



IFC's Requirements for Investing in Tropical Natural Forests

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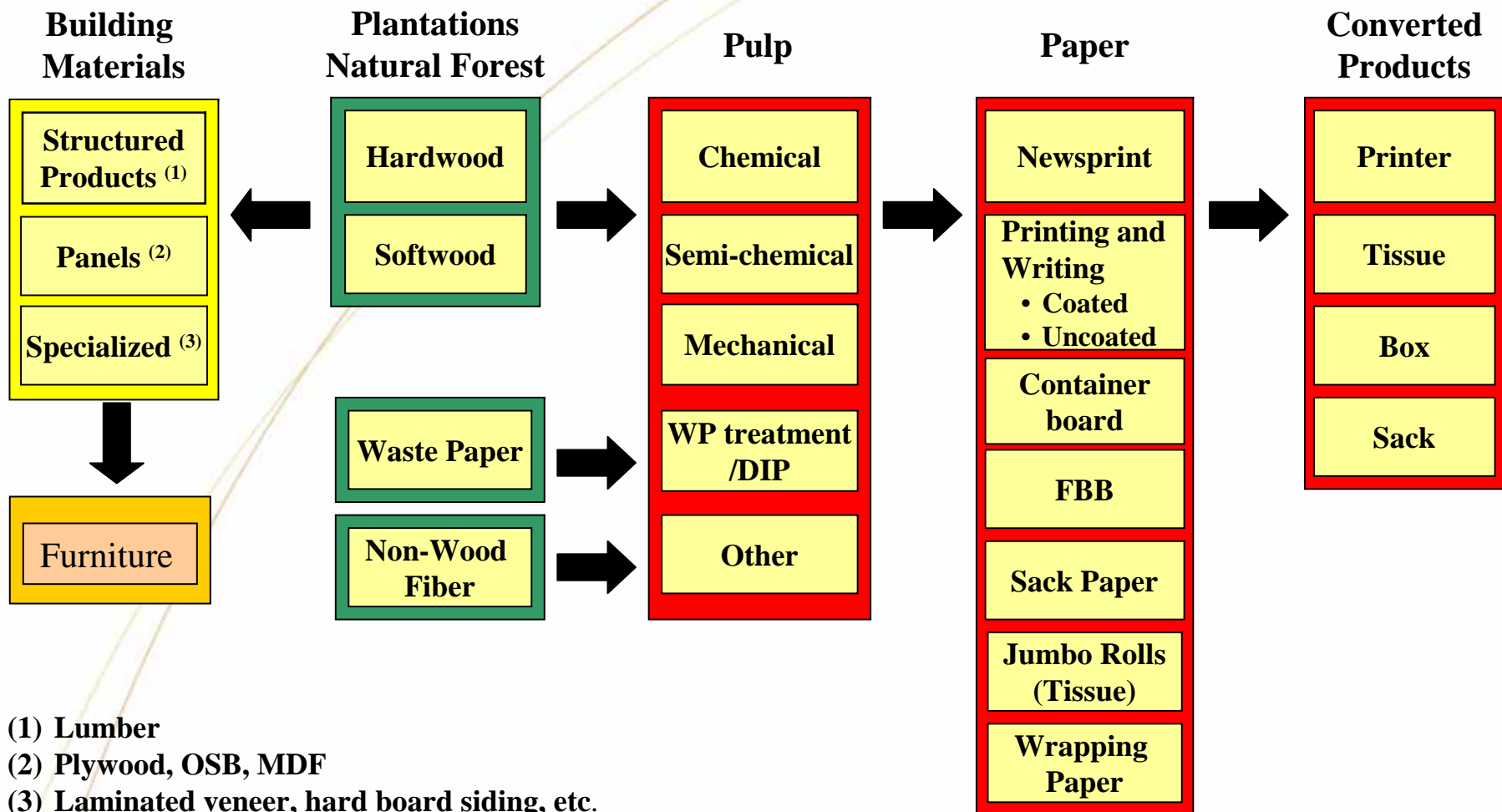
Global View of Forest Products Sector

- **Global demand and supply of forest products is shifting to emerging markets**
- **Sustainable development of the Forest Products Sector (FPS) can:**
 - **Drive economies**
 - **Provide employment**
 - **Alleviate poverty**
- **IFC can have significant development impact in this sector**

IFC Investment Themes in Key Markets

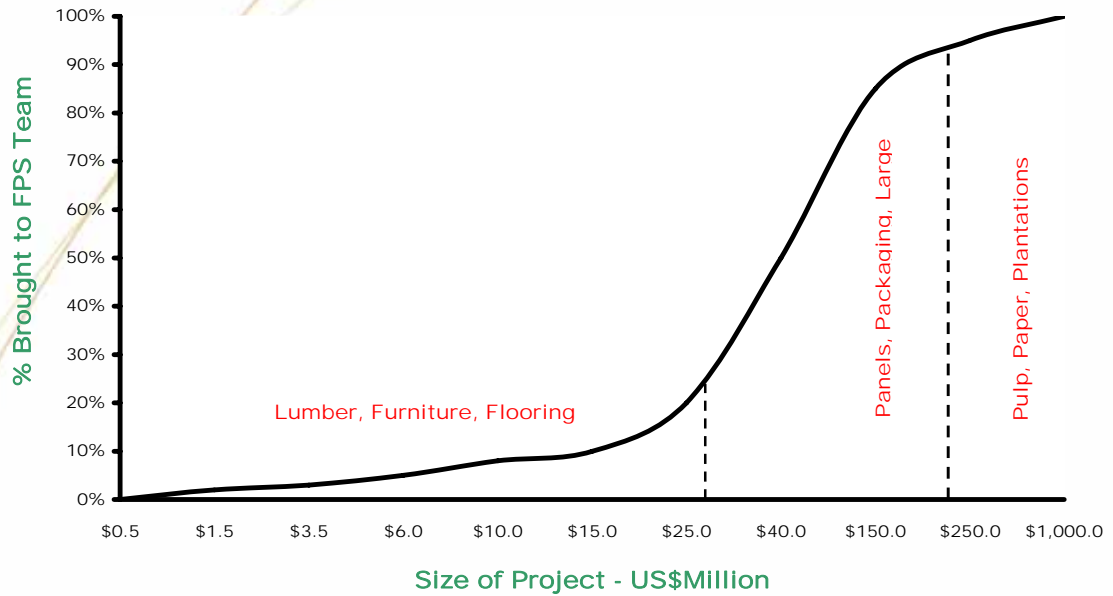
- **China** (importer): Fiber shortage, growing sectors (P&P, LWC, tissue, wood panels), farm forestry, clean technology
- **Russia** (exporter): SFM, market pulp, higher value added (e.g., wood panels, paper, tissue, packaging)
- **Latin America** (exporter): Integrated P&P w/plantations, market pulp, packaging
- **India**: Farm forestry, P&P, clean technology
- **Africa**: Plantations and sawmills
- **All markets**: Converting (e.g., box-, tissue- or sack plants) and paper recycling

Basic Fiber Flow of Forest Products



- (1) Lumber
- (2) Plywood, OSB, MDF
- (3) Laminated veneer, hard board siding, etc.

Project Exposure
\$ Size vs % FPS Exposed



IFC's Role

- Strengthen the private sector to alleviate poverty
- “frontier” markets
- “demonstration effect”—leading the way in better management practices (financial, environment and social, corporate governance)

But...

- Projects in tropical natural forests are risky, difficult, and time-consuming
- IFC can only invest where the enabling environment for private sector investment is conducive
- For such projects, IFC will require:
 - Committed clients
 - World Bank partnership, especially re facilitating improvements to the enabling environment
 - Viable, appropriate NGO partnerships

IFC Supporting Activities

- PDFs (PEPs)
 - IFC & donor-funded facilities for SME support
 - Direct capacity building in small firms
 - Some facilitation of lending
 - Improvement of enabling environment for the private sector (overlap with World Bank)
 - Market development
- Other internal donor-funded facilities
 - Corporate Citizenship Facility
 - Environmental Opportunities Facility
 - Carbon Finance Facility
 - Sustainable Financial Markets Facility
- IFC's Advisory Services / SME Department

Investment Approach

- Larger companies with greater impacts
- Committed sponsors
- Worldwide
- Positive enabling environment
- Supportive partnerships with World Bank, NGOs

But...judicious selection based on risks and resource availability

What do we want our clients to do?

“Manage the forestry resource in a sustainable fashion”

How?

- Independent certification
- Preferential purchasing / promotion of SFM

Certification Considerations

- Forest management certification applicable to clients who own forest lands or have long-term concessions—management control
- Acceptable certification schemes can be national or international—but must be generally consistent with World Bank/IFC requirements for content and process

Other Approaches to SFM

- For clients not directly controlling the forest resource, may be at one or more steps down the supply chain
 - Adopt policies and procedures to obtain certified wood
 - Purchase certified wood as it becomes available in the marketplace
 - Select from pre-qualified suppliers
 - Promote development of certification schemes
 - Support strengthening of suppliers to apply SFM

What is IFC looking for?

- Sustainable businesses with positive development impacts
- We will work in all industrial sub-sectors, in all regions, but recognize that working in and with tropical natural forests is more difficult

What do we see as constraints?

- Enabling environment for private sector investment
- Technical/scientific knowledge on tropical forest management
- Internal business management skills—how to deal with complex environments, multiple competing stakeholders

What do governments/other institutions need to do?

- Provide a conducive enabling environment
 - Legal/regulatory/policy
- Address knowledge/information issues

IFC's New Performance Standards

- Overall, similar to previous Safeguard Policies, covering a range of social/environmental issues
- Some new areas/emphasis:
 - Public consultation and disclosure expanded
 - Labor requirements
 - E&S management systems
 - Public health and safety
 - Ambient environment now considered in emission concerns
 - Broader view of biodiversity
 - Involuntary resettlement more applicable to private sector

PS 6: Biodiversity and Sustainable Natural Resource Management

- Particularly relevant to forest products sector
- Incorporates and expands on Natural Habitat and Forestry policies
- Similar requirements for independent certification of natural and plantation forests
- Requirement to avoid critical habitat is strengthened