



New Investment Opportunities for Sustaining Tropical Forests

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The World Bank

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OUTLINE OF TALK

- **WB forest sector investment strategy and results**
- **New forest investment opportunities and trends**
- **Focus on forests and carbon finance**



World Bank Forest Strategy: the three equally important and interdependent pillars.

Forest Investment Strategy

Integrating forest in sustainable economic development

- Improving forest concession management
- Reducing illegal logging.
- Increasing government revenues from forests by USD 2.5 billion per year

Harnessing the potential of forest to reduce poverty

- Improving livelihoods of 500 million people dependent on forest and tree resources

Protecting vital local and global environmental services and values

- Bringing 50 million hectares (ha) into new protected areas
- Improving management of 50 million ha of protected areas
- Improving management of 200 million ha of natural forest



From strategy to action

■ Current (2002) Forest Strategy is forward looking and broadly endorsed

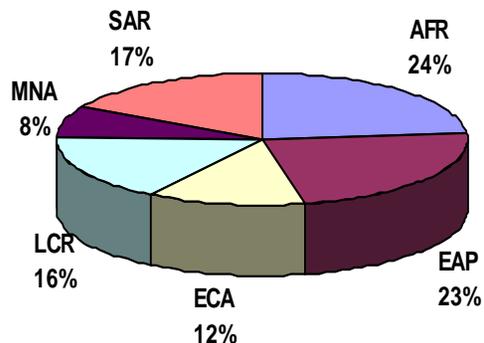
... recent successes in:

- Development of innovative instruments (e.g. carbon finance, forest certification)
- Broadening dialogue of forest governance
- Promoting cross-sectoral poverty reduction projects
- Stimulating investments in sustainable forest management
- Current WBG forestry investment portfolio US\$ 400 million to \$1 billion/year

... but implementation does not respond to the magnitude of the task ahead:

- clients have limited interest in borrowing for forests
- institutional limitations
- governance often a big issue
- other sectors being seen as more important
- ODA stagnant

Total Forestry Investments by Region from FY01-FY06

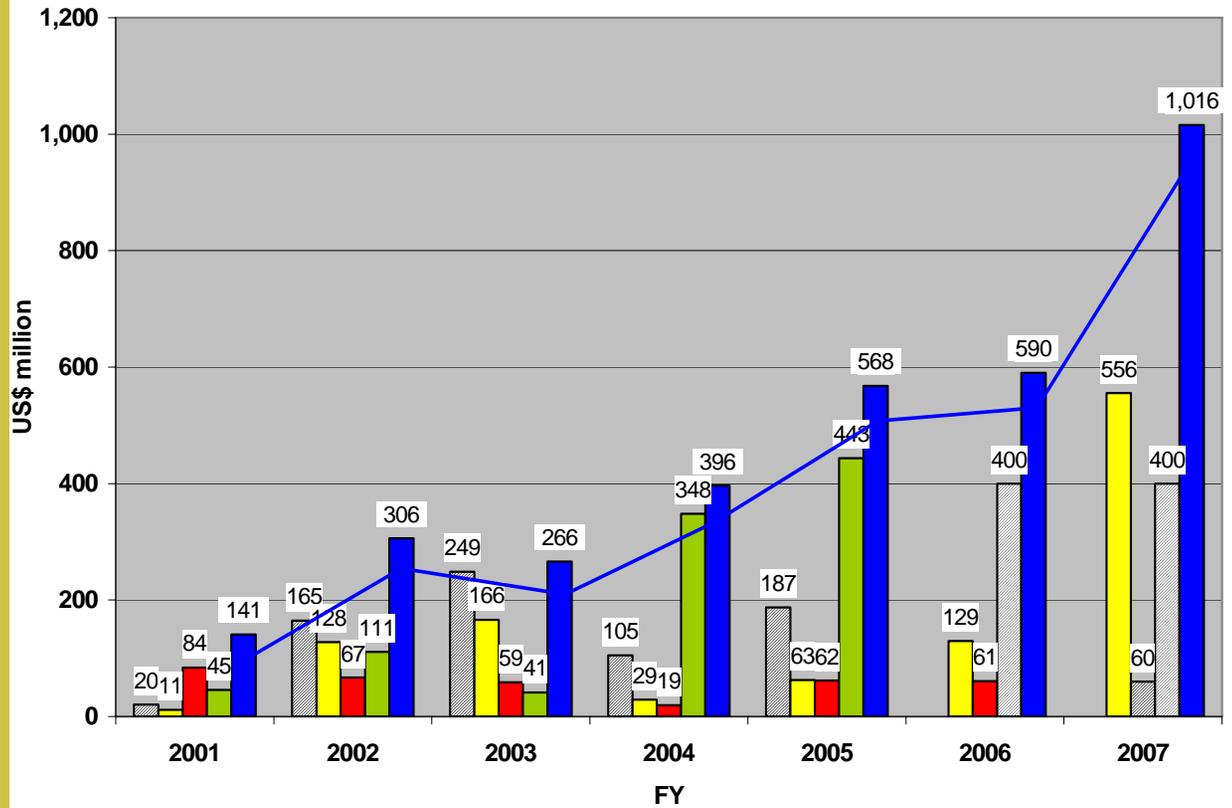




**World Bank
Group
Forest
Lending

Global**

**Amounts of commitment of IBRD/IDA, GEF and IFC for forests components
from FY01 to FY07 (including FY06 and FY07 pipeline projects)
US\$ million**



Note: The amounts for GEF grants in FY07 and IFC lending in FY06 and FY07 are current estimate.

**Wood & NTFP Based
Small-Medium
Enterprises (SMEs)**



**Sustainable Pulp Paper and
Panel Industries**



***Emerging
Investment
Opportunities***

**Plantation Based
Construction Grade
Timber & Fiber Supply**



Farm Forest Wood Lots



**Environmental
Services**





Priorities for Bank Group Action

Global

SMALL SCALE ENTERPRISES

- **Support community and private forest ownership**
- **Innovative financial / economic incentive mechanisms**
- **Develop markets for certified products: Group certification**
- **Mobilize resources for capacity building**
- **Facilitate Enabling Environment (ease regulations & administration)**

LARGER SCALE COMPANIES

- **Transparent secure concession contracts**
- **Political risk insurance mechanisms**
- **Independent certification : market access**
- **Strengthen forest governance (i.e. FLEG processes)**
- **Promote adoption of environmental safeguard policies by financial institutions**
- **Outsource fiber supply to local communities and small holders**

ENVIRONMENTAL SERVICES

- **Take advantage of emerging mechanisms to pay for environmental services especially carbon: Support reliable monitoring procedures.**



**Investment
Priorities for the
WB Group
East Asia/Pacific
Region**

**PRIORITIES FOR BANK AND IFC GROUP INVESTMENT
IN EAST-ASIA-PACIFIC REGION:**

- **Involvement of communities in forest management (PA & SFM)**
- **Technical Assistance support to smaller scale forest based enterprises**
- **Fostering of mutually beneficial partnerships between companies and communities / private households**
- **Further expansion of an emerging network of sustainably managed Production Forests**
- **Support to forest law enforcement and governance (FLEG) processes**
- **Improving and enhancing the markets for certified forest products**
- **Investment in larger scale forest industries (IFC)**
- **Support to governments in mobilizing international grant funding for international PES mechanisms (protection of biodiversity, carbon sequestration through afforestation & avoided deforestation)**



Scale-up with partners to achieve four bold targets by 2015

(MDGs 1&7, Bank Forest Strategy)

Global Targets

- ✓ Improve and sustain the livelihoods of **500 million poor, forest dependent people** by supporting sustainable forest management and agro-forestry based farming systems
- ✓ Conserve **1 billion ton of CO₂** by engaging in avoided deforestation initiatives
- ✓ Bring **300 million ha of production forests** under independently certified sustainable management
- ✓ Create **50 million ha of new protected areas** and bring **120 m ha of existing areas** under improved management



REDD: The
Major New
Investment
Opportunity for
Tropical
Forests

- “Avoided deforestation” not part of CDM
- UNFCCC/SBSTA discussions on REDD
- Stern Report: need for action in REDD
- World Bank has long involvement in forestry sector
- World Bank has experience in piloting the carbon market
 - ✓ Prototype Carbon Fund: global pioneer since 1999
 - ✓ BioCarbon Fund: LULUCF pioneer since 2004, including W2 for avoided deforestation at project level



Context

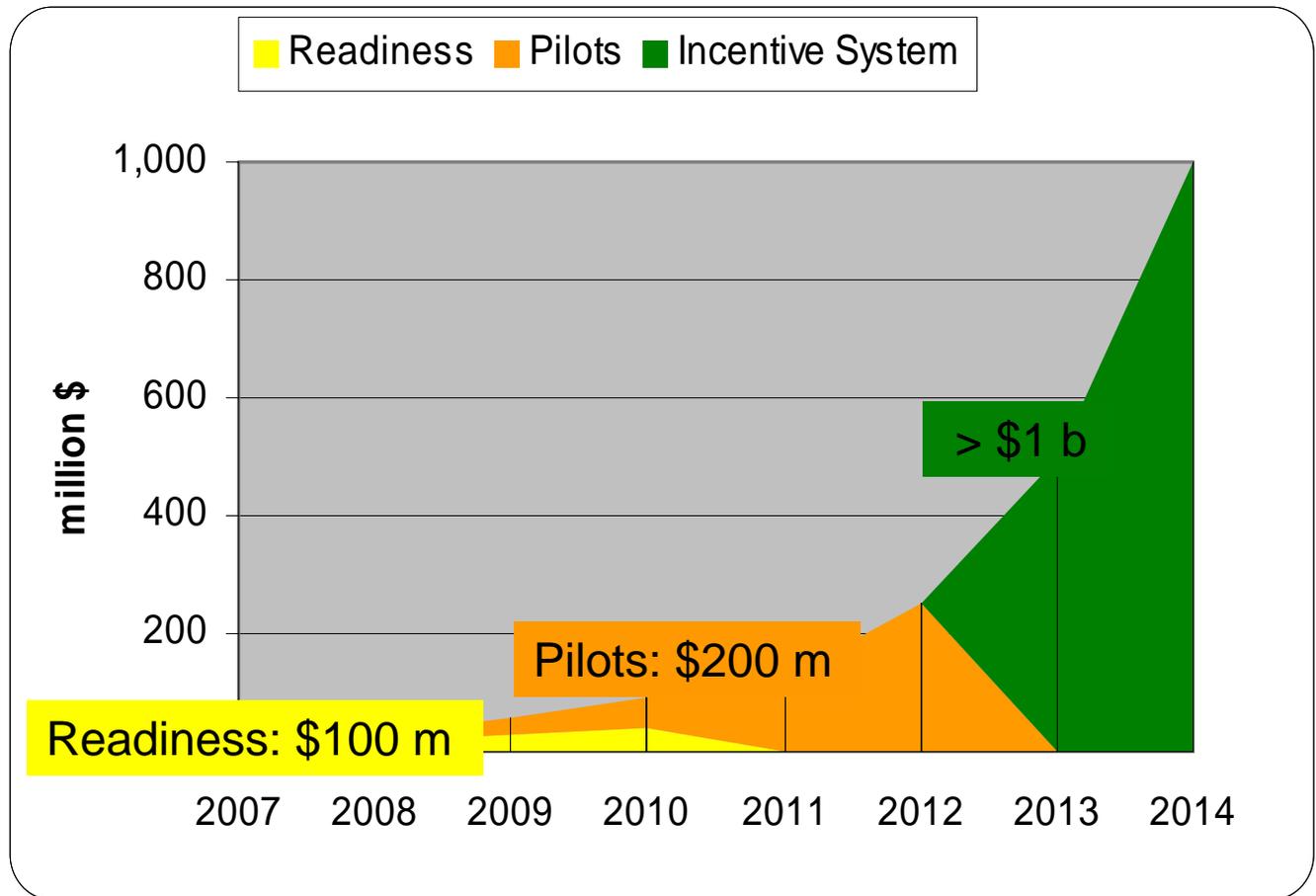
- G8 Heiligendamm Communique: World Bank requested to design a forest carbon partnership facility
- 14 developing countries have expressed interest in a World Bank initiative to provide financial incentives for REDD
- Forest carbon partnership integrated in WB forestry framework
 - ✓ More coherent partnership framework for forest sector
 - ✓ New financing mechanisms for the forest sector, also in line with UNFF



Prepare for a system of positive incentives post-2012 that includes REDD through

- Capacity building: readiness for a future system
- Pilot performance-based payments

Proposed Response

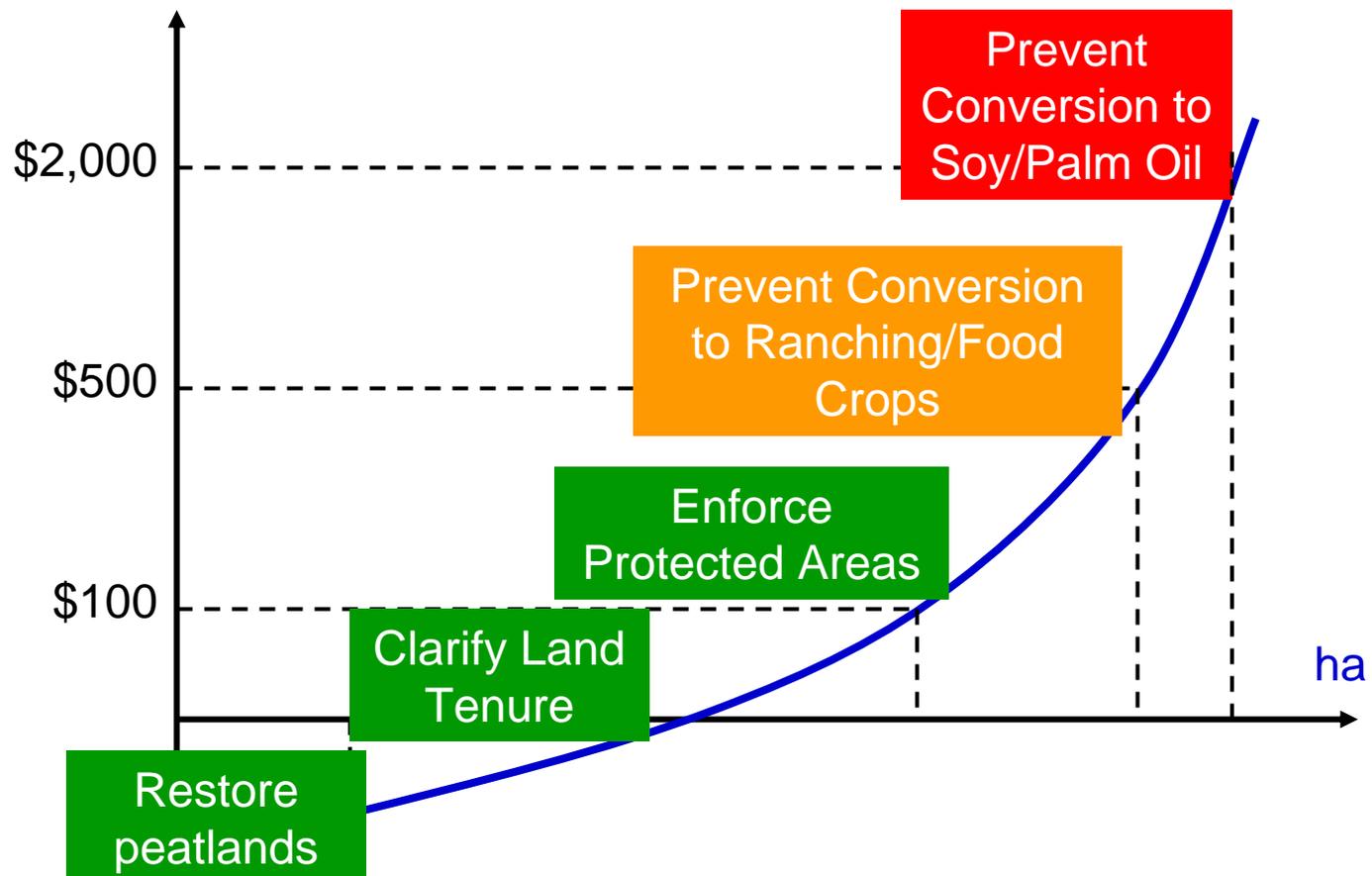


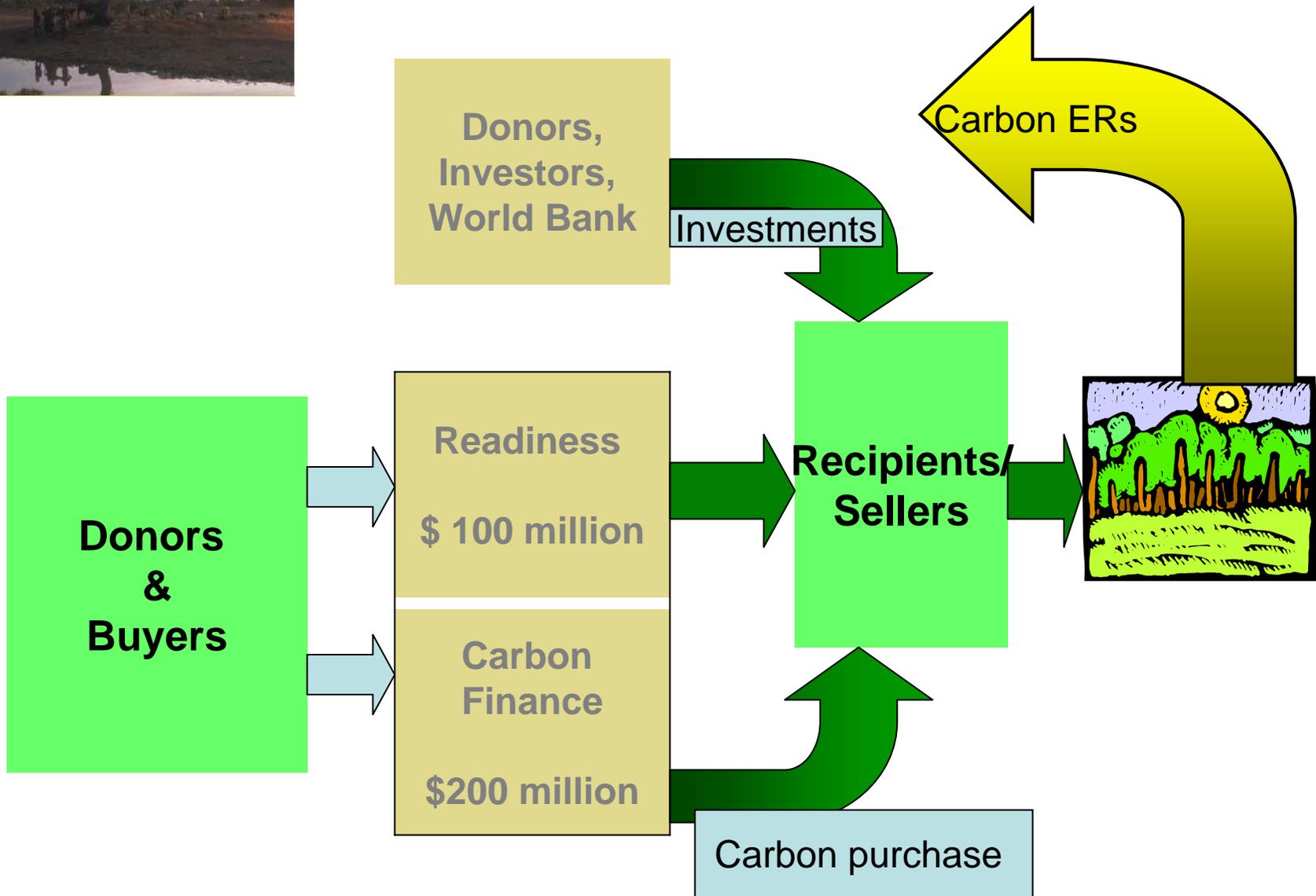


- **Price Carbon \geq Opportunity Cost of land**
- **Low-hanging fruit seen as opportunity**

Carbon Finance Mechanism

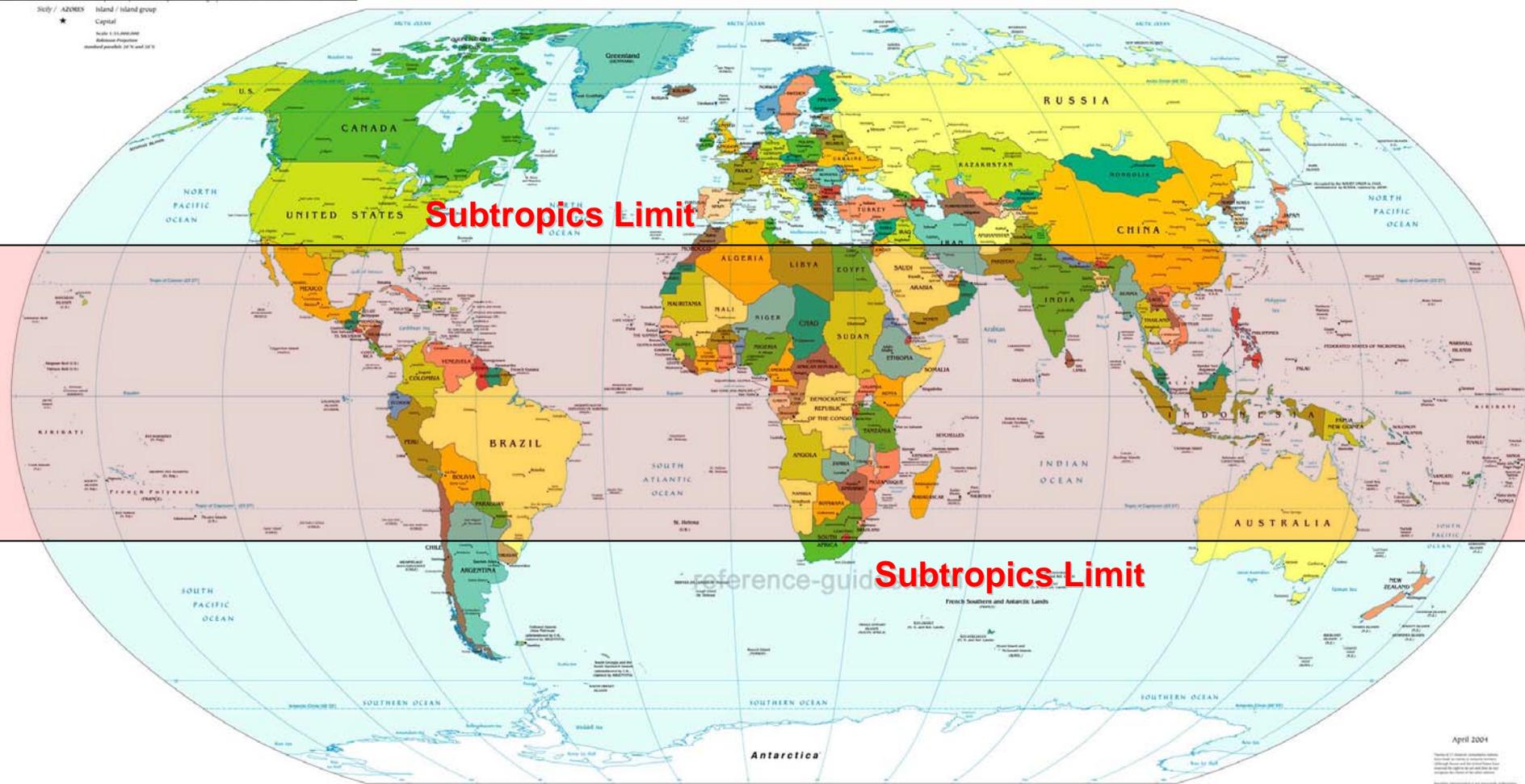
Cost per ha of forest saved







Eligibility of countries



SDN Forests



14 Requests for cooperation

- Bolivia
- Brazil (Amazonas and Mato Grosso)
- Colombia
- Costa Rica
- Democratic Republic of Congo
- Ecuador
- Gabon
- Ghana
- Indonesia
- Mexico
- Panama
- Papua New Guinea
- Republic of Congo
- Vanuatu



Indonesia

- **Indonesia: full speed ahead to Bali**
- **MoFr leads technical and analytical work, deliverables for CoP13**
 - Methodologies on carbon stock and change
 - Sector analysis (peat forests, conservation units, production forest, pulp and paper)
 - Communication and outreach
- **Working group supported by donor community (UK, Australia, Germany, WB, others) and local/international organizations (WWF, TNC, CIFOR, WRI, EcoSecurities, WI)**
- **Momentum is unprecedented, very positive steps taken, but key policy reforms are still pending**



Pricing

Pricing: too early to call, but participants demand definition

Not clear what carbon asset we are talking about

- **Permanent or temporary asset**
- **Compliance / non-compliance asset**
- **Baseline-credit type / allowance**
- **Something else?**



Pricing

- **Three possible approaches:**
 - **Price guidelines through a mechanism based on market prices (e.g. indexation)**
 - **Seller and buyer negotiate final price**
 - **taking into account performance risk, conditions, social and environmental benefits, etc.**
 - **Price benchmarking based on cost analysis (opportunity and operational)**

Pricing

Projected prices: All across the Board

	2005		2006	
	WB research	Pt Carbon	WB research	Pt Carbon
VER	\$4.4		\$7.0 (+58%)	\$7.6
CER	\$7.2	\$8.7	\$10.9 (+51%)	\$10.8 (+24%)
<i>CER w/o Delivery</i>			\$8-10	\$10.5
<i>CER w Delivery</i>				\$19.5
ERU	\$6.1	\$6.6	\$8.7 (+42%)	\$8.4 (+27%)
2ndary CER	\$22.2	\$16.3	\$17.8 -(20%)	\$18.6 (+14%)

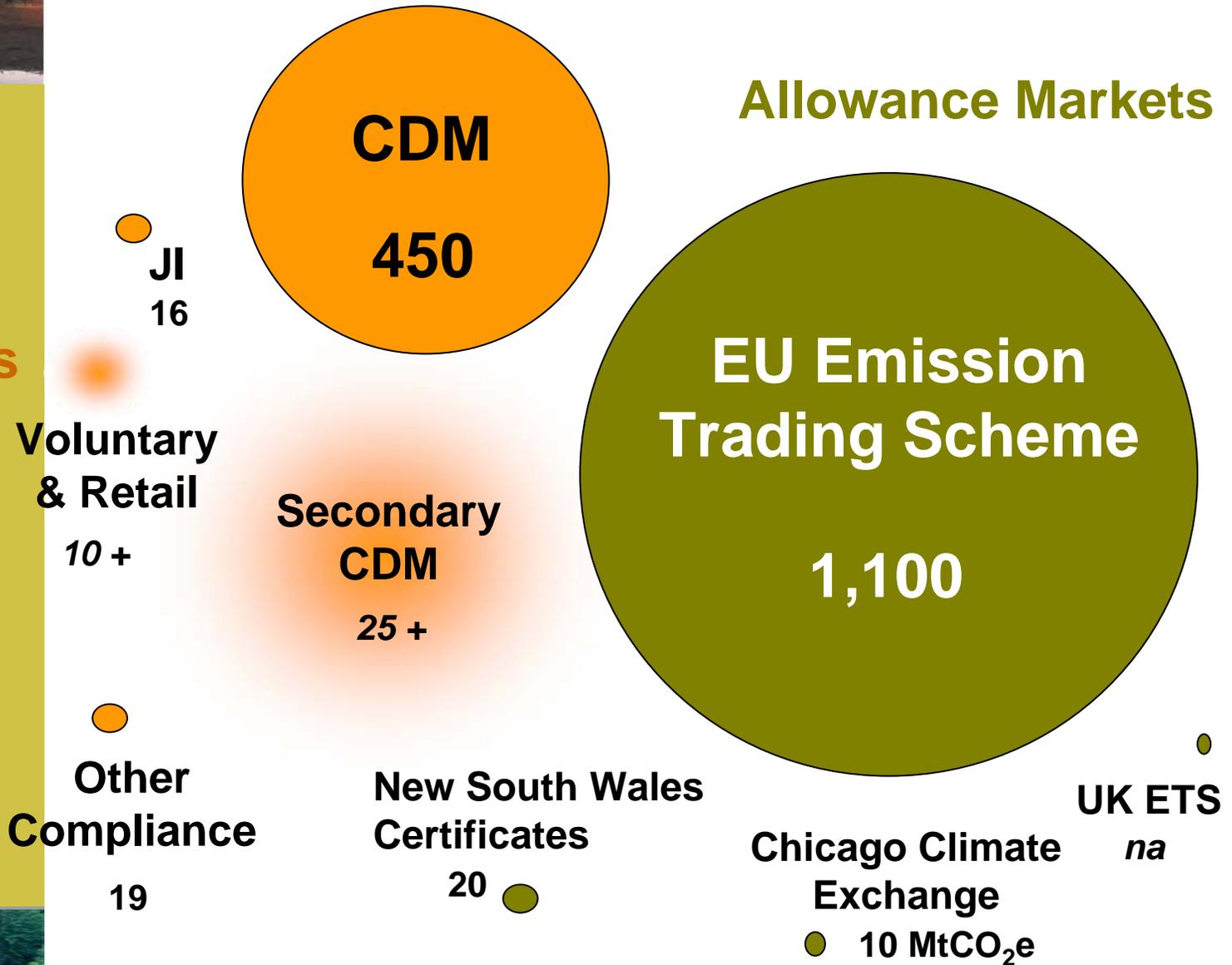
tCERs (afforestation and reforestation): temp. assets: **US\$ 4.5**

Chicago Climate Exchange (CCX): **US\$ 4**



Volumes transacted in 2006 (in MtCO₂e)

Project-Based Transactions
\$5 billion





**FOR MORE
INFORMATION**

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