its prospective clients and potential projects, in particular cash flow risks, guarantee risks and reputational risks. It is based on the BDEAC's five-year Strategy and E&S Policy¹.

The scope of 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).

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

¹ For more information about the BDEAC's five-year Strategy and E&S Policy, please refer to the "Further Reading" section of this case study.



Timber and pulp activities eligible for funding

Activities related to the management of, and operations in, planted and natural forests, as well as the processing and transport of forest products, are eligible for BDEAC funding.

However, the following are excluded :

- any operation involving or requiring the destruction of critical habitats or ecosystems
- any commercial logging of a primary forest
- any forestry project that does not implement a sustainable development and management plan

ESG risk categories

The process of analysing the E&S risks associated with a funding request starts at the phase of identification and preparation of a potential transaction, and intensifies during the evaluation phase.

E&S risk levels are calculated based on the transaction risk, which depends on the type of funding, its amount and duration (e.g. a long-term loan or equity investment is more risky than a short-term credit line), and the customer risk.

The customer risk depends on the sector the activity belongs to.

Risks and impacts

Investments associated with high E&S risks have the potential for significant and irreversible impacts.

Medium E&S risk investments present limited E&S risks and/or have the potential to cause few, generally site-specific, and largely reversible impacts that can be readily addressed through mitigation measures.

In the timber and pulp sector, most investments are deemed to be high or medium E&S risk.



Fig. 1 : BDEAC due diligence requirements for each E&S risk level

Implications for companies requesting funding

Projects associated with the highest E&S risks — as this is often the case for projects in the timber and pulp sector — require full due diligence.

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)

“ The BDEAC believes that its financing decisions must be mindful of both its market share and its trust share — i.e. its environmental and social requirements. The BDEAC can refuse a project with satisfactory solvency, liquidity and financial profitability, if the project has not met the required social and environmental sustainability requirements. It can also declare that loans are ineligible when a borrower does not comply with its E&S specifications. ”

Guy Djombe
Head, Environment and Sustainability Operations Division
DEVELOPMENT BANK OF THE CENTRAL AFRICAN STATES





Call to action

The BDEAC encourages its prospective clients to apply good E&S risk management practices, energy efficiency, clean technologies, and renewable energy. E&S commitments will now be included in loan agreements, to ensure that E&S risks are monitored and associated compliance is addressed by borrowers.

Further reading

- BDEAC's five-year Strategy 2017-2022 :
https://www.bdeac.org/jcms/pre_27837/en/plan-strategique-2017-2022
- BDEAC's Environmental and Social Policy:
https://www.bdeac.org/jcms/pre_27972/en/politique-environnementale-et-sociale-de-la-banque

ZSL would like to thank Guy Djombe for preparing this case study.

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.

The SPOTT initiative is funded by UK aid from the UK Government, however, the views expressed do not necessarily reflect the UK government's official policies.

