



FORUM to STRENGTHEN POLICIES and OPPORTUNITIES for FOREST INVESTMENT in the PHILIPPINES

NATIONAL FORUM TO STRENGTHEN POLICIES AND OPPORTUNITIES FOR FOREST INVESTMENT IN THE PHILIPPINES

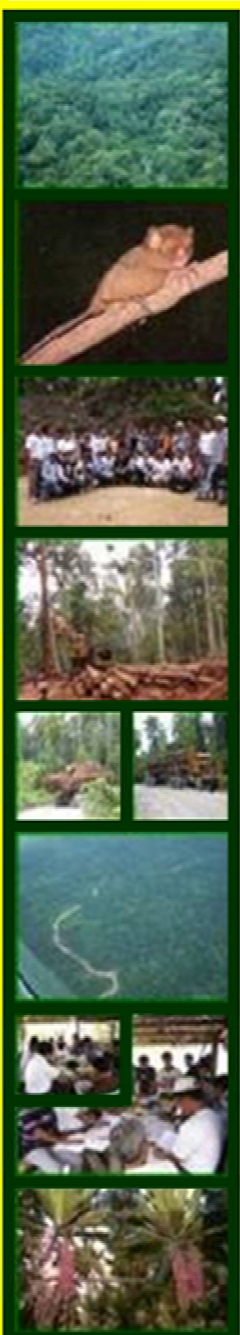
*Asian Institute of Management Conference Center
Makati City, Metro Manila
12-14 August 2009*

BACKGROUND PAPER

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Forum Consultant

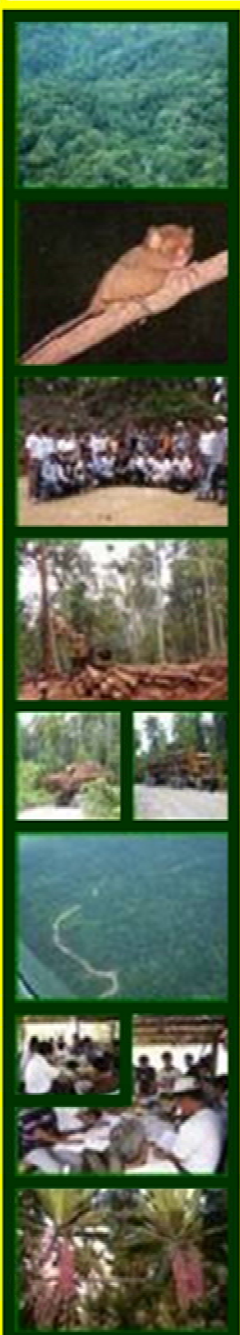
International Tropical Timber Organization





Objectives of the Paper

- Provide overview of the essential information and analysis
- Leveling off the understanding of participants on the theme, scope, and objectives of the Forum.
- Provide framework and appreciation of the various papers to be presented
- Can facilitate the group discussions of the Forum.





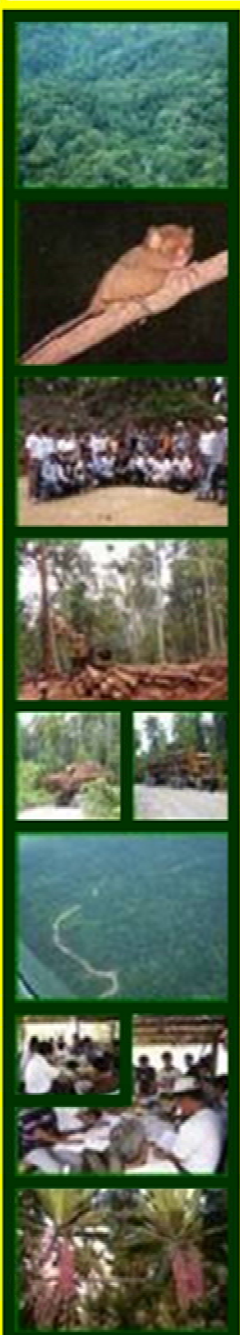
MAIN STAKEHOLDERS

STAKEHOLDERS	ROLES
Government agencies DENR, BOI, DTI, DOF, NCIP	Policy, regulation, incentive, subsidy, tenure, fees and taxes
Forest dwellers and communities, IPs	Small and medium operations, CBFM
Private investors IFMA, Processing, furniture etc	Commercial operations, financial investment
NGOs	Advocacy, technical assistance, fund conduit
Academe 52 colleges, universities	Education and manpower development
Banks (Private and GFIs)	Financing
ODA agencies Multi-lateral and bilateral, UN	Grant and loan assistance, policy reform, institutional



SCOPE OF PAPER

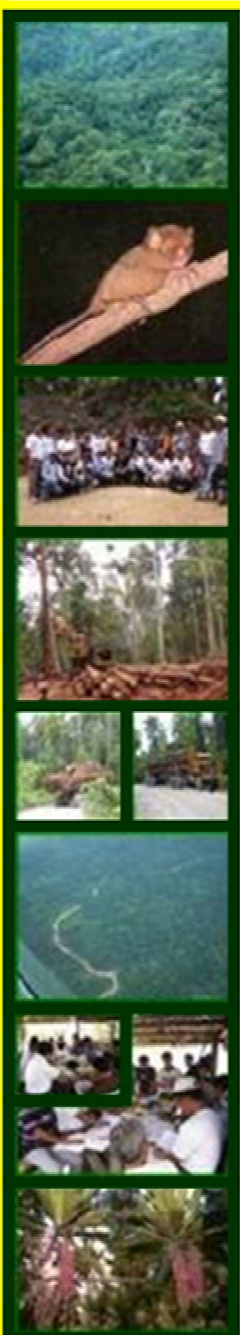
1. Essential information on the Philippine forest sector
2. The comparative advantages and competitiveness of the tropical forestry sector in the country
3. **The current national policies favorable / unfavorable to investment in the tropical forest sector**
4. **Current and potential investment opportunities in the tropical forest sector in the country**
5. **Proposals and recommendations**





Essential information on the Philippine forest sector

1. Status of forest resources
2. Production imports and exports of timber, timber products, and non-timber products
3. Volume of available timber species with commercial potential
4. Contribution of the tropical forest sector to the GDP and national accounts
5. Types and number of forest enterprises
6. Human resources available
7. Current and available infrastructure in the tropical forest sectors
8. Types of main stakeholders





FOREST COVER

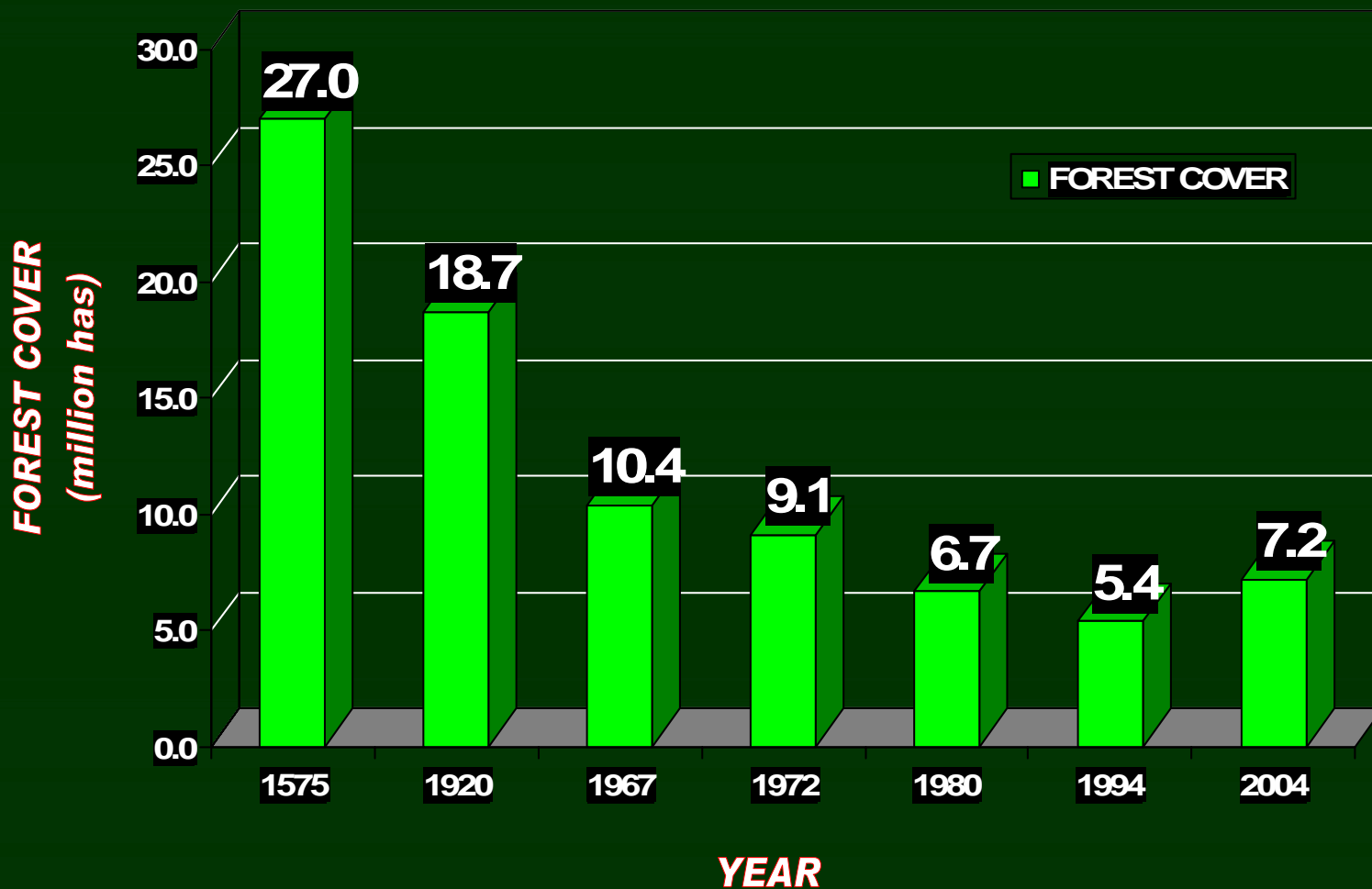
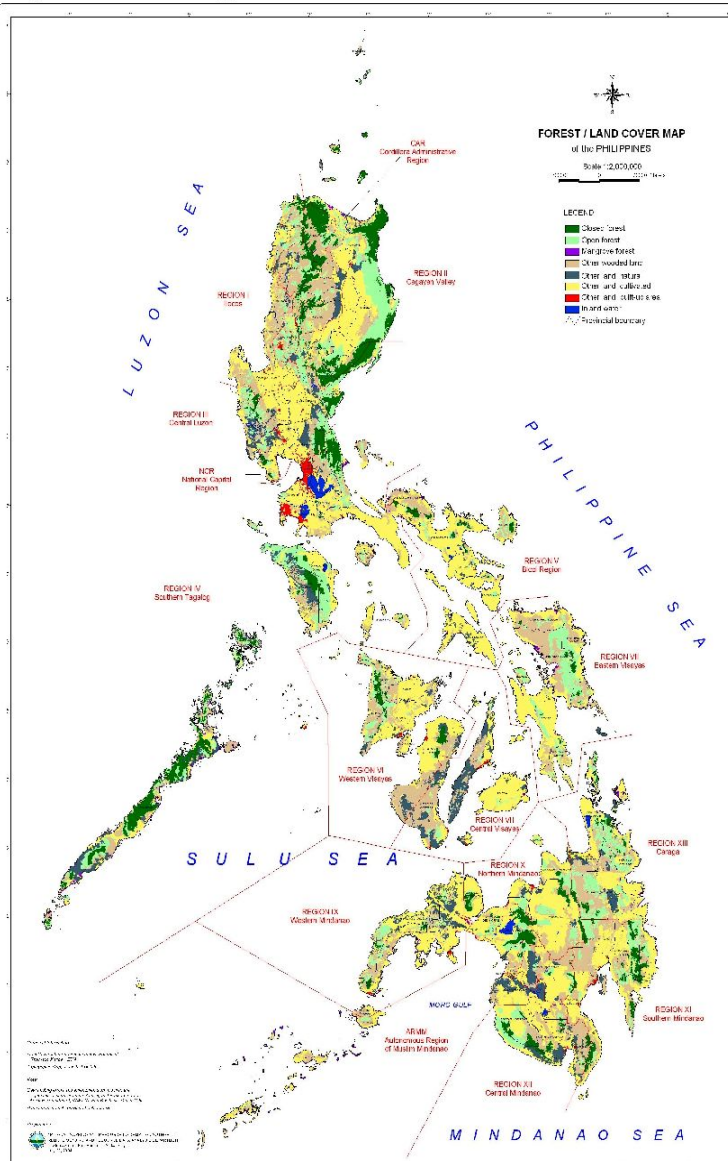


Figure 1. Forest Cover Types

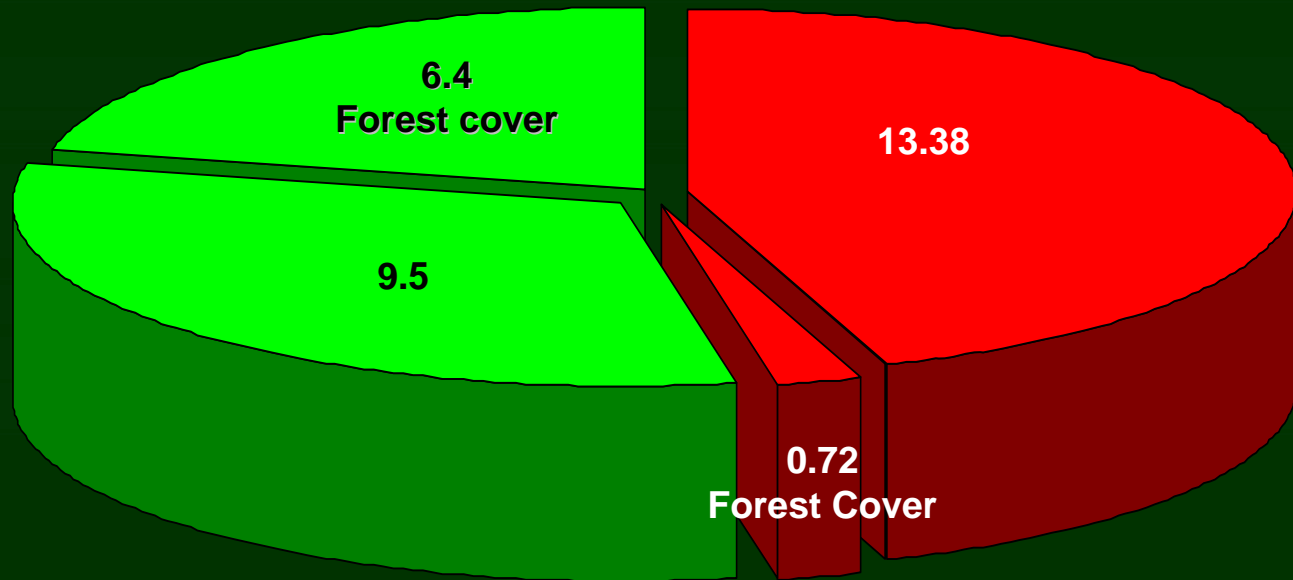


• Forest resources

- ❑ RP lies to the east of continental Asia between the South China Sea and the Philippine Sea, extending from 5° to 20° north of the equator and comprising more than 7,100 islands.
- ❑ Land area of 30 million hectares and a population of 95 million people. Lands that are 18% in slope and above are classified as forest lands and owned by the state / government and total to 15.9 million hectares or 52.68% of the country's area.
- ❑ The actual forest cover is officially estimated at 7.168 million hectares of which 6.432 million hectares is in classified forest lands while .737 million hectares are outside. About .8 million hectares is considered as primary or virgin forests.

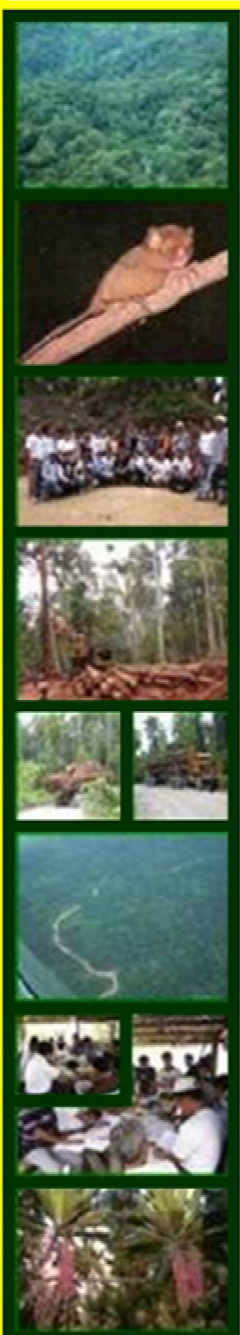


LAND CLASSIFICATION



Forest Land = 15.9 (52.7 %)

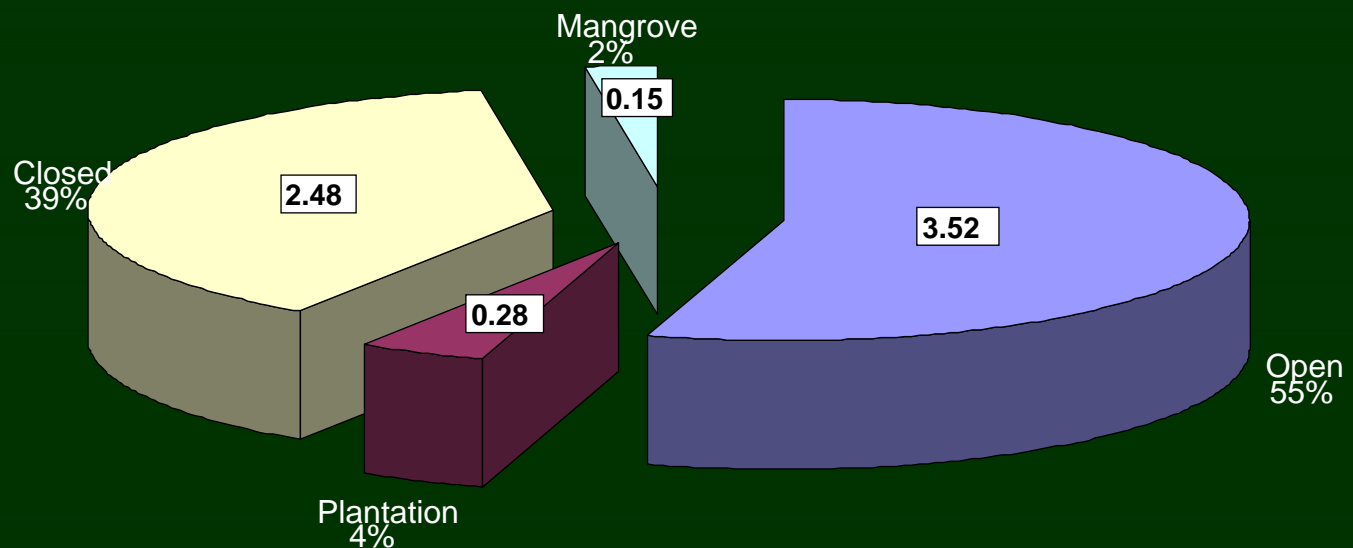
A&D = 14.1 (47.3 %)





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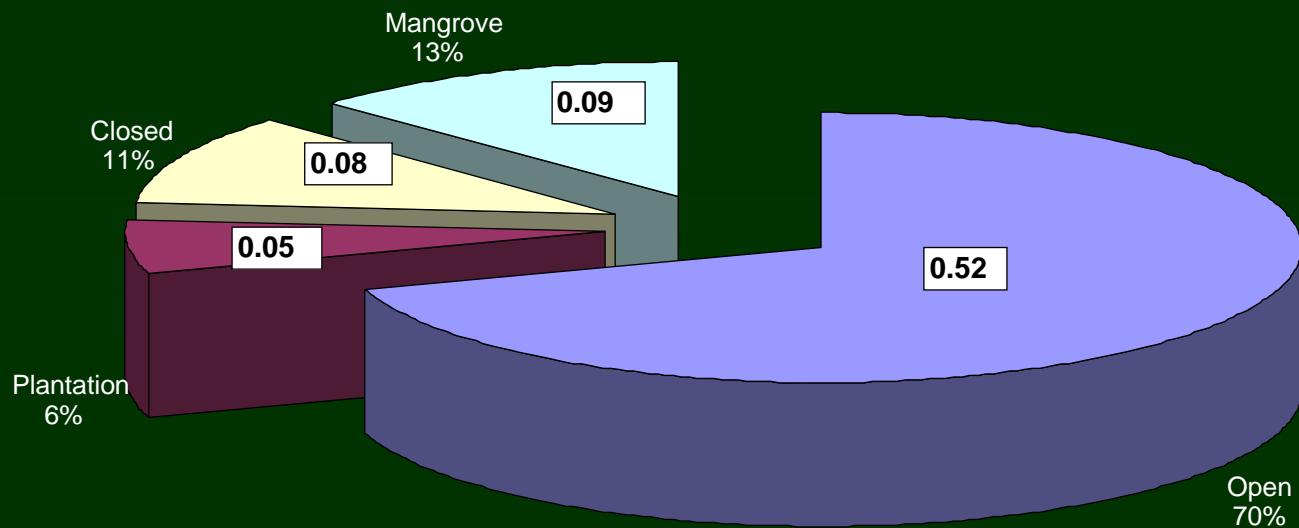
FOREST COVER WITHIN FORESTLAND/TIMBERLAND: 2006 IN MILLION HECTARES





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FOREST COVER WITHIN ALIENABLE & DISPOSABLE: 2006 IN MILLION HECTARES



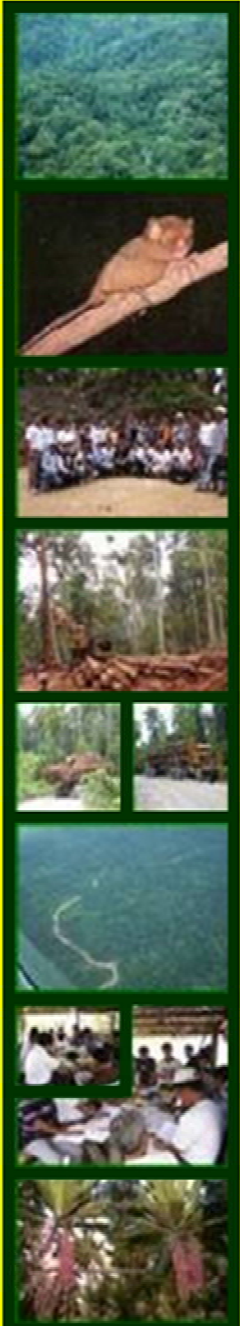


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Roundwood production and processing units

	1974/77	2003	2006	2008
Production of industrial roundwood (1000 m ³)	11,200	503	1,036*	650
Processing units	325 sawmills 70 wood-based panel manufacturing units	31 sawmills 50 wood-based panel manufacturing units	52 sawmills 67 wood-based panel manufacturing units	Undetermined

*Note: * of which 16.5% come from naturally grown forests while 83.5% from planted forests*





Forest Production

Product	Species	2004	2005	2006	2007	2008*
Logs	All	768	841	1036	803	857
	C	0	0	0	0	0
	NC	768	841	1036	803	857
Sawn	All	339	288	432	362	386
	C	0	0	0	0	0
	NC	339	288	432	362	386
Ven	All	180	133	95	124	140
	C	0	0	0	0	0
	NC	180	133	95	124	140
Ply	All	386	314	317	281	273
	C	0	0	0	0	0
	NC	386	314	317	281	273

PRODUCTION 1000 CUBIC METERS

Sources: FMB, ITTO

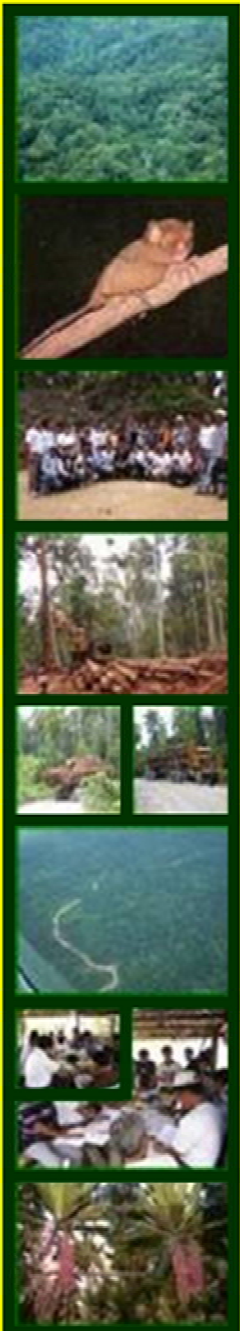




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Commonly harvested species for industrial roundwood

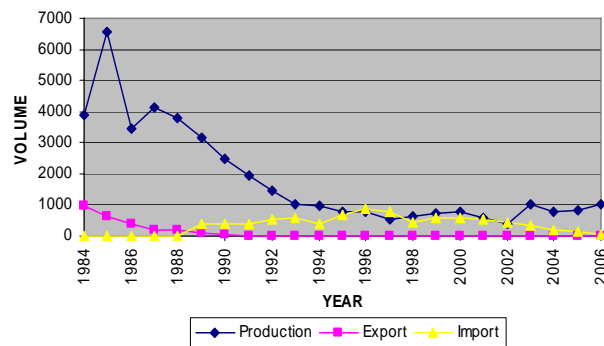
Timber species	Harvesting quantity (Cubic meters)	Remarks
<i>Paraserianthes falcataria</i> (Falcata)	319,904	From secondary forest stands and planted forests
<i>Gmelina arborea</i> (Yemane)	166,806	From planted forest
<i>Acasia mangium</i> (Mangium)	101,361	From planted forest
<i>Eucalyptus deglupta</i> (Bagras)	34,018	From planted forest
<i>Swietenia mahogany</i> (Mahogany)	78,081	From planted forest, used in the sawmilling and plywood industries
<i>Shorea negrosensis</i> (Red Lauan)	24,300	Used in the sawmilling and plywood industries



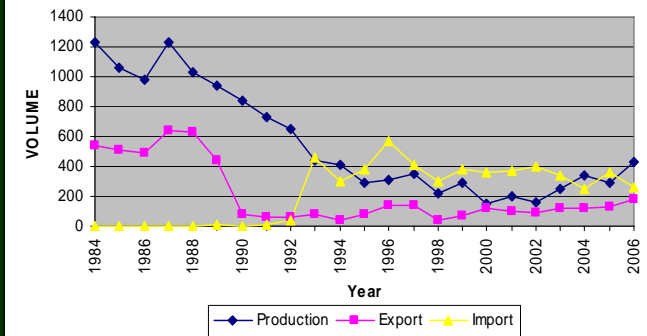
PRODUCTION, EXPORT AND IMPORT OF MAJOR FOREST PRODUCTS: 1984-2006

(Volume in thousand cubic meters)

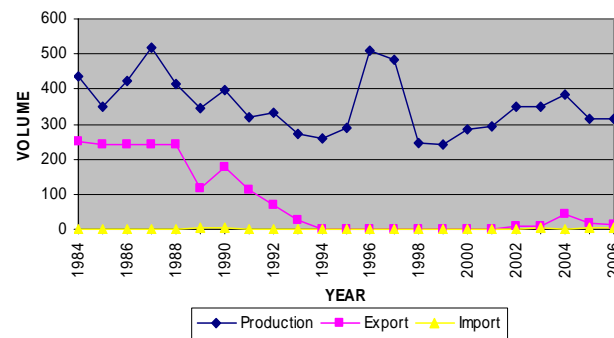
LOG



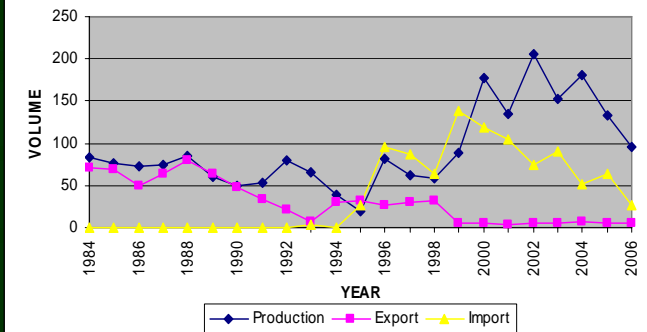
LUMBER



PLYWOOD



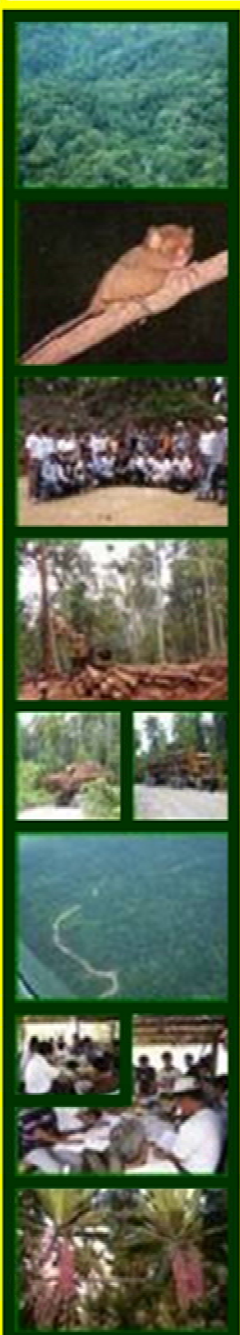
VENEER





Contribution of the forest sector to the GDP and national accounts

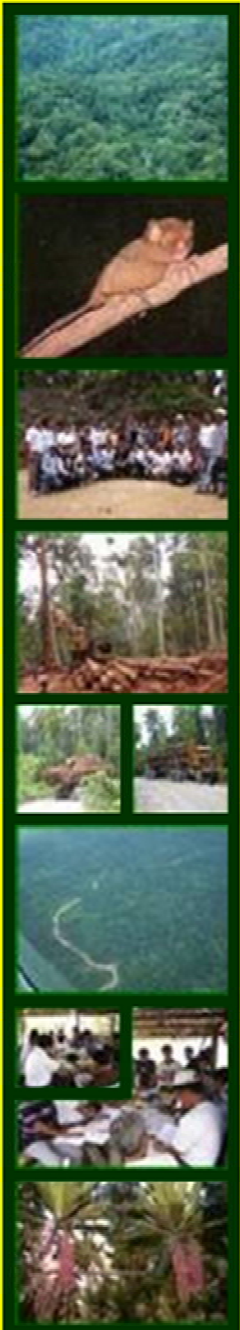
- The wood based industry supports economic development by contributing to the country's Gross National Product (GNP) through forest charges, export earnings and generation of employment.
- The GVA and percentage share of forestry in the GNP has been declining since the 1970s. The percentage share of forestry in GNP dropped from 1.97 % in 1985 to 0.83 % in 1990 and further dropped to only 0.05 % in 2003 at current prices or from 0.13 % in 1985 to 0.07 % in 2003 at constant prices. This indicates the decreasing importance of forestry as an economic sector in the economy.
- From 2003 there is slight increase from 2006 to 2008 and the contribution to GDP is averaged at about US \$ 83.8 million or an average of .07 % of total GDP at current prices. The contribution of NTFPs to the GDP is minimal and presently unrecorded.





Forest Enterprises

TYPES	NUMBER	AREAS
TLA	6 (1 active)	325,310
IFMA	146	767, 094
CBFM	1,781 321,536 households	1.6 million (2006) 5.4 million (total)
SIFMA	1,803	34.743
AGROFO RESTRY TF	198	99, 994
PROCESSING PLANTS	52 active sawmills, and 67 veneer and plywood manufacturing plants.	





Classification of Enterprises

By Asset Size

Micro:	Up to Php 3,000,000
Small:	Php 3,000,001 -- Php 15,000,000
Medium:	Php 15,000,001 -- Php 100,000,000
Large:	above Php 100,000,000

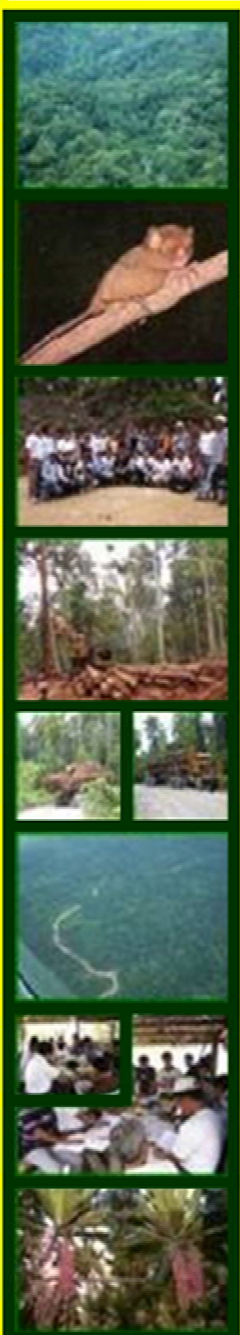
Based on the number of employees

Micro:	1 -- 9 Employees
Small:	10 -- 99 Employees
Medium:	100 -- 199 Employees
Large:	More than 200 Employees



Advantages and competitiveness of the forestry sector in the country

1. Cheap labor costs and skills
2. Technical and skilled personnel
3. Fiscal incentives
4. Available areas and technology in plantations
5. Selective logging and sustainable forest production





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TECHNOLOGY AND RESEARCH



CLONING

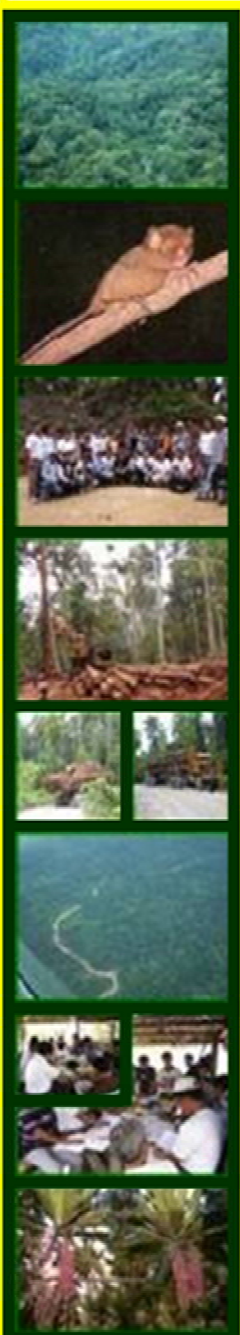


- The rules and regulations for implementing the Philippine selective logging system is most appropriate and effective for the Tropical Dipterocarp forest.
- Implementing strategies for selective logging are very conducive to sustainable timber production if properly implemented.
- Provides competitive advantage in natural forest management / production.



Enabling Forest Policies

- 1987 Constitution
- 1975 Forestry Code of the Philippines (PD 705 as amended by PD 1559)
- Republic Act 7586/1992 on a National Integrated Protected Area System
- Executive Order 263/1995 on Community-Based Forest Management
- Republic Act 8371 Indigenous People's Rights Act 1997
- EIA Law
- Executive Order 318/2004 on Promoting Sustainable Forest Management in the Philippines

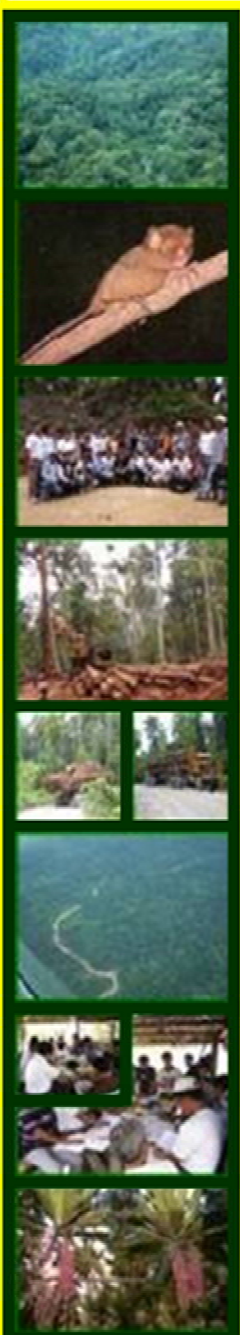




Policies favorable / unfavorable to investment

A. Unfavorable policies

1. Unstable and incoherent forest policies
2. Insecure land tenure
3. Logging ban policies and diminishing forest resources
4. Outdated policies and over-regulation of the forest sector
5. Burdensome Tax policies and practices
6. Lack of competitive forest investment incentives
7. Export of lumber ban

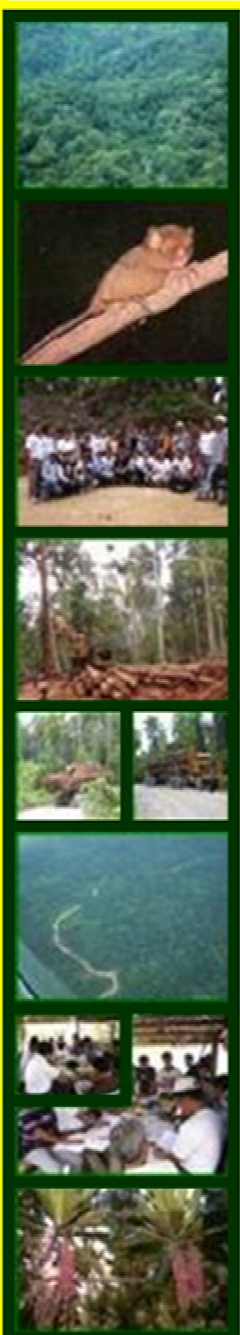




Unstable and incoherent forest policies

DAO, MC, AO

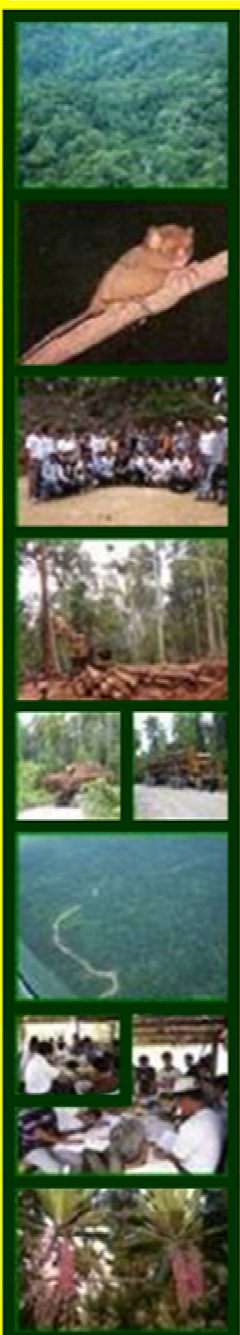
- Harvesting moratorium
- Tenure security
- Log bans in certain areas
- Transport permits and regulations
- Wood processing permits
- Rationalization of wood industry
- Guidelines on various forest tenure
- Government shares in JVA and production sharing





Lack of competitive forest Investment Incentives

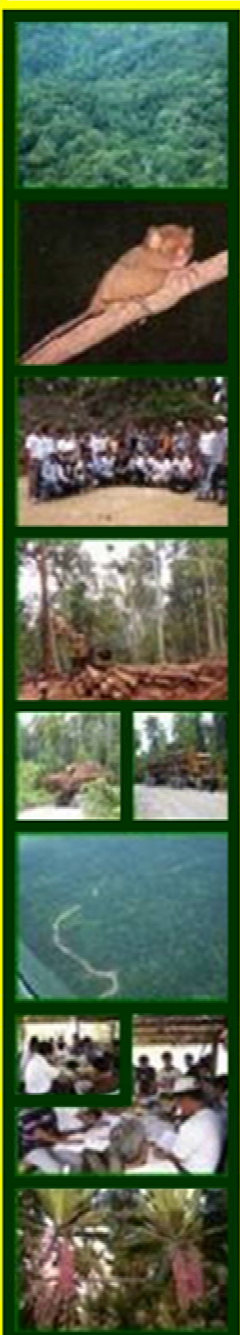
- Omnibus Investment Code (OIC) 1987 under Executive Order No. 226 (EO No. 226, 1987) and subsequent EOs amending it (EO No. 313, 2004; EO No. 528, 2006).
- Income tax holidays, tax credits, tax and duty exemption for imported raw materials and equipment, hiring of foreign labor, exemption from contractors' tax, simplified customs procedure, and other tax incentives.
- Repatriate profits and earnings, pay foreign loans and interests, and freedom from expropriation. These incentives can only be availed of for a period not exceeding 8 years
- Plantation logs and other plantation products are exempted from payment of the forest charges (RA No. 7161, DENR, 1997a, and DENR, 2004b)
- No restriction in the export of plantation products
- Other LGU incentives
- Advance payment of the value added tax on logs, including plantation logs, prior to transporting 12 % gross





A. Unfavorable policies

- 8. Lack of coordination for cross-sectoral policies**
- 9. Limited forest areas for investments**
- 10. Restriction on foreign ownership**
- 11. Non-Competitive Prices of Local Forest Products**
- 12. Lack of Investor protection**
- 13. Inadequate forest certification**
- 14. Poor access to credit**
- 15. Inadequacy of business permits for forest operations**
- 16. Corruption**

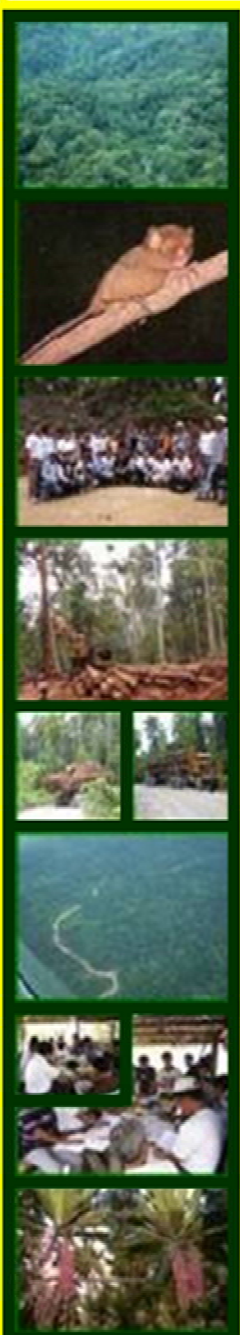




The current national policies favorable / unfavorable to investment

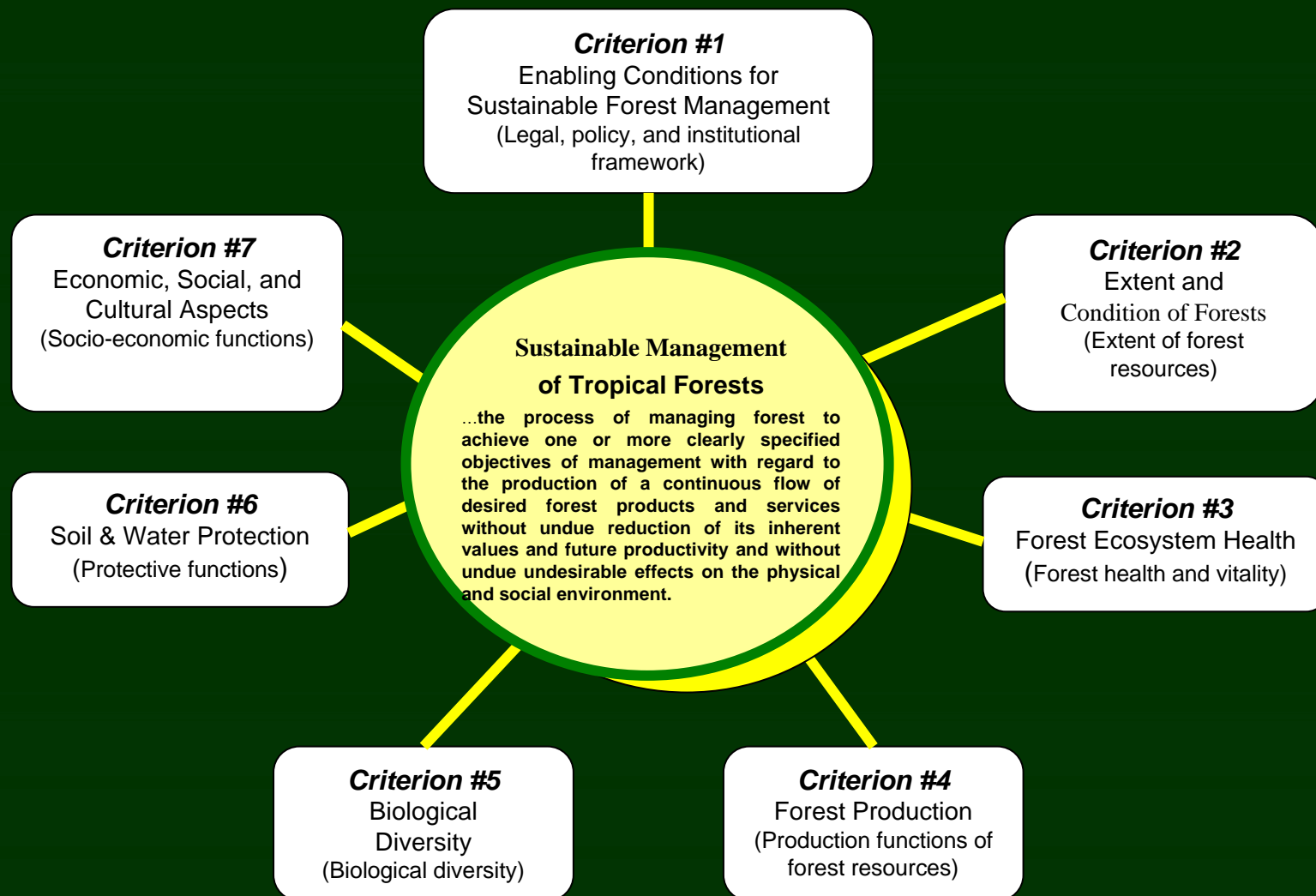
B. Recent favorable policies

- Criteria and indicators for SFM
- Upland development program
- Forest statistics, management information system, and timber tracking
- Forests and climate change
- Protected areas and biodiversity
- Integrated watershed and ecosystem management



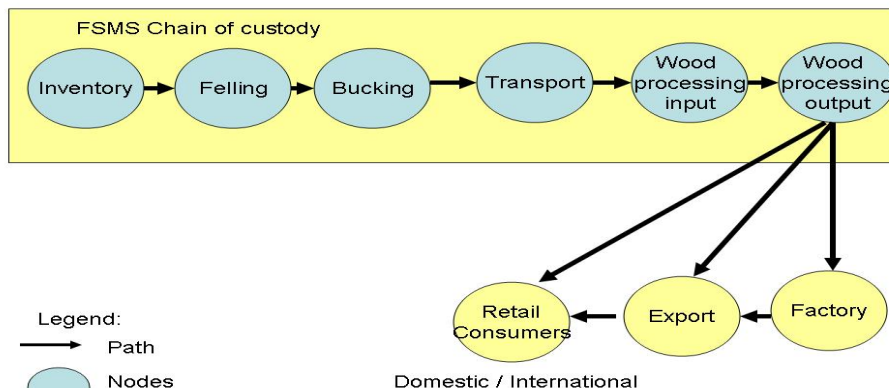


Criteria and Indicators

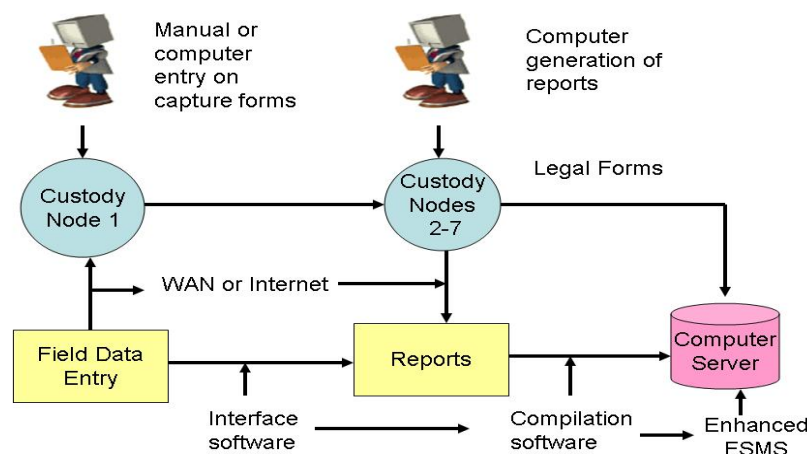


Philippine Timber Tracking System

Proposed Chain of Custody



Chain of Custody and Timber Tracking Framework



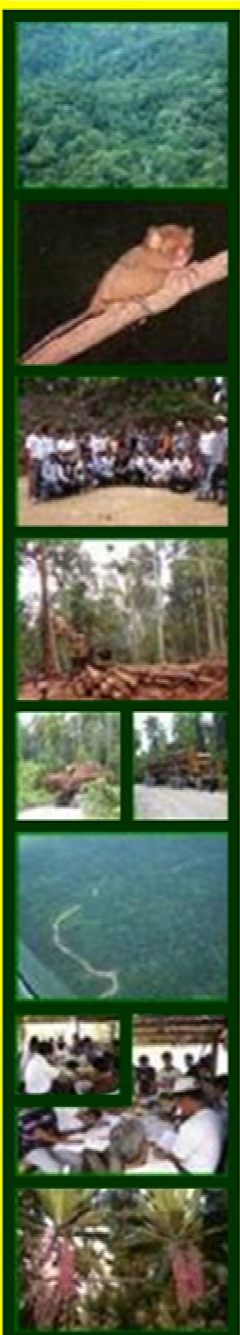
- ❑ Legal and sustainable source
- ❑ Adequacy of field procedures to generate data per node
- ❑ Computerized system for entry, report generation, and server compilation
- ❑ Timber tracking forward and backward
- ❑ Determine any illegal timber flowing in system
- ❑ Check custody and origin
- ❑ Evaluate legal documents



The current national policies favorable / unfavorable to investment

C. Key measures to address the current policy gaps

- Passage of SFM and Land use Acts
- Defining and securing a Permanent Forest Estate
- Classifying and delineating production and protection forests

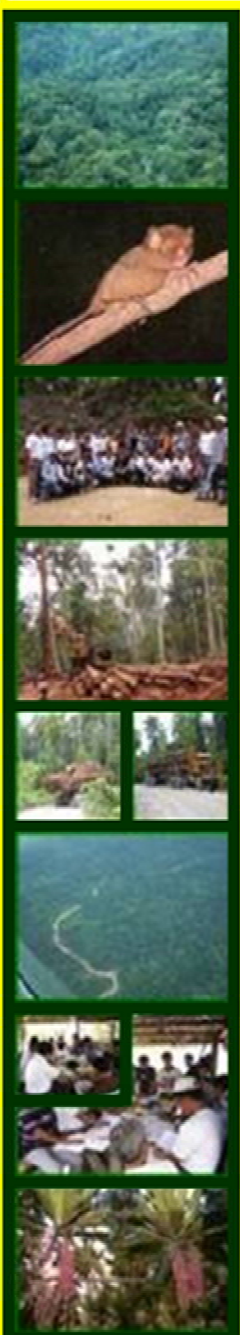




Current and potential investment opportunities

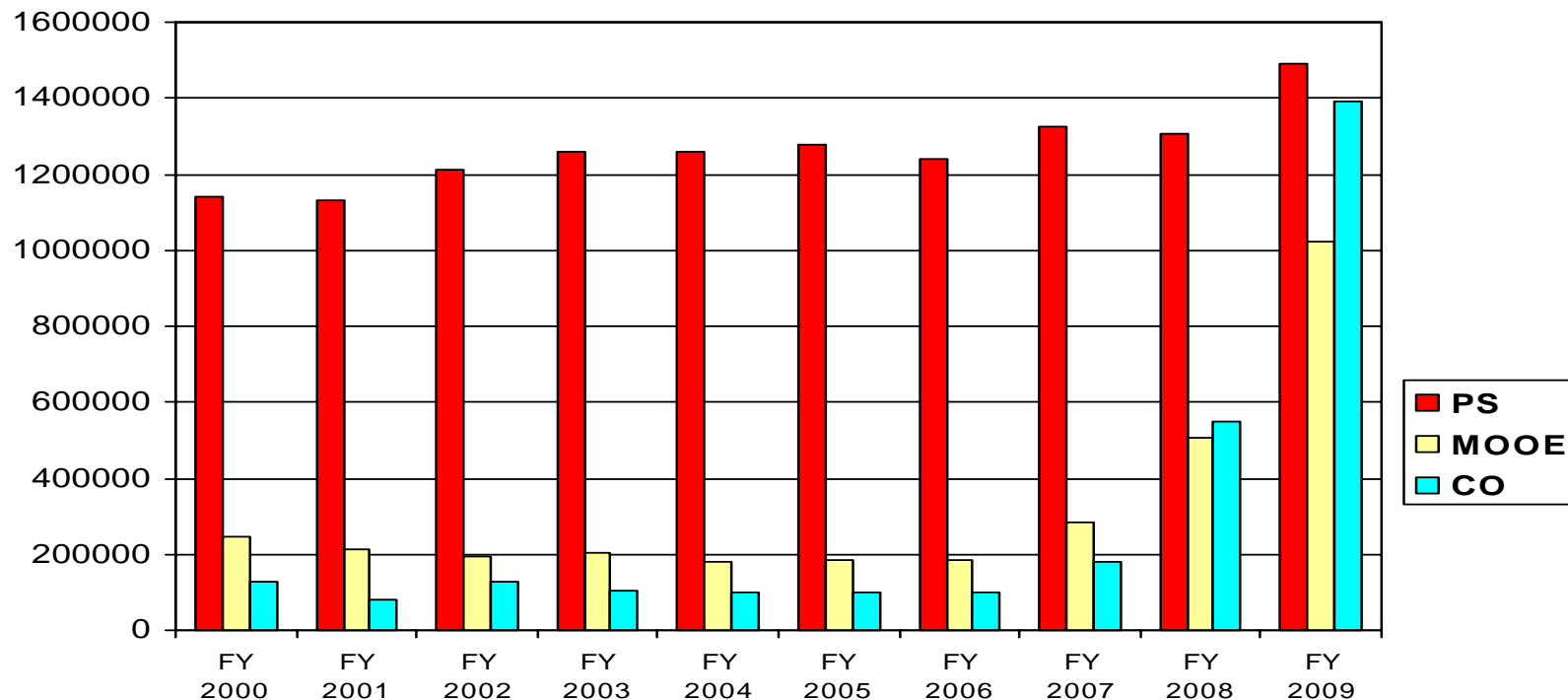
A. Traditional financing mechanisms

1. Public sector financing
2. Forest charges and fees
3. Official Development Assistance
4. Private investments
5. Government financial institutions' lending





DENR Forest Sector Budget



- The DENR 2009 budget is 12.4 billion Pesos.
- The forestry sector is financed by about 3.9 billion Pesos
- 1.5 billion pesos is allocated to the new upland development program
- Personnel is around 40% of total or 4.7 billion Pesos and the rest for Operating Expenditures and Capital Outlays.



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Forest Charges and Fees (2005 – 2008)

TYPE OF FEE	YEAR			
	2005	2006	2007	2008
Administrative Fee	15,466,672	25,365,671	15,732,636	15,962,109
Forest Charges	136,377,507	198,264,896	176,491,654	not available
Government Share	910,013	464,470	769,059	1,500,593
Penalty/Surcharge	532,702	1,382,967	418,209	822,513
Performance Bond	1,224,739	1,216,379	1,238,997	1,259,177
Refo Trust Fund	32,152	1,500	40,425	9,695
Rental	5,259,409	5,258,113	4,842,100	4,872,454
Service Fee	3,407,342	4,461,966	4,771,891	5,833,117
Silvicultural Fee	736,730	587,278	1,108,920	647,833
Special Deposit	660,759	591,652	352,234	93,453
User Fee	699,143	1,089,741	840,617	1,068,486
TOTAL	165,307,168	238,684,633	206,606,742	32,069,430

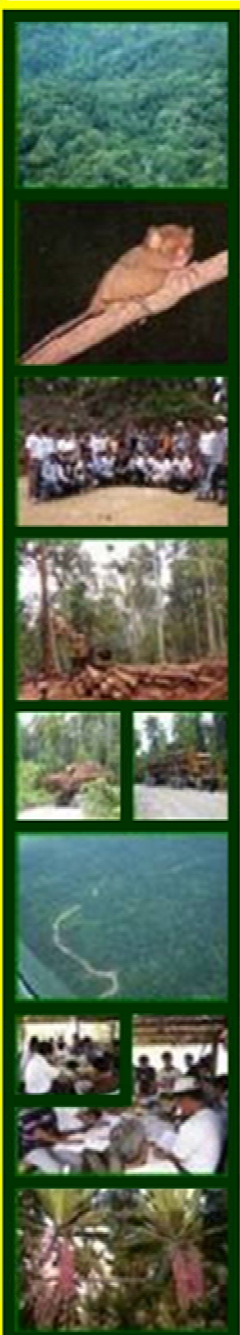


*Issues on collection efficiency and reinvestment
to forest development*



Official Development Assistance

- DENR FASPO indicate that about \$796 million were received from 89 completed and on-going ODA projects including loan and grant proceeds and the GOP counterparts
- The community-based forest management and integrated development projects received the most support from ADB, JBIC, World Bank, ITTO, FAO, KFW and others.
- ODA contributed towards formulation of specific key measures for sustainable forest management which include the demarcation of old – growth forest, the shift from logging in old – growth to residual forests, the logging ban in critical areas, the log and lumber export bans, introduction of production – sharing agreements, census and documentation of forest occupants, shift from government to contract and CBFM reforestation,





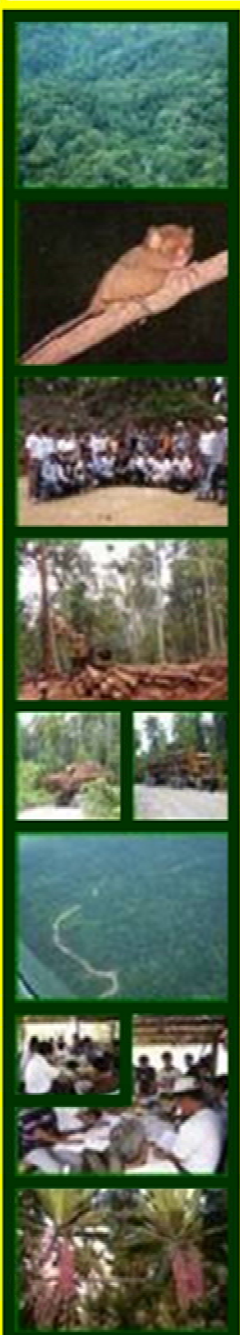
ODA Examples

- **ADB Loan for Industrial Plantations (LBP)**

1991 Industrial Forest Plantation (Sector) Project, amounting to \$25 million, \$16.1 million added by local investors, giving an expected total investment of \$41.1 million to establish 30,000 ha of industrial plantations.

Only \$13.223 million were disbursed, to which the local investors added \$6.618 million, giving a total investment of \$19.841 million. A total of only 6,100 ha of plantations were actually established (1992-98)

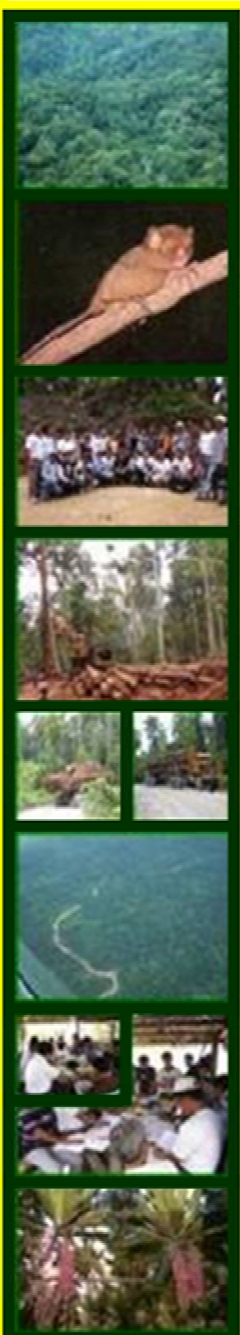
- The ITTO-supported CBFM project in the Philippines
- Vietnam smallholder tree plantations

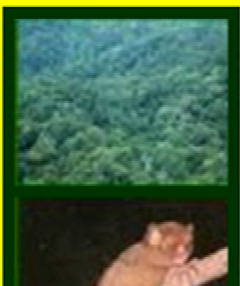




Private investments

- Use mostly their own financial resources for forestry investments with limited access to the banks and financial institutions.
- Drastically affected by declining forest resources and the operating forest management units and unfavorable policy environment.
- Lack of suitable financing mechanisms from other sources further constrains new and expanded investments.





Investments Costs

Estimate of investment costs for plantation development

Tenurial Instrument	Cost (Pesos) per hectare Tree plantation development	Area for Development	Total Investment
CBFM	32,000.00	5,400,000.00	172,800,000,000.00
IFMA	68,455.50	188,678.73	12,916,096,801.52
SIFMA	68,175.32	138,293.03	9,428,171,574.02

Cost/ha of agroforestry for CBFMA

Area for development of CBFM based on CBFM Strategic Action Plan (2008-2017)

2x3 spacing, fast growing species for IFMA and SIFMA

IFMA and SIFMA areas based on remaining areas from the approved SIFMA and IFMA sites

Labor Cost	CBFMA	IFMA	SIFMA
per man-days	Php 233	Php 170 to 220	Php 170 to 220

Notes:

CBFMA based on wage rate in the Upland Development Program

IFMA and SIFMA wage rates based on existing wage rate per CDMP

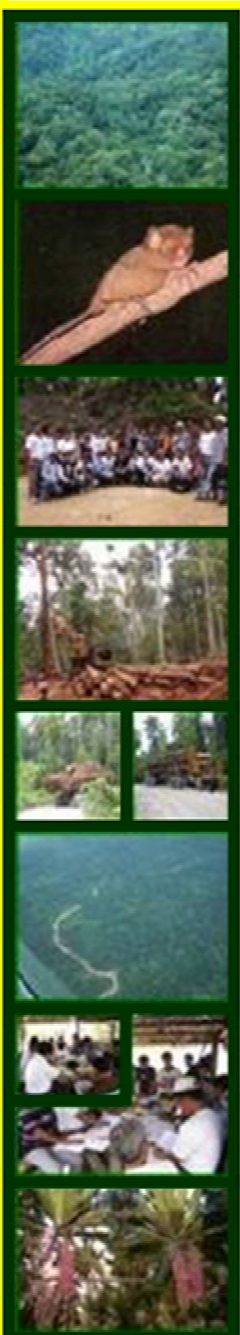


INVESTMENT COST / FIRR

Forest Plantation

Investment Cost	FIRR
ADB Plantation Loan \$ 1,370.00 / ha	Philippines 10-12%-appraisal 6% actual (5 firms) Laos – 11%
Commercial Plantations (Pure and IFMA) \$ 1,400.00 (P68,000) / ha	20-45 % on most suitable sites*

** O. Gendrano, 2009*





SUDECOR TLA: Intact Permanent Forest

Managed as permanent forest for more than 40 years

Adheres to prescribed forestry laws, rules and regulations of government

**54,247 hectares or about 71.7% of adequately stocked
Production Zone**

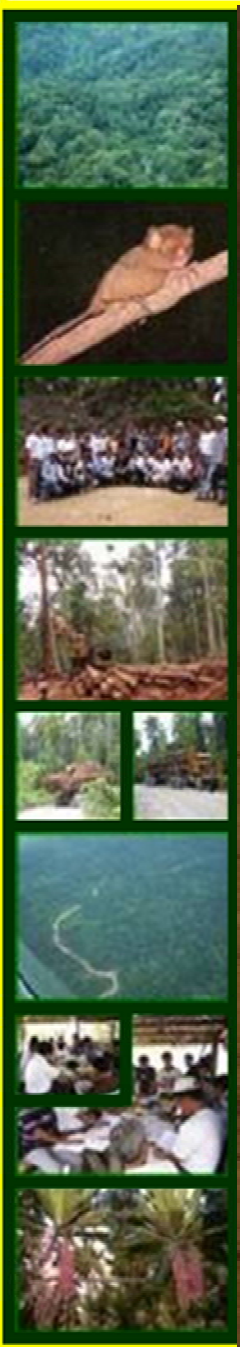
**20,775 hectares or 27.5% of Protection Zone under NIPAS
not subject to harvest**

**About 92% of the total TLA area still covered by
Dipterocarp and associated species**



Global recognition as model forest for SFM

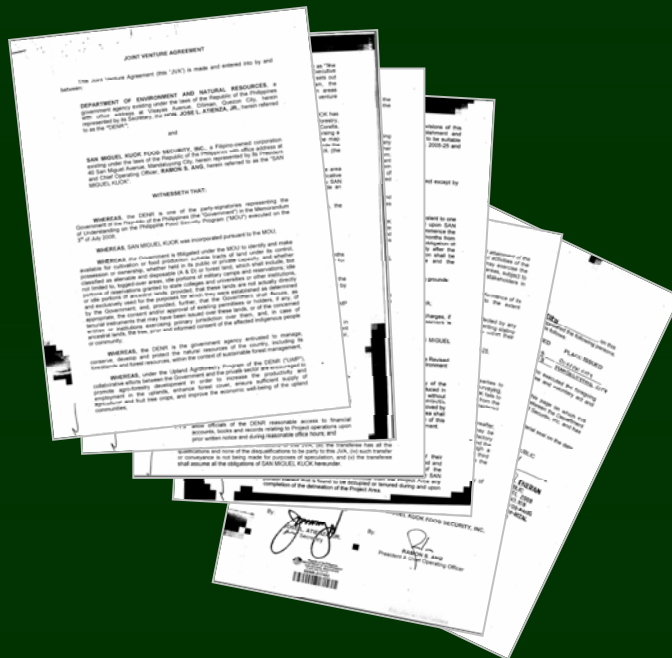
- **Earth Summit in Johannesburg, South Africa (September 2002)**
- **United Nations Forum on Forests in Geneva, Switzerland (UNFF-3rd Session, May 2003)**
- **International Tropical Timber Council, 34th Session, (12 – 17 May 2003) Panama City, Panama**
- **Nominated to FAO “Search For Excellence: Exemplary Forest Management In The Asia-Pacific Region” , 2002**





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CORPORATE AGROFORESTRY



San Miguel Corporation and Kuok Group entered into a Memorandum of Understanding on July 3, 2008 with government agencies on Food Security Program

Davao del Norte as initial sites
JVA with DENR for agroforestry development



Government Banks

Land Bank of the Philippines Loans to Priority Sectors

Sector	Loans Granted (Php, billion) as of March 2009	% share to Total Loan Portfolio
Farmers and Fisherfolk	20.6	11%
Microenterprises and SMEs	18.8	10%
Livelihood Loans	3.3	2%
Agribusiness	21.1	11%
Agri-infrastructure (LGUs)	21	11%
Agri-related projects (GOCCs)	24	13%
Environment Related Projects	15.9	9%
TOTAL Priority Sector Loans	124.7	
Others	60.4	
GROSS LOAN PORTFOLIO	185.1	

(Source: LBP)



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Development Bank of the Philippines Summary of DBP Forest Projects (as of March 2009)

Source : DBP Forest

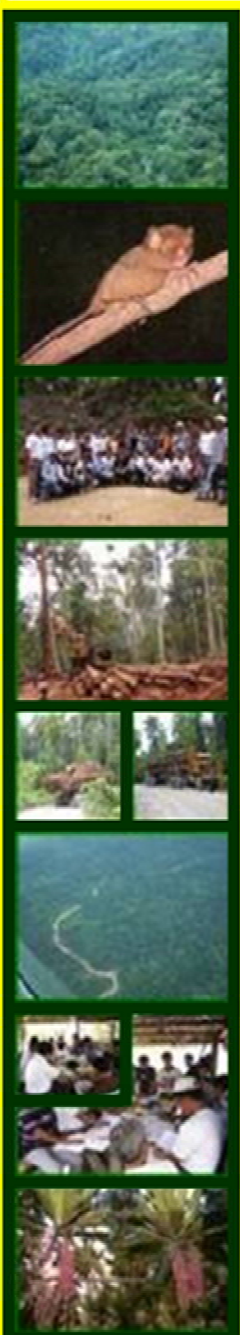
Forest Partner	Scope	Project Cost	DBP share
BAMABA Inc.	Coastal rehabilitation/mangrove	507,936.00	253,000.00
KIMAMA	Coastal rehabilitation	607,936.00	253,000.00
Cagayan State University	Upland reforestation	4,726,872.50	3,065,872.50
Provl. Govt of Sarangani	Upland reforestation/fruit and forest trees	3,448,652.00	1,017,000.00
BALIKATAN	Upland reforestation/fruit and forest trees	4,248,910.00	3,171,693.00
UKAFA	Upland reforestation/fruit and forest trees	4,288,335.00	2,491,292.00
Liguron, Dagundalahanon, Sagarán	Rubber plantation	28,179,312.50	11,250,000.00
Palawan Council for Sus. Dev.	Coastal rehabilitation/mangrove	1,679,090.00	900,000.00
Palawan State University	Upland reforestation/fruit and forest trees	7,489,827.00	4,785,718.00
Provl. Govt of Cagayan	Upland reforestation/fruit and forest trees	3,924,930.50	3,003,730.50
West Visayas State University	Upland reforestation/fruit and forest trees	19,313,955.00	11,526,555.00
Provl. Govt of Guimaras	Coastal rehabilitation/mangrove	1,434,384.30	684,783.30
BFARMA	Coastal rehabilitation/mangrove	1,576,250.00	880,750.00
Multisectoral Watershed Mgt Council (Real and Infanta)	Upland reforestation	5,146,228.00	3,058,680.00
Provl. Govt of Bulacan	Reforestation	1,117,584.34	298,125.00
MASAGKASA Inc.	Upland reforestation/fruit and forest trees	5,843,886.00	3,177,150.00
CFDC	Coastal rehabilitation/mangrove	1,340,400.00	1,012,500.00
Local Govt of Gamey	Coastal rehabilitation/mangrove	1,832,187.50	1,059,187.50
Provl Govt of Occ Mindoro	Upland reforestation/fruit and forest trees	14,793,940.00	5,090,288.00
Provl Govt of Aurora	Upland refo/coastal rehab	9,943,815.00	7,932,646.00
Tarlac College of Agriculture	Upland reforestation	8,722,421.00	1,942,713.00
Provl Govt of Marinduque	Upland reforestation/coastal rehab	17,794,562.00	9,388,515.00
Provl Govt of N Vizcaya	Upland reforestation/fruit and forest trees	15,623,530.73	9,121,875.00
Bambang Fruit & veg Growers Assoc	Upland reforestation/fruit and forest trees	2,960,733.15	2,236,291.03
UPLB	Forest trees	13,415,500.00	4,950,000.00
Mahaba Tribal Council for --- Communities	Upland reforestation/fruit and forest trees	14,896,817.00	8,941,122.00
Visayas State University-Palompon	Upland reforestation/fruit and forest trees	6,269,065.40	4,075,987.00
LGU Tagum City	Mangrove Reforestation	2,164,095.00	492,187.50
TOTAL		203,271,135.92	106,060,661.33
Total No. of Projects		28	
Total Area		5,719.47	



Current and potential investment opportunities

B. Potential / innovative financing mechanisms

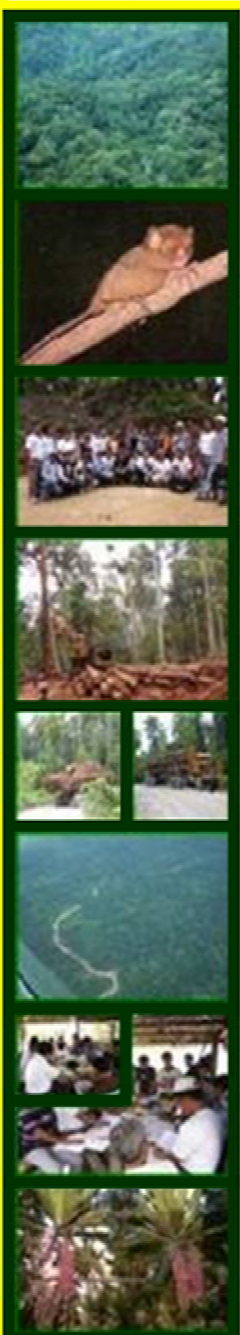
- 6. Payment for environmental services**
- 7. Debt-for-nature swaps in the Philippines**
- 8. Debt-for-nature fund endowment**
- 9. Municipal Development Fund**
- 10. Other Plough-back funds**
- 11. Forests and climate change financing Instruments**
- 12. Proposed Watershed Plough-Back Fund (WPBF)**
- 13. Social equity instruments**





Payment for Environmental Services

- PES implementation covers all types of ecosystem services- watershed protection, protected area management, landscape and seascape beauty, biodiversity, ecotourism, and carbon sequestration.
- Most cases are at the exploratory stage, are typically site-specific and are limited in geographic scope and level of sophistication as far as the design of reward schemes is concerned.
- Payments come in the form of users' fees paid in cash while a majority involved direct assistance in kind that benefit the service providers.





PES Examples

6.1 Maasin Watershed

6.2 Balian Watershed

6.3 Mt. Kanlaon Natural Park

6.4 Pasonanca Watershed

6.5 Kalahan Forest Reserve and Bakun Watershed

6.6 Tanay Watershed/Laguna Lake

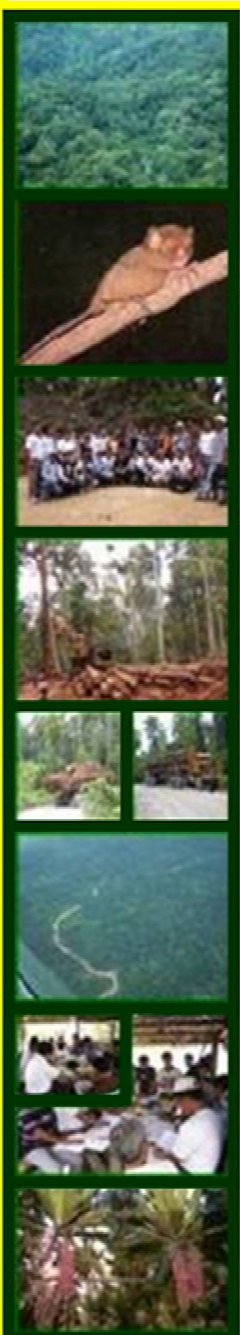
6.7 Sierra Madre Watershed

6.8 Bataan National Park

6.9 Makiling Forest Reserve

6.10 Tacurong Bird Sanctuary

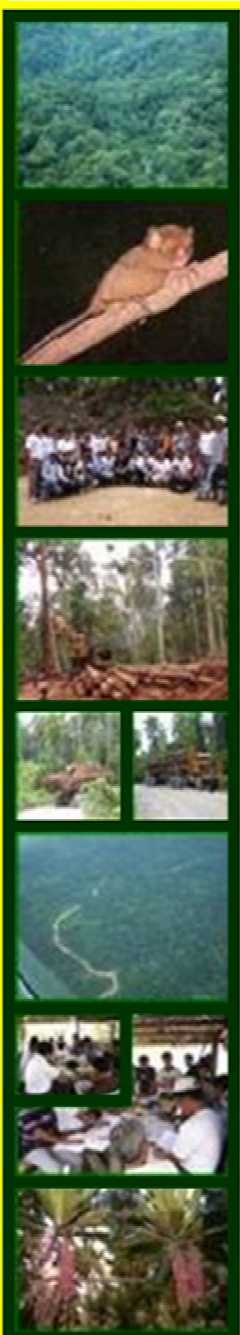
The watershed projects financed under the GEF Grant of \$ 7 million under the National Support program –ENRM-WB in 2009: offer significant opportunities for upscaling field level implementation of PES schemes





Proposals and recommendations: actions

1. Provide an enabling policy environment for forest investments
Action-stop, amend unfavorable policies, new
2. Review current forest charges and fees, plough-back mechanisms, and trust funds
3. Formulate an investment profile for forest investors
4. Strengthen coordination and communications between government agencies, investors, official development assistance, banks and financial institutions
5. Promote knowledge sharing and information exchange in financing forest investments
exchange of successful experiences and lessons learned in financing forest investments
6. Strengthen payment for environmental services mechanisms
Comprehensive piloting in priority areas





Forest Plantations

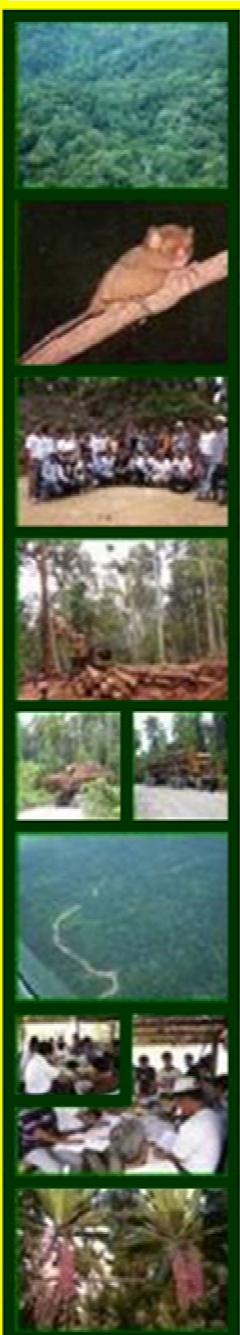
- Focus of forest investments
 - Production about 80% plantation (6 species)
 - 400,000 hectares target
 - 282,000 ha planted mostly CBFM refo & community
 - 99,000 ha Industrial Tree farms
 - 1.7 ha available from denuded, grasslands, brushlands
-
- Commercial plantations - few investors and limited financing
 - CBFM plantations not working well
 - IFMA plantations a side event to natural forest harvesting





Proposals and recommendations: actions

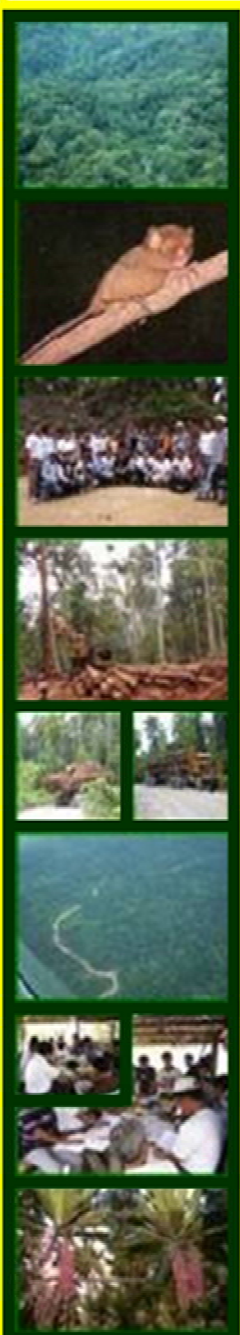
7. Support investments for small and medium sized forest operations
8. Build national capacity for financing mechanisms
Training, workshops, study tours and other capacity building
9. Experiment on social equity financial instruments
Government share social benefits in FMU
10. Establish a Forest-based Industries Board
11. Institutionalize forest certification and chain of custody procedures
Fund C&I and PTTS implementation
12. Test other innovative investments and financing mechanisms
SSS/GSIS pension, SDU, Integrated FMU





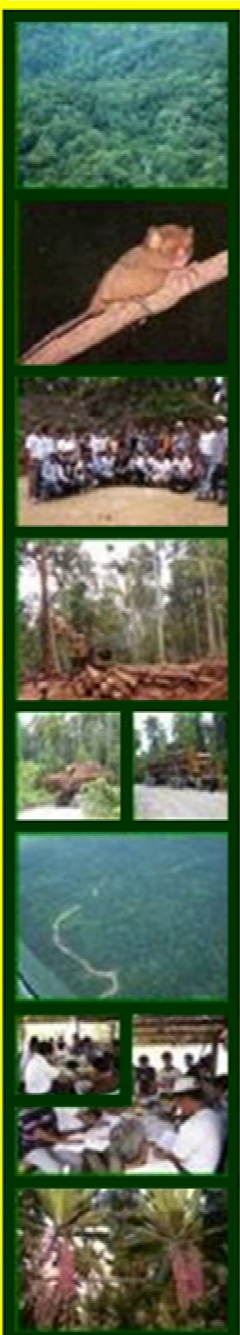
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Thank You !





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