



# THE PROGRAMME FOR THE ENDORSEMENT OF FOREST CERTIFICATION

## AND THE FINANCIAL SECTOR

How Forest Certification  
Can Help Financial Professionals  
Manage Environmental Risk  
and Verify Sustainability

# PEFC - PROGRAMME FOR THE ENDORSEMENT OF FOREST CERTIFICATION

With more than 240 million hectares of certified forests and over 30 endorsed national certification systems, the Programme for the Endorsement of Forest Certification (PEFC) is the world's largest forest certification system.

PEFC is an international non-profit, non-governmental organisation dedicated to promoting sustainable forest management through independent third-party certification. PEFC works throughout the forest supply chain to promote good practice in the forest and to ensure forest products are produced with respect for the highest ecological, social and ethical standards.

As an umbrella organization, PEFC endorses national forest certification systems developed through multi-stakeholder processes and tailored to local priorities and conditions. Each national forest certification system undergoes rigorous independent assessment against PEFC's unique Sustainability Benchmarks to ensure consistency with international requirements.

## HOW DOES FOREST CERTIFICATION WORK?

Forest certification is a market-based, voluntary mechanism, which promotes sustainable forest management.

There are two main types of certification:

- **Forest Management** certification ensures that forests are managed in compliance with set environmental, social and economic requirements;
- **Chain of Custody** certification applies to companies along the wood-based products value chain and assures that all materials contained in the final product originate from certified sources.

PEFC is an internationally recognised certification system offering both types of certification. To date, PEFC-certified forests include close to one million forest owners across 27 countries. Over 9,000 companies have obtained PEFC Chain of Custody certification and are able to offer thousands of PEFC-certified products around the world.

## WHY IS FOREST CERTIFICATION RELEVANT IN FINANCE?

When financing, insuring or investing in projects or companies involved in forest operations or related production and trade, financial institutions need to ensure that private sector activities have minimal negative impact on forests. Moreover, responsible investors should look for ways to facilitate net positive impact.

While tools and approaches for integrating the concept of Natural Capital in environmental, social and governance (ESG) goals are still in their infancy, the assurance that forest certification offers about a business and its impact on nature is well advanced. Companies holding PEFC forest management or Chain of Custody certificates implement the highest standards in forest certification.

By providing transparent information on traceability and management practices, forest certification represents a means of preventing environmental damage, ensuring operators' compliance with environmental and social policies, and supporting sustainable development.

# FINANCE AND FOREST CERTIFICATION

**“ Forest certification is the most effective tool available to leverage our lending and procurement to promote sustainable forests and to document that our policies are being met. ”**  
Bank of America

Mainstream financial institutions increasingly recognise that ESG issues have the potential to create or diminish shareholder value and therefore need to be managed as part and parcel of fiduciary responsibility.

In the investment sector, pension funds and other investors representing combined assets of over US\$ 25 trillion have signed the UN Principles for Responsible Investment (PRI) which provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices.

In the banking sector, over 70 of the world's leading banks have made public commitments to implement the Equator Principles, the international standard for environmentally and socially responsible project finance. Principle 3 notably recommends that signatories assess compliance with IFC's newly

revised Performance Standards including Performance Standard 6 on Biodiversity, which requires independent verification or certification of sustainable management practices.

Following the Rio+20 Earth Summit held in June 2012, nearly 40 financial institutions have signed the Natural Capital Declaration supporting the development of methodologies and tools to further integrate natural capital considerations into the decision-making process of all financial products and services.

Lenders, insurers and investors face numerous ESG-related decisions when financing, insuring or investing in forest assets, the forest-products industry or forest-related activities and projects. These decisions can also be opportunities if the right safeguards are in place.

Capturing opportunity and mitigating inherent risks has led a growing number of financial institutions to use forest certification as part of their lending or investment criteria.

## How Financial Institutions Can Use Certification

Robust forest certification systems such as PEFC's enable lenders, investors and insurers to use certification as a tool to verify sustainability when:

- **Lending** to forest management, harvesting and processing operations
- **Managing** environmental risk and assessing client compliance with related standards
- **Providing** project or corporate finance to companies in the timber and paper industries
- **Investing** in asset management or private equity funds in sustainable forest management projects such as REITS and TIMOS
- **Investing** in carbon projects e.g. REDD+
- **Structuring** environmentally compliant equity or fixed income portfolios
- **Financing** and providing services to companies in sectors buying significant amounts of forest products such as retail or construction
- **Procuring** forest products such as paper and wood for in-house use.

**“ Global financial institutions can have a significant impact on building more sustainable global capital markets through responsible investing and lending practices. Recent challenges and pressures on the financial services sector mean institutions must demonstrate a greater understanding of the environmental and social risks in their portfolios to protect their financiers and investors, and the sector's reputation. I welcome systems like PEFC Forest Management and Chain of Custody certification that provide a visible guarantee that financial institutions are lending to, investing in, or buying from companies that engage in legal and sustainable forestry practices. ”**

**Chris Cummings**, Chief Executive, TheCityUK



# PEFC SUSTAINABLE FOREST MANAGEMENT

## THE PEFC CRITERIA

Obtaining PEFC Sustainable Forest Management certification demonstrates that forest management practices meet best practice requirements. These include:

- Maintaining and enhancing the biodiversity of forest ecosystems; protecting ecologically important forest areas
- Sustaining the range of ecosystem services that forests provide, such as
  - provision of food, fibre, biomass and wood
  - regulation of water flows, capturing and storing carbon, producing oxygen, and preventing soil erosion
  - support services including habitat and shelter for people and wildlife; and
  - cultural services including spiritual and recreational benefits
- Prohibiting most hazardous chemicals, genetically modified organisms (GMOs) and conversions
- Recognition of free, prior and informed consent; encouraging compliance with the UN Declaration on Indigenous Peoples' Rights and the ILO Convention 169 on Indigenous and Tribal Peoples
- Protecting workers' rights and welfare from forest to final product
- Encouraging local employment and supporting economic development



## Benefits to Financial Institutions

PEFC certification offers financial institutions the reassurance that they are respecting ESG goals in a market where ESG principles matter more each day. Certification enhances brand value and sends a positive, clear and transparent message to the market, ensuring that financial institutions stand out as business leaders, strengthening their competitiveness over time.

PEFC's certification system includes internal and external controls, and involves independent actors at a number of levels. To ensure compliance with PEFC Criteria on the ground, independent third-party certification bodies conduct audits on an annual basis. In this way, forest certification benefits financial institutions by offering a tool that incorporates a robust assurance system of sustainable forest management practices.

Forest certification also delivers wider benefits to the economy and the environment such as:

- Improving the management of forest assets and increasing their productivity
- Eliminating illegal activities including uncontrolled and illegal logging
- Eliminating deforestation of primary forest or wetlands in defined zones
- Strengthening the traceability of forest products to ensure compliance with existing trade regulations and conventions, e.g. CITES
- Contributing to the development of markets with exposure to sustainable forestry such as forest-based mitigation credits and other REDD+ projects
- Encouraging and ensuring sustainable health & safety practices in the workplace
- Encouraging and ensuring human rights and good labour practices throughout the supply chain.

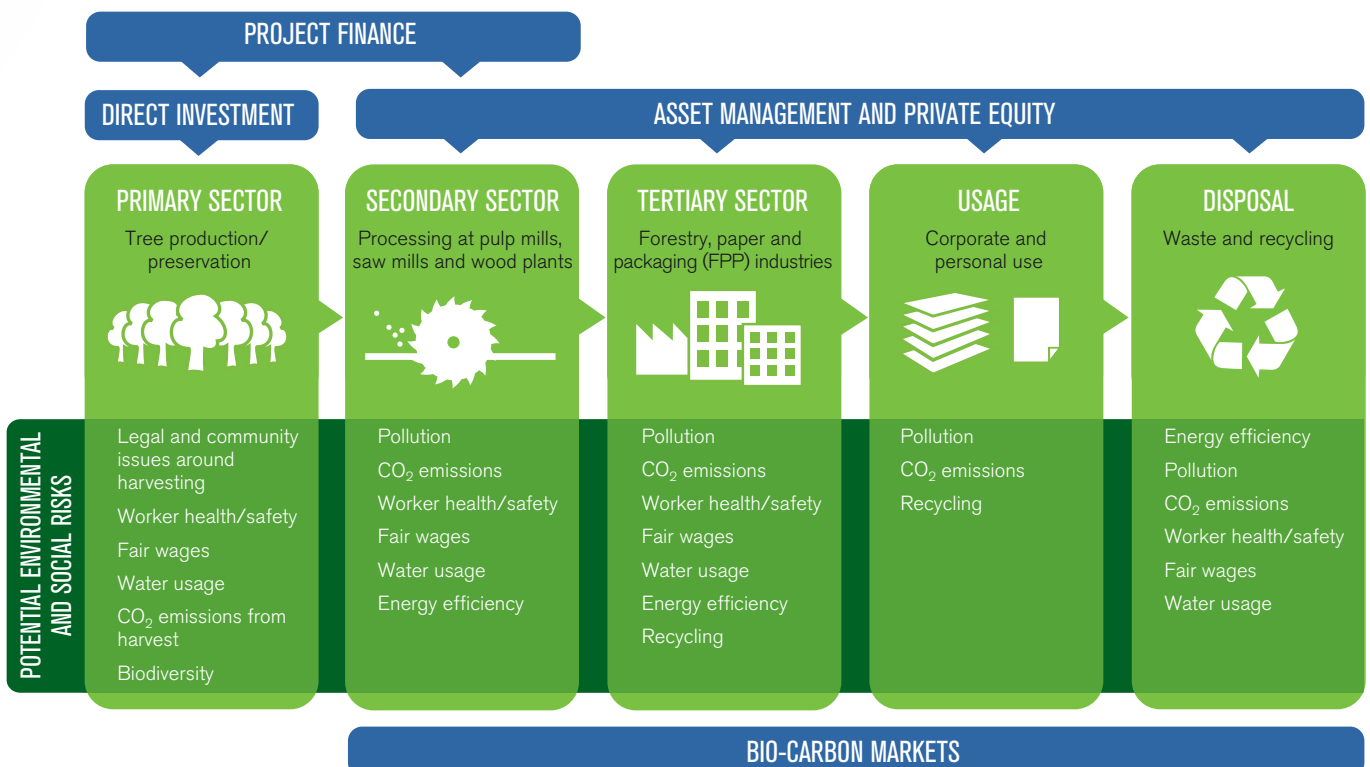
# PEFC CHAIN OF CUSTODY CERTIFICATION

Providing assurances throughout the supply chain benefits companies as well as their lenders, investors and insurers

With increasing demand for products from sustainably managed forests, business interest in Chain of Custody certification along the timber value chain is soaring. PEFC's Chain of Custody certification offers several important benefits to enterprises and to the financial institutions backing their operations, including:

- **Better access to markets:** by choosing to finance, insure and invest in businesses involved with forest products which have PEFC Chain of Custody certification, financial institutions support these businesses with better access to markets.
- **Improved environmental risk management:** Chain of Custody certification includes a due diligence system to exclude wood from unknown, illegal or controversial sources. This enables financial institutions to provide their markets with assurances of responsible sourcing.
- **Competitive advantage:** by opting for PEFC Chain of Custody certification, financial institutions and businesses in the forest products sector stand out as business leaders, strengthening their competitiveness over time.
- **Confidence:** Chain of Custody certification permits businesses to be confident about the sourcing of timber and other forest-based products.
- **Availability and choice:** two-thirds of the world's certified forest area is certified to PEFC endorsed standards, offering the widest supply of certified fibre and timber.

## WHERE SUSTAINABLE FINANCE AND FORESTRY CONNECT



# FORESTRY FACTS & FIGURES

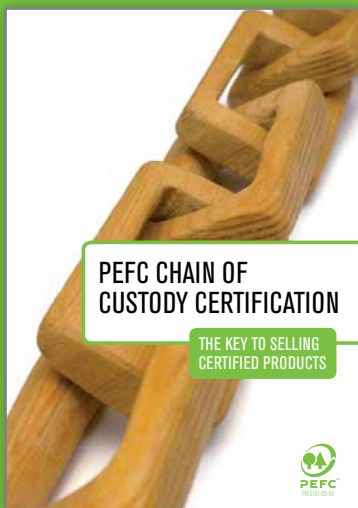
- The forest products industry contributes an estimated 1 to 2% of world GDP (FAO, 2007)
- Forest products account for over 3% of international commodity trade (FAO, 2007)
- Global employment in the formal forestry sector – 14 million people (FAO, 2006)
- Global trade in primary forest products exceeds US\$ 224 billion (FAO, 2010)
- Gross value-added in the global forestry sector – US\$ 468 billion (FAO, 2006)
- Illegal logging costs between US\$ 10 and 15 billion in lost assets and revenues every year (World Bank, 2012)
- Deforestation accounted for around 17% of anthropogenic greenhouse gas emissions in 2004 (IPCC, 2007)
- The potential funds flow for REDD+ programs is estimated to reach US\$ 30 billion (CIFOR, 2011)
- 80% of the world's forests are publicly owned, but ownership and management of forests by communities, individuals and private organisations is on the rise (FAO, 2010)
- Small-scale forest product enterprises are among the top three non-farm rural commercial activities in most countries (FAO)

## DO YOU KNOW...?

- What is your organisation's business volume in forest-related activities, assets and trade?
- Within your organisation, is forest certification used as a criteria to manage environmental risk or conduct due diligence when deciding to lend to, to insure or to invest in a project or company with exposure to forest assets or related activities?
- What proportion of your clients in the forest products industry is certified by a forest certification scheme?
- What proportion of your clients use forest certification as a requirement to procure related goods?
- Is forest certification a requirement in your procurement policy?

## FURTHER READING

### PEFC Chain of Custody Certification



A brochure outlining in detail the mechanisms for how PEFC Chain of Custody certification tracks certified material from the forest to the final product.

[treee.es/PEFCCoC](http://treee.es/PEFCCoC)

### Promoting Sustainable Forest Management



A brochure introducing PEFC's Unique Approach to Certification.

[treee.es/Intro-PEFC](http://treee.es/Intro-PEFC)



## WHAT MAKES PEFC UNIQUE?

### PEFC UPHOLDS THE HIGHEST STANDARDS WITHOUT EXCEPTION

- Sets the highest standards for forest certification aligned with the majority of the world's governments
- Requires compliance with all fundamental ILO Conventions in forest management since 2001, setting new benchmarks for social issues
- Includes social, health and safety requirements in Chain of Custody certification
- Offers well-established processes for group certification for small owners, thereby offering access to certification and the marketplace.

### THE LEVEL OF STAKEHOLDER ENGAGEMENT IS EQUALLY HIGH FOR ALL STANDARDS

- Requires all national standards to be independently developed with participation open to all interested parties
- Recognises the importance of the nine major groups as defined by Agenda 21
- Requires that all standards undergo public consultation and third-party assessment at national and international levels
- Demands and implements regular revisions of national certification systems.

### BUILDS ON INTERGOVERNMENTAL AGREEMENTS AND GLOBALLY RECOGNISED PROCESSES

- PEFC builds its understanding of sustainable forest management on broad societal consensus as expressed in international and intergovernmental processes
- Supports the implementation of governmental agreements through a voluntary, market-based mechanism
- Follows globally accepted ISO Guidelines for certification and accreditation.



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