

Input for FMO's "investment approach to responsibly managed forest plantations".
Both ENDS, 28th Feb. 2025

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Both ENDS has been asked by FMO to comment on its draft investment approach to responsibly managed forest plantations. To follow are a number of observations and recommendations, partially informed by Both ENDS long legacy of working in the forest & land arena, in dialogue with international donors, philanthropic foundations, companies, certification bodies and notably with forest dependent communities and other land users.¹

Status of the document and consultation

The Investment Approach (IA) document motivates how and why FMO seeks to invest in plantation forestry. Its status, however, is not clear since it is not a formal policy or strategy. We reckon at this stage it is meant as a discussion paper. It would help if FMO can indicate how inputs for this document will affect their practice of investing in the forestry sector. More generally, we suggest FMO outlines a policy to guide future consultations.

Plantation development is conflict management

Whilst the Investment Approach document states 'FMO is aware that forestry operations can be associated with harmful social and environmental consequences. However, we are also convinced that together with our clients, we can introduce and uphold more sustainable practices that contribute positively to our core SDGs:..', there is ample reason to question this confidence. Plantation forestry development is, as most forms of natural resources management, encumbered with serious conflicts. This, whereas the past record of FMO, and all development banks for that matter, when it comes to investment in large forestry & plantation schemes – is one burdened with social-ecological side effects and disputes; and a general lack of conflict prevention and resolution.²

Environmental and social risks associated with carbon/monoculture forestry

Carbon trading and notably commercial carbon forestry projects receives much criticism. One major concern being voiced is that it often excludes communities and local landowners from using their land and the resources it provides, when forests become sealed off and managed for commercial carbon capture and trading. Research indicates that during the first 20 years of a tree's lifecycle, on average only 10 kg of carbon dioxide is captured per annum, i.e. less than half the yearly carbon capture of fully matured trees³. This

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Both ENDS and forest management

Over the past 35 years, Both ENDS has been involved in a broad range forest related initiatives, in various capacities. E.g. in 1990 Both ENDS, in collaboration with the Netherlands ministry of Foreign Affairs provided feedback to the World Bank-IFC when the latter was formulating its new Forest Policy. Both ENDS was engaged in the revamp of the Tropical Forestry Action Programme, led by the World Bank, UNDP, WRI and FAO and co-chaired the Dutch Forest Forum. It was advisor to CIFOR's certification program and the World Commission on Forests and Sustainable development (WCFSD). Both ENDS serves on the Board of Governors of RSPO (Round Table on Sustainable Palm Oil), chaired the RSPO Assurance Task Force and chairs the RSPO Dispute Settlement Advisory Board. Over the past three decades Both ENDS has led a number of action research programmes (e.g. 'Forest of the Future' and Land and water governance in Sub-Sahara Africa, i.c.w. PBL) and field-based forest conservation and restoration programmes, such as the [Regreening the Sahel](#) programme which to date resulted in over 116.000 hectares of dry land being brought back under mixed tree cover by farmers, and the expanding [NTFP-EP Asia network](#), covering over 1000 communities in 6 countries.

² A positive exception is formed by the World Bank IFC CAO and EIB.

³ [https://onetreepanted.org/blogs/stories/how-much-co2-does-tree-absorb?](https://onetreepanted.org/blogs/stories/how-much-co2-does-tree-absorb?srsltid=AfmBOor80GghJ0cJa5HkOmdYhEQn_I4_jPo5UwaQ--aZp4Jots0Sw1z-)
srsltid=AfmBOor80GghJ0cJa5HkOmdYhEQn_I4_jPo5UwaQ--aZp4Jots0Sw1z-

shows there is an inherent tension between carbon capture and logging by companies attempting to profit from both economic activities. Moreover, the UN Office on Drugs and Crime states (2024) that “the global carbon market currently lacks proper regulation in all areas, including on how project creating carbon offsets is developed, evaluated, and outcomes assessed”⁴. As a result, corruption and large-scale scams are currently rife in the carbon market, potentially worsening instead of dampening global heating⁵.

“FMO requests customers or investees to demonstrate that their ESIA studies includes the evaluation of social and cultural impacts”. In countries with weak environmental governance, entrenched corruption and structural racism against Indigenous communities, other minorities and marginalised groups, it comes as no surprise when demonstrable negative impacts are downplayed by FMO’s clients. This problem is aggravated when FMO relies on their clients’ own ESIA studies. The exact same argument applies for FPIC procedures. There is often an evident conflict of interest. Furthermore, the “legal washing” of illegally cut timber through legally constituted forestry companies has been reported in countries with weak environmental governance⁶. Here, FMO has a responsibility to carry out its own thorough due diligence, *prior* to making investment decisions, by ensuring direct consultations are conducted with critical and marginalized voices; notably those from affected local stakeholders.

Many plantations take eucalyptus trees or monocultures of other fast growing exotic species as their ‘standard’ tree – species which are associated with soil degradation, e.g. due to pesticide use and dehydration, especially in semi-arid environments, thereby negatively affecting nearby agricultural activities⁷⁸.

An additional environmental risk is associated with the social risk of lack of proper resettlement and livelihood restoration for local farmers and communities – not uncommon in countries with ill-defined property rights and authoritarian forms of government. Ill-managed handling of these impacts pushes these people out and increases the pressure on land elsewhere, as these people look for alternative lands to cultivate and may resort to illegally opening up remaining forests to replace the source of livelihoods they lost. Local people being displaced and left with no alternatives may unwillingly become themselves agents of deforestation. Many of these environmental ripple effects may very well stay under the radar, as exemplified by the case of Colombia, which on average there is only has one park ranger for every 25,000 hectares and where deforestation is on the rise⁹.

Assurance gap

It is good FMO issued ESG Guidelines. All the same, long experience with ESG safeguards is often one of broken promises, where clients fail to adhere to these guidelines and the investor is unable, if not unwilling, to monitor implementation, to intervene and to hold clients accountable. It is commendable FMO calls upon clients to meet FSC or PEFC standards. However, the IA is very opaque, and its language remains vague and very soft where concrete demands are essential, e.g. FMO ‘requests’, instead of ‘requires’, ‘encourages’ instead of ‘sees to it’. FMO seems to lack the tools, capacity, experience and perhaps even the commitment to ensure the clients’ adherence to its ESG Guidelines. Moreover, there is ample reason to dampen FMO’s optimism and confidence if one considers the great obstacles faced by leading forest and plantation certification schemes such as FSC, PEFC¹⁰ and RSPO when it comes to assurance of its clients-members to their respective standards, notwithstanding employing wider networks of certifying bodies, auditors and HCV-assessors.

⁴https://www.unodc.org/documents/treaties/UNCAC/COSP/session10/publications/Addressing_the_links_between_corruption_and_climate_change.pdf

⁵ <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>

⁶ <https://www.crisisgroup.org/latin-america-caribbean/andes/colombia/091-broken-canopy-deforestation-and-conflict-colombia>

⁷https://www.researchgate.net/publication/343884015_Assessing_the_Impact_of_Eucalyptus_Plantation_on_Groundwater_Availability_in_Pakistan

⁸ <https://agupubs.onlinelibrary.wiley.com/doi/10.1029/2004wr003761>

⁹ <https://www.crisisgroup.org/latin-america-caribbean/andes/colombia/091-broken-canopy-deforestation-and-conflict-colombia>

¹⁰ <https://www.bothends.org/en/Whats-new/Press/Dutch-government-calls-for-investigation-into-Malaysian-timber-certification?template=print>

Forest plantations for what and for whom?

By and large most international and national forest and plantation investment schemes focus on large scale commercial ventures. At the same time, there is structural under-investment and neglect of locally led forest conservation and restoration initiatives. FMO seems, so far not to have shown much interest in investing in SMEs, cooperatives and other local key players in forest management. Implementation of the DFCD and MFF seem to confirm this. It is relevant so see whether this impression is countered based on FMO's investment portfolio. The IA mentions "Moreover, forestry plantation projects can enable alternative income generation such as agroforestry systems, non-timber forest products, and eco-tourism for the benefit of local communities and Indigenous people. This unique combination makes forestry one of the few sectors where climate mitigation can go hand in hand with for-profit business models in the private sector."

There is thus this other investment reality which we recommend FMO addresses with more priority: namely resourcing SME-led and community-led forest management, restoration and protection, value addition and marketing.

Assumptions concerning current trends

FMO indicates that increased demand for wood from plantations is a natural given, and it should better come from sustainably managed forests rather than being sourced (illegally or legally) from natural forests. Arguably, however, the demand for wood is not a natural given. It is steered by global trends (which are unpredictable) and policies (e.g. carbon trading, packaging rules, permitting for specific forms of land use etc). Wood is often used for low-quality-one-time-use products (e.g. paper and pulp). This is not sustainable. We believe FMO has a role to play to promote a forestry sector which discourages wasteful, unsustainable, demands in the market and prioritises the promotion of high value-added wood products, recycling and such.

Concluding remarks

FMO recognizes many of the points we raised as ESG risks. However, recent cases that came to light (e.g. TIG, Suzano, Arbaro, NFC) show that these risks are not adequately mitigated. In that sense, FMO's goal of investing 1 billion is a risk in itself: we have serious doubts whether FMO has the capacity to realize timely and critical risk analyses, when it simultaneously faces pressure to meet this 1 billion target. These risks cannot be underestimated and constitute fundamental objections vis-à-vis FMO's decision to commit to supporting a forestry model characterized by monoculture plantations owned by large companies. This, especially in the contexts of weak environmental governance (both legal frameworks and lawful and effective application thereof), elite capture of the state (e.g. the hold of landed elites over Brazil's administration under Bolsonaro) and deeply entrenched inequalities that often run along ethnic/racial lines.

Many organisations have signed a statement in response to this consultation.¹¹ Civil society organizations and forest dependent communities raise concerns about the global forestry trade system. Many of these groups are themselves involved in forest management or have had their livelihoods compromised and their rights violated; they have clear proposals on how to reform the sector. It is important FMO takes these critical voices into account.

The IA mentions '... Additionally, we expect a Community Benefit Sharing Plan to be in place when appropriate. ...' Such non-committal language lacks direction to FMO's clients. It is recommended FMO, in its capacity as development bank, can and should direct its investments into initiatives that can help steer local-national and the global economy towards real sustainability and benefits for people who historically have been denied their role as protagonists but who in fact often form the last buffer against deforestation.¹²

Both ENDS looks forward learning how FMO proceeds with the consultation and further design of the proposed forestry plantation investment portfolio.

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¹¹https://milieudefensie.nl/actueel/statement-on-fmos-investment-approach?act_source=linkedin&act_medium=social&act_campaign=overig

¹² <https://www.wri.org/insights/4-ways-indigenous-and-community-lands-can-reduce-emissions> and see also <https://www.ipcc.ch/srccl?s=indigenous>