

# Forest Sector Context

ESG Training for Forestry Investments

## Training Modules Introduction | ESG Guide for Forestry Investments

Please note that these training materials have been developed as an accompaniment to the MFF LCIP's 'ESG Guide for Forestry Investments' and make frequent references to information covered within.

This work was funded by the Mobilising Finance for Forests' Learning, Convening and Influencing Platform. Mobilising Finance for Forests (MFF) is a blended finance investment programme that aims to unlock private sector investment in projects that protect and restore tropical forests across Africa, Asia and Latin America. MFF is financed by the UK Government's Department for Energy Security & Net Zero and the Dutch Ministry of Foreign Affairs, and is delivered by FMO, the Dutch Entrepreneurial Development Bank. FMO is one of the leading Development Finance Institutions in the forestry and sustainable land use sector, with an ambition to invest up to € 1 billion in forestry and sustainable land use by 2030. As a part of the MFF Technical Assistance facility, Palladium and Systemiq are delivering the Learning Convening & Influencing Platform with the objective to support MFF's mandate of accelerating investment into forests and sustainable land use by sharing knowledge and convening the ecosystem to develop solutions together.

## Training Modules Introduction | Disclaimer

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# ESG Guide for Forestry Investments | Scope

The ESG Guide covers investments into wood production and primary processing, and forest-based carbon credits in emerging markets.

- Part A of the Guide covers the Forest Sector Context, including:
  - Current state of forests and trends
  - The environmental & social context of forests e.g. how people interact with forests, the impact of forests on climate and biodiversity, etc.
  - An overview of forest products and forest management
  - An overview of forest carbon including types of credits, carbon markets and carbon integrity.
  - An overview of the impacts expected from forest sector projects.
  - The commercial case for making investments into forest sector projects and some key commercial risks.

This can provide useful background for ESG or investment officers who have not worked with forest sector projects before.

# Forest Sector Context Module | Objective

This module:

- Gives an overview of the global forest context.
- Introduces the diversity of elements that can be found within a forest carbon project.
- Introduces you to some key concepts within the forest sector e.g. sustainable forest management and forest carbon.
- Introduces the broad ESG topics which will be covered in the rest of the workshop.

# Definitions | Part 1

No single definition of what constitutes a forest – FAO is the most comprehensive, and FSC and PEFC use similar but not identical definitions. IFC has very limited definitions related to forests.

	FAO	FSC	PEFC
<b>Forest</b>	Land over 0.5 ha with trees >5m in height and >10% canopy cover, or trees able to reach these thresholds in situ. It excludes land predominantly under agricultural or urban land use.	A tract of land dominated by trees.	Minimum area of 0.5-1 ha. with a tree crown of more than 10-30 percent with trees with the potential to reach a minimum height of 2-5 meters at maturity. (Each regional or national standard includes specific values.)
<b>Primary forest</b>	<ul style="list-style-type: none"> <li>• Naturally regenerated forest of native tree species where there are no clearly visible indications of human activities and the ecological processes are not significantly disturbed.</li> <li>• Includes forests where Indigenous Peoples engage in traditional forest stewardship.</li> <li>• Includes forests where the last significant human intervention was long enough ago to have allowed the natural species composition and processes to have become re-established.</li> </ul>	<p>Naturally regenerated forest of native tree species, where there are no clearly visible indications of human activities and the ecological processes are not significantly disturbed.</p> <p>Now included in online FSC Glossary as a result of EUDR. Not included in FSC Glossary of Terms (2017) which was reference used for ESG Guide</p>	None given

## Definitions | Part 2

	FAO	FSC	PEFC
<b>Natural forest/ naturally regenerating forest</b>	<ul style="list-style-type: none"> <li>• Forest predominantly composed of trees established through natural regeneration.</li> <li>• Includes forests for which it is not possible to distinguish whether planted or naturally regenerated.</li> <li>• Includes forests with a mix of naturally regenerated trees and planted species where the naturally regenerated trees are expected to be the majority at stand maturity.</li> <li>• Includes naturally regenerated trees of introduced species.</li> </ul>	<ul style="list-style-type: none"> <li>• Forest affected by harvesting or other disturbances, in which trees are being or have been regenerated by a combination of natural and artificial regeneration with species typical of natural forests in that site.</li> <li>• Natural forests which are maintained by traditional silvicultural practices including natural or assisted natural regeneration.</li> <li>• Well-developed secondary or colonizing forest of native species which has regenerated in non-forest areas.</li> <li>• ‘Natural forest’ may include areas described as wooded ecosystems, woodland and savanna.</li> <li>• Areas which would initially have complied with the definition of ‘plantation’ but which, after the passage of years, contain many or most of the principal characteristics and key elements of native ecosystems, may be classified as natural forests.</li> <li>• Plantations managed to restore and enhance biological and habitat diversity, structural complexity and ecosystem functionality may, after the passage of years, be classified as natural forests.</li> </ul>	<p>None given.</p> <p>Instead defines “Ecologically important forest areas” which is a broader category.</p>
<b>Plantation forest</b>	<p>Planted forest that is intensively managed with one or two species, even age class and regular spacing.</p>	<p>A forest area established by planting or sowing with using either alien or native species, often with one or few species, regular spacing and even ages, and which lacks most of the principal characteristics and key elements of natural forests</p>	<p>Forest of introduced species, and in some cases, native species, established mainly for production of wood or non-wood goods and services.</p>



## Definitions | Part 3

- Definitions can range from technical (with heights and densities of trees) to broad statements.
- Funds may benefit from discussing and agreeing in advance their definitions of key forest terms, particularly if using terminology in policies or exclusion lists.
- It is important to check with targeted certifications and national regulations for their definitions of forest and forest types.

# Global Forest Background

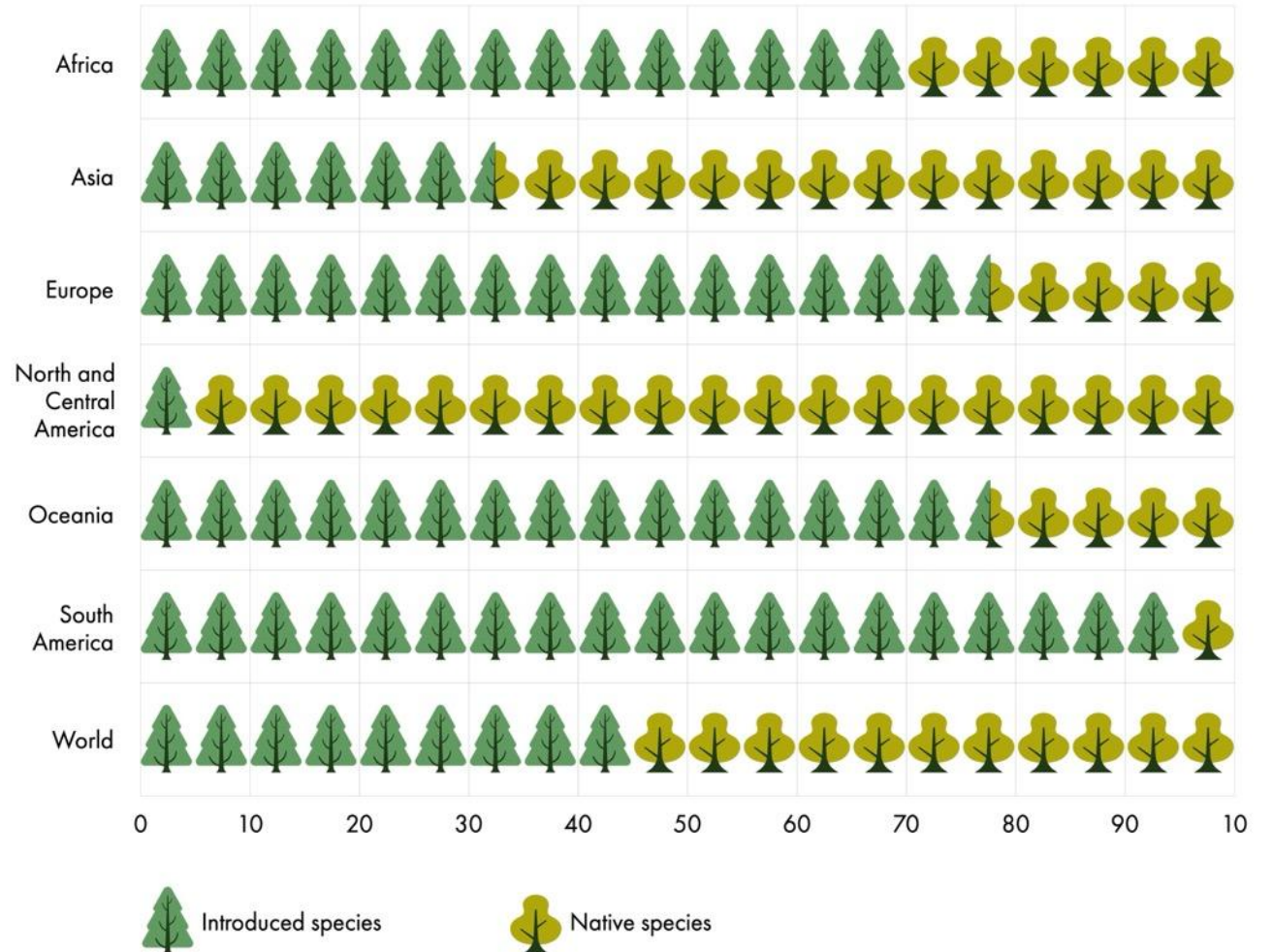
- 31% of the world's land area is forest. In 2020, the world had a total forest area of 4.06 billion hectares
- More than half are in 5 countries – Russia, Brazil, Canada, USA and China.
- Most (93%) is natural & naturally regenerating forest, 7% is planted.
- Most forest carbon is found in the living biomass (44%) and soil organic matter (45%).
- The world has lost 178 million ha of forest since 1990, an area about the size of Libya. However, since 1990 the rate of net forest loss decreased substantially due to a reduction in deforestation in some countries, plus increases in forest area in others through afforestation and the natural expansion of forests.



Net area change 1990-2020 of naturally regenerated and planted forests by region. Diagram altered from the “ESG Guide for Forestry Investments”, commissioned by the Mobilising Finance for Forests’ Learning, Convening and Influencing Platform

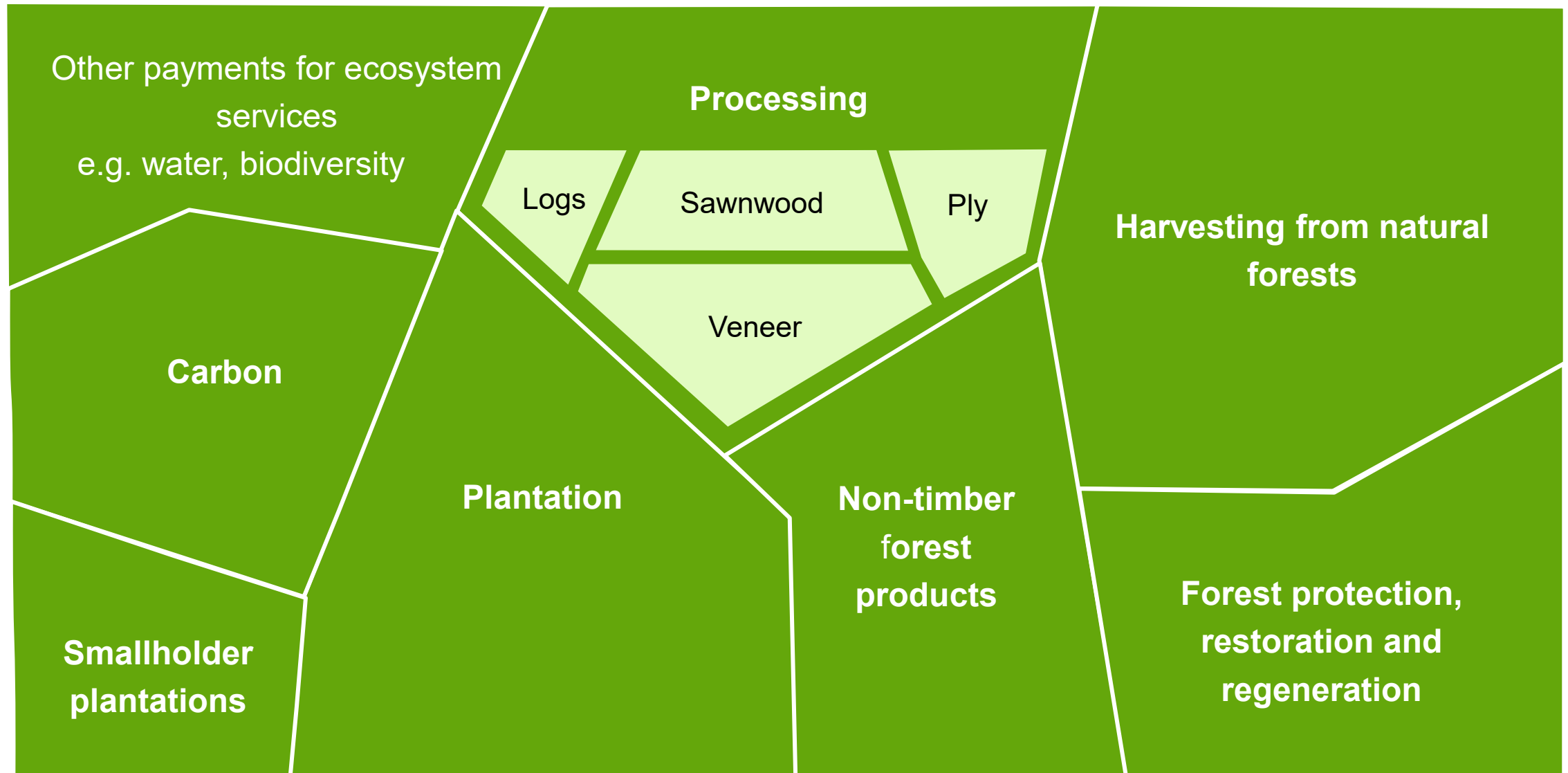
# Plantations

- Planted forest comprises 45% plantations for production and 55% planted for other reasons e.g. ecosystem restoration, water protection etc.
- Plantation forestry typically includes a narrow range of species, selected for each site based on the objectives for the plantation (types of wood, markets and uses) and the characteristics of the site (e.g. soil type, rainfall etc).
- Non-native pines and species of eucalyptus make up a large percentage of the trees in plantations.

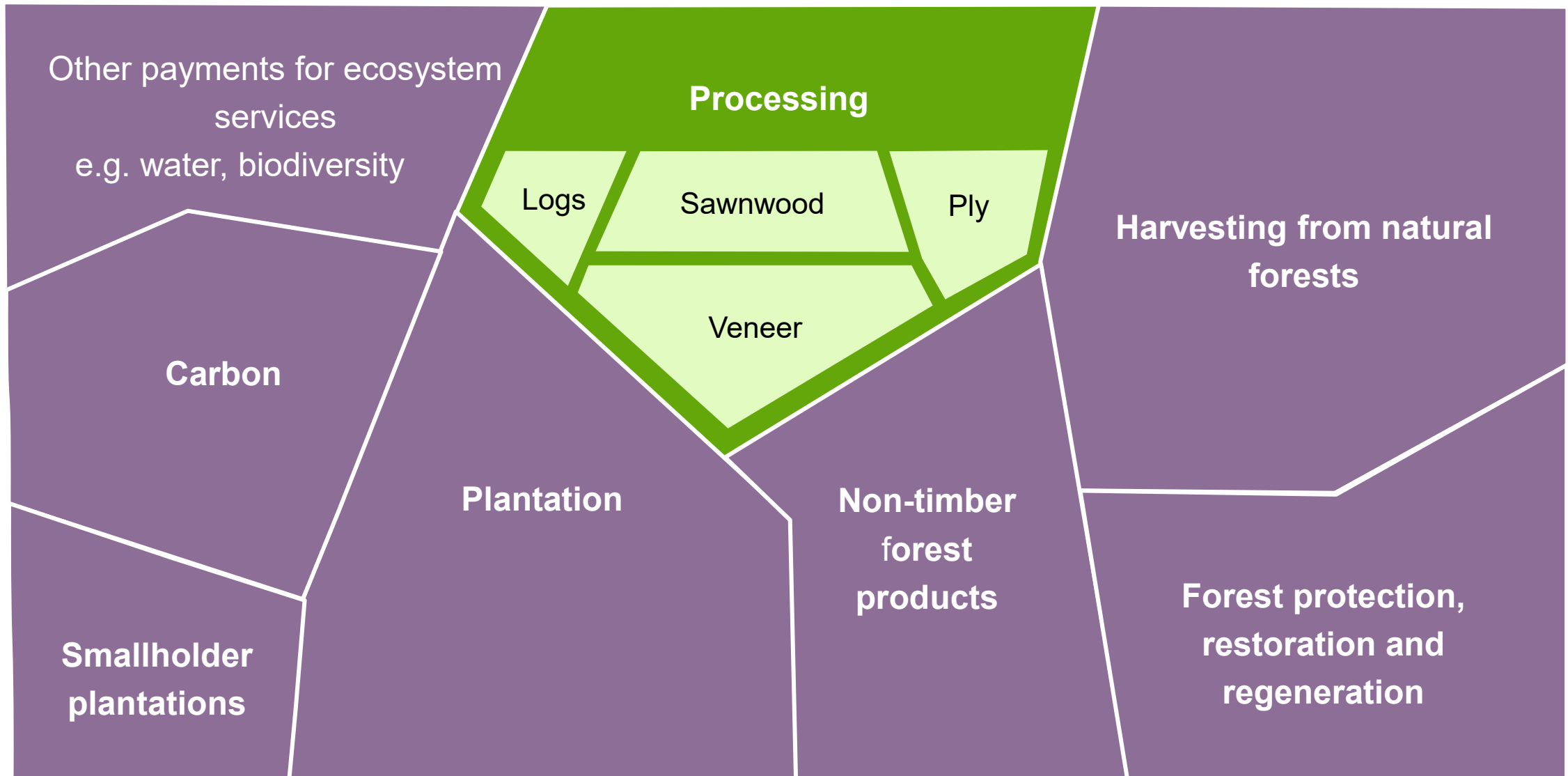


The proportion of introduced and native species in plantation forest, by region, 2020. Diagram taken from the “ESG Guide for Forestry Investments”, commissioned by the Mobilising Finance for Forests’ Learning, Convening and Influencing Platform

# What can a forest sector project look like?



# What can a sustainable forest management project look like?



Sustainable Forest Management is applicable to natural forest management and plantations and therefore potentially relevant to all these aspects of forest sector projects.

# Sustainable Forest Management

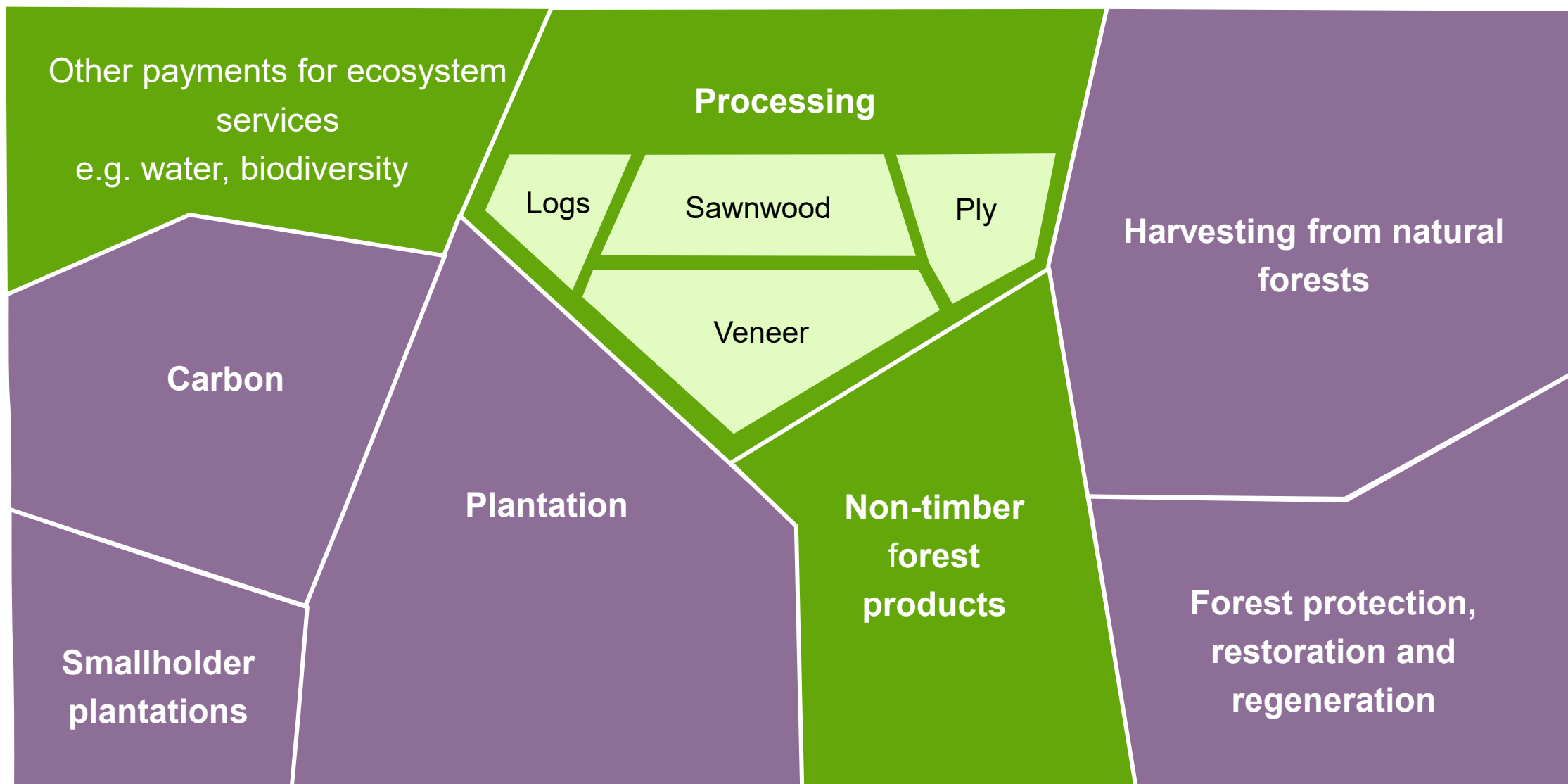
- Core concept in the forestry sector developed as a result of 1992 Earth Summit. Developed by FAO, FSC and others.
- Also known as Responsible Forest Management (FSC).
- Aims include:
  - Delivering social, environmental and economic benefits;
  - Balancing competing needs; and
  - Maintaining and enhancing forest functions now and in the future.
- Certification is a key tool for projects to demonstrate SFM, although it is not a requirement of SFM (but it is for many investors e.g. through the application of IFC PS)
- Applicable natural forests and plantation forestry



## Requirements & Challenges

- **SFM requirements:** legal compliance, respect for LCIPs and their needs, respect for workers and their needs, environmental management, sustainability of forest resources, forest protection, integrated pest management, planning & monitoring.
- **Challenges:** lack of commitment, lack of financial resources, insufficient understanding and planning, insufficient baseline studies, conflicts with communities resulting from poor communication e.g. incursions on protected ecosystems or grievances regarding employment especially where projects bring in specialists from outside.

# What can a forest-based carbon project look like?



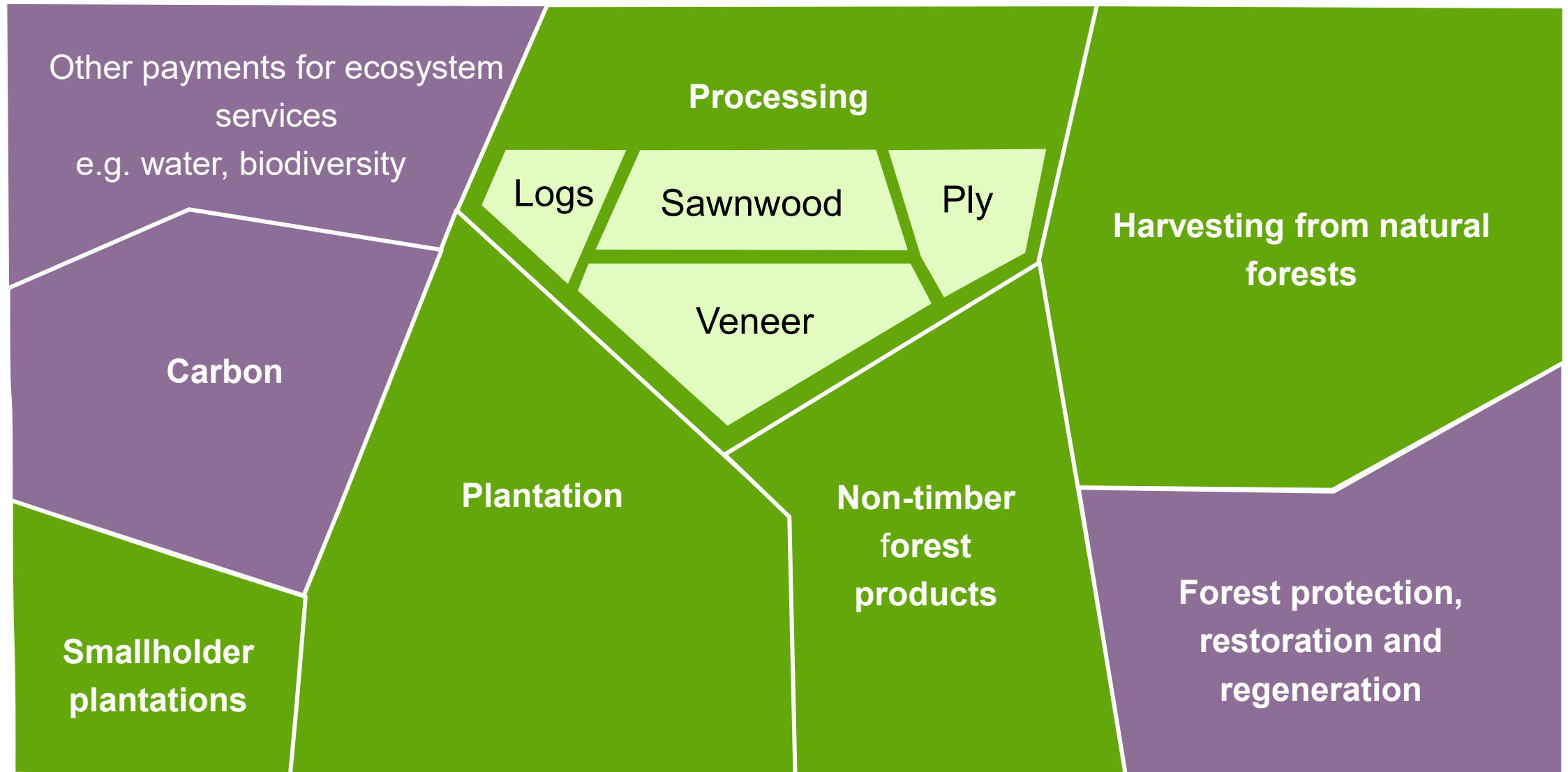
Forest-based carbon can be generated through forest protection and restoration, the growth of plantation trees, and improvements in natural forest management.

# Forest Carbon

Forest sector projects can generate carbon credits from emission reductions and carbon sequestration.

<b>ARR</b>	Planting trees (either in natural forests or plantations) and restoring natural forests.
<b>REDD+</b>	Can include avoiding planned deforestation, e.g. if the area is a timber concession and it protected rather than logged; or preventing unplanned deforestation e.g. by protecting the forests against illegal logging.
<b>Improved forest management</b>	Earn credits by implementing sustainable forest management practices e.g. extending rotation lengths, thinning diseased trees and thus improving forest productivity, managing non-native species etc.
<b>Wetlands restoration and conservation</b>	Either restoring wetlands and thereby increasing GHG removals or reducing GHG emissions through rewetting and/or conserving wetlands. Includes mangroves, peat swamp forest, and wet floodplain forests. A type of blue carbon.

# What can a forest restoration project look like?



Forest restoration can be an aspect of SFM and can generate additional project income through PES including carbon, water and biodiversity.



## Forest Restoration

- HCV areas, riparian zones, water bodies and sensitive areas are required to be set aside by FSC and they may require protection, restoration and/or regeneration.
- Complex process and requires specialist expertise to design the restoration plan.
- Can include 'passive' methods i.e. natural regeneration.
- Can include 'active' methods i.e. planting saplings, management of non-native/invasive species etc.

# Key characteristics of forest sector projects

What makes forestry projects different from other land-based investments?

- 1. Timeframe** – it can take many years to reach production and see returns, however E&S management and monitoring needs to be implemented from the outset
- 2. Scale** – can be very large scale, bringing specific ESG challenges e.g. multiple community and local government/forest authority stakeholders, landscape-level impacts, remote working, security & monitoring.
- 3. Diversity** – can involve multiple components including large-scale and smallholder plantations, forest protection and restoration, harvesting from natural forest, carbon credit generation, primary and secondary processing of timber.
- 4. Certification** – high dependence on sector-specific certifications. Whilst the most common certifications (FSC, PEFC, VCS, CCBA, Gold Standard) are internationally recognised, gaps still remain with best practice ESG management (IFC Performance Standards).
- 5. Supply chain regulation** – rapidly evolving landscape of regulations e.g. EUDR



## Generating impact

- Given the scale of forestry projects, environmental impacts, particularly those related to climate and biodiversity, can be significant.
- Social impacts are primarily through employment or improvement of livelihoods. Benefits can also flow to communities through land lease payments or carbon benefit sharing agreements when community land is used for a forest sector project.
- Community development benefits e.g. improved infrastructure and access to basic services can be of great value.

# Why do forest sector projects raise concerns?



# ESG Mainstreaming

ESG Training for Forestry Investments

# ESG Guide for Forestry Investments | Scope

The ESG Guide covers investments into wood production and primary processing, and forest-based carbon credits in emerging markets.

- Part C of the Guide covers the integration of ESG into the investment process, including:
  - Strategic considerations
  - Step-by-step ESG considerations, questions, and checklists

# ESG Mainstreaming | Objective

This module:

- Provides step-by-step guidance for mainstreaming ESG into the investment process for forestry opportunities



## ESG mainstreaming

ESG is fundamental to the business and impact case of investing in forestry. Robust ESG must be integrated into all stages in the investment process to ensure the commercial viability of a forestry project as well as to deliver positive environmental and social impacts and to avoid potential adverse effects.

# Step-by-step ESG mainstreaming | Sourcing and screening (1)

## Key risk areas and questions to consider at sourcing & screening stage

Key risk area	Key forestry-related questions to consider	Detailed in ESG Guide section
<b>ESG expertise and record of the project sponsor</b>	<ul style="list-style-type: none"> <li>• What baseline studies are available (e.g. those covering biodiversity, local communities, historic and current land use maps and land cover change at local and landscape level)?</li> <li>• Is there an established ESMS and performance record (for the project or other operations)?</li> <li>• What is the forest sector ESG expertise of the team?</li> <li>• Is there a budget for ESG management?</li> <li>• Is there a plan for monitoring ESG performance?</li> </ul>	17.2.1
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• What governance structures are in place?</li> <li>• What forest sector expertise is available on the board?</li> <li>• What is the level of ESG risk and impact awareness and understanding?</li> </ul>	15
<b>Local communities</b>	<ul style="list-style-type: none"> <li>• What communities are there in or around the project area?</li> <li>• Are there expected to be any impacts from project activities on community land, or land (privately) owned (legally or customary) by community members?</li> <li>• What is the expected level of broad community support (present and feasible in the future)?</li> <li>• What are the (potential) benefits of the project to communities?</li> <li>• Do communities gain alternative income or other forms of livelihood support from the resources (i.e. NTFPs)?</li> </ul>	14
<b>Security</b>	<ul style="list-style-type: none"> <li>• What are the security arrangement for the project? Will armed security be part of the project?</li> <li>• Will security be managed in-house or through external contractors, or the government?</li> <li>• What are the local customs and requirements around private security?</li> </ul>	14.4.3

## Step-by-step ESG mainstreaming | Sourcing and screening (2)

Key risk areas and questions to consider at sourcing & screening stage

Key risk area	Key forestry-related questions to consider	Detailed in ESG Guide section
<b>Land purchase or lease</b>	<ul style="list-style-type: none"> <li>• Who are the current (legal and customary) owners and users of the site? Is this formalised through a (legal, adequate and uncontested) cadastral baseline?</li> <li>• What is/was the purchase or lease price, length of lease, terms etc?</li> <li>• How was the purchase or lease amount is divided between parties e.g. government, local chiefs etc?</li> <li>• Are there any land legacy issues, including contested land right claims?</li> <li>• Would legal DD on land right holdings be required?</li> </ul>	14.5
<b>Resettlement</b>	<ul style="list-style-type: none"> <li>• Will the project require any economic or physical resettlement? Or has any economic or physical displacement already taken place as a result of the project e.g. because of land purchase?</li> <li>• Has a Resettlement Action Plan and/or Livelihood Restoration Plan been developed?</li> <li>• What is the history of land right transfers?</li> </ul>	14.5
<b>Positive impact potential</b>	<ul style="list-style-type: none"> <li>• What are the estimated social benefits e.g. direct and indirect employment?</li> <li>• What are the estimated environmental benefits?</li> <li>• What is the expected volume of carbon emissions reductions and/or volume of carbon sequestered?</li> <li>• How will the project measure and monitor impacts?</li> </ul>	8, 13

# Step-by-step ESG mainstreaming | Sourcing and screening (3)

Key risk areas and questions to consider at sourcing & screening stage

Key risk area	Key forestry-related questions to consider	Detailed in ESG Guide section
<b>Conversion of, or impacts on, critical habitat</b>	<ul style="list-style-type: none"> <li>• What is the current land use(s) of the project site?</li> <li>• Have there been any biodiversity or habitat assessments? Or ecological studies covering the project Area of Influence (Aoi)?</li> <li>• Has an HCV screening or assessment been done?</li> <li>• Are there any protected areas or areas important for biodiversity (e.g. key biodiversity areas, key bird areas, etc) at and/or close to the project site?</li> <li>• What is the natural ecosystem of the project site?</li> <li>• Are there any flora or fauna species listed as threatened by the IUCN red list or species of specific local/international concern at and/or close to the project Aoi?</li> </ul>	13.3
<b>Land conversion, deforestation or land use change</b>	<ul style="list-style-type: none"> <li>• What is the historical and current land use at the project site and the landscape it is situated in?</li> <li>• What are the landscape trends for land use and land cover?</li> <li>• Has there been any deforestation or conversion of the project site? When did it take place? Has a cut-off date been set?</li> <li>• Have there been, or are there planning to be, any changes in land use as a result of project activities?</li> <li>• Has an environmental and social impact assessment been undertaken?</li> <li>• Are there particular geohydrological characteristics or landscape elements that merit detailed study?</li> <li>• What is the applicability of the forest laws / code?</li> </ul>	13.3, 13.4

# Step-by-step ESG mainstreaming | Sourcing and screening (4)

## Key risk areas and questions to consider at sourcing & screening stage

Key risk area	Key forestry-related questions to consider	Detailed in ESG Guide section
<b>Indigenous Peoples</b>	<ul style="list-style-type: none"> <li>• What Indigenous communities are there in or around the project area?</li> <li>• Is any of the project area used by Indigenous Peoples?</li> <li>• Are there expected to be any impacts from project activities on Indigenous Peoples' lands, resources or access to resources?</li> <li>• What are the FPIC requirements and status of the project?</li> <li>• What are the benefits of the project to Indigenous communities?</li> <li>• What is the expected level of broad support from Indigenous Peoples/communities (present and feasible in the future)?</li> </ul>	14.7
<b>Climate change vulnerability</b>	<ul style="list-style-type: none"> <li>• Has the project undertaken an assessment of climate change vulnerabilities?</li> <li>• Has the project taken into account the potential impacts of a changing climate during project planning?</li> <li>• Is the project located in an area that is particularly vulnerable to the impacts of climate change e.g. coastal areas?</li> <li>• What are the expected climate change mitigation effects?</li> <li>• What could be the key impacts on the project and is the project sufficiently resilient?</li> </ul>	6.5
<b>Carbon integrity</b>	<ul style="list-style-type: none"> <li>• Which carbon certification scheme will be followed e.g. VCS/CCB, Gold Standard, ACR, Climate Action Reserve, other?</li> <li>• What are the intended ways to deploy carbon credits (open market, traders, eligible off-takers, retire)?</li> <li>• Will any carbon credits generated meet carbon integrity principles, such as the ICVCM Core Carbon Principles?</li> <li>• How many VCUs are expected to be generated?</li> </ul>	7.6.4

# Step-by-step ESG mainstreaming | Sourcing and screening (5)

## Key risk areas and questions to consider at sourcing & screening stage

Key risk area	Key forestry-related questions to consider	Detailed in ESG Guide section
<b>Contextual risks &amp; human rights</b>	<ul style="list-style-type: none"> <li>• What are the contextual and human rights risks related to the project?</li> <li>• Are there any conflict and/or human rights violations in the project country/region or forest sector including child labour, forced labour, corruption?</li> <li>• Could the project cause, contribute to or be directly linked to any human rights violations? What is the expected leverage of the project to prevent and mitigate risks and impacts?</li> <li>• Is the project sponsor aware of the contextual and human rights risks in the region and sector?</li> <li>• Do they have sufficient experience or know the region and sector well enough to be able to manage these risks?</li> </ul>	14.9,14.10
<b>Reputational risks</b>	<ul style="list-style-type: none"> <li>• What is the reputation of the project sponsor and project?</li> <li>• Are there aspects of the project e.g. tree species used or forestry model adopted, that hold potential reputation risks?</li> <li>• What is the feasibility and likelihood of positive impact materialisation, and what are key requirements / safeguards necessary to achieve that?</li> </ul>	
<b>Legal issues &amp; claims</b>	<ul style="list-style-type: none"> <li>• Are there any known legal compliance issues, including non-compliance with permit conditions?</li> <li>• Any environmental lien (a legal claim against a property for damages or other environmental harm caused by the owner or previous owner of the property)?</li> <li>• Any ongoing court cases / litigation processes?</li> <li>• Any E&amp;S-related claims or resource claims?</li> <li>• What is the expected position of governmental authorities to cooperate?</li> </ul>	8, 13

# Step-by-step ESG mainstreaming | Due diligence (1)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation - not all will be relevant to every project	Key forestry-related questions to consider
<b>Availability and quality of key data</b>	E&S studies E&S Impact Assessment(s) GIS data Satellite-based land use and land cover layers/maps	<ul style="list-style-type: none"> <li>• What ecological / biodiversity baseline studies are available?</li> <li>• What data is available on the local socio-economic and demographic context?</li> <li>• What satellite-based data (maps) are available and useful to determine land use and land cover changes?</li> <li>• What is the quality (reliability) of the researchers and the data/reports?</li> <li>• What are gaps with international best practices?</li> </ul>
<b>ESG expertise and record of the project sponsor</b>	ESMS documentation including all relevant E&S policies and processes. Risk assessments. CVs of project's and/or project sponsor's ESG team.	<ul style="list-style-type: none"> <li>• Has the project taken into account scale, timescale and diversity of project components into its risk assessment?</li> <li>• Does the project's risk assessment consider landscape-level impacts?</li> <li>• Does the ESMS adequately support the project to manage those risks, particularly considering project scale, timescale and diversity?</li> <li>• Does the ESMS include regular reassessment of risk and an adaptive management approach?</li> <li>• What is the sector-specific ESG experience of the project team and/or project sponsor?</li> <li>• What is the level of ESG capacity and competencies, and is that commensurate to the risk exposure and level of effort to manage ESG risks and impacts?</li> </ul>

# Step-by-step ESG mainstreaming | Due diligence (2)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation - not all will be relevant to every project	Key forestry-related questions to consider
<b>Corporate governance</b>	<p>List and expertise of board members</p> <p>Minutes of recent board meetings</p> <p>Documentation regarding any other governance structures in place</p>	<ul style="list-style-type: none"> <li>• Does the board contain forest sector-specific commercial, environmental and social expertise?</li> <li>• Is the board functioning properly?</li> <li>• Does the composition of the board fit with the company's stage? i.e. different expertise may be needed at development stage compared to scaling up.</li> </ul>
<b>Local communities</b>	<p>Map showing location of all communities in and around the project area(s) – this should consider the wider landscape</p> <p>Basic information about the local communities, including approx. size, main livelihoods, level of poverty etc.</p> <p>ESIA</p> <p>Stakeholder engagement plan</p> <p>Grievance mechanism design</p> <p>Description of benefits the project will bring to the communities, with expected timeframes and analysis of how this will change under various commercial scenarios.</p>	<ul style="list-style-type: none"> <li>• During site visit, meetings with representatives from local communities give the opportunity to understand the communities' views regarding the project, including any use of resources currently by the community e.g. hunting or NTFPs on project area.</li> <li>• Has the project identified all local communities potentially affected within the landscape e.g. those downstream from a project planning to establish a new plantation?</li> <li>• Does the stakeholder engagement plan adequately support information sharing between the project and local communities, and in a culturally appropriate manner, and in a way that is understandable for all (literate/illiterate) people within the communities?</li> <li>• Do the benefits seem reasonable given project activities? Are there any opportunities to enhance them?</li> </ul>
<b>Monitoring &amp; positive impacts</b>	<p>Monitoring plan</p> <p>Targets for environmental and social positive impacts</p>	<ul style="list-style-type: none"> <li>• Does the plan meet the investors' monitoring needs?</li> <li>• What are the impact metrics / indicators / KPIs are how are these integrated in reporting?</li> </ul>

# Step-by-step ESG mainstreaming | Due diligence (3)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation - not all will be relevant to every project	Key forestry-related questions to consider
<b>Indigenous Peoples</b>	<p>Map showing location of any Indigenous communities and the extent of their land.</p> <p>ESIA / impact assessment focused on Indigenous Peoples</p> <p>Description of benefits to Indigenous Peoples, with expected timeframes etc.</p> <p>Minutes of meeting and/or IP engagement records</p>	<ul style="list-style-type: none"> <li>• As above – all considerations for local communities also apply to Indigenous Peoples.</li> <li>• Do local communities/people self-identify as Indigenous Peoples? Does the government identify them as Indigenous Peoples as well?</li> <li>• What is the relation of Indigenous Peoples to the project (site) and how could the project potentially affect the IPs (negatively, positively)?</li> <li>• Are there specific NGOs/CSOs focusing on and/or representing the Indigenous Peoples and their interests? Are these organizations well engaged?</li> </ul>
<b>Security</b>	<p>Security need and risk assessment</p> <p>Contract with security contractors</p> <p>Security policy</p>	<ul style="list-style-type: none"> <li>• What is the security need/risk?</li> <li>• What is the level of (timber, diesel, other) theft, poaching, illegal logging etc.?</li> <li>• Who is providing the security (public, private)?</li> <li>• Are security staff trained for human rights and other E&amp;S matters?</li> <li>• Are there legacy issues regarding security incidents (e.g. confrontations with communities)?</li> <li>• Has the grievance mechanism been adequately socialized so that all communities in the project area are aware of how to raise concerns, including those regarding security personnel?</li> </ul>

# Step-by-step ESG mainstreaming | Due diligence (4)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation	Key forestry-related questions to consider
<b>Land purchase or lease</b>	<p>Documentation demonstrating ownership/lease/concession as appropriate.</p> <p>Evidence of how purchase/ lease amount is divided between relevant parties.</p> <p>Claim letters or other litigation documents.</p>	<ul style="list-style-type: none"> <li>• Are there any requirements as part of the land lease agreement related to community, or other, benefits?</li> <li>• Is there evidence of informed consent to the lease term where land is leased from communities?</li> <li>• Is there evidence that land leased from communities will not have a negative impact on food security?</li> <li>• Are there land-right based conflicts or claims?</li> </ul>
<b>Resettlement</b>	<p>Resettlement Action Plan</p> <p>Livelihood Restoration Plan</p>	<ul style="list-style-type: none"> <li>• Do the plans adequately consider the impacts of project size and timescale?</li> <li>• Are the eligibility criteria (for compensation and support to affected people) adequately defined and well implemented.</li> <li>• How do the entitlements relate to the actual impacts at household/individual level?</li> </ul>
<b>Conversion of, or impacts on, critical habitat</b>	<p>Habitat and ecological surveys / maps, and ecological/biodiversity assessments (including identification of critical habitat, natural habitat and modified habitat if aligned with IFC PS-6).</p> <p>Biodiversity baseline</p> <p>HCV assessments</p> <p>ESIA</p>	<ul style="list-style-type: none"> <li>• Will the project result in the conversion of any natural or critical habitat, or irreversible ecological changes/losses? Has the project built in appropriate ecological parameters and mitigants?</li> <li>• How will project activities impact the landscape within which the project sits? E.g. could project water use have an impact on ecosystems or land use downstream? What is the relationship between the project site and areas of natural habitat and/or protected areas in the landscape?</li> <li>• How could the surrounding land use impact the project site and how could this affect the sustainable forest management approach?</li> <li>• Do the assessments meet the requirements of IFC PS-6?</li> </ul>

# Step-by-step ESG mainstreaming | Due diligence (5)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation - not all will be relevant to every project	Key forestry-related questions to consider
<b>Land conversion, deforestation or land use and land cover change</b>	<p>Maps showing location of all the project activities.</p> <p>Evidence of current land use e.g. photographs, satellite imagery.</p> <p>Evidence of deforestation date, if relevant e.g. satellite imagery showing when deforestation took place.</p> <p>Forest Management Plan</p>	<ul style="list-style-type: none"> <li>• Does the evidence of current land use support the project description? Are there any discrepancies?</li> <li>• Does the deforestation date demonstrated through evidence from the project comply with relevant deforestation cut off dates?</li> <li>• Where land is claimed to be not used by communities, has the project considered the ecosystem services provided and whether use of those services by communities in the broader landscape could be affected by project activities?</li> </ul>
<b>Cultural heritage</b>	<p>Cultural heritage policy and procedure</p> <p>Chance-find procedure</p>	<ul style="list-style-type: none"> <li>• How will the project identify any sites of cultural significance within the project area?</li> <li>• Are there historic finds or publications about the (possible) cultural heritage in the area?</li> <li>• Is there critical cultural heritage at/near the project area?</li> <li>• Do local communities believe the project site houses cultural heritage?</li> </ul>
<b>Climate change vulnerability</b>	<p>Climate change vulnerability assessment, could be part of an ESIA</p>	<ul style="list-style-type: none"> <li>• Has the project considered potential changes in climate during site-species matching?</li> <li>• Has the project design considered climate change scenarios, also for e.g. drainage design and fire protection?</li> </ul>
<b>Carbon integrity</b>	<p>Project Design Document (PDD)</p> <p>Carbon integrity policy</p>	<ul style="list-style-type: none"> <li>• Does the project's carbon integrity policy adequately address carbon integrity risks?</li> </ul>

# Step-by-step ESG mainstreaming | Due diligence (6)

## Key risk areas and questions to consider at due diligence stage

Key risk and impact area	Relevant documentation - not all will be relevant to every project	Key forestry-related questions to consider
<b>Gender</b>	HR policies including equal opportunities Gender policy GBVH (incident) records and grievance registers	<ul style="list-style-type: none"> <li>Is the project committed to increasing the number of women in their workforce?</li> <li>Is the project actively ensuring that employment opportunities, training and promotions are equally accessible to both men and women?</li> <li>Where there is land conversion to plantation forest, does this have a disproportional impact on women's livelihoods (e.g. replacing female-dominated land use (agriculture) for a male-dominated land use (plantation))?</li> </ul>
<b>Contextual &amp; human rights risks</b>	Contextual risk assessment (could be part of ESIA) Records of public media and third parties Records of human rights defenders (and relevant organizations) Summary of country context concerning products targeted by the investment e.g. jurisdictional carbon, timber products aimed at government projects like poles for electrification	<ul style="list-style-type: none"> <li>Are there contextual risks relevant to the project, and how is the project organization responding to these risks?</li> <li>Have human right defenders (or organizations) been in contact with the project/company?</li> <li>Has the project/company been in the media for human rights issues?</li> <li>Does the current country/regional context present any risks for targeted products?</li> </ul>
<b>Reputational risks</b>	Public information on project proponent and other relevant entities Information on reputation of the location and project activities including proposed species for plantations Grievance register(s) Evidence and level of broad community support Engagement with local, relevant NGOs and CSOs	<ul style="list-style-type: none"> <li>Is the project aware of these risks?</li> <li>How is external communication and reputation management currently integrated in the management system?</li> <li>Is the project capable of managing these risks?</li> <li>Are the reputational risks acceptable and manageable for the investor?</li> </ul>

# Step-by-step ESG mainstreaming | ESMS systems (1)

## Key risk areas and questions to consider for forestry ESMS systems

Key ESMS element	Key forestry-related considerations
<b>Baseline assessments</b>	Baseline assessments when a project involves changing land use or species within a plantation. This is particularly important when a project is establishing a plantation using a non-native species e.g. eucalyptus, where there are concerns about impacts on water and biodiversity. Where proper, fit-for-purpose, baseline assessments are not conducted, it is difficult to address accusations of negative impacts later in the project and to monitor positive or negative impacts over the project lifetime.
<b>Risks related to land tenure</b>	These are often assessed through two channels with the legal status investigated by the legal team, and any informal or traditional land use investigated by an ESG specialist. Coordination of these efforts may enhance this process, avoid duplication of effort and make the process more efficient. Considerations of the appropriateness of a lease agreement, both from the perspective of the project and the landowner (especially if it is community owned land) should take into account the length of the lease, which for forestry are generally long (often between 50 and 100 years). For example, what are the provisions for updating lease payments, and are these fair?
<b>Risks related to large sites &amp; remote working</b>	Many forestry projects operate over large areas and involve remote working, both characteristics that bring with them specific risks. These include in emergency response management, transport of labor (often the most significant risk to life within the project), communications, prevention and control of forest fires, conflict with wildlife (mainly species like snakes), security and waste management (particularly hazardous waste).
<b>Contracts or agreements with local communities</b>	Contracts/agreements with local communities (e.g. for land lease, as part of a carbon project or an out-grower scheme). The site visit should include visits to the communities in order to ascertain whether they understand the commitments made and whether their expectations of the project are realistic.
<b>Occupational health &amp; safety (OHS)</b>	Globally, forestry (especially logging) has proportionally the highest number of deaths of any sector, therefore a high standard of OHS management is important. Considerations include understanding how the project approaches OHS risks and risk assessments, the management system, record-keeping and oversight.
<b>Community health &amp; safety</b>	Community health and safety management should also be considered since forestry projects can increase community exposure to risks and impacts, e.g. through heavy machinery using roads through communities.
<b>Security management</b>	Use of security should be well understood, including expected use of armed security and whether security will be provided by a third-party. The IFC Good Practice Handbook on the Use of Security Forces: Assessing and Managing Risks and Impacts provides guidance on best practice management of security.

# Step-by-step ESG mainstreaming | ESMS systems (2)

## Key risk areas and questions to consider for forestry ESMS systems

Key ESMS element	Key forestry-related considerations
<b>Agrochemical use</b>	Provision of a list of all agrochemicals used or intended to be used in the project will allow cross-referencing with resources such as The WHO Recommended Classification of Pesticides by Hazard, FSC Lists of Highly Hazardous Pesticides, Pesticides Policy, and World Bank EHS Guidelines. Integrated pest management (IPM) is required by FSC and recommended in the IFC PS and EHS Guidelines.
<b>Conservation management</b>	Management plans for conservation areas or ecosystem restoration, using appropriate expertise, are important to maximize success in these activities. Ecosystem restoration can be complex and involve resource intensive activities. Adequate expertise and planning at an early stage ensures these activities are properly planned and provided for in the budget.
<b>Cultural heritage</b>	In order to protect sites of significant cultural value it is important to have policies and processes in place to cover how to act if such a site is discovered during project operations.
<b>Fund-level investment processes</b>	For investments into forestry or carbon funds, understanding how the fund develops its pipeline, conducts its own project selection, due diligence and contracting processes, how it intends to monitor and manage projects post investment, and its exit considerations will be key to understanding the fund's ESMS.
<b>ESG management capacity</b>	Confirming that ESG resources, budget and training are sufficient to ensure E&S management capacity in line with investor expectations.
<b>Contractor management</b>	Forestry projects may rely heavily on third-party contractors, and it is important that there is adequate management of these contractors in place to ensure OHS management, working conditions, pay etc. is maintained for all contract workers in line with expectations for employees. FSC Standards do not cover contract workers.

# Step-by-step ESG mainstreaming | Investment proposal & IC stage (1)

## Hypothetical examples of forestry-sector specific ESAP items and actions

Topic and example project type	Action required	Timeframe	Deliverable
<b>ESIA and EHS Assessments</b> <b>Medium-sized logging and processing company</b>	Conduct a combined EHS audit of sawmills and existing industrial area, and an environmental impact assessment for the mill prior to installation against IFC Performance Standards (PS2,3,4) and EHS guidelines for sawmills and EHS General guide-lines. Identify gaps in management system and environmental health and safety controls and put in place an appropriate action to fill those gaps.	Prior to sawmill installation	A document including: <ul style="list-style-type: none"> <li>EHS audit of sawmills and industrial area</li> <li>ESIA of power plant</li> <li>Action plan to remedy all gaps</li> </ul>
<b>Natural reforestation planning</b> <b>Small company focusing on peat forest restoration for the purposes of carbon credit generation</b>	Develop a reforestation plan to include, but not be limited to: <ul style="list-style-type: none"> <li>An assessment by a peatland ecologist verifying the strategy for restoration is sound and a monitoring system to ensure sufficient peatland expertise is sought throughout the life of the project.</li> <li>A list and justification for the species to be included in the reforestation.</li> <li>A budget for the reforestation.</li> <li>A conservation assessment to ensure that the reforestation strategy maximizes the conservation benefits.</li> </ul>	6 months from contract	<ul style="list-style-type: none"> <li>A detailed reforestation plan, including a nursery plan</li> <li>A budget</li> <li>A conservation assessment of the reforestation plan</li> </ul>
<b>Baselines and monitoring</b> <b>Project establishing plantation of non-native species</b>	Develop a monitoring plan to include, but not be limited to biodiversity, water availability, and soil quality.  The plan should include baseline measurements for all indicators where not already available and regular monitoring.	Before initiating any activities related to land clearance.	<ul style="list-style-type: none"> <li>A monitoring plan</li> <li>Baseline assessments</li> </ul>

# Step-by-step ESG mainstreaming | Investment proposal & IC stage (2)

## Hypothetical examples of forestry-sector specific ESAP items and actions

Topic and example project type	Action required	Timeframe	Deliverable
<b>Deforestation-free claims</b> <b>Small company selling NTFPs from plantation trees</b>	Should the project wish to market any products as deforestation-free, a publicly available (e.g. on the company's website) and transparent statement of the company's deforestation-free policy should be developed that describes the criteria and monitoring methodology, to be agreed by the investor.	Before deforestation-free language is used in marketing	Publicly available deforestation-free statement that includes transparent deforestation-free criteria and monitoring methodology
<b>E&amp;S Management Capacity</b> <b>Company developing REDD+ and ARR projects across several sites to generate carbon credits</b>	<p>Project to appoint a senior E&amp;S Manager with appropriate qualifications and experience to support development &amp; implementation of the ESMS at company and individual site level as well as other items on this ESAP.</p> <p>The Appointee should be familiar with international best practice requirements, including the IFC Performance Standards and, ideally with REDD+ and ARR project development.</p> <p>This appointment could initially be part-time as long as the manager has sufficient time to develop the ESMS and apply it to the first project.</p>	Appointment to be made prior to the start of implementation at any sites.	<ul style="list-style-type: none"> <li>Job description</li> <li>CV of proposed candidate(s)</li> <li>Letter of Appointment</li> </ul>
<b>Benefit sharing and community engagement</b> <b>Company developing a REDD+ project on a government-owned protected area, with communities present in the buffer zone.</b>	Develop an agreement with each community that includes expectations of the project, expectations of the community, benefit sharing, use of resources e.g. fishing access in the project area.	6 months from contracting and before any change to community access to resources or sale of carbon credits	<ul style="list-style-type: none"> <li>Community agreements</li> <li>Benefit sharing agreements</li> </ul> <p>(Could be a single agreement per community that covers both benefit sharing and community expectations and resource use.)</p>
<b>Carbon integrity policy</b> <b>Company developing either REDD+ or ARR credits</b>	Establish a Carbon Integrity Policy (CIP) covering production and sale of credits consistent with Good International Industry Practices (e.g. alignment with ICVCM and SBTI), and on the sales side alignment with e.g. VCMI's CCoP and IUCN's>NNL and NPI Approaches for Biodiversity (2015). The CIP should also include a due diligence procedure including commercially reasonable efforts to ensure that buyer intentions are consistent with this policy.	Prior to contracting with any co-investors or selling any carbon credits	Carbon integrity policy

# Step-by-step ESG mainstreaming | Contracting

## Hypothetical examples of forestry-sector conditions precedent

Contractual conditions precedent	Rationale
<p><b>Carbon credits project on Indigenous Peoples' land:</b> Require a document showing free, prior and informed consent (FPIC) from the communities – in the form of General Assembly resolutions from each community and a description of how the communities were informed about the project prior to the General Assembly in order to make an informed decision.</p>	<p>Communities own the carbon and evidence is needed of their agreement to the project. Because leaders do not always represent the views of community members, investors want to see evidence that community members have been informed prior to the project being presented for agreement at each Community's General Assembly. Investors face reputational risk if at a later date community members claim not to have been consulted about the sale of their assets. Ensuring FPIC is correctly undertaken is vital for demonstrating carbon integrity.</p>
<p><b>Selective harvesting from natural forest project:</b> Require a FSC FMU certification suitability assessment outlining significant gaps between current operations and the standards required by FSC. The assessment should provide guidance on feasibility, budget and timeframe to fill gaps.</p>	<p>Gaining FSC certification is a condition of investment by the investor, and not achieving the certification would be a significant commercial and reputational risk, as well as raising concerns about the E&amp;S management capacity of the project sponsor. If there are substantial changes to project activities that need to be implemented prior to gaining certification, then this may affect the commercial viability of the investment and therefore should be identified at an early stage.</p>
<p><b>A forest sector fund:</b> Require at least one board member with strong ESG credentials and an ESG mandate.</p>	<p>To ensure that from the top down, ESG considerations are understood and included in fund strategies and ESG is integrated into board.</p>
<p><b>Smallholder plantation (or agro-forestry linked to REDD+):</b> Require evidence that the project is of interest to smallholders e.g. from a pilot project, initial expressions of interest etc.</p>	<p>Using land for forest projects (carbon or trees) is a long-term commitment with delayed returns, different to much other smallholder cultivation. What looks like a good idea to project developers may not be attractive to farmers in the face of competing and changing demands on their land and labor.</p>

## Step-by-step ESG mainstreaming | Monitoring & Evaluation

Within the forest sector, M&E plans may include aspects (as relevant to projects activities) including:

- Progress of regeneration and/or conservation activities against targets;
- Species abundance and quality of hectares in terms of biodiversity and ecological conditions across the project site including natural forest, planted and non-planted areas of plantation;
- Maintenance of buffer zones and fire breaks;
- Geohydrological impacts;
- Occupational Health and Safety Incidents, including contract workers;
- Fire incident rate and associated tree loss;
- Community relations including number and type of community grievances and/or claims;
- Worker welfare including number and type of worker grievances and/or claims.
- Further, investor monitoring of ESG performance usually follows contractually agreed actions and performance metrics, such as progress against the items listed in an E&S action plan (ESAP).

## Step-by-step ESG mainstreaming | Exit

For forest sector projects, particular social and environmental issues to consider at exit include:

- Outstanding compensation or commitments to communities;
- Maintenance of SFM and/or carbon sector certifications;
- Continued application of HR standards to contract workers;
- Required future conservation or environmental protection actions;
- Maintenance of HCV areas;
- Commitments to uphold conservation or other set-aside areas in plantations;
- Active buffer zone management;
- Community projects or use of resources within the forest e.g. NTFPs; and/or
- Ongoing environmental and/or social monitoring studies.

# Certifications and Regulations

ESG Training for Forestry Investments

# ESG Guide for Forestry Investments | Scope

The ESG Guide covers investments into wood production and primary processing, and forest-based carbon credits in emerging markets.

- Part B Section 11 covers an overview of the main forest sector certifications and current international regulations.
  - For forest management and wood production this includes FSC and PEFC certifications, as well as legal and regulatory requirements.
  - For forest carbon this includes VCS, CCB and Gold Standard.
  - The section highlights some key differences between the standards and the IFC Performance Standards (particularly for FSC), provides an overview of requirements and an outline of the certification process.
  - The chapter gives high level information regarding key international regulations such as EUDR.

## Certifications & Regulations | Objective

- This module:
  - Provides an overview of most common forestry certifications – FSC & PEFC
  - Outlines international regulations relevant to the forestry sector – CITES, EUDR
  - Provides an overview of most common carbon certifications used for forest-based carbon projects – VCS, CCB, Gold Standard
  - Discusses some common challenges around these certifications and the differences between certification requirements and IFC PS.

## Why pursue certification?

- Certifications provide comfort to investors regarding the continued quality of a project's environmental and social management through regular independent audits.
- Having certification can have a commercial benefit by improving access to markets or through markets that pay a premium for certified products.
- Certification is essential for carbon credit production, since it is the certification process that provides the product.

However, certification can be costly and where products are not targeting markets that require, or will pay, a premium for certified goods then it may not make sense to pursue certification.

# Forestry Certifications | Forest Stewardship Council

- Aims to promote the responsible management of forests globally.
- Most widely recognised forest sector certification.
- Contains 6 standards which apply to different forest sector activities
  - It is important to clarify with projects which FSC certification(s) they have and, therefore, which aspects of the project the certification covers. See Table B2.
- Continuous Improvement Procedure: allows small forest owners and communities to be initially certified based on a subset of forest management requirements and offers flexible steps to conformity with remaining requirements within a defined timeframe.
- On-site main audit every 5 years, supplemented by annual surveillance audit.
- Well-prepared organisations can reach certification in 18 months, but it can take 5+ years for inexperienced companies or those with limited expertise and capacity.



# Forestry Certifications | FSC certification standards

**Table B2**

<b>Forest Stewardship Standard</b>	Forest managed for wood production (natural or plantation) implementing FSC Principles and associated criterion and indicators. Certificate holder may make FSC claims.
<b>Forest Management Groups Standard</b>	Group of forest management units (e.g. sets of smallholders or a set of plantations) attaining forest stewardship certification under a single certificate. Members may make FSC claims.
<b>Controlled Wood Standard</b>	Less demanding than Forest Stewardship. Wood must not be illegally harvested, harvested in violation of traditional and civil rights, harvested from areas which threatens HCVs or where natural forest is being converted to plantations or non-forest, or where GM trees are planted. Certificate holders CANNOT make FSC claims.
<b>Chain of Custody Standard</b>	Processing, manufacturing, and trading forest-based products. May make FSC claims based on % of FSC certified content in a product.
<b>Ecosystem Services Procedure</b>	Add-on to Forest Stewardship Standard. Claims regarding provision of ecosystem services by the certified forest.
<b>FSC Mixed Wood</b>	The wood used to produce the item is a mix of FSC-certified wood, recycled material, and/or controlled wood.



## Plantation Forestry Case Study

- Large-scale afforestation project targeting over 80,000 hectares for development, forest restoration and sustainable timber production at scale, planting 60 million trees. In addition, low-productivity farmland is being converted into FSC-certified plantations, with 25% of the managed land reserved for conservation and natural regeneration of indigenous species.
- Revenue streams include sustainable timber for global fiber and pulp markets and carbon credits for voluntary and compliance markets, alongside biodiversity gains and job creation for local communities.
- The project has achieved FSC certification and 100% Green Label recognition for environmental integrity, with plans to implement an IFC Performance Standards–aligned E&S management system.
- Key challenges include managing environmental impacts of eucalyptus stands, safeguarding grassland habitats, and ensuring strong oversight of worker rights and health & safety, while avoiding land with indigenous claims and physical resettlement.



## Sustainable Natural Forest Management Case Study

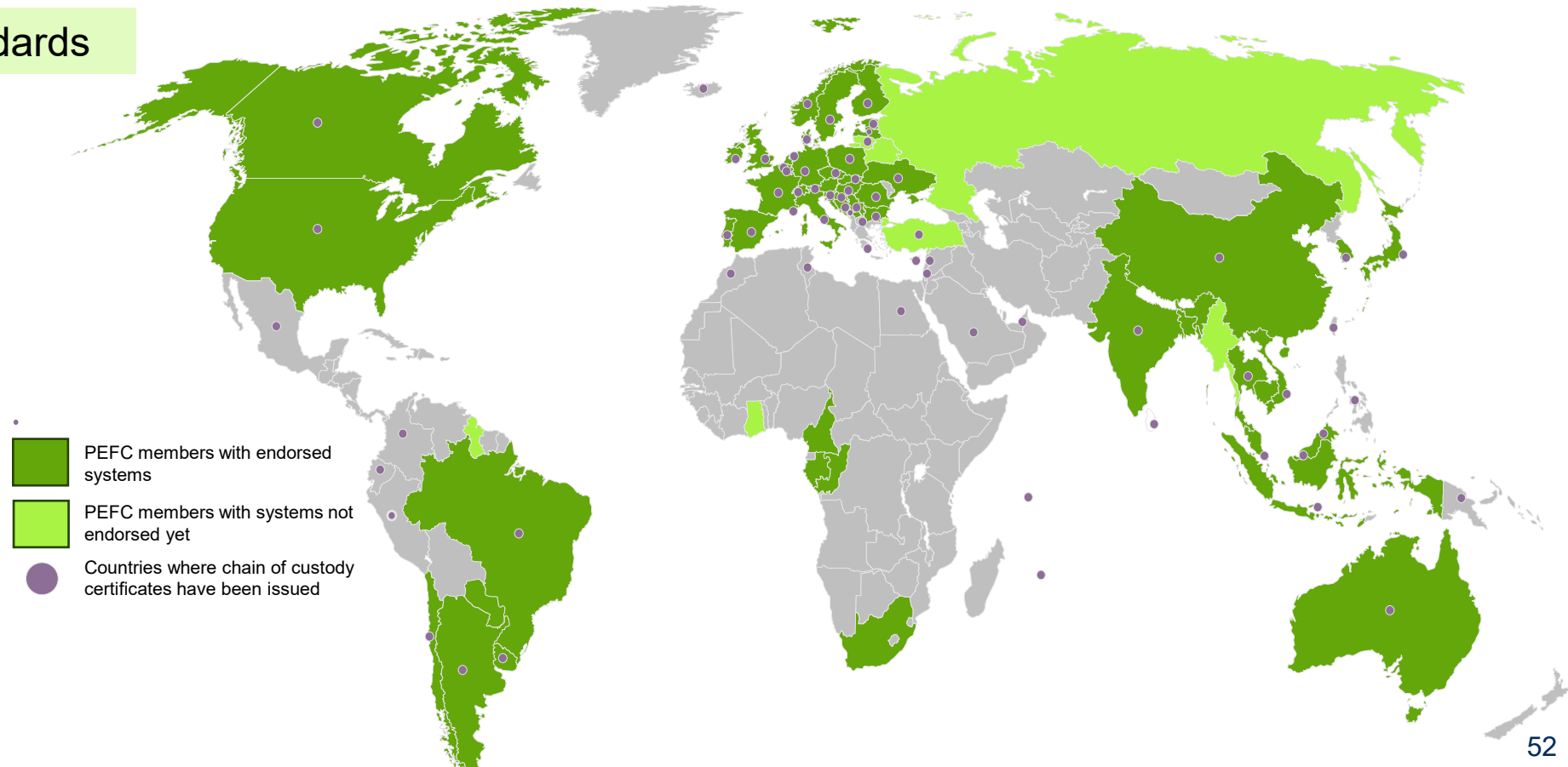
- Sustainable forest management project operating a 50,000-hectare concession under a selective logging system with a 30-year rotation cycle. There are currently plans underway to more than triple the managed area and vertically expand into processing and diversified product lines.
- Current output includes hardwood railway sleepers supplied to a national railway company, and future opportunities span export markets, biochar production, and forest carbon initiatives.
- The project faces contextual challenges, such as subsistence farming and rapid population growth exerting pressure on land and natural resources; political instability raises the risk of unrest; and extreme weather events linked to climate change threaten food security and ecosystems.
- With 15 years of experience in sustainable natural forest management, the team brings deep operational expertise. The current concession is FSC certified, though carbon credits have not yet been issued.

# Forestry Certifications | PEFC

## Programme for the Endorsement of Forest Certification (PEFC)

- Industry-led.
- Not a single global system, instead PEFC provides endorsement and recognition of national or regional forest certification standards that meet its sustainability requirements.
- Need to check whether a project is in a country/region with a PEFC-endorsed standard.

49 endorsed country standards



## Forestry Regulations | Overview

- National legislation – national or local definitions of what constitutes ‘legal wood’ and related permit systems.
- International conventions and regulations:
  - The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) – export permits/certificates needed for Appendix II & Appendix III species
  - EUDR regulation
  - A requirement of FSC and PEFC certification is third-party assurance of legality.



## Forestry regulations | EUDR

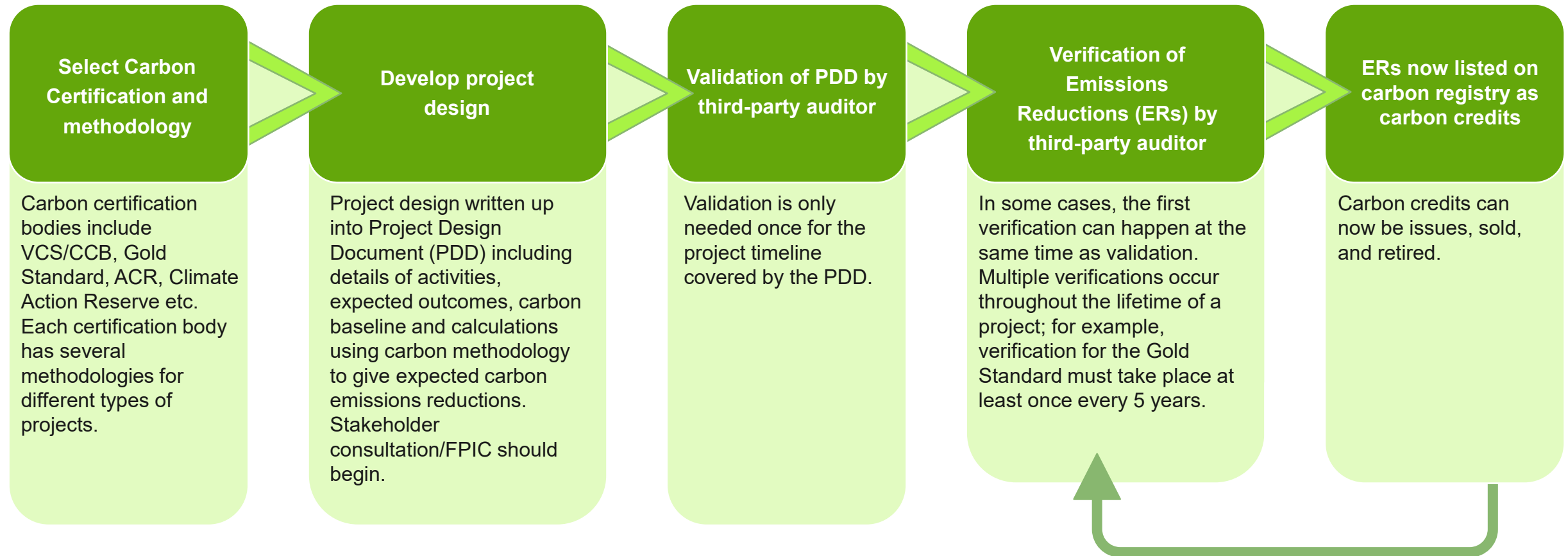
- Any operator or trader who places wood or wood products on the EU market, or exports from it, must:
  - Be able to prove that the products do not originate from recently deforested land or have not contributed to forest degradation.
  - Collect geographic coordinates of the plots of land where all the timber/commodities were produced.
- E.g. for composite products, such as wooden furniture with different wood components, the operator needs to geolocate all the plots of land where each of the different woods was grown and harvested.
- Currently in a 12-month phasing-in period, will become a legal requirement:
  - At the end of December 2025 for medium and large operators
  - At the end of June 2026 for small and micro enterprises



# Carbon Certifications

- Certification is a pre-requisite to generating carbon credits.

## Carbon certification process



## Carbon Certifications | Verified Carbon Standard

- Methodologies are regularly updated to maintain integrity. Most recent ARR and REDD+ methodologies released in 2023.
- VCS is the most widely used GHG crediting programme.
- Methodologies for ARR, REDD+, improved forest management and wetlands restoration and conservation.
- VCS certifies the quantification and verification of greenhouse gas reductions and removals; it does NOT monitor environmental or social benefits. However, Verra also operates CCB, which can be assessed concurrently with VCS to generate VCUs certified to both standards.



## Carbon Certifications | Climate, Community and Biodiversity Standard

- Available for land use projects including afforestation, reforestation, REDD+, agriculture, etc.
- On its own, CCB certification does NOT produce carbon credits. Instead, it provides a **quality stamp for VCS-certified carbon credits**.
- Specific and measurable climate, community and biodiversity objectives and demonstrate impact in all three areas.
- For each area, an enhanced 'gold' level certification is also available.
- Streamlined approach for projects aiming for both VCS and CCB certification with combined project documentation, validation and verification report templates.



## Carbon Certifications | Gold Standard for the Global Goals

- Can be applied to projects that contribute positively to climate security and sustainable development, measured by demonstrating a positive impact on SDG13 and at least 2 other SDGs.
- Does not certify REDD+ projects.
- For forestry projects, GS4GG Land Use & Forests Activity Requirements would apply, alongside a carbon methodology, e.g. Methodology for Afforestation/Reforestation (A/R) GHGs Emission Reduction & Sequestration



**Gold Standard**<sup>®</sup>  
for the Global Goals



Natural forest in Latin America

## Case Study

### Gold Standard Certified Project

- Colombian project applying the Afforestation/ Reforestation GHG Emissions Reduction & Sequestration Methodology.
- The project produces high-quality hardwoods (Acacia, Pine and Eucalyptus) while stabilising and restoring fragile and degraded areas.
- It includes both plantation and conservation areas on land that was previously savannah.
- It impacts SDGs 8,12,13 and 15.
- Approved in 2016, issuing credits since 2017.

## Supply-side Integrity

- Recently, due to concerns about the quality and credibility of credits, carbon integrity schemes, such as The Integrity Council for the Voluntary Carbon Market (ICVCM) Core Carbon Principles (CCP), provide high-integrity criteria for carbon crediting programs.
- Carbon crediting programmes can be approved by ICVCM if they meet the CCPs.
  - The overall VCS Program was approved by ICVCM in May 2024, and the latest VCS REDD+ methodology (VM0048) was approved in November 2024.
  - Gold Standard was also approved by ICVCM in June 2024.

## Demand-side Integrity

- The Voluntary Carbon Markets Integrity Initiative (VCMI) has developed a Claims Code of Practice relating to carbon offsetting. This provides minimum standards for when and how organisations can make claims about carbon offsetting.

## Challenges | Alignment with IFC Performance Standards

- IFC PS, forest certification & carbon certifications all aim to promote sustainability and responsible practices, however compliance with IFC PS cannot necessarily be inferred from the achievement of certification.
- There is considerable overlap in the E&S aspects addressed, but the scope and level of detail with which topics are covered and the expectations for audit/verification vary.
- In some areas, e.g. biodiversity, the approaches differ, with IFC PS taking a habitat-centered approach whilst FSC takes a, HCV-centered approach.

Alongside comparisons between requirements throughout section B, the ESG Guide specifically includes:

- an overview of the differences between IFC PS and FSC Certification (Table B1);
- a comparison of IFC PS6 (Biodiversity) and the HCV approach (Table B5); and
- a comparison of IFC PS3 (Resource Efficiency) and FSC approach to hazardous chemical use (Table B4).

## Challenges | Other

- **Timeline to achieving certification** – if an investor requires certification prior to financing this can lead to projects being stuck in a “catch-22” – they cannot afford to meet certification requirements without investment but cannot receive investment without certification. What is a reasonable timeframe to achieve certification following investment? Does the project have the capacity and expertise to achieve certification?
- **Losing certification** – projects can and do lose certification if standards slip. Ensuring sufficient expertise on the project team can help to mitigate this risk.
- **Greenwashing** – particularly a consideration for carbon credits. Adherence to both supply-side and demand-side integrity initiatives can minimise the risk of greenwashing.

The ESG Guide includes indicative timelines for achieving certification, links to all certification documentation to allow investment teams to understand what expertise is required and guidance on current integrity initiatives.



Indigenous replanting adjacent to Eucalyptus plantation

## Case Study

### **Addressing the dilemma between certification and finance**

- Group scheme requires FSC certification prior to financing BUT could not proceed at scale without guaranteed finance.
- Project agreed with investors to develop the necessary group scheme management systems and two pilot operations to demonstrate capability.
- FSC audit of management systems and pilots.
- Finance was secured, which led to additional group members being added.
- Annual audit checks new members.



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**Certification comparison tables  
from ESG Guide Part B**

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## Table B1 | Overview of the differences between IFC PS and FSC

IFC Performance Standard	Gaps compared to FSC Certification	Section of the guidance document
<b>PS-1: Assessment and management of environmental and social risks and impacts</b>	Gaps in the scope of impact assessment and requirements for an Environmental and Social Management System (ESMS). Gaps in the scope of impact assessment (e.g., contextual risks) and requirements for an ESMS, including engagement of disadvantaged or vulnerable people, a grievance redress mechanism, and an emergency preparedness and response plan.	17.2.1
<b>PS-2: Labor and working conditions</b>	Gaps relating to protections for non-employed workers such as contractors and casual labor or migrant workers, documented information (e.g., contracts), a worker grievance mechanism, retrenchment (mass layoffs) plan, and worker training programs.	14.3
<b>PS-3: Resource efficiency and pollution prevention</b>	Gaps regarding resource efficiency; differences regarding control of chemicals, and explicit mentioning of greenhouse gas emissions and climate change. Gaps regarding resource efficiency; differences regarding control of chemicals.	13.5
<b>PS-4: Community health, safety and security</b>	Gaps in all aspects, including emergency preparedness and response, and security management.	14.4
<b>PS-5: Land acquisition and involuntary resettlement</b>	IFC requirements are more detailed and include economic as well as physical resettlement.	14.5
<b>PS-6: Biodiversity conservation and sustainable management of living natural resources</b>	Differences between the HCV approach used by FSC and the habitat-centered approach used in PS-6.	13.2, 13.3, 13.6
<b>PS-7: Indigenous Peoples</b>	Differences in definitions, eligibility for compensation, and detailed requirements on Indigenous Peoples plans (IPP) and free prior and informed consent (FPIC) process.	14.6
<b>PS-8: Cultural heritage</b>	PS-8 has a wider scope.	14.8

## Table B4 | IFC PS3 and FSC approach to hazardous chemical use

Category	IFC PS-3	FSC
Compliance with national regulations and international conventions related to hazardous chemicals (Stockholm, Rotterdam, Basel and Montreal)	Yes. Stockholm, Rotterdam and Basel are explicit.	Mostly, Basel convention is not mentioned
WHO Class Ia (Extremely hazardous) & Ib (Highly hazardous)	Prohibited	Some prohibited, some restricted
WHO Class II	Requires adequate management and use	Approval needed, must be in line with IPM and risk assessment undertaken

## Table B5 | Comparison of IFC PS6 and HCV requirements (1)

Component	IFC PS-6	HCV
<b>Types of biodiversity features</b>	CH and NH as defined above.	HCVs 1-3 include rare and threatened species, ecosystems and landscapes, protected areas and internationally recognized areas, plus recognition of landscape-level ecosystems, even if not intrinsically rare or threatened. NH in its own right is not explicitly captured in HCV.
<b>Spatial scope</b>	Identification of biodiversity values, ecological processes and impact assessment should be undertaken at an 'ecologically relevant scale'; i.e., for forestry projects, at the landscape scale.	In practice the focus of HCV identification is often at the project or concession level. Considerations of IFLs and HCV 2 do encourage a broader approach.
<b>Quantities of biodiversity features</b>	CH: Global quantitative thresholds exist for most categories e.g. habitat of significant importance to Critically Endangered and/or Endangered species as per IUCN Red List of Threatened Species and national/regional lists. No threshold for NH, identification can be subjective.	Global guidance is qualitative – focus on exceptional biodiversity with no global objective threshold. Where HCV National Interpretations exist, more explicit guidance can be included but level of detail is variable.
<b>Mitigation hierarchy</b>	Fundamental component of IFC PS application. Offsets can be used where necessary.	No specific mention of mitigation hierarchy in HCV guidance. Focus on avoidance and minimization of impacts, no explicit mention of offsets.
<b>Impacts for identified features</b>	Avoid as far as feasible. Unavoidable impacts on CH acceptable if no 'measurable adverse impact' and 'no net reduction' in species populations. Unavoidable impacts on NH acceptable.	Some impacts may be acceptable if overall the value is maintained or enhanced.

## Table B5 | Comparison of IFC PS6 and HCV requirements (2)

Component	IFC PS-6	HCV
<b>Outcomes for residual impacts</b>	Net gain for CH. No net loss, where feasible, for NH.	HCVs should be maintained or enhanced.
<b>Monitoring</b>	Required – burden of proof is on the project to demonstrate effective mitigation and should feed into adaptive management. More rigorous biodiversity monitoring required for CH.	Required – in proportion to the scale, intensity and risk of management activities, and should feed into adaptive management.
<b>Precautionary approach</b>	Implicit	Explicit
<b>Ecosystem services</b>	Identification of ‘priority ecosystem services’ required. If impacts are predicted, mitigation measures should be implemented following the mitigation hierarchy. Explicit mention of services on which the project is dependent. Limited guidance provided on identification or definition of ‘priority’.	HCVs 4-6 explicitly concern ecosystem services including the identification of critically important regulating, provisioning and cultural services. Only refers to services used by other people and not the project. Guidance on how to identify services ‘critical’ to needs or ‘fundamental’ for identity is limited.
<b>Protected areas (PAs)</b>	Project needs to demonstrate compliance with national regulations if operating in a legally protected area, or internationally recognized area (IRA). PAs and IRAs are indicators of the potential presence of CH.	PAs and IRAs are considered indicators of HCVs. Some national interpretations include PAs and IRAs as HCVs. IFLs specifically mentioned in relation to forests.
<b>Invasive Alien Species</b>	Projects will not intentionally introduce invasive alien species. Project will attempt not to spread invasive alien species which were present pre-project.	Not considered in the HCV framework. For FSC, included in Principle 10.3: The organization shall only use alien species when the knowledge and/or experience have shown that any invasive impacts can be controlled and effective mitigation measures are in place.



# Scale, Timescale and Diversity

ESG Training for Forestry Investments

## ESG Guide for Forestry Investments | Scope

The ESG Guide covers investments into wood production and primary processing, and forest-based carbon credits in emerging markets.

- Throughout the ESG Guide, all the E&S topics are discussed considering the scale, timescale and diversity of forestry projects, as relevant.
- It focuses on the elements of forestry projects that set them apart from other types of land-based investments.
- **Part B** covers environmental, social and corporate governance considerations that may be thought about when assessing a forest sector project.

## Scale, Timescale and Diversity | Objective

- This module:
  - Considers the high-level implications of the scale, timescale and diversity of forest sector projects.
  - Discusses key environmental risks that are exacerbated by scale, timescale and diversity.
  - Discusses key social risks that are exacerbated by scale, timescale and diversity.
  - Considers how undertaking assessments and implementing monitoring will be more complex, time consuming and costly due to scale, timescale and diversity.



## Projects are large-scale

- Potential for significant positive impact – carbon, biodiversity, ecosystem services (water, soil, etc), employment.
- Many assessments, risks and mitigating activities are exacerbated and made more complex as projects become large.
- Large areas tend to have a larger variety of ecosystem types.
- Large areas of forest can have significant impacts on ecosystem services e.g. water availability.
- The number and diversity of communities increases with area.

Mosaic planting in Sierra Leone

## Projects are over long timeframes

- The long timeframe from project initiation to profitability affects ability and willingness to invest in ESG management. This can exacerbate all E&S risks. Important to ensure adequate budget and resourcing of ESG is hard-wired into project financial models.
- Forest carbon projects based on afforestation or reforestation take several years to generate carbon credits, however ARR credits are generally worth more than REDD+ credits (which can begin generating credits from the moment project activities start).
- Can create an opportunity for concessional finance to promote high ESG standards if they come into projects early.
- Impacts can take a long time to materialise (longer than the investment tenure) e.g. forest restoration, species recovery.



Sawmill in Uganda

## Final products can change

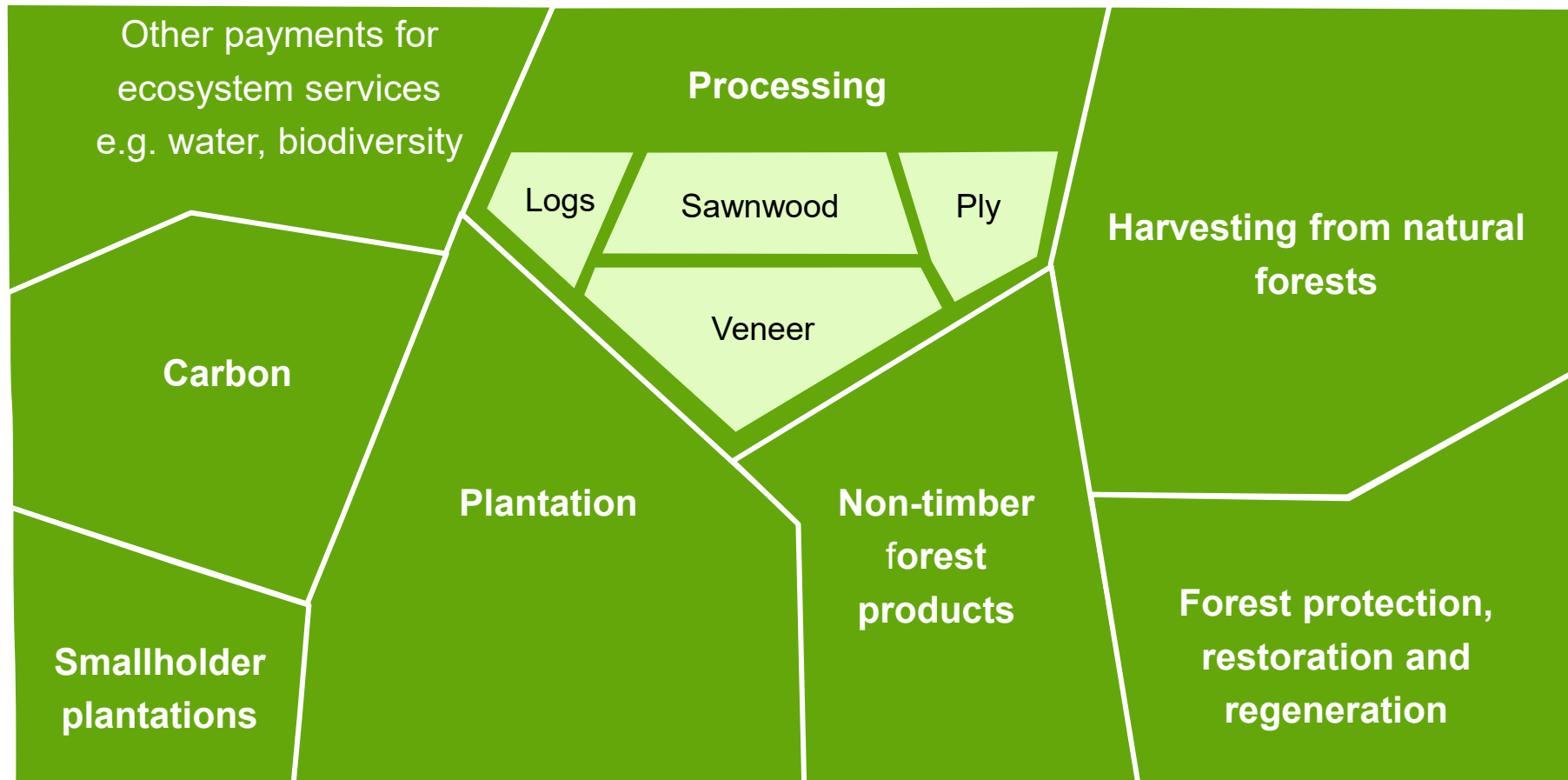
Due to the long timeframe for forestry projects, the wood product targeted can change. This can be due to:

- Business context, e.g. market conditions or logistics, can change during tree growth cycle which can lead to a change in end product.
- Tree growth and/or quality can lead to a change in end product e.g. veneer requires a higher quality timber than poles or sawn wood.

## Projects can have multiple diverse components

- The scale and timescale of forest sector projects contribute to considerable diversity.
- Important to understand all elements in a project early in the project assessment cycle.

### Section 17.1 Box C2





Outgrower woodlot in Sierra Leone

## Types of diversity (1)

- Diversity in project land ownership – large landowners, forestry concessions, smallholders.
- Projects with smallholder or outgrower schemes can present additional challenges, particularly where smallholders and outgrowers are inexperienced.



## Types of diversity (2)

- Diversity in processing – primary or secondary. Processing facilities bring with them risks similar to other types of commercial processing. Projects may not have identified or built processing facilities at project origination since specification may change if the targeted end product changes. Annex A3 includes an overview of types of wood processing facilities and processes.
- Diversity in the workforce – employed, seasonal, casual, contractors. Section 14.3

Veneer plant in Mozambique



## Environmental Risks (1)

### HCV & Critical Habitats

- The biodiversity value of natural ecosystems can be significant. It is important to take into account how project activities may impact ecosystems. HCV/critical habitat assessments will support this.
- HCV Assessments (FSC) & critical habitat assessments (IFC) – These assessments need to take place as part of project planning. Given the area and diversity they need to cover, they can be expensive, difficult and time consuming. Sections 13.2 & 13.6

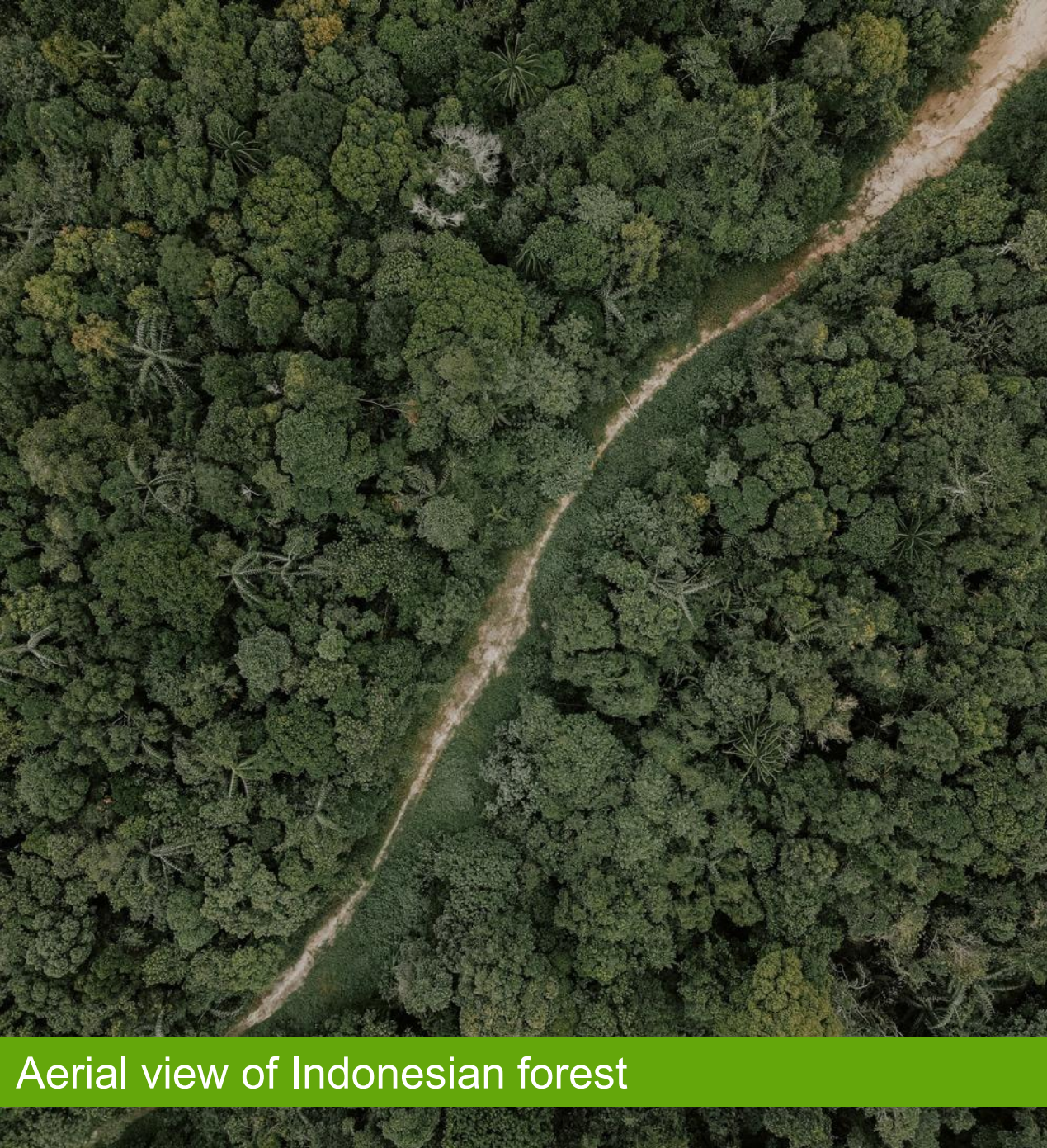
Conservation areas often contain HCVs



Plantation areas of different ages

## Environmental Risks (2)

- Projects can have landscape-scale effects and impact ecosystem services. Consideration should be taken during planning of how project activities can impact e.g. water quality and availability, fire, biodiversity, human-wildlife conflict. Section 13.4
- Projects can have long term and largely irreversible change in land use e.g. for greenfield plantation or ARR projects.



Aerial view of Indonesian forest

## Case Study

### Addressing human-tiger conflict

- Peat swamp forest carbon project in Indonesia restoring over 20k ha that was previously drained and logged.
- Patch of remnant peat swamp forest was refuge for forest species, incl. critically endangered Sumatran tigers.
- As peat swamp is reflooded and reforested, wildlife is returning, monitored using camera traps, increasing risk of conflict.
- The project undertook human-tiger conflict mitigation training, providing local communities with information about tigers and strategies to reduce conflict.

## Environmental Risks | Plantations

- Plantations can help to meet the increasing demand for wood products and reduce pressure on natural forest, however they can have complex environmental risks.
- Good practices for plantations include:
  - Species diversity and conservation of natural areas
  - Water availability and stress assessments, water use planning and monitoring
  - Biodiversity impact monitoring
  - Adaptive management
- Replanting historical plantations can provide an opportunity to re-establish riparian and other sensitive areas with natural vegetation (forest or grassland) if they were cleared previously.



Pine plantation

## Case Study

### Plantations as HCV

- There are examples of plantations themselves being considered as HCV when they provide an important function.
- Plantations in Rwanda provide a buffer around a national park.
- They provide a physical buffer and provide local communities with wood products and livelihoods.
- To maintain it as an HCV, it must be maintained as an operating plantation that continues to provide services to the local community and reduces pressure on the national park.



Improved road and bridge

## Social Risks | Community

- Projects may interface with many communities making stakeholder mapping and establishing communication time consuming, expensive and difficult.
- All land acquisition risks are exacerbated.
- Long term and largely irreversible change in land use and landscape can positively or negatively impact communities, e.g. building or improving roads can be both a benefit (greater connectivity with towns/cities) and bring increased risks (heavy machinery and increased traffic can lead to more road traffic accidents as well as increased air and noise pollution).  
Section 14.4.2 on Community HSS



## Case Study

### Who represents the community in land leasing negotiations?

- Plantation project developer negotiating land lease with communities.
- It became clear that some community members (mainly women and youth) felt that decisions were being made without their consent.
- The elder men were signing 60+ year leases without full community participation.
- Led to strikes and forced work to halt.
- Designed a revised, inclusive process involving a cross-section of community members. Included participatory mapping.

Stakeholder engagement in Sierra Leone



## Social Risks

- Health and safety is challenging, especially with remote working needed due to project scale. Forestry has a high fatality rate. Section 14.3.4
- Projects in extremely remote areas with remote communities risk exposing communities to unfamiliar diseases if outside workers are brought in.
- Project sites may include sites of cultural importance to local communities. In some cultures, shrine locations are kept secret and therefore projects may impact the shrines or access to them inadvertently. Section 14.8

Health and Safety training in Sierra Leone

## Indigenous Communities

- 36% of the world's remaining intact forest landscapes are on Indigenous Peoples' land.
- Indigenous Peoples are particularly vulnerable if their land or resources are transformed, encroached upon or significantly degraded.
- Some countries have legislation that includes Indigenous Peoples' rights e.g. Philippines & Colombia.



Cordillera Azul National Park in Peru, home to several Indigenous communities

# Free, Prior & Informed Consent

- Standards have subtly different requirements for free, prior & informed consent:
  - IFC PS7 sets out detailed objectives and procedures where projects may impact on Indigenous Peoples. If a project complies with PS7 it can be expected to meet the requirements of certification standards with respect to Indigenous Peoples.
  - FSC has a comprehensive guide.
  - PEFC has the least rigorous approach.
  - CCB and Gold Standard also give FPIC rights to impacted non-indigenous communities.
- Implementing FPIC can be logistically challenging, time consuming, expensive and may result in not achieving consent. The large-scale of forest sector projects can exacerbate this with dispersed communities that are difficult to reach.
- Projects may consider bringing in specialist expertise to support the development and implementation of their FPIC plan.
- Investors may consider using external expertise to provide an independent assessment of whether FPIC has been achieved.

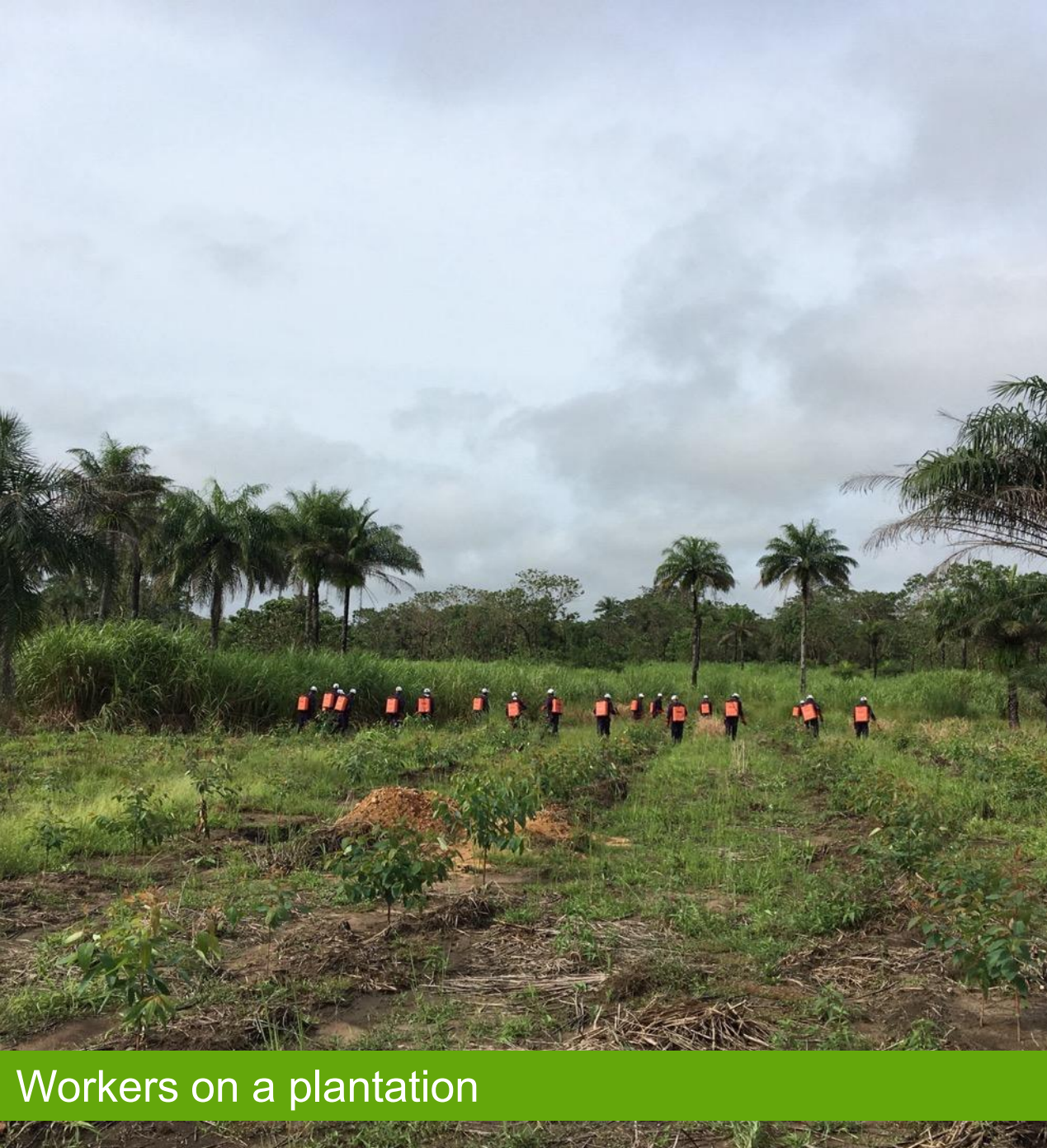
## Social Risks | Workforce and Gender

- The forest sector is often a large employer of low-paid and often unskilled labour, including (internal) migrant and contract workers. In some remote rural areas, the project may be workers' first formal employment. This can be considered a positive impact however it is important to consider and monitor potential unintended consequences.
- In many cases some aspects of the work is conducted by contract workers. This can be a significant gap for projects as contract workers are not covered by FSC certification to the same extent as is expected by IFC PS. Section 14.3
- Women are generally underrepresented in the workforce. Corporate commitments to meet the 2X Challenge can support gender inclusion.
- Projects that are developed on land that was previously under community use can disproportionately impact women due to responsibilities for domestic food production or activities that depend on access to forest resources. Section 14.6

## Case Study

### **Women in the forestry workforce in Africa**

- African plantation project committed to 2X.
- Aimed to double the female representation in the workforce over 5 years.
- An internal review found cultural discrimination against women with some managers stating that women were more absent from work.
- HR figures showed that on average female employee tenure was higher and absenteeism less, and in many instances production rates higher.
- Led to HR policy review to ensure equal access to recruitment and training.
- Female mentorship scheme started.



Workers on a plantation

# Gender-based Violence and Harassment

- The nature of forest sector projects means they are likely to have aspects that are considered higher risk for gender-based violence and harassment (GBVH). These include:
  - Male-dominated workforce
  - Remote sites
  - Accommodation camps
  - Transport routes through remote communities
  - Cultural norms about female roles
- GBVH risk assessments can help to identify risks and consider ways to minimise and mitigate those risks.
- Grievance mechanisms should be reviewed with GBVH survivors in mind. Female community relations officers and women-only spaces can support survivors to report incidents.

The ESG Guide contains links to specific best-practice guidance on addressing GBVH (BII).



Cordillera Azul National Park in Peru, home to several Indigenous communities

## Case Study

### Addressing GBVH in a REDD+ project

- A REDD+ project in Latin America with Indigenous communities as partners.
- During DD, local women described their exposure to GBVH and exclusion from decision-making. They wanted women-only spaces and to be involved in decision-making.
- As part of the ESAP, investors required deployment of female community relations officers and work with female leaders to ensure a culturally appropriate FPIC process that explicitly included women.
- TA was offered to work with the community to enhance opportunities for women and reduce GBVH.

# Assessments & Monitoring

- All assessments with a spatial dimension (soil, water, biodiversity) will be more complex, more costly and take more time than for smaller projects, particularly since many of these require specialist expertise.
- Project diversity can make assessments more complex.
- As such the due diligence process can be more time consuming than for other types of projects.
- Monitoring of both environmental and social impacts is also complex and costly as projects get larger:
  - Forest projects often have areas that are hard to access.
  - Remote sensing technology can help, however these technologies still require some on-the-ground monitoring to ground truth remote sensing data.
  - Where there are more communities and/or they are more dispersed and difficult to reach, monitoring data on social impacts within the communities is more challenging.

Annex B1 contains a list of example environmental and social impact metrics which could be a starting point when thinking about project monitoring.



# Beyond the Forestry Sector

ESG Training for Forestry Investments

## Beyond the Forestry Sector | Objective

- This module:
  - Discusses applications for the ESG Guide for Forestry Investments in sectors and jurisdictions outside the Guide's scope
  - Provides additional useful tools and resources for understanding ESG considerations in other comparable sectors

## Applying the guide to other sectors | Types of sectors

The ESG Guide for Forestry Investments focuses on emerging markets and investments in two asset classes: wood production and primary processing, and forest-based carbon credits.

A number of other sectors share similar characteristics to the forest sector and elements of the guidance may be applicable to them. These sectors include:

- Forest sector projects in developed markets
- Agroforestry
- Silvopastoral systems
- Tree crop production e.g. nuts, cacao
- Projects within the forest transition zone
- Non-timber forest products
- Pulp and paper sector
- Biodiversity credits or other PES from forest landscapes

## Applying the guide to other sectors | Considerations

The guide focuses on areas which are forest sector-specific and highlight risks and impacts in the context of the forest sector. Differences that should be kept in mind if using the guide when assessing other sectors include:

- Markets may have different characteristics e.g. for agroforestry tree crops
- There may be elements not covered by the forestry guide e.g. for silvopastoral systems animal welfare and traceability is a key consideration.
- Some elements that are of considerable concern for forest sector projects (e.g. for plantations - impacts on water availability) are less likely to be a key issue for projects where tree planting for production is not the focus, e.g. agroforestry projects involve tree planting but not at the density or scale seen for forest sector projects and therefore impacts on water availability are less likely.
- Other sectors may use certifications that are not covered in the guide, e.g. Rainforest Alliance, organic or Fairtrade.

## Useful sections

- Any project that has some tree planting for production, even if as part of an agroforestry system, will need to think about some aspects of this guide e.g. if certification is being sought, sustainable forest management.
- Elements of the environmental perspective (section 13) that relate to remote projects, impacts on biodiversity and use of agrochemicals may be relevant. For example, forest transition zones can be remote and may contain areas of natural and critical habitat/HCVs.
- Elements of the social perspective (section 14) that relate to remote working, impacts on communities, engaging with Indigenous Peoples etc may be relevant. For example, projects that involve collecting non-timber forest products could require remote working, interaction with land or resources used by one or multiple Indigenous communities and/or local communities, and possible interaction with sites of cultural heritage.
- Some sections may be useful to all land-based projects e.g. a summary of deforestation cut-off dates across forest sector certifications & requirements.

# Useful tools

Section C of the guide includes a number of tools that are applicable across various sectors. However, all tools are a starting point and should be adapted to suit the assessment being undertaken.

Boxes C1 & C3 give an overview of ESG issues to be considered in the screening phase of project assessment and the due diligence phase, respectively.

## Box C1: Typical ESG issues to consider during screening

During the screening process, the following issues are generally considered:

- **Compliance with the investment strategy** – Does the potential investment align with the investor’s strategy, both in terms of ESG risks and positive impact targets?
- **Compliance with the exclusion list** – Does the potential investment involve any activities that are excluded through the investor’s exclusion list?
- **Understanding of the main characteristics of the investment** – See Box C2.
- **Overview of investment activities**
- **What baseline studies have been completed** – Gathering any baseline studies already undertaken regarding the potential investment, e.g., HCV, biodiversity baselines, habitat mapping, etc.
- What additional baseline studies are expected to be required, including the cost and duration of such studies.
- **Regulatory compliance** – What regulations are applicable to the project and are they compliant with them?
- **Historic land cover, land use, and land cover and land use trends.**

## Box C3: Typical ESG issues to consider during due diligence

Key issues for ESG due diligence on a forest sector investment include:

- **The availability and quality of baseline ESG-related studies**, and to what extent they are sufficiently reliable and cover the project’s Area of Influence (and where IFC PS-6 is applied, the Ecologically Appropriate Area of Analysis). A biodiversity baseline and socio-economic survey data are typically key to have.
- **Quality of ESMS, ESG risk assessments and management strategies.** See Section 17.2.1 for more information on ESMS expectations for forest sector investments.
- **Full documentation assessment** (see table C2).
- **Consideration of what (additional) baseline studies are needed.**
- **Consideration of where additional specialist studies might need to be undertaken**, e.g., independent confirmation of FPIC, hydrology baseline studies.
- **Critical assessment of the project’s expected positive environmental and social impacts**, whether these can be achieved.

## Useful tools (2)

Table C1 lists key risk and impact areas, along with questions typically asked during screening.

Key risk and impact areas	Screening Questions	Section
<b>ESG expertise and record of the project sponsor</b>	<ul style="list-style-type: none"> <li>• What baseline studies are available (e.g., those covering biodiversity, local communities, historic and current land use maps and land cover change at local and landscape level)?</li> <li>• Is there an established ESMS and performance record (for the project or other operations)?</li> <li>• What is the forest sector ESG expertise of the team?</li> <li>• Is there a budget for ESG management?</li> <li>• Is there a plan for monitoring ESG performance?</li> </ul>	17.2.1
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>• What governance structures are in place?</li> <li>• What forest sector expertise is available on the board?</li> <li>• What is the level of ESG risk and impact awareness and understanding?</li> </ul>	15
<b>Local Communities</b>	<ul style="list-style-type: none"> <li>• What communities are there in or around the project area?</li> <li>• Are there expected to be any impacts from project activities on community land, or land (privately) owned (legally or customary) by community members?</li> <li>• What is the expected level of broad community support (present and feasible in the future)?</li> <li>• What are the (potential) benefits of the project to communities?</li> <li>• Do communities gain alternative income or other forms of livelihood support from the resources (i.e., NTFPs)?</li> </ul>	14

## Useful tools (3)

Table C2 includes documents and questions typically asked during due diligence.

Key risk and impact areas	Relevant documents	Forest sector-specific questions in due diligence
<b>Availability and quality of key data</b>	<ul style="list-style-type: none"> <li>• E&amp;S studies</li> <li>• E&amp;S Impact Assessment(s)</li> <li>• GIS data</li> <li>• Satellite-based land use and land cover layers/maps</li> </ul>	<ul style="list-style-type: none"> <li>• What ecological/biodiversity baseline studies are available?</li> <li>• What data is available on the local socio-economic and demographic context?</li> <li>• What satellite-based data (maps) are available and useful to determine land use and land cover changes?</li> <li>• What is the quality (reliability) of the researchers and the data/reports?</li> <li>• What are gaps with international best practices?</li> </ul>
<b>ESG expertise and record of the project sponsor</b>	<ul style="list-style-type: none"> <li>• ESMS documentation including all relevant E&amp;S policies and processes.</li> <li>• Risk assessments.</li> <li>• CVs of client's ESG team.</li> </ul>	<ul style="list-style-type: none"> <li>• Has the project taken into account size and timescale into its risk assessment?</li> <li>• Does the project's risk assessment consider landscape-level impacts?</li> <li>• Does the ESMS adequately support the project to manage those risks, particularly considering project size and timescale?</li> <li>• Does the ESMS include regular reassessment of risk and an adaptive management approach?</li> <li>• What is the sector-specific ESG experience of the client?</li> <li>• What is the level of ESG capacity and competencies, and is that commensurate to the risk exposure and level of effort to manage ESG risks and impacts?</li> </ul>
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>• List and expertise of board members</li> <li>• Minutes of recent board meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Does the board contain forest sector, commercial, environmental and social expertise?</li> <li>• Is the board functioning properly?</li> </ul>

## Useful tools (4)

- Section 17.2.1 includes an overview of what is generally expected in an ESMS for forest-sector projects, much of which will be applicable to other land-based, non-forest sector projects as well.
- Boxes C12 & C13 detail key components of a monitoring and evaluation plan, and what aspects might be covered by the plan.
- In general, Section C includes a lot of information about integrating ESG into the investment process that is applicable to all investments made by funds aiming to implement the highest ESG standards.

## Contact Details

If you are interested in receiving tailored training for your team on the “ESG Guide for Forestry Investments”, please contact [megan.hawkes@thepalladiumgroup.com](mailto:megan.hawkes@thepalladiumgroup.com).

Sign up to the MFF Newsletter [here](#).