

Economic
Development

Biodiversity

livelihoods

International Tropical Forest Investment
Forum:
Issues and Opportunities for Investment in
Natural Tropical Forests

Forest values



**Following up on Previous
Forest Investment Forums**

Gerhard Dieterle
Forest Adviser, The World Bank
Cancun, April 26-27, 2006



Overview

**Context
and
Global
Trends**

- **“The 3 Pillars” of the Bank Forest Strategy**
- **ODA only a minor part in forest investments**
- **Increasing share of Community Ownership**
- **Concentration and Globalization of Forest industries**
- **Shift of Markets to the South-East**

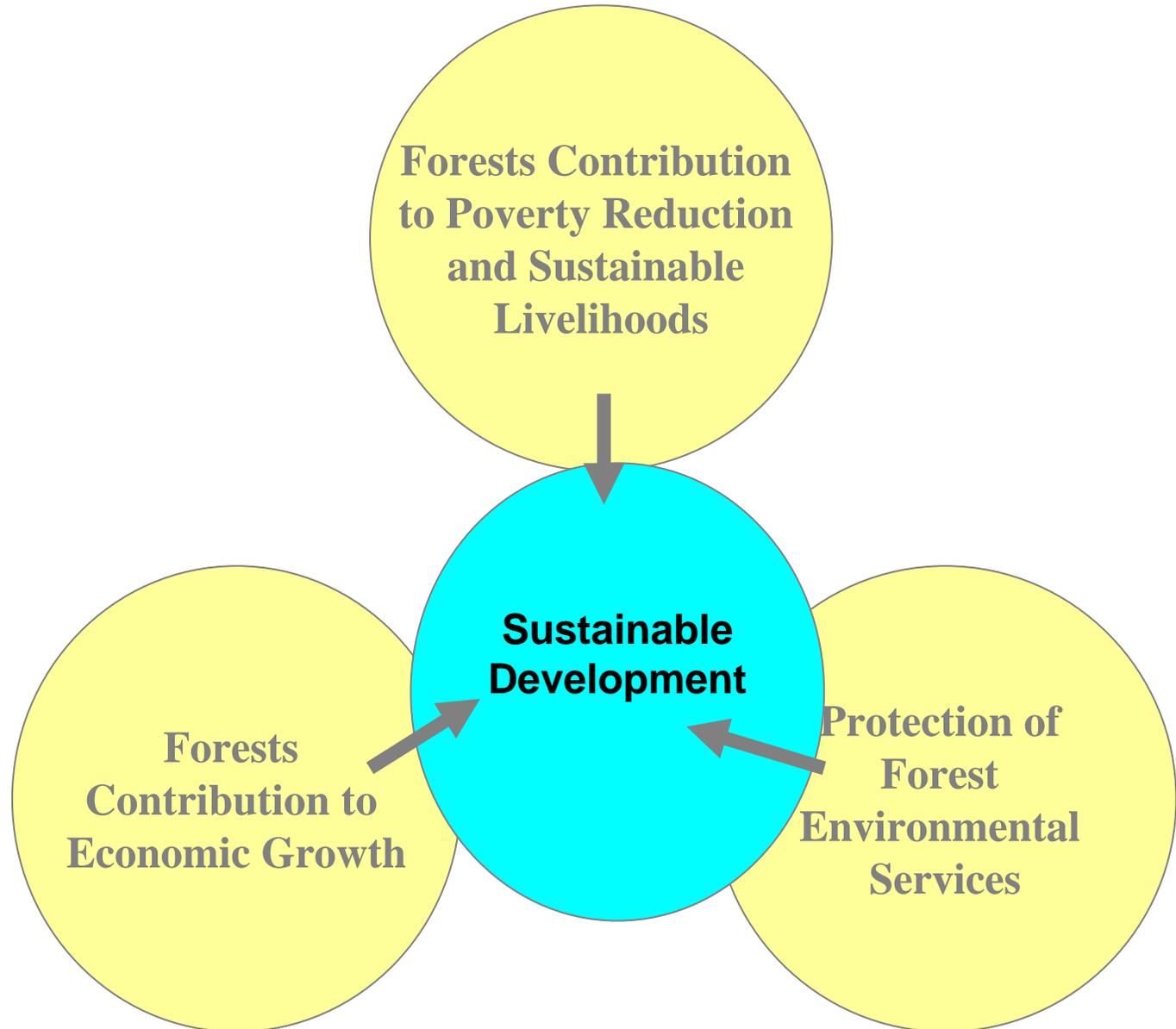
ESSD Forests

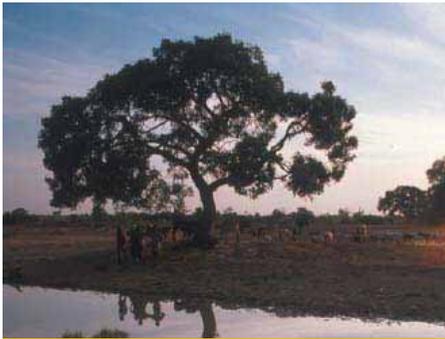




World Bank Revised Forest Strategy

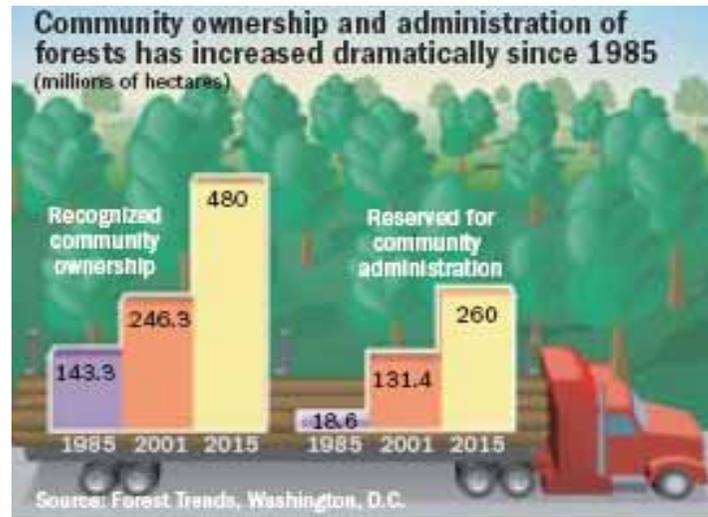
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We know that 45% of forests are projected to have community involvement by 2015

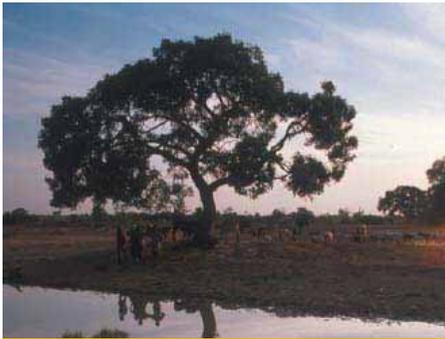
**Engage with
Communities**



The World Bank is:

- Promoting successful models for community ownership/management of forests
- Supporting expansion of SMEs
- Ensuring communities are primary beneficiaries from forests and forest products trade

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Increasing Role of Private Sector

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We know that:

- Private sector investment is 8 billion (compared to ODA 1.7 billion)
- In several countries private companies manage large areas of forests (e.g., **Cameroon and Gabon: >50%, Indonesia: 69 million**)
- Forest Industry has a large potential to contribute to integrate rural populations in economic development.

The World Bank is:

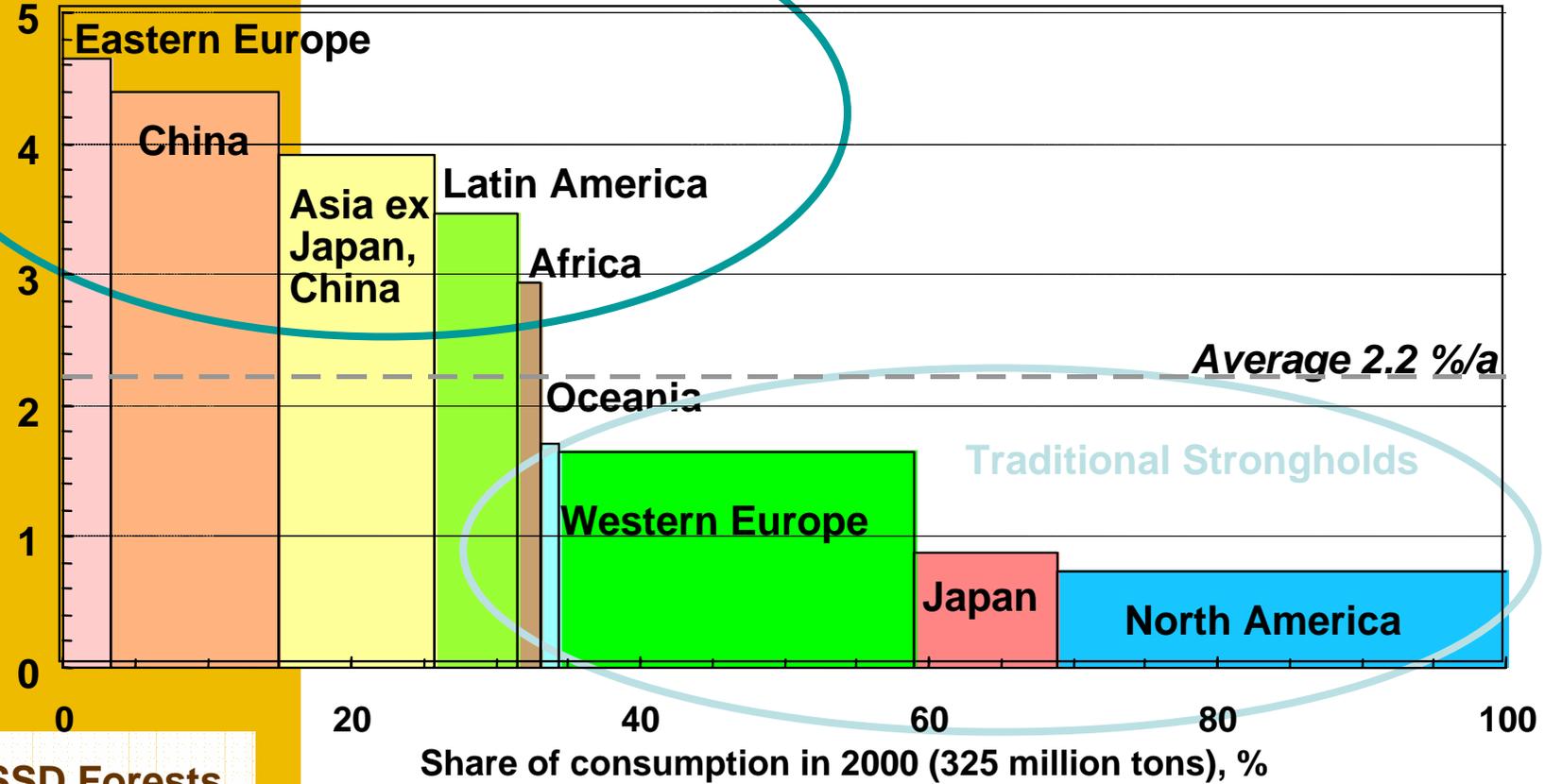
- Promoting socially and environmentally responsible private sector investment
- Assisting with building an enabling legal, institutional and policy framework
- Building collaborative partnerships with conservation agencies (WWF), and responsible private companies



Demand Is Shifting

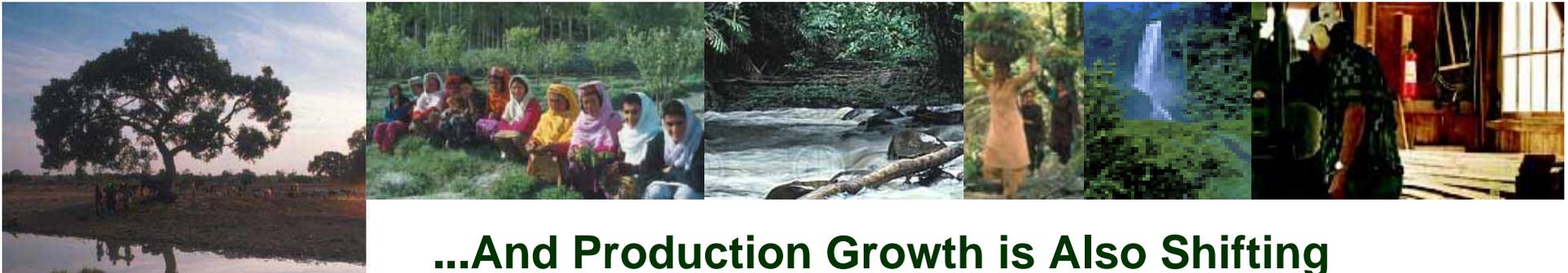
Paper & Paperboard Demand Growth Strongest in Emerging Markets

Demand growth %/a **Emerging Growth Markets**



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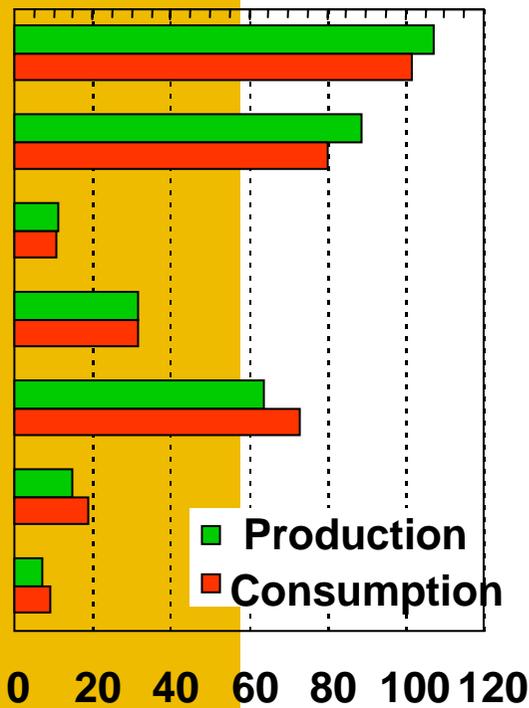




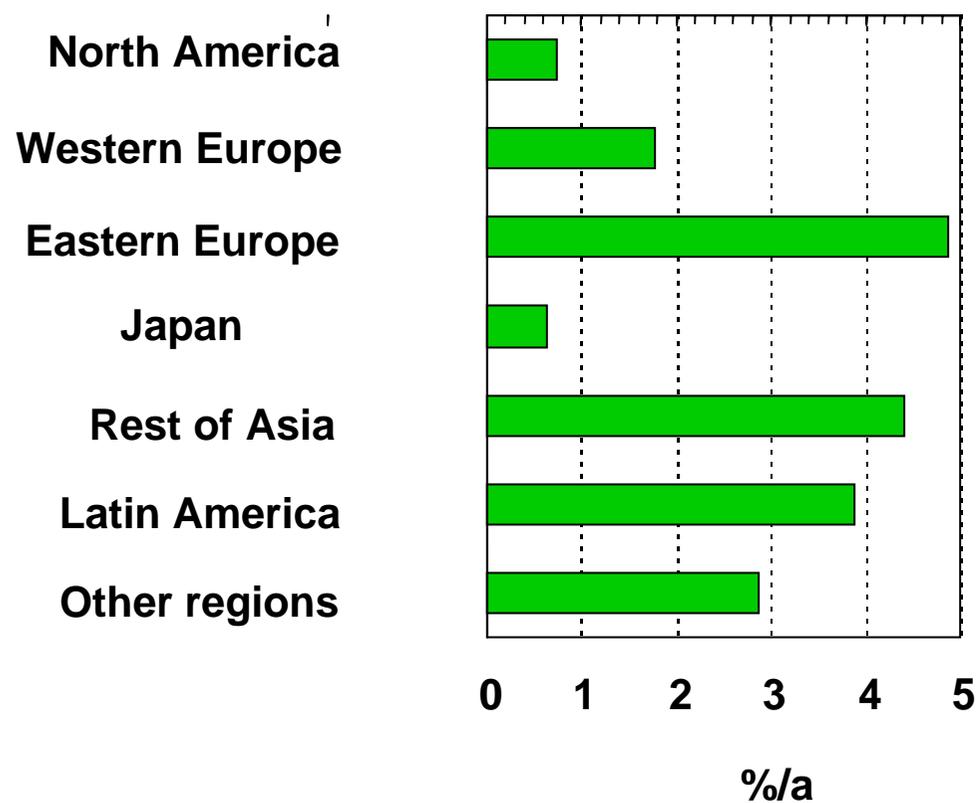
...And Production Growth is Also Shifting

...But ...North America & Western Europe still > 50% of the global production in 2015.

Production and Consumption 2000



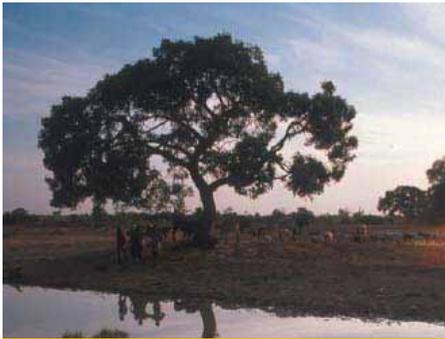
Growth of Production 2000 - 2015



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Million tons

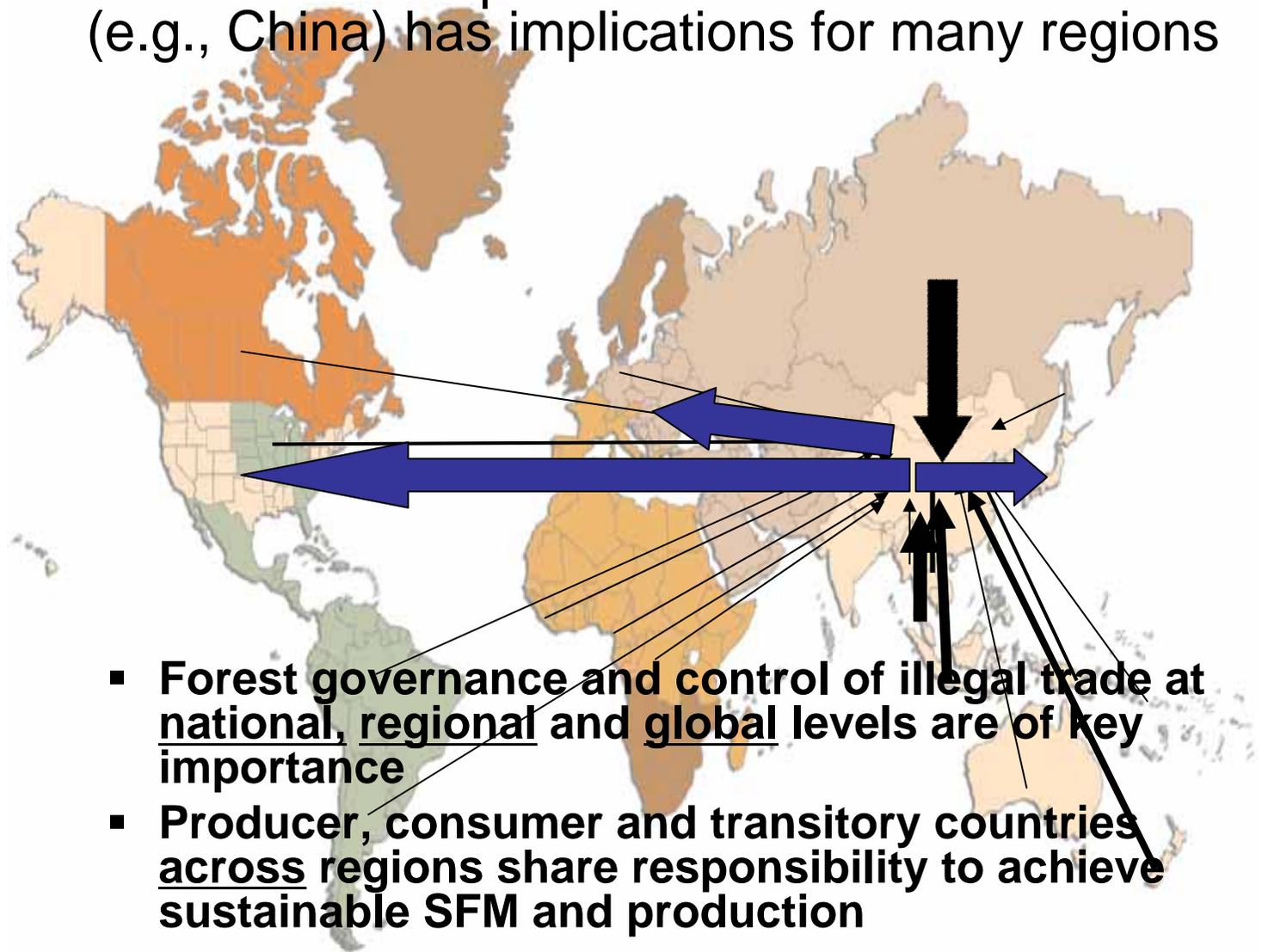
%/a

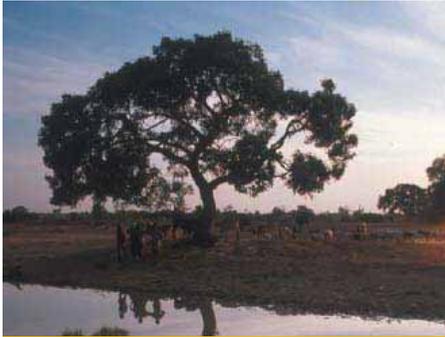


Rapid Globalization of Markets

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Demand for forest products in some countries (e.g., China) has implications for many regions



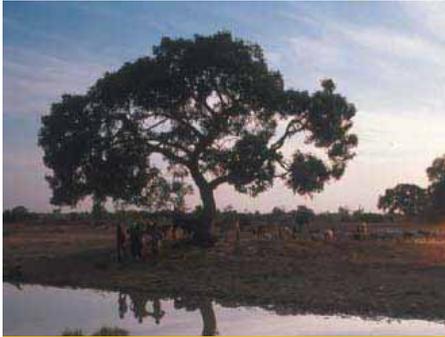


**New
Developments
since
last
Investment
Forums**

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Overview

- **Forest Certification**
- **Decreasing Public and International Financing**
- **Rapid development of TIMOs**
- **Payment for Environmental Services**
- **Carbon Trading**
- **FLEG Processes**
- **Shift towards “Soft Investments”**
- **Continued Innovation of Forest Products and Technology**

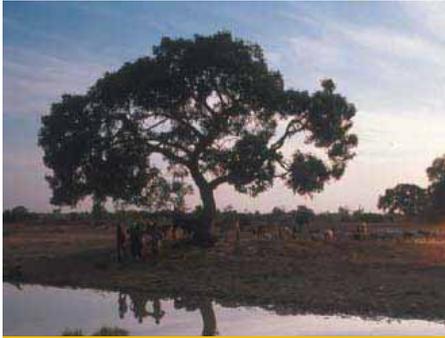


Certification Benefits and Progress in Coverage

- **Fundamental objective of certification is to promote sustainable forest management (SFM). However, it also addresses the timber supply requirements for environmentally sensitive markets.**
- **Total global certified area = 109 m ha (only 3% of total forest area). Of this:
Europe=54% North America=38%
Latin America=3%; Africa=3%; Asia=2%**
- **Certification Systems:
Pan-European (PEFC) = 38%
N. American national systems = 35%
Forest Stewardship Council (FSC) = 23%**

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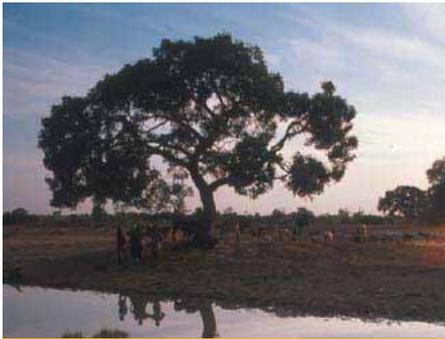




General Trends in Forest Sector Financing

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- Decreasing national budgets – raising of alternative funding sources
- Cross-sectoral, thematic funding increasingly important: poverty, environmental services, rural development
- Forests increasingly integrated in rural development schemes
- Payment for environmental services increasingly important: carbon, biodiversity, environmental services
- Adaptation to global competition: dealing with global players, sustainability, corruption, governance, illegal logging
- New wood products, bio-energy



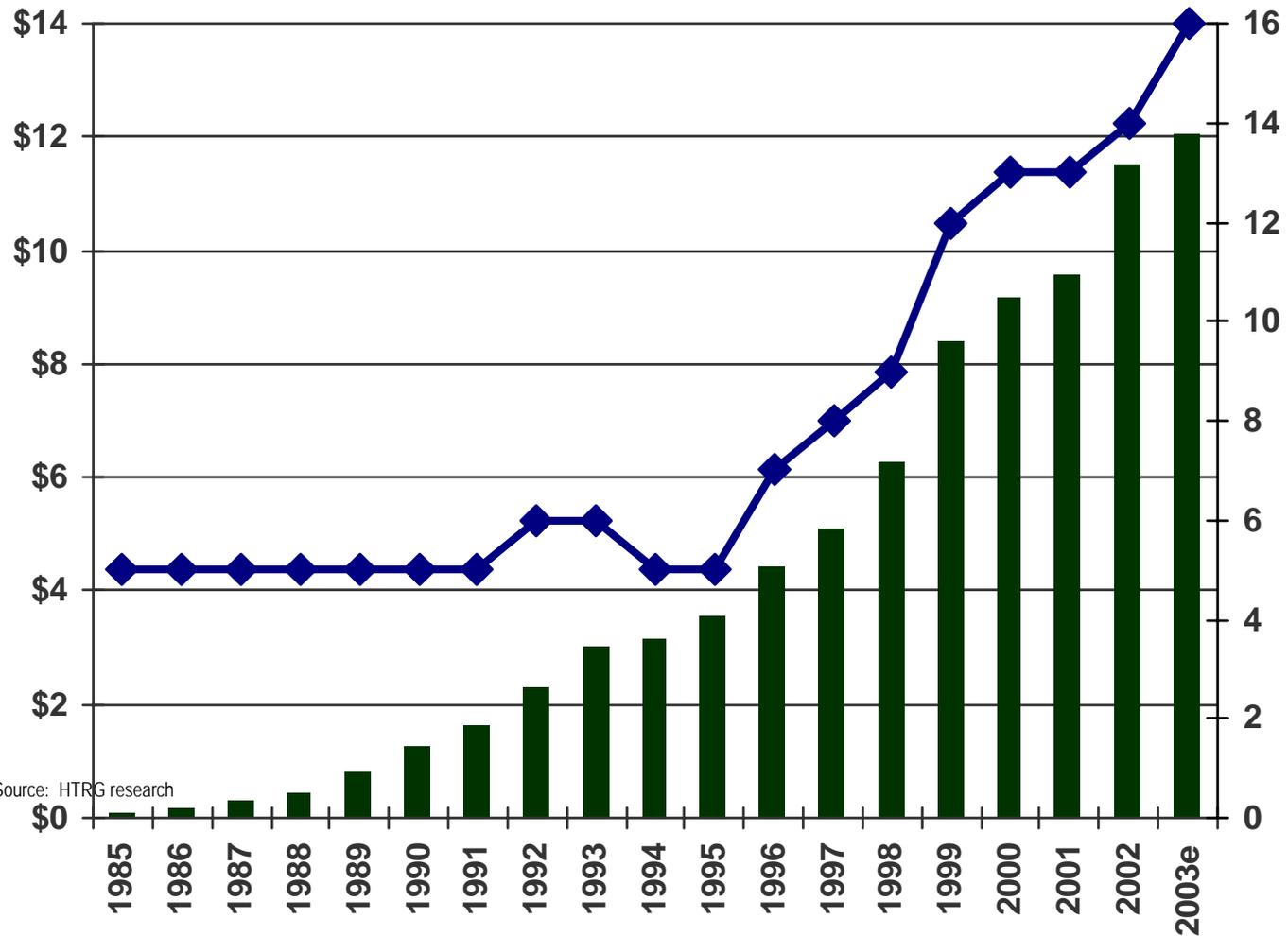
Institutional Investment in Timberland

Growth in Institutional Ownership of U.S. Timberland

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Market value (\$ billions)

Number of Firms

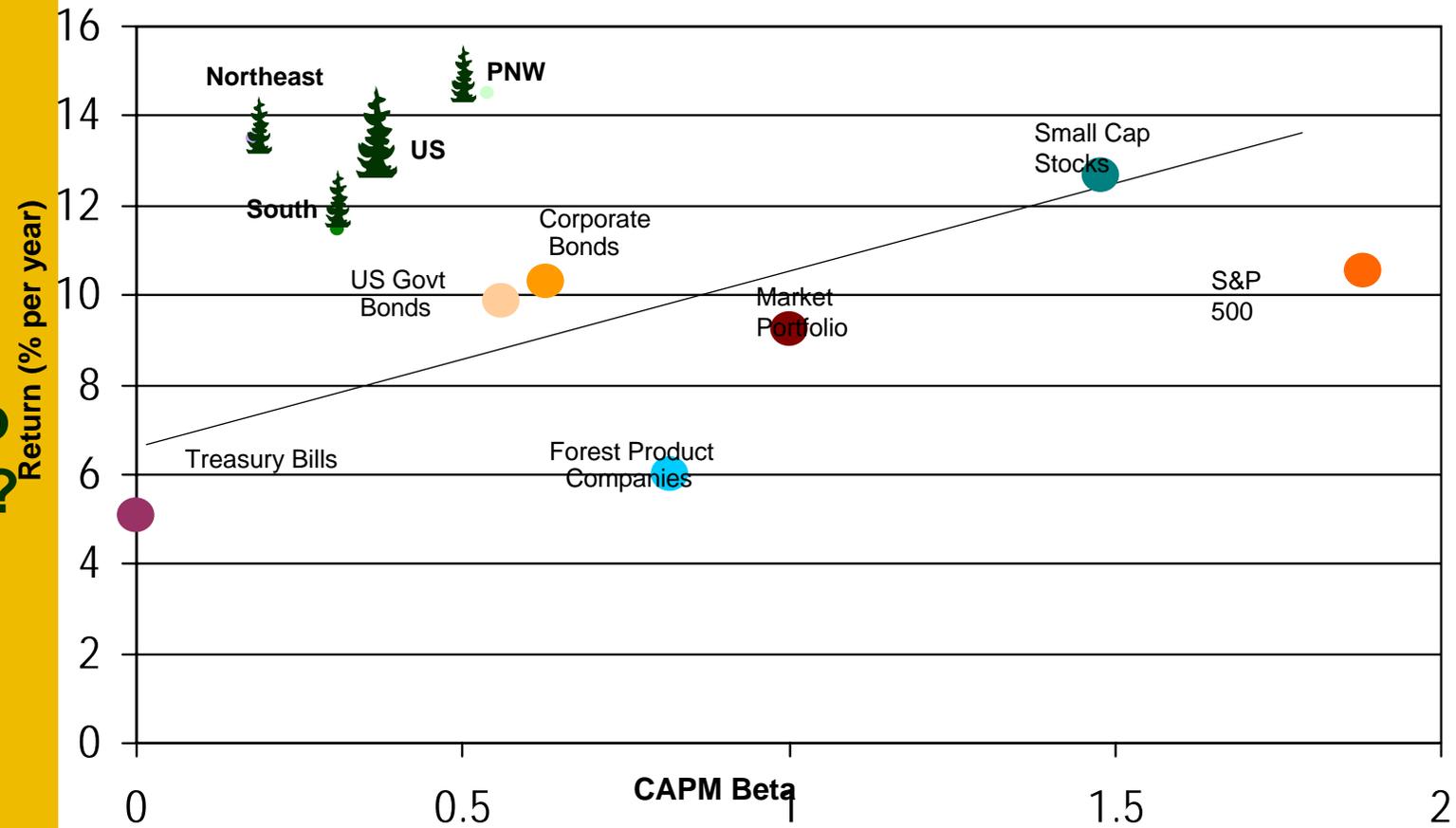


Source: HTRG research



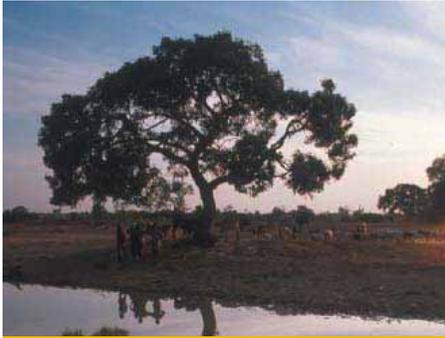
Low to moderate risk (Security Market Line, 1990-2002)

Why is timberland attractive to institutions?



Sources: Timberland returns are calculated from the NCREIF Timberland Index. Returns for financial assets were obtained from Ibbotson Associates 2002. Securitized Timberland calculated from returns by Deltic Timber, Crown Pacific, Plum Creek, and U.S. Timberlands. Forest products company data from S&P Forest Product Index. Market Portfolio consists of common stock (35%), small cap. stock (6%), long-term corp. bonds (11%), U.S. government bonds (33%), and U.S. 90-day treasury bills (15%).

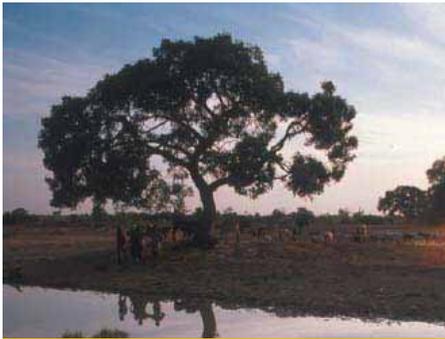
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Payment for Environmental Services (PES)

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- **PES develops mechanisms to capture environmental externalities and bring them into the marketplace**
- **Basic principles:**
 - Beneficiaries of environmental services pay for their provision
 - Providers of environmental services get paid to provide them
- **Increasing number of modified approaches**
 - Afforestation funds in Eastern Europe
 - Tax based systems: China, EU?
 - Contractual Nature Protection



Carbon Finance at the World Bank

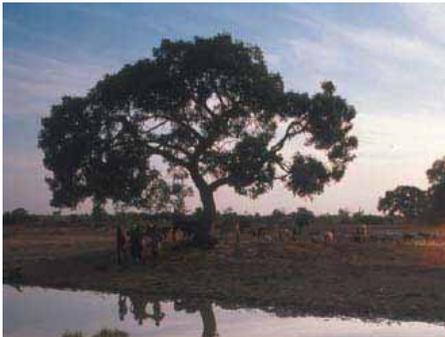
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- Prototype Carbon Fund (PCF) as the flagship: US\$180 million
- Netherlands - Clean Development Facility
 - US\$140 million in 2002-2005
- Community Development Carbon Fund (CDCF)
 - Launched WSSD, implemented from June 2003 - US\$40-50 million
- BioCarbon Fund
 - Just approved - US\$30-40 million
- World Bank Carbon-Neutral Policy
 - Initiated March 2003
- Other initiatives being negotiated



Netherlands Clean Development Facility





International and regional initiatives to address the illegal logging and forest governance challenge

- **G8, ITTO, UNFF, FAO, CBD, CITES, etc.**
- **European Union's FLEGT Action Plan**
- **Bilateral initiatives: Indonesia with UK, China, Japan, Malaysia and Norway**
- **U.S. Presidential Initiative in Congo Basin, Amazon Basin and Central America and South/Southeast Asia**
- **OECD Anti-bribery and Anti-money laundering initiatives, etc.**

- **Intergovernmental FLEG processes:**
 - East Asia (2001),
 - Africa (2003),
 - **Europe and North Asia (2005)**
 - 53 governments invited, including China
 - National stakeholder consultations and inputs from private sector and civil society
 - Prep. Conference – June '05, Ministerial – November '05
 - World Bank is asked to coordinate

- **World Bank-WWF Global Forest Alliance**
- **Large and medium-sized enterprises in procurement policies, Corporate Social Responsibility, etc.**

ESS Forests





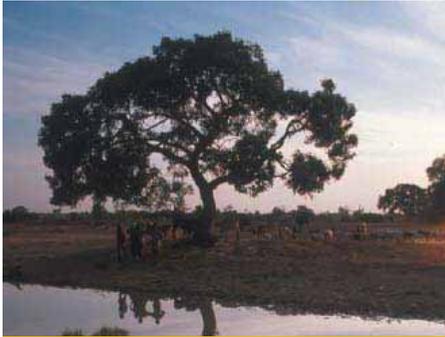
Value-added Chain
in the Illegal Trade of
Ramin

Logger (Tanjung Putin Nat.Park):	\$2.2/m³
Broker (buying illegally in Idn.):	\$20/m³
Broker (selling in Malaysia):	\$160/m³
Buyer (of ramin sawntimber):	\$710/m³
Exporter (of sawn ramin in Sgp.):	\$800/m³
Buyer (of moulded ramin in US):	\$1000/m³

(Source: Timber Trafficking, EIA and Telapak, Sept. 2001)

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**Shift from
“hard” to “soft”
Investments
and
Development
Aid**

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More investments in

- Innovative forest products: carbon, biodiversity, environmental services
- Knowledge management/Human resources
- Information Systems
- Transparency/ Accountability/Governance
- Sustainability, Labeling, positive discrimination
- Behavior/ Ethics/Stakeholder Processes

But....

Dramatic Decrease in funding for education

Continued need for investments in

- Technology
- “traditional products”: infrastructure,

Economic
Development

Biodiversity

Protected areas

Conservation

livelihoods

Poverty reduction

Forest values

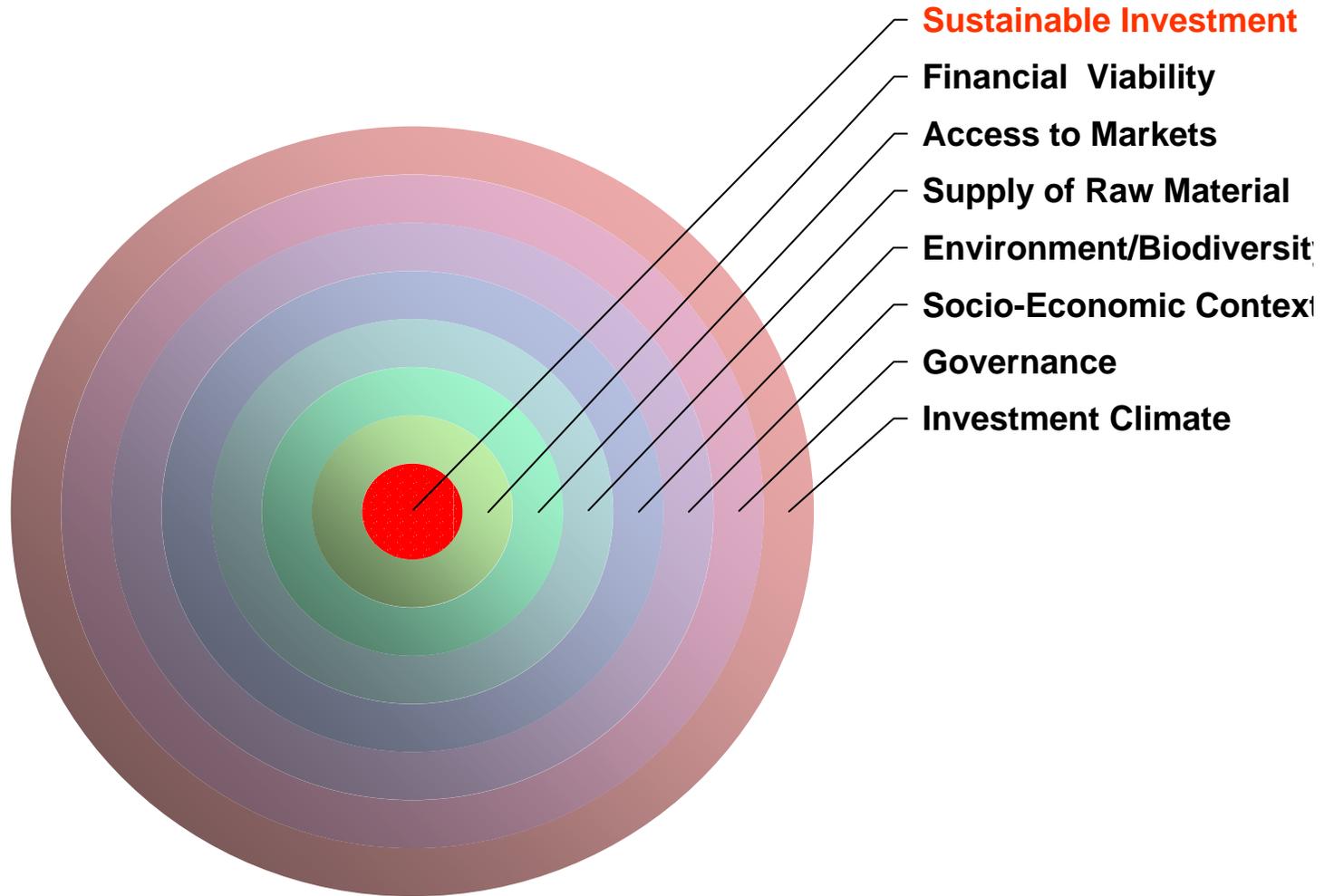


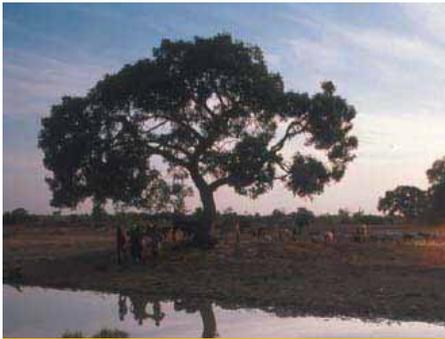
**The Way Forward -
Need for an Integrated
Approach**



Factors Determining Sustainable Investment in Forest Industries

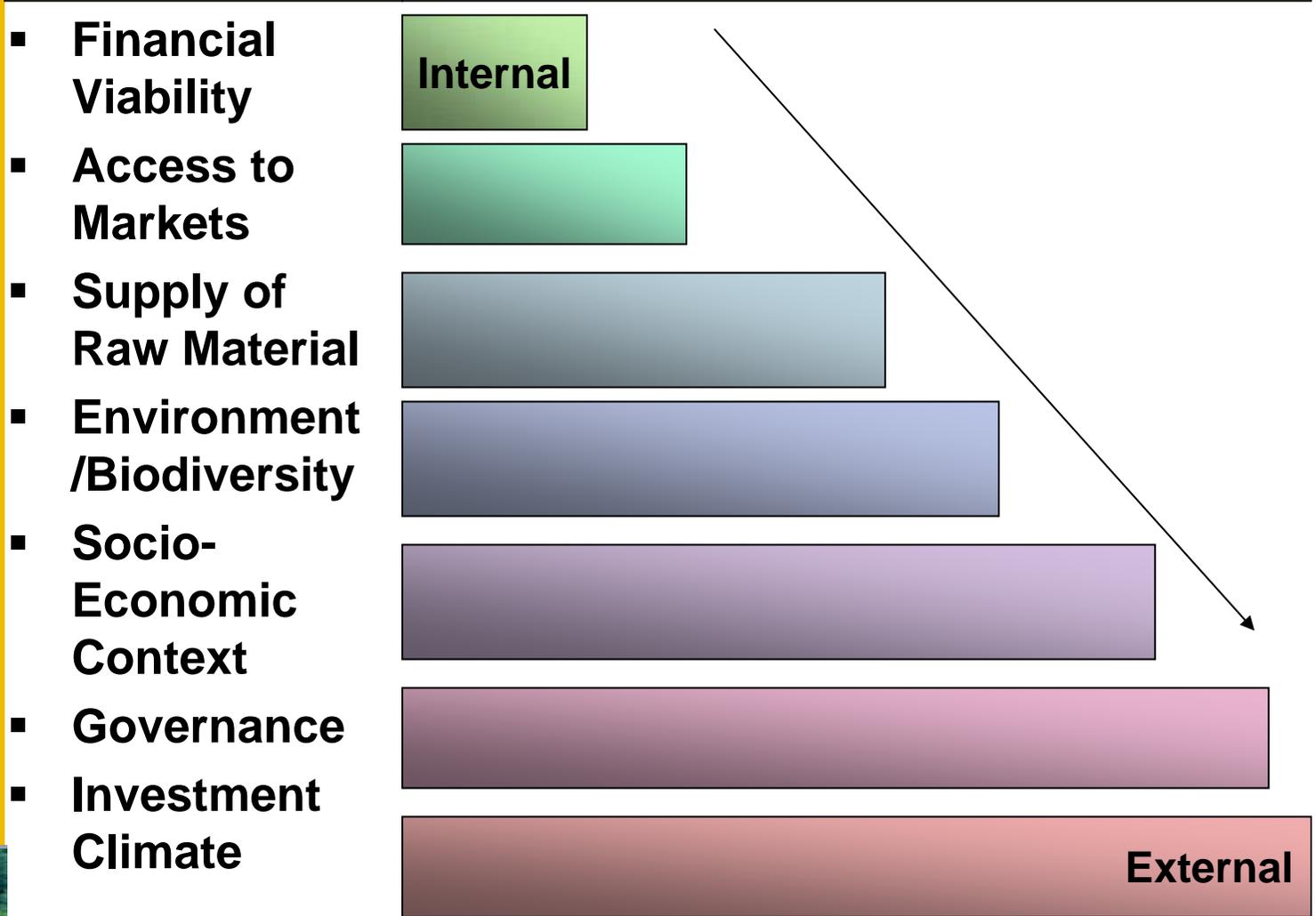
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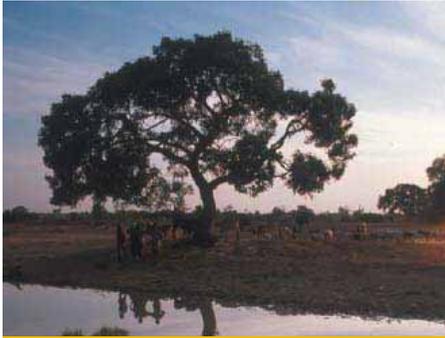




Investments in Forest Industries Require Bank wide Collaboration and Partnerships in Forest Industry

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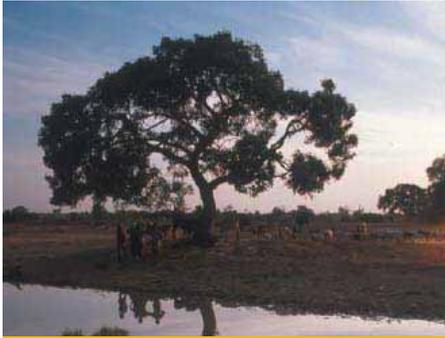


Overview

**Who can
Influence
Investment
Climate,
Promote
SFM
and
Equitable
Trade?**

- **Private Sector**
- **Governments**
- **The International Donor Community**
- **Environmental and Social NGOs**
- **The World Bank Group (IBRD, IDA, IFC, MIGA and Other Development Banks**
- **Investment Banks and Financiers**

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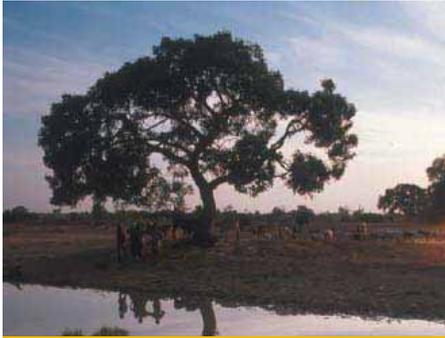
What the Private Sector can do

- Apply CSR principles
- Increase efforts towards forest certification and COC verification
- Apply outgrower schemes and engage with local communities
- Voluntary codes of conducts
- Transparent and standardized reporting

Financing institution should play a more proactive role

- Financing institutions should strictly apply sustainability principles

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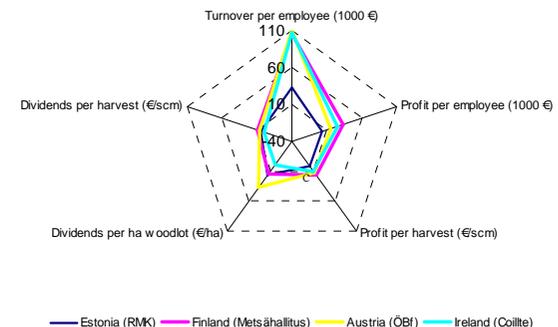


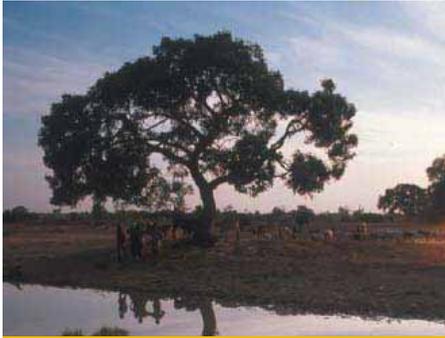
Role of Governments

Forest Policy Reforms to Improve Forest Outcomes

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- ❖ Establish Clear Property Rights
- ❖ Establish well-defined Permanent Forest Estates
- ❖ Reduce distortions to trade in forest products (no under-valuation)
- ❖ Set the “right” level of forest taxation and rent capture
- ❖ Simplify forestry legislation and strengthen implementation
- ❖ Create strong and viable forest organizations



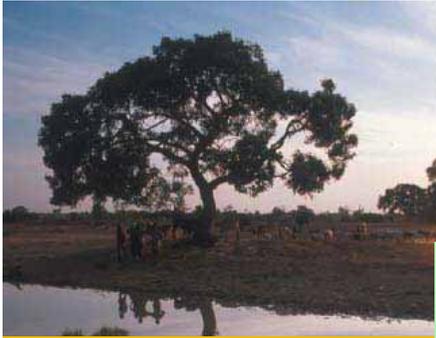


Role of Governments

Reduce Corruption in the Forest Sector

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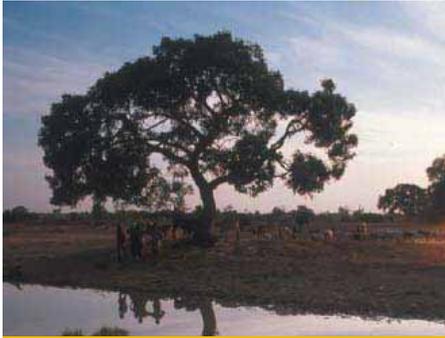
- ❖ Develop (and enforce) codes of conduct for forest industry
- ❖ Support the development of National Standards for Forest Certification
- ❖ Pay public service adequately
- ❖ Apply transparent procedures for lease/concession allocation
- ❖ Recognize and honor traditional rights, land-use rights and involve local populations
- ❖ Create channels for reporting corruption; and develop processes to adequately deal with it
- ❖ Strengthen the forest law enforcement system
- ❖ Increase penalties for forest crimes to deterrent levels



What the International Community can do?

- ❖ Assist countries in promoting SFM and related trade
- ❖ Support integration of rural communities in SFM and development of secure land tenure
- ❖ Increase funding for FLEG related issues
- ❖ Improve forest cover change monitoring
- ❖ Promote adherence to regulations in forestry related treaties/conventions
- ❖ Promote adherence to anticorruption treaties
- ❖ Zero tolerance for corruption and unethical practices in projects
- ❖ Apply legality and sustainability principles in public procurement

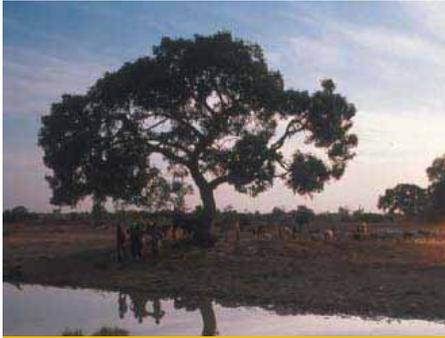
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**What Social
and
Environmental
NGOs
can do**

- **Establish link between government, private Sector and local communities**
- **Assist local communities to get organized**
- **Help local communities to access markets**
- **Playing role as advocate for social and environmental issues**
- **Promote forest certification**
- **Assist with monitoring and verification of agreements**

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Role of the WB (and other International Development Banks)

- Scale up successful models for community ownership and small-holder involvement.
- Apply landscape-based approaches in improving rural livelihoods and addressing deforestation
- Mainstream biodiversity conservation in productive landscapes
- Address complex institutional, governance and land tenure issues in Bank operations
- Work with producer, consumer and transitory countries across regions to achieve sustainable SFM and production
- Mobilize responsible private sector investment
- Value and mobilize payments for forest environmental services
- Create enabling institutional, legal and policy frameworks

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Economic
Development

Biodiversity

Protected areas

Conservation

livelihoods

Poverty reduction

Forest values

END



Thank You!

www.worldbank.org/forestry

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