

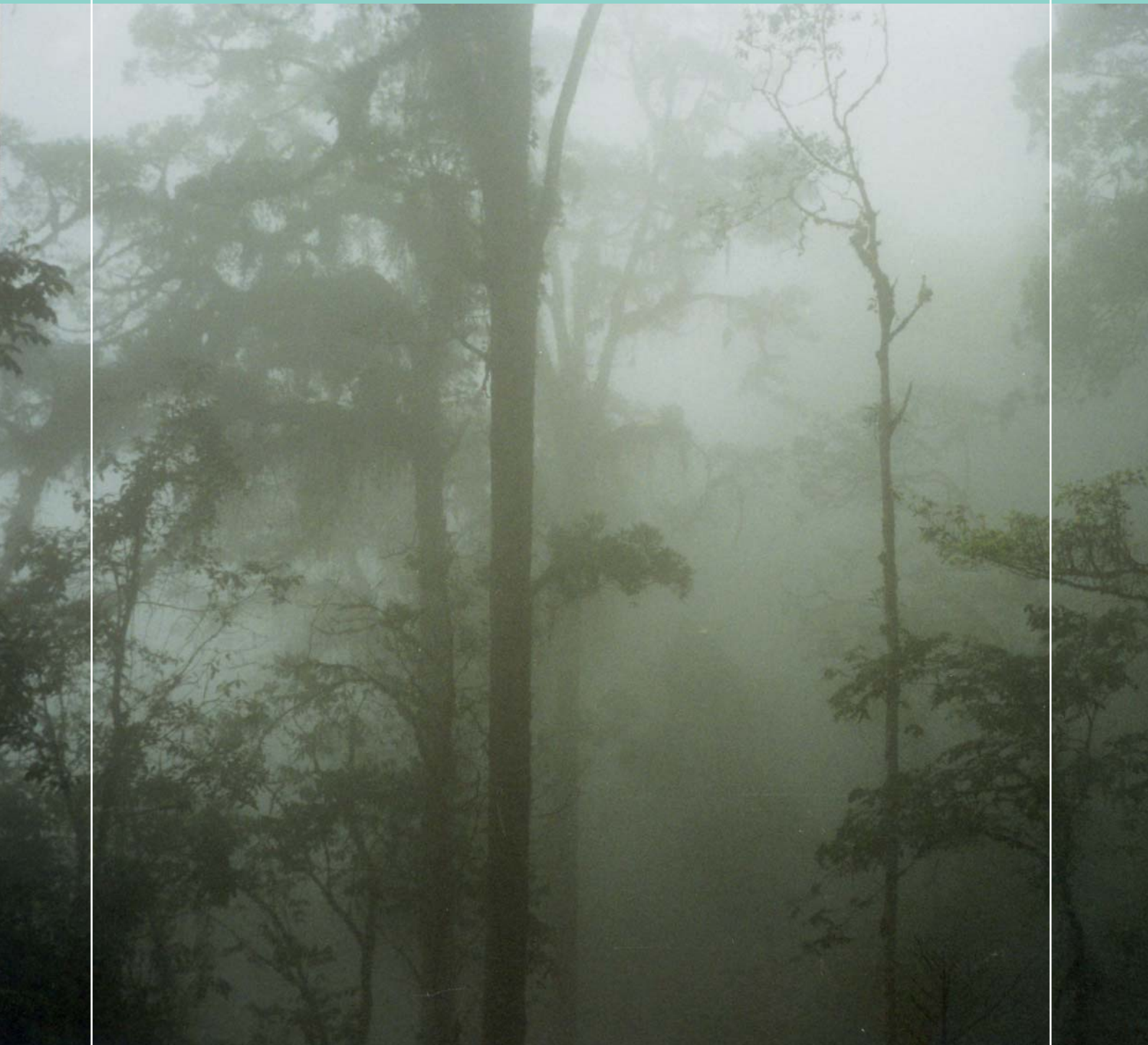
TECHNICAL SERIES

27

## ISSUES AND OPPORTUNITIES FOR INVESTMENT IN NATURAL TROPICAL FORESTS

Proceedings of the International Tropical Forest Investment Forum  
Cancún, Mexico, 26-27 April 2006

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INTERNATIONAL TROPICAL TIMBER ORGANIZATION

# **Issues and opportunities for investment in natural tropical forests**

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ITTO Technical Series No 27

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### ITTO Technical Series 27

The International Tropical Timber Organization (ITTO) is an intergovernmental organization promoting the conservation and sustainable management, use and trade of tropical forest resources. Its 59 members represent about 80% of the world's tropical forests and 90% of the global tropical timber trade. ITTO develops internationally agreed policy documents to promote sustainable forest management and forest conservation and assists tropical member countries to adapt such policies to local circumstances and to implement them in the field through projects. In addition, ITTO collects, analyses and disseminates data on the production and trade of tropical timber and funds a range of projects and other action aimed at developing industries at both community and industrial scales. All projects are funded by voluntary contributions, mostly from consuming member countries. Since it became operational in 1987, ITTO has funded more than 750 projects, pre-projects and activities valued at

more than US\$290 million. The major donors are the governments of Japan, Switzerland and the US. ITTO contact details can be found on the back cover.

This report is made available by ITTO as part of its policy of contributing in a timely manner to public debate on issues related to the conservation and sustainable management, use and trade of tropical forest resources.

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## Foreword

At a time when investment in plantation forests is outpacing investments in natural tropical forests, ITTO welcomes the opportunity to present the proceedings of the recent International Tropical Forest Investment Forum, held in Cancún, Mexico, during April 2006. The report highlights a number of innovative examples illustrating how investment in natural tropical forests can benefit private investors, governments and communities that depend on forests.

In ITTO's report, *Status of Tropical Forest Management 2005*, it was noted that a minimum of 36.4 million hectares of the total natural permanent forest estate, or 814 million hectares of forest, are considered to be sustainably managed. To continue the promotion of sustainable forest management (SFM) in natural tropical forests, the International Tropical Investment Forum facilitated debates on constraints as well as innovations in tropical forest investments. Although investors often point to the significant risks that are associated with investment in natural tropical forests, such as weak governance and lack of land tenure, perceptions about these risks can be changed. One of the key themes that emerged during this Forum is the importance of creating enabling policy and investment environments to draw in further investors at the local, national and international levels.

While large-scale enterprises, such as timber concessions, tend to be the target of much investment, there are promising inroads for small and medium-sized enterprises (SMEs) as well. These enterprises can create local jobs

and generate income for forest-dependent people. ITTO hopes to continue its work with communities and owners of SMEs, to understand how to increase investments in SMEs. Governments can also help promote such businesses and more generally promote SFM in their own countries by directly investing in forested areas, using appropriate fiscal policies and changing regulations to generate investment.

The Forum also discussed new tools that hold considerable promise for stimulating investment. In particular, export credit agencies, pension funds, endowments, timber investment management organizations, insurance schemes, ecosystem services and non-timber forest products have shown successful financial returns in their localized and national applications. Over time, these tools could prove beneficial to tropical developing countries, especially when targeted to local and community forest dwellers. ITTO will continue to present these concepts at future investment fora, to further their development and application.

ITTO member states have discussed the outputs of this important forum. They drew attention to the significance of generating investment at the regional level, especially for small and large scale enterprises and environmental services. As a result of members' interest in the forum's substantive work, ITTO will hold a series of regional investment fora, the first of which will be held in Curitiba, Brazil, in November 2006. ITTO is also planning future investment forums in tropical Africa and Asia in 2007. I look forward to developing many emerging ideas and discussing sources of possible investment with you during these fora.

**Manoel Sobral Filho**

Executive Director

International Tropical Timber Organization

## Abbreviations and acronyms

ATO	African Timber Organization	IFIA	Interafrican Forest Industries Association
BCF	Biocarbon Fund (World Bank)	IIED	International Institute for Environment and Development
BDF	Business Development Facility	IFC	International Finance Corporation
CDM	Clean Development Mechanism	IMAFLOA	Instituto de Manejo e Certificação Florestal e Agrícola (Brazil)
CIB	Congolaise Industrielle des Bois	IMF	International Monetary Fund
CoC	Chain-of-custody	IRR	Internal Rate of Return
COFACE	Compagnie française d'assurance pour le commerce extérieur	ITTO	International Tropical Timber Organization
CONAFOR	Comisión Nacional Forestal (de Mexico)	ITTO MIS	ITTO's Market Information Service
CSR	Corporate social responsibility	MIGA	Multilateral Investment Guarantee Agency (of the World Bank Group)
ECA	Export credit agency	MDG	Millennium Development Goals
ECGD	Exports Credit Guarantee Department (UK government)	NGO	Non-governmental organization
EITI	Extractive Industries Transparency Initiative	NTFP	Non-timber forest products
ETS	European Trading Scheme	ODA	Official development assistance
EU FLEGT	European Union Forest Law, Enforcement, Governance and Trade	PEP	Private Enterprise Partnership
FAO	Food and Agriculture Organization (of the United Nations)	PES	Payment for Ecosystem Services
FAOSTAT	FAO Statistical Databases (United Nations)	PIAIL	President's Initiative against Illegal Logging (of the US Government)
FDI	Foreign direct investment	PNG	Papua New Guinea
FFM	Fondo Forestal Mejicano	PROMECIF	Process to Improve the Business Climate for Forest Investments
FFMp	FFM for production forestry	PSA	Pago por Servicios Ambientales
FIF	Forest Investment Forum	PSAH	Pago por Servicios Ambientales Hidrológicos
FIL	Foreign Investment Law	PWA	Precious Woods Amazonas
FIRA	Fideicomisos Instituidos en Relación con la Agricultura	RFMT	Responsible Forest Management and Trade
FMU	Forest management unit	RIL	Reduced impact logging
FSC	Forest Stewardship Council	SFM	Sustainable forest management
GDP	Gross Domestic Product	SME	Small and medium-sized enterprise
GEF	Global Environment Fund	SMFEs	Small and medium-size forest enterprises
GFTN	Global Forest Trade Network	SPR	Sociedad de Produccion Rural
GIS	Geographic Information System	SRI	Socially responsible investment
IAIF	Investment Attractiveness Index for Forests	STCP	Sociedade de Transportes Coletivos do Porto (Brazil)
IBRD	International Bank for Reconstruction and Development (World Bank)	TIMO	Timber Investment Management Organizations
IDA	International Development Agency	TNC	The Nature Conservancy
IDB	International Development Bank	UNCTAD	United Nations Conference on Trade & Development
IIED	International Institute for Economic Development	UNFF	United Nations Forum on Forests
		WBCSD	World Business Council for Sustainable Development
		WWF	World Wide Fund for Nature

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ITTO

## Introduction

The International Tropical Forest Investment Forum, co-hosted by the ITTO, Forest Trends, and the Comisión Nacional Forestal de Mexico (CONAFOR), brought together more than 170 participants from 30 countries around the world. Representatives from forest industry, government agencies, public and private financing institutions, conservation agencies, and private investors shared their experiences with investments in natural tropical forest-based enterprises, and discussed the types of tools available to promote responsible investment in this area.

The objective of the Forum was to discuss how to harness private investments in order to maximize the potential of well-managed tropical forests. Current levels of investment in this area continue to fall far short of the amount needed to ensure that forests are not vulnerable to unsustainable management practices or conversion to other potentially less productive land uses. Specific objectives of the Forum included the identification of:

- potential investors in natural forest-based enterprises in the tropics, and how their investment decisions are made;
- characteristics of natural tropical forest-based enterprises that are attractive to investors, and how overall country-level investment climates affect their venture opportunities;
- different means through which governments, firms, or other stakeholders can attract more investment for natural tropical forests, including investment promotion strategies or other mechanisms.

The Forum provided an update on trends in sustainable forest investments worldwide, with a

particular focus on natural tropical forests. Key presentations showed that the forestry sector offers an unusual opportunity to demonstrate how strongly commercial interests (the marketplace) and conservation objectives (the public good) can be aligned. For this alignment to occur, the sector needs to be supported not only by innovative mechanisms, but also by strong governmental programs that ensure a secure investment climate. The general consensus was that there is a pressing need for an increase in the total amount of investment – foreign or domestic – in sustainable forest operations.

The outcome of this Forum will assist the ITTO in preparing subsequent regional investment fora – to be held in Latin America (November 2006), Asia and Africa (2007). As directed by its member states, ITTO will draw attention to specific issues during the regional fora. The first of these areas is small scale enterprises, to: help support the trend towards community and private forest management; develop markets for certified products; create innovative financial incentives; mobilize technical assistance for training; and simplify government regulatory and bureaucratic procedures. Secondly, with regard to large scale enterprises, ITTO will focus on a number of issues, including political risk insurance mechanisms and transparent and secure concession contracts. Finally, ITTO will further explore the potential of environmental services, especially carbon credit schemes, and support reliable monitoring procedures.

The ITTO stands ready to support the development of action plans and the implementation of recommendations from the Forum. The discussions contained in this report serve as a starting point for continuing to promote investments in natural tropical forests at the national, regional and global levels.



## Summary report<sup>1</sup>

The global forest products industry represents close to 3% of the world's gross economic output, and the forests upon which it depends are particularly important ecosystems for environmental and human well-being.<sup>2</sup> The size of the industry, its links to the rest of the world economy, and the centrality of its resource base to environmental sustainability make it an industry subject to intense controversy and growing public and regulatory scrutiny. A range of products and services come from natural tropical forests, and further investment needs to be generated at all levels, to promote sustainable forest management (SFM) and sustainable economic growth. The forestry sector offers an unusual opportunity to demonstrate just how strongly commercial interests (the marketplace) and conservation objectives (the public good) can be aligned. The challenges to the industry have led to a wave of experimentation around the globe. Over the past decades, a small but growing number of companies in the forest products sector have emerged as innovators in the movement toward what is being called "sustainable forestry." Low-impact forestry methods, local community involvement, forest management certification, green buyers' groups, and affirmative government procurement programs are all indicative of this movement. The type of products emerging from the forest are also changing - new non-timber forest products (NTFPs) and environmental services are also serving as the basis for future investment while contributing to sustainable forest operations. The concept - that managing forests for multiple uses within the bounds of ecological limits makes solid economic sense in both the short and long term - is gaining momentum.

Clearly, one of the largest and least addressed obstacles constraining the expansion of sustainable forestry operations worldwide is the industry's lack of integration into the capital markets and, consequently, its poor access to mainstream private capital. This is a particularly critical issue given the extent to which private capital flows to developing countries are rapidly outpacing public sector financing.

The global economy stands at US\$55 trillion dollars and continues to grow.<sup>3</sup> How can the financial

<sup>1</sup> The technical information for this section has been drawn from Kerstin Canby and Cary Radiz's background paper, 'Opportunities and Constraints to Investment: Natural Tropical Forest Industries,' Washington, DC: Forest Trends, 2005, available at [www.itto.or.jp](http://www.itto.or.jp).

<sup>2</sup> Canby and Radiz, at 11.

<sup>3</sup> Ibid, at 1 and 8.

power of private investments be harnessed to maximize the potential of well-managed forests and thus contribute to poverty alleviation, the protection of environmental services, and sustainable economic growth in developing and transition countries? The challenge will be to increase the amount of total investment - through foreign direct investment (FDI) or internally in developed countries - towards sustainable forest operations in developing countries.

To address the issue of investment in the sector, the International Tropical Forest Investment Forum brought together more than 170 stakeholders from forest product companies, public and private financial institutions, governments, donor programs, and non-profit organizations to discuss the topic at hand. Organized jointly by the International Tropical Timber Organization (ITTO), Forest Trends, and the Comisión Nacional Forestal de Mexico (CONAFOR), the Forum set out to:

- Identify potential investors in natural forest-based enterprises in the tropics and how their investment decisions are made;
- Determine what characteristics of natural tropical forest-based enterprises are particularly attractive to investors, and how overall country-level investment climates (or business climates) affect their opportunities;
- Find how governments, firms, or other stakeholders can attract more investment for natural tropical forests, including investment promotion strategies or other mechanisms.

The Forum's objectives, which will be applied to other regional investment fora, included the need to work with a range of stakeholders, including governments, local communities, industry, conservation agencies, and financial institutions, to come to a consensus on priorities areas for investment. Additionally, it is hoped that these entities will help identify the major constraints to investment and strategies for overcoming them.

To address the priority issues raised in the Forum, various sources of investment capital and project development assistance could be used. These are: private companies and consulting firms; institutional investors/timber investment management organizations (TIMOs) and Eco Trusts; IFC/World Bank and Regional Development Banks; World Wide Fund for Nature (WWF) Global Forest Trade Network (GFTN); ITTO/Forest Trends Business Development Facility; the Food and Agriculture Organization

of the United Nations (FAO) Investment Centre; and government grant schemes. Organizations, governments and others concerned with forest issues need to seize these investment opportunities to prepare for future scenarios of forest utilization and conservation. If, by Year 2050, about 40% of the world's forests is community owned natural forests managed for meeting local needs

and wood requirements of small-medium scale forest enterprises and about 40% is economically inaccessible forests and Protected Areas (IUCN, Categories I-VI), individuals with interest in the forest sector can begin to create more sustainable management and investment schemes to adapt to such scenarios.

## Proceedings

### Opening remarks

The Honorable Carlos Manuel Joaquin Gonzalez, Mayor of the City of Solidaridad in the State of Quintana Roo in Mexico, welcomed participants and their contribution to increasing the knowledge of investment opportunities and responsible enterprises in tropical forest areas. He highlighted how the State of Quintana Roo relies on its natural and cultural environment to attract and support the more than 2.5 million tourists who visit the area each year. Investment in both the tourism and natural resource industries in the region guarantee environmental and social welfare, protecting against the threat of forest fires and other potential dangers.

Mr. Leon Negrete, Secretary of Farming, Rural, and Indigenous Development and representative of the Governor of the State of Quintana Roo, thanked participants for traveling to Cancún, which had officially reopened after the damaging hurricane season of the previous year. He explained that Quintana Roo has a long history with community forestry and certified forests which need to be linked to markets for ecotourism and other environmental services. He acknowledged governments' role in attracting investment to ensure the future of forests and mankind globally.

Manuel Reed Segovia, Director-General of CONAFOR, outlined the Mexican forest agency's work to promote sustainable and well-balanced investment. With 40% of its forest land under some form of commercial capacity, Mexico's forest areas have great potential. Mr. Reed explained that Mexican forest policy is entering a new stage, with governmental investment rising at federal, state, and municipal levels, and the country continuing its role as a leader in developing programs for ecosystem service payments.

Dr. Manoel Sobral Filho, Executive Director of ITTO, followed up on Mayor Gonzalez's welcome, noting that Mexico is ITTO's newest member and a country where land use planning incorporates permanently-assigned forest areas where SFM will serve to enhance forest values over time. This in turn will lead to sustainable revenues and employment, helping local communities to improve their livelihoods and help them become more established and linked to the formal economy. Dr. Sobral observed that many of ITTO's member countries still have vast natural forests that could support SFM on a large-scale. Unfortunately,

while plantations easily attract investment, the conservation and sustainable management of natural forests in developing countries continues to lack the investment needed. He outlined several of the common difficulties encountered by investors and investees alike, namely (a) many investors see SFM of natural tropical forests a low return and high risk business; (b) natural forests often have lower growth yield and a heterogeneity of species currently not in demand by the market place; (c) markets for ecosystem services are still at a nascent stage; (d) competition from alternative land and illegally produced forest products; (e) insecurity in land tenure; and (f) over-regulation by governments imposing high transaction costs for those that would like to be legal and sustainable. Dr. Sobral challenged participants at the Forum to think creatively about how to address these issues – whether real or only perceived – and committed the ITTO to support the development of action plans based on recommendations from the Forum.

### Keynote addresses

#### ***Natural tropical forests: opportunities and constraints to investment***

Michael Jenkins, President of Forest Trends, presented an overview of the opportunities and constraints to investment in natural tropical forests. He began by posing a series of fundamental questions that participants needed to ask themselves: how can we ensure that production forests (i.e. those outside of protected areas) remain an integral part of the landscape and they are managed sustainably? And, if in the last few decades FDI has grown at a rapid rate and bigger than official development assistance (ODA), why hasn't more of this international investment been captured by legal and sustainable forest sector operations?

Jenkins suggested that concerns persist about investing in the emerging markets' forest sector. Real and perceived risks can be managed through (a) land tenure programs, which ensure both local communities' as well as industry rights; (b) national-level improvements in governance, creating a stable investment climate for both domestic and international investors; (c) new markets for ecosystem services – such as for carbon, biodiversity offsets, and water quality – coming on-line at a scale needed at the landscape level; (d) verification and certification processes, which ensure transparency and sustainability to the sector as a whole, and therefore serve as “reputational guarantees” for concerned investors; (e) consumer, government, and retailer procurement policies

which promote the development of varied and certified wood products, giving them a boost against illegal operators which undermine the market; (f) growing recognition of the role played by small and medium-sized enterprises (SMEs), and the need to free barriers to their growth and domestic investment; (g) technical capacity programs for small and medium-sized enterprises, including those from groups such as Tropical Forest Trust and WWF's GFTN, that help them move to more sustainable markets; and (h) innovative risk guarantee mechanisms that institutions such as Multilateral Investment Guarantee Agency (MIGA) could implement.

Other threats will still remain; including competition for investment dollars presented by plantations (e.g. Chilean pine in the Mexican market is more competitive than local products).

Despite these risks and concerns, global investors are increasingly interested in responsible forest enterprises in developing countries: Harvard Investment has a large forestry component and recently decided to direct its attention to emerging markets, and new funds such as the Global Environment Fund (GEF) are also seeking SFM opportunities in emerging markets. Also, a range of large banks, including those committed to the Equator Principles, will only lend or invest in operations that can prove to be environmentally responsible.

Jenkins finished with two important notes:

- More attention needs to be paid to supporting the growth of SMEs: In ITTO tropical producer countries the forest product-related industry is quite diverse, spanning a broad range of firms and entrepreneurs, from individuals operating in the informal sector to large multinational operations that can have annual sales larger than the GDP of many small developing countries. All have the potential to invest productively, create jobs, and expand – thereby contributing to the future of the world's forests, economic growth and poverty reduction, and providing the opportunity to address the Millennium Development Goals (MDGs) in rural settings.
- Governments have a tremendous role to play: There is no substitute for good governance in fostering a positive business investment climate. Good governance, including control over illegal activities, will do the most to foster responsible private sector investment and improve its contribution to social and economic development. Governments can also play a

leading role in international negotiations such as the Kyoto Protocol and the Clean Development Mechanism (CDM) to ensure that forests are included. Emissions from forests now total 20% due to forest loss, conversion, and burning. 25% of the estimated US\$60 billion active in the carbon markets could be reinvested in SFM. The Rainforest Coalition, led by Papua New Guinea (PNG), is urging governments to open Kyoto Protocol discussions to include avoided deforestation, which would help open the carbon market and return value to the forests.

### ***Opportunities presented by effective forest law and governance***

Dan Reifsnyder, Deputy Assistant Secretary for Environment, Bureau of Oceans and International Environmental and Scientific Affairs, US Department of State, summarized why successful investment strategies require the elementary but often ignored aspect of good governance and the rule of law.

Good governance is the foundation of an enabling environment for SFM and should include: (a) clear and enforceable property rights as a prerequisite for investment; (b) mechanisms for public participation in the development and implementation of forest law, which would help reduce local resistance to projects and improve investment prospects; (c) impartial and appropriate forest law enforcement to discourage violations and provide communities and investors with security; (d) clear and non-contradictory laws and regulations administered with non-biased public investments, ensuring investors that SFM standards are encoded in national laws; and (e) a well-functioning, free of corruption, legal system for conflict resolution, contract facilitation, and other commercial transactions.

The US President's Initiative Against Illegal Logging (PIAIL) acknowledges the blatant disregard for law and the corruption that undermines democracy, destroys the environment, and diminishes livelihoods. The US PIAIL framework enables US agencies to help partners build capacities to establish effective governance, as has occurred in Liberia.

“New generations” of policy and governance instruments are proving invaluable in attracting and maintaining investments in forest ecosystem services above and beyond timber. However, these innovative financing mechanisms can only survive in supportive and enabling policy environments. A comprehensive approach to good forest governance reaches beyond the forest sector alone. The

international community's effort to support massive and radical cross-sectoral reforms in Liberia will hopefully provide a positive example for the world. Together with partnerships with civil society, industry, NGOs, and the international community, these types of reforms are a prerequisite for attracting increased investment in SFM that can both yield a profit and maintain forest resources for future generations.

### **Following up on previous forest investment fora**

Gerhard Dieterle, Senior Forest Advisor at the World Bank<sup>4</sup>, noted recent global developments in the forest sector since previous fora, such as:

- Steep increases in community involvement in forests<sup>5</sup> which will present new challenges to governmental, donor, and investment programs;
- Declining ODA, with private sector investment at US\$8 billion compared to ODA's \$1.7 billion, and private companies managing large areas of forests (e.g. over 50% in Cameroon);
- Shifts in market demand, with Asia quickly catching up with Western Europe and North America as a major importing and processing center;
- Increasing need for independent third party verification/certification to access environmentally sensitive markets in Europe,

<sup>4</sup> Dieterle explained that, the World Bank Group invests approximately US \$700 million per year in forestry-related projects. US \$250 million are from IBRD and IDA loans to governments, with the remainder being International Finance Corporation (IFC) loans to the private sector. IFC lending is currently in an upward trend, but is challenged by controversies in forest sector. All industrial scale commercial forest products must be certified according to certification system acceptable to the World Bank.

<sup>5</sup> By 2015, 45% of all forests will be managed or owned by community groups.

Japan, and North America, but only 3% of the world's forest area currently certified, with European and North American forests making up 92% of that area – tropical countries are being left behind;

- Decreasing national budgets for forests and decreasing development financing allocated specifically to forest projects;
- Rapid development of timber investment management organizations (TIMOs) into emerging markets targeting certified forests;
- Rapid expansion of carbon trading schemes, with World Bank programs alone worth US\$1 billion;
- Decreasing quality of trained foresters, especially in Africa where only 5% are trained in national programs and not donor-funded programs.

The way forward will need an integrated approach: the private sector needs an enabling business environment which requires long-term actions by coalitions of stakeholders. Governments need to establish clear property rights and definitions of the forest estate, reduce trade distortions, revise the estimated value of forests, and simplify forest legislation. Financial institutions should have sustainability principles. The World Bank Group, other development banks, the international donor community, and NGOs can complement these with additional programs to help apply corporate social responsibility (CSR) principles, increase efforts towards chain-of-custody (CoC) verification and forest certification, engage local communities, apply voluntary codes of conduct, and ensure transparency and standardized reporting.

## Session summaries

### Panel I: The Nature of Tropical Forest Industries: Trends and Meeting the Investment Needs of the Private Sector

#### Developing sustainability

Roberto Waack of Grupo Orsa<sup>6</sup>, showed how CSR does not have to reduce returns for shareholders. Grupo Orsa's growth, with 1% of gross sales invested in social responsibility, has reached 36% over the last 10 years – the fastest growing company in pulp, paper, and timber in Brazil.

Despite the country's natural resources, relatively solid institutions, and high level of entrepreneurs, Brazil does not have a good investment climate – it ranks in 25th place according to the ITTO Survey (2005) – when considering the amount of time it takes to start a business, enforce contracts and register property. 33% of Amazonia's land has non-defined ownership. Only 30% of timber comes from a company's own business. 36% of Amazonian timber is exported with virtually no value added. In particular, no formal investment (financial lines) or risk guarantee mechanisms adapted to the forest context exist. However, the financial world may be starting to evolve – from indifference, or minimum due diligence, towards the development of new financial products, awareness of risk mitigation factors from community involvement and certification, and recognition of the added-value from payment for ecosystem services (PES – tourism, carbon), NTFPs (phytotherapies, cosmetics, oils, fiber), biomass, non-commercial species and others. To take advantage of these innovative new mechanisms, dynamic skills and capacities will be needed to address the institutional, financial, technological, social, and environmental challenges presented in the Brazilian Amazonia context. These include political and business skills to:

- network, actively manage risk, and handle fragile and unstable institutional environments as well as potentially hostile stakeholders;

6 According to Waack, institutional challenges include high transaction costs (e.g. 30% of gross sales for certified operations, instable regulatory framework, poor land ownership situation, corruption, etc). Financial challenges include, *inter alia*, disequilibrium on the industry scale (higher numbers of small scale industries), disequilibrium in origin (few multinationals), low margins when competing with informal / illegal operations. Technological challenges include processes to handle heterogenic forests are only just developing, lack of skilled labor, etc. Marketing challenges have included complexity of market structure, bad perception of tropical forest industry, high demand from domestic markets for low value wood products, lack of experience with external markets, etc.

- map and engage the financial sector, especially for sources of “sustainable” funding;
- quickly incorporate innovative new forestry and industrial technologies, non-commercial species, new products, and market opportunities into normal business;
- attain strong CSR and a sense of globally strategic activities.

#### Issues and opportunities for investment in natural African forests

Jean Jacques Landrot, former President of L'Association Technique Internationale des Bois Tropicaux (ATIBT), highlighted how confidence is the foundation of all good investments. With four of the 14 African Timber Organization (ATO) countries currently in unstable political situations, and others politically fragile, investors are continually in a situation of high risk which affects their decisions to invest as well as their exit strategies. Weak governance, instability of fiscal policy and forest legislations, unfair competition from illegal operators, poor infrastructure, environmental risks, poor skilled labor, complexity and heterogeneity in the forest structure, and pressure from campaigning NGOs all negatively affect the risk-return ratio of industry operating in Africa. All industries need access to loans, but only large companies have access to local banks – and even they need international guarantees for large loans, which are hard to find.

Potential solutions for this include the involvement of professional syndicates to create common platforms and provide instruments of dialogue with other stakeholders; partnerships with constructive NGOs; commitment by local banking facilities for both large and small forest operators; local insurance and guarantees of investments such as MIGA or the Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), which have to date refrained from covering investments in Africa's forest sector; professional training; and national and regional policies conducive to a positive investment climate in Africa.

#### Conditions for timber processing in the Republic of Congo

Jean Jacques Landrot, on behalf of Yves Dubois, Director Congolaise Industrielle des Bois (CIB)<sup>7</sup>, outlined some of the issues facing large-scale industrial concessionaires. A major cost to such firms includes social infrastructure not provided by the government, such as schools, hospitals, housing,

7 CIB concessions in the Republic of Congo total approximately 342,000 km<sup>2</sup> ranging from 200,000 – 1,000,000 ha with selective logging and rotations of 25-40 years

water, and electricity. Other challenges include, *inter alia*, poor infrastructure and the high cost of transportation to ports; a banking sector that is unsuitable for large industrial investments; weak staff capacity; high fuel transportation costs; and political instability.

In order to be able to continue operations in Congo, CIB expects that it will need to (a) elaborate and implement management plans in all forest management units (FMUs); (b) increase the number of species logged; (c) expand value-added processing<sup>8</sup>; (d) better use timber waste through co-generation; (e) implement reduced-impact logging (RIL) techniques; (f) improve the social infrastructure and quality of life for local peoples; (g) and obtain an internationally recognized forest management certification such as the Forest Stewardship Council (FSC) and others. Responsible companies that want to invest in the Congo are recommended to have a certified operation, have modern and efficient mills for secondary processing, and a commitment to respect national legislation. Opportunities cited include the use of lesser-known species (from 5-10 to 30-40 species), the use of small-sized timber, and the implementation of timber waste in co-generation projects.

Governments can create a more conducive business environment by developing management plans in the concessions; improving transparency and the tax system; expanding infrastructure (railways, roads, navigable rivers); promoting species and certification; enhancing capacity building; developing local and international markets; and facilitating collaboration between industry, civil society, government, and local communities.

### **Small-medium forestry enterprises – the “best bet” for reducing poverty and sustaining forests**

James Mayers, Head of the Natural Resources Group of the International Institute for Environment and Development (IIED), presented evidence that small to medium-sized forest enterprises (SMFEs) play a key role in many emerging economy’s development and helping communities meet their basic needs. Diverse and poorly understood, SMFEs have been difficult to define, although IIED’s working definition is relatively well accepted as “businesses aimed at making profit with 10-100 full time employees, or an annual turnover of US\$10,000 to US\$30 million, or annual roundwood consumption of 3,000–20,000 cubic meters.” 80-90% of all

forest enterprises are SMFEs in most countries, responsible for over 50% of forest-related employment in many countries. Over 20 million people are employed by SMFEs (12 million of whom work in NTFP processing production), with more than US\$130 billion per year of gross value added (US\$120 billion in wood production and processing).

Recent research by IIED shows that while they are not perfect, SMFEs are better than large enterprises at understanding local political contexts, forming enhanced links with local civil society, and committing to local development, even if this “silent social responsibility” is not recognized as widely as the CSR programs from larger firms. Despite this, governments and the international community have been paying more attention either to the plight of large-scale forest industry, or community forest operations – undermining the “messy middle” of SMFEs. Due to their importance, SMFEs must be supported to build upon their strengths and address their weaknesses.

To help SMFEs meet their potential to expand and create jobs, governments and others can ensure that they are not disadvantaged vis à vis larger firms. General recommendations include:

- Orient SMFEs primarily to local markets (unless market niches are available internationally) which are in general less competitive for the types of products SMFEs generate;
- Foster enterprise associations which can help to articulate needs and influence policy, reduce transaction costs, and invest in adaptive strategies;
- Simplify and stabilize laws and institutions related to SMFEs which are often under the jurisdiction of multiple governmental agencies unfamiliar with their needs. High taxes, unfairly applied regulations, and corruption keep incentives high for SMFEs to remain in the “informal sector.” In many cases, clear titling will be critical to many SMFEs; in other cases, it will be the democratic involvement of marginalized groups in decisions over common land;
- Support judicious subsidies and remove unreasonable subsidies and trade barriers, especially if power has accumulated in the hands of a few major players;
- Since SMFEs are generally owner-financed with contributions from friends and family (including international remittances) and have little access to conventional financial lines, credit unions can

<sup>8</sup> Currently, only 50% of logs in Congo are processed.

make efficient use of the capital held by SMFE owners and facilitate group-lending contracts with joint liability and group certification;

- Build capacity for general business and finance administration, helping SMFEs attract and negotiate fair investment deals with larger players. Brokering bodies to coordinate policies and interact with investment sources may also be helpful.

### **Constraints for small & medium sized forest enterprises in Guyana in the context of sustainable forest management**

Andrew Mendez of Farfan and Mendes, Ltd in Guyana compared the environmental, economic, technical, and social performances of SMFEs and large operations in Guyana. SMFEs in Guyana typically have mobile technology (i.e. chainsaws, portable mills), allowing them to make a superior profit than larger operators, which have higher costs per unit. SMFEs employ 75% of the forest-related jobs, provide 70% of the products on the local market, and are adding value into the forest sector compared to the large concessions which primarily export logs (which has also less availability of raw material for domestic value-added processors). Mendes therefore suggests that Guyana's resources are better suited to SMFEs than to large operations, which are usually heavily capitalized and do not guarantee quality performance, but are still provided with large financial incentives and other benefits.

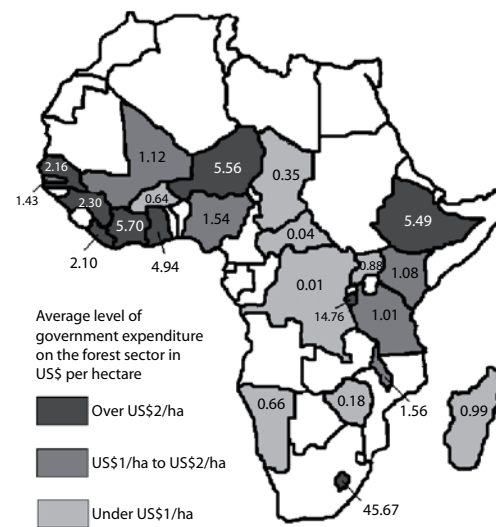
Recommendations to help Guyana's SMFEs meet their potential to create local economic development and employments include leveling the playing field between large concessions and SMFEs in terms of financial incentives, taxes, and royalties, and ensuring that the New Forest Products Marketing Council does not focus exclusively on export markets. Governments need to understand the important role the SMFEs play, and how the recovery of value rather than volume is the priority in countries with relatively limited resources like Guyana.

## **Panel II: Enabling and Investment Climate: The Role of Governments and International Organizations**

### **Financing sustainable forestry in the tropics - a global overview**

Adrian Whiteman, FAO, provided an overview of the economic viability of tropical forest management, the general trends in government

**Figure 1** Governmental expenditures on forestry in Africa 1999 (US\$ per ha)\*



Source: Adrian Whiteman, 'Financing Sustainable Forestry in the Tropics'

\* Including donor funded expenditure

policies and institutions in promoting investment in SFM, and the role of international organizations.

He noted that one of the fundamental problems with tropical forest management is that trees grow slow in many natural forests, and while real product prices are declining, there is relatively low level of value added from wood production and a declining market share of tropical roundwood, especially from natural forests. SFM of natural forests in addition suffers from low commercial stocking, high production and management costs, and high opportunity costs (relative to alternative land use). For these reasons, forest management in tropical forests is less profitable, and value added processing may range from US\$20/ha per year in dryland forests to US\$100 in most tropical forests (compared to US\$500 and US\$3,000 in harvested primary tropical forests).

At the same time, government budgets are constantly under pressure and funding for forestry is generally in decline, while decentralization is weakening capacity to implement SFM. Privatization and less direct public intervention in many sectors including forestry is occurring, and governments are moving from providers to purchasers of public services.

Broadly speaking, governments have four types of instruments to promote investment in SFM in their countries:



- *direct intervention and/or investment*, which is currently very small and focused mainly on protected areas which are themselves under-funded. It is likely that involvement in commercial forestry will continue to decline (e.g. privatization of state forest enterprises);
- *regulation*, which dominates in many countries but is outdated, unclear, and/or conflicting. Enforcement is generally weak (but possibly improving). Improved regulation in the forest sector will require more focus and deregulation (where appropriate), a more structured approach to enforcement, clearer definition of rights and responsibilities, and strengthening of social contracts;
- *fiscal policies and market mechanisms* remain under-utilized, with many countries spending more on forest services than they collect in forest charges. Incorrect fiscal policies remain the largest constraint to investment in SFM, but forest charges and incentives can be revised. PES are developing, but may not have a major impact for years;
- *measures to promote SFM* currently suffer from lack of information and analysis – including market and investment information, SFM techniques, and appropriate policies and legislation. Information is currently improving but more needs to be done.

International organizations such as FAO Statistical Databases (FAOSTAT) and the ITTO Market Information Service (MIS) can serve as clearing houses for information and data, provide opportunities for sharing experience (e.g. FAO case studies), and a neutral forum to international coordinated discussions and agreements at global and regional levels.

### ***The role of governments in creating the enabling environment for investments in natural tropical forests***

Governor Jorge Viana of the State of Acre (Brazil) presented a movie about Acre's efforts to create an attractive climate for investors, including collaborative work between the public sector, communities, businesses, and the people who live in the forests. The State of Acre relies on a sustainable development model, and recognizes its forest as its largest patrimony.

### ***Forest investment attractiveness index***

José Rente Nascimento, Senior Natural Resources Specialist at the Inter-American Development Bank (IDB), described the IDB's Investment

Attractiveness Index for Forests (IAIF), which measures the business climate for investments in SFM projects. The IAIF allows systematic, periodic, quantitative, and more rigorous analyses of the factors that affect the success of forest direct investment and business decision-making. It is therefore useful to:

- represent the forest business climate as a single number per nation
- identify issues where national performance is above or below expectations or aspirations
- facilitate a more precise and constructive dialogue about forest business climate issues among stakeholders
- set priorities among policy areas by governments interested in improving their forest business climate
- monitor the success of policy interventions on specific indicators
- allow investors to initially screen countries with best investment climate for sustainable forest businesses
- serve as a working framework to encourage research, debate, dialogue, and learning
- clarify policy and investment tradeoffs
- design intervention strategies and better define goals, programs, and policies

The IDB will finance updates of the IAIF every two years and provide associated services to governments and the private sector. The IDB's Process to Improve the Business Climate for Forest Investments (PROMECIF) uses the IAIF's methodology as a basis for enhancing the climate for investments in sustainable forest businesses. The process consists of three phases which include country identification and commitment to change; diagnosis and strategy definition; and implementation, follow-up and evaluation. Paraguay, Panama, Ecuador and Honduras are already applying the PROMECIF, while the IAIF is being adjusted and calculated for each of Brazil's states.

### ***Export credits, illegality risks, and sustainable forest management***

Jade Saunders, Associate Fellow at the Royal Institute of International Affairs, provided an overview of export credit agencies (ECAs) and investment insurance agencies, which are public or para-statal institutions providing government subsidized loans, guarantees, and risk insurance to

corporations seeking to do business in countries with risky investment climates. Most industrialized countries and a growing number of emerging market economies possess an ECA, and estimates suggest that worldwide ECAs currently support around US\$432 billion in trade and investment – nearly 10% of world exports.

Individual ECAs operate primarily for the benefit of their home industry; however, they can also arrange support through host country agencies and assistance projects that are undertaken in partnership with companies which meet a minimum threshold. ECAs currently provide a range of services to companies and banks that might benefit the legal and sustainable forestry sector in the short-term. These include:

- Political risk insurance
- Loans on favorable terms
- Nationally-based flexible facilities to cover the export of machinery, trade credits, and shipping insurance
- ‘Positive’ long term investment funds (i.e. for renewable energy technology)

These resources are not necessarily being taken up by certified operators, but there is an appetite for them among ECAs – particularly those that are under pressure over the environmental records of their investments.

In the medium term, the development of the EU Forest Law Enforcement, Governance and Trade (FLEGT) licensing scheme will provide a potential tool for individual ECAs that have pulled out of the sector (i.e. ECGD) to support investments without the risk of backing illegal projects. In the longer term, ECAs are also under significant pressure from the international community to reform in step with development schemes such as the MDGs and the Extractive Industries Transparency Initiative (EITI). If they do this in line with recommendations from a wide range of international stakeholders, then they will have even more potential to positively impact the development of SFM through, for example:

- Providing risk insurance which lasts the length of a sustainable forest cycle
- Requiring project minimum standards for consultation with affected communities
- Establishing minimum local costs and benefit sharing for supported projects
- Adopting revenue transparency requirements along the lines of the EITI

- Requiring legality verification and sustainability certification of raw material supplies for pulp and paper or other processing projects

### **Panel III: The Role of International Investors/Mechanisms**

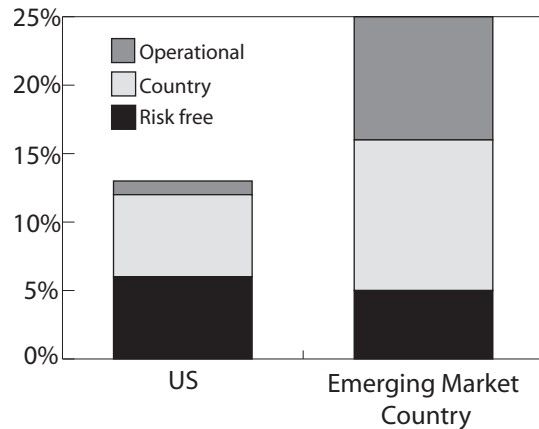
#### ***Tropical forests for institutional investors***

Peter Vind Larsen, Head of Investment Development and Analysis for the International Woodland Company (Denmark),<sup>9</sup> highlighted some of the trends in pension funds, endowments, foundations, and other institutional investors capturing trillions of dollars of capital in the global market. For several reasons – including interest in long-term investment, realistic risk-adjusted return expectations, and a focus on total economic returns – forest investments can be attractive to institutional investors because they can have a high return to risk ratio, help diversify large portfolios, and often have controllable risk relative to the financial markets. However, tropical forests present additional real or perceived challenges to these investors, such as:

- Negative image of commercial forestry in tropics which could lead to bad press
- Uncertainties regarding return potential
- Difficulties finding local companies with management capacity at investors’ standards
- Difficulties in coming across projects at a large-enough scale
- Country-level risks related land tenure, tax, markets, etc
- Unclear conditions regarding possibilities to exit the investment, since pensions funds need to be able to get out usually within 10-15 years

In addition, with the majority of tropical forests in publicly owned land, new models that work for institutional investors are still being developed. However, if these risks and uncertainties can be managed, tropical forests represent an attractive fit in most investment portfolios. Risk management tools would include careful due diligence and sound financial performance to offset any risks; commitment to socially responsible investment (SRI); diversification at both the fund and portfolio levels; partnership with NGOs, governments, and development agencies; and appropriate exit strategies.

<sup>9</sup> The International Woodland Company (IWC) is a provider of international forest (both plantation and natural) investment-related services, primarily to pension funds and other institutional investors in Scandinavia and Europe.

**Figure 2** Discount rates for two forest products companies

Source: Kevin Tidwell, 'An Emerging Markets Forestry Investment Strategy'

### **An emerging markets forestry investment strategy**

Kevin Tidwell, Associate at the GEF, described how a fund management group such as the GEF seeks superior financial returns through private equity investments in companies that have a positive impact on environmental quality, human health and the sustainable management of natural resources. GEF believes strongly that its investments are fueled by social inclusion as people involved in their projects will ultimately determine its success. GEF investments therefore could be expected to support medical clinics, primary school, and full-time community forests to help with public access of company lands for household needs.

When a private equity fund looks to target forestry operations in emerging markets, it needs to look at risk-adjusted returns. Discount rates for forest products companies in emerging markets will be higher than in developed countries (see Figure 2) – leading to a lower valuation of the emerging market company.

Elements of risk are a major factor in the differing discount rates. Factors that are considered include *inter alia*:

- Issues with land tenure systems: the general preference for a private equity firm will be for fee-simple ownership, but land lease or concessions terms are acceptable
- Quality of governance
- Trade policies and export potential
- Tax and legal systems

- Transportation / infrastructure
- Percentage of commercial viable species
- Deal structure/ control issues
- Proven manufacturing techniques
- Personnel challenges

In emerging markets these factors produce higher operational and country risks, and thus the lower valuation. Mitigating factors for a private equity investor such as the GEF could include certification, ability to modernize, strong domestic markets with export potential, focus on solid wood and specialty products, and interest in a majority shareholdings and day-to-day management input from the investor.

### **IFC's requirements for investing in tropical natural forests**

Peter Neame, Principal Environmental Specialist at the International Finance Corporation (IFC), described how the IFC can have significant development impact in the forest products sector in emerging markets, where the global demand and supply of forest products is now shifting. The IFC currently has major programs in China, Russia, Latin America, India, and Africa.

The IFC's mandate is to strengthen private sector to alleviate poverty, especially in "frontier markets," and often targeting projects with "demonstration effect." Projects in tropical natural forests, however, are still seen as very risky, difficult, and time consuming. The IFC can only invest where the enabling environment for private sector is conducive. Therefore, the IFC needs to judiciously select projects based on risks and resource availability, and in general seeks (a) committed clients and usually larger companies which can have greater impacts; (b) a positive enabling environment; (c) World Bank partnership, especially to help facilitate improvements to the enabling environment; and (d) viable and appropriate partnerships with NGOs. All forest projects must be managed in a sustainable fashion to be demonstrated by independent certification consistent with World Bank / IFC requirements (applicable to clients with forest lands or long-term concessions), as well as have preferential purchasing policies, supply chain management, or the promotion of SFM.

The IFC recently adopted new performance standards, which are similar to its previous Safeguard Policies in that they cover a range of social and environmental issues, but include new areas or emphasis such as the expansion of public

consultation and disclosure requirements and a broader view of biodiversity, etc. Performance Standard #6 is particularly relevant for the forest sector.

The IFC manages several other mechanisms to support sustainable forest-related activities such as Private Enterprise Partnerships (PEPs), which can be used for SME support, market development, or the improvement of the enabling environment in the private sector (overlapping with the World Bank). Other internal donor-funded mechanisms exist such as the Corporate Citizenship Facility, Environmental Opportunities Facility, the Carbon Finance Facility, and the Sustainable Finance Markets Facility. The IFC also has an Advisory Services / SME Department which may be useful for some enterprises.

### **Financing responsible forest management and trade (RFMT) in natural tropical forests: working examples from Latin America**

Steve Gretzinger, Regional Coordinator of the Latin America GFTN, outlined some important financing needs for responsible forest management and trade in natural tropical forests. In addition to the requisite of making technically better products and improving production efficiencies needed to build markets for enterprises, access to finance is difficult. Reasons cited include a perceived bad reputation which tarnishes the entire sector, unstable supplies of raw materials, lack of collateral for many players, informality, and illegality.

Many GFTN clients are beginning to prove that they are credible enterprises and are making an attempt to bridge the gap with financial institutions such as the IFC. Still, they often have to rely on subsidies or technical assistance from donor and NGO programs. Guatemala's Bancafe, one of the fastest growing banks in that country, is a leader in the financial community. Bancafe is allowing the use of forests as collateral and is interested in working with wood processing and ecotourism in community-owned areas. Many of the lessons learned in working with smaller enterprises and the financial institutions point to the need of sharing the risk amongst the stakeholders, the need to obtain permits and contracts prior to loan grants, the need for technical assistance, and the ability to use timber as collateral.

TIMOs are an equity model which is a major trend in the US timberland market. Forest companies are selling to investors such as high net worth individuals and pension funds. Gretzinger believes that TIMOs could work for tropical countries as well because of their ability to diversify portfolios

geographically, by sector and expected time horizon. Partnerships with NGOs can help to further reduce any risk and socio-economic costs.

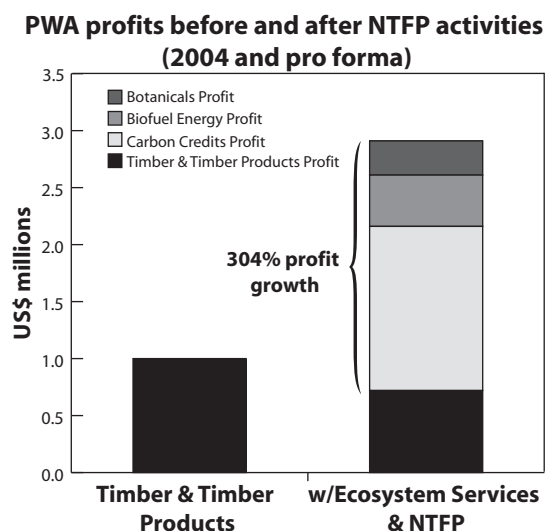
## **Panel IV: New Investment Tools and Approaches (Risk Mitigation and Governance)**

### ***The Business Development Facility (BDF): bringing the value of ecosystem services to forest enterprises' bottom line***

Hege Salvesen, Forest Trends, showed how diversified revenue streams can be generated from ecosystem services and NTFPs to improve the profitability of companies, preserve biodiversity, reduce risk, increase land value, and improve relationships with local communities – thus becoming more attractive to investors. The Business Development Facility (BDF) assists companies to diversify from being timber companies to land managers, proving that SFM is valuable as an alternative land use, can attract funding in the tropics, and that the private sector can be engaged to become more sustainable.

An example includes Precious Woods, an FSC certified company operating in the Amazon, for which the BDF identified additional revenues from carbon credits (by switching to biofuels and avoiding methane), essential oils (a high margin business with local employment opportunities and high profitability), sustainable extraction of orchids,

**Figure 3** Precious Woods revenue and profits before and after diversifying revenue streams



Source: Hege Salvesen, *The Business Development Facility: Bringing the Value of Ecosystem Services to Forest Enterprises' Bottom Line*

and the sale of renewable energy from their biofuel investments. Increased revenues from Precious Wood were 50%, with triple profits in 2006 – proving that alternative products have high margins.

Besides profit growth and margin improvement, additional revenue streams help to minimize recurrence and reduce reliance on cyclical timber markets and seasonal fluctuations. Carbon contracts bring in foreign currency (Euros or US dollars). In the case of Precious Woods, the reduction of wastewood has reduced fire risk and local communities are satisfied with the job opportunities provided.

The BDF is proving that NTFPs and ecosystem services are ready to change the investment scene – although each investment will be unique and the complexity of developing these businesses will require relatively high managerial skills.

#### ***An insurance contribution to sustainable forestry investment***

Phil Cottle, Managing Director of ForestRe (UK) explained how historically international insurance markets had rarely made a profit from forestry, likely due to very small and unbalanced forest portfolios. By 2003 forestry was increasingly seen as a niche business and global capacity had fallen by 75% from 1995 levels. Only three major international reinsurers remain “leaders” in forestry, despite the fact that forestry could be written profitably if given the same attention as other business lines.

ForestRe aims to increase the insurance capacity for forest and tree crop enterprises, and facilitate finance and investment into the industry as an asset class supported by conventional and environmental revenue streams such as water, carbon and biofuels. This type of insurance protects forestry investments and loans, future income flows, forest yields and services, facilitates investment where fiduciary obligations or investment critical mandate risk reduction, and is a cost-effective way to manage the risk of catastrophic loss. Insurers can serve as an investment catalyst by securing investor/bank funds in projects, reducing the risk of failure, increasing the viability of lower Internal Rate of Return (IRR) projects, boosting project market profiles and quality, raising the security of environmental products and services and thus raising liquidity.

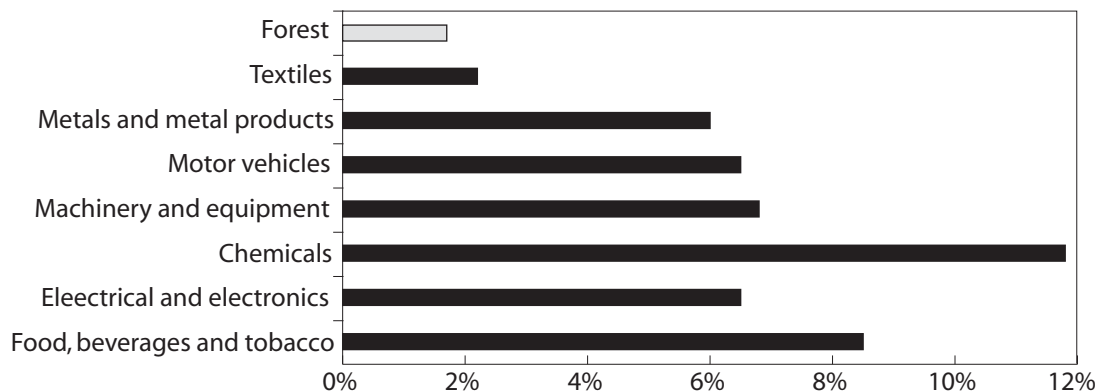
Forestry risk includes political, climatic, socio-economic, financial, and management risks as well as production risks (fire, hurricane, drought, land invasion by settlers, etc). Catastrophic risks

are infrequent but they are often severe when they occur. Climate change and sector policies are also seen to be factors increasing risk. The impact of these risks depends on portfolio size, spread, species, and enterprise types. Many risks are manageable or can be ameliorated through simple management techniques. A sustainable portfolio balance will include a mix of natural and plantation forestry, geographic spread, a preference for certified practices, a maximum of 50:50 high to low risk regions (according to value), size balance of 50:50 or better, or small to large risks (by premium), and a focus on small forestry risks under US\$5 million but participating in forest operations of any value (such as more than US\$100 million). Insurers themselves can manage their own risk through the use of earth observation data (confirmation of forest condition, road access, loss of tree cover, land invasion, or catastrophic hazard), Geographic Information Systems (GIS) (map risks, monitoring), rating procedures based on in-country loss data (trends associated with climatic factors), and claims notification, measurement, and analysis. Much of this data can be used to inform forest managers and local authorities of dangerous circumstances, and also as feedback to improve risk pricing.

The insurance business needs to consider more multi-year programs, work with the international development banks, and encourage more insurers to participate. In addition, new product lines could include insurance “wraps” (insurance plus other financial instruments) as investment instruments to ensure yield, and certified emission reductions.

#### ***Creating a new business model for forestry investments***

Ivan Tomaselli, Director of Engenharia de Projetos Ltda. (Brazil) challenged the audience with basic questions about how revenues generated in the market are distributed (on logistics such as road transportation which is lacking in Africa and most developing countries), who can control or interfere with this distribution (usually not the forest owner), and whether there are sufficient reinvestments in the system to sustain the market (many are taking their profits and investing in other sectors). The forest-related market is likely not a true free market, with oligopolies being the major defining factor rather than true competition. Japanese companies control over 80% of the production and trade of wood chips, for example. In Ecuador, the balsa business is controlled by two to three companies. Many of the main players in trade are focusing on market power rather than profitability. Their actions are not lucrative when viewed alone, but altogether they can impact the market to their

**Figure 4** Foreign direct investment by segments (UNCTAD 2005)

Source: Ivan Tomaselli, 'Creating a New Business Model for Forestry Investments'

advantage. Tomaselli argues that this alone calls for governmental intervention.

Data shows that the majority (93%) of forest-related investment are private. Investment trends have increased in the last few years, driven by the identification of new markets, a search for new production capacity, improved forest productivity from plantations, trade liberalization, and the search for increasing competitiveness. In 2004, total direct investment in the forest sector was US\$63 billion, representing about 1.5% of global direct investment.

Unfortunately, most of this has been associated with plantations and pulp and paper production rather than natural forest management, and much of the processing has occurred in developed countries. Tropical timber producers are challenged by business that is based on natural forests where costs and risk are increasing; and low value NTFPs which are of limited supply and market limited substitute materials – all resulting in reduced investment capacity and funding possibilities.

Potential solutions include a new model of trade policy that takes into account the effects of trade on market power, competition, and consumers' choices. While working at the company level will not solve the problem, it is part of the solution. Companies can maximize the production of goods and services (multiple revenue streams) and mix the positive benefits of both natural and plantation products (e.g. industrial technology could allow for the perfect combination of plantation and natural forest timbers within engineered products) – allowing for the use of tropical timber from natural forests to be maximized and competitiveness increased.

### **Certification and business opportunities for small and medium enterprises in Brazil**

Luis Fernando Guedes Pinto, Executive Director of IMAFLORA (Brazil), outlined how certification can be used by Brazilian SMFEs as a market tool to make sustainability accessible to different models of forest management, and provide inclusion for communities and small producers.

Currently, Brazil has 3.65 million hectares of FSC certified forests, 37% of which are in natural forests. The state of Acre recognizes the role of certification. Public forest institutions and NGOs are involved in the extension work, coordination, funding, and marketing of the certification process and products. Community and public forests products alike that have been certified are available in the domestic and international markets. As a result, new cooperatives and local and foreign entrepreneurs have appeared in the forest chain.

### **Panel V: Ecosystem Service Payments**

#### **Payments for ecosystem services to achieve conservation and development**

Michael Jenkins, President of Forest Trends, reviewed the growing use of PES around the world – markets now exist in varying degrees for air quality, watershed protection and regulation, species and habitat protection, carbon sequestration and storage, soil fertility, and others. These markets have appeared due to the failure of traditional regulatory approaches, the limits of protected areas, and low public funding for forest conservation.

PES are not simply NTFPs, but a complex set of instruments, which include:

- self-organized private deals – one off deals between a business and a landowner (e.g.

Perrier's agreements with farmers to keep land in forests to protect the Perrier water source);

- public payments to farmers & communities, such as the US or European subsidies programs which are not always efficient but very large;
- Cap and trade programs such as Kyoto and the CDM;
- Freshwater nutrient trading;
- Eco-labeling (a form of PES, with forest certification being one example), and fair trade (shade-grown coffee is a US\$5 billion industry in the United States alone).

The markets for PES are not yet balanced, and there is a pressing need to mobilize more buyers. Potential buyers for watershed protection include

industrial and agricultural users who need stable supplies of water, or municipal water utilities and their customers who want to reduce the need (and costs) of water filtration for drinking supplies, or governmental agencies who want to minimize environmental catastrophes such as floods and tsunami damage. For carbon emission offsets or avoided deforestation, buyers include industries wishing to comply with carbon rules to strengthen their reputation. Conservation agencies, NGOs, and the tourism industry are interested buyers for biodiversity and habitat conservation payments – with WWF and The Nature Conservancy (TNC) now billion dollar institutions.

One of the main constraints for PES markets continues to be the lack of market information, with potential buyers not yet organized. Due to

**Figure 5** Hectares covered under Mexico's Pago por Servicios Ambientales Hidrológicos

AVANCES EN LA INSTRUMENTACIÓN DE PROGRAMAS PSA							
GERENCIA REG	ESTADO	PSAH 2003	PSAH 2004	PSAH 2005	CABSA 2004	CABSA 2005	TOTAL
Ger I	BC	-	7,488	2,533	-	-	10,021
	BCS	2,231	4,170	168	-	-	6,569
Ger II	Sonora	-	5,727	1,934	-	-	7,661
Ger III	Durango	14,716	19,349	32,097	-	4,424	70,586
	Sinaloa	-	5,278	17,706	-	-	22,984
Ger IV	Mexico	709	4,321	4,877	-	-	9,907
	Michoacan	8,633	4,687	1,092	-	106	14,518
	Morelos	-	4,885	5,399	-	-	10,284
Ger IX	Hidalgo	-	-	344	-	-	344
	Queretaro	4,664	502	2,489	-	-	7,655
	Tamaulipas	-	7,491	5,171	-	-	12,662
Ger V	Guerrero	-	4,974	-	3,133	1,926	10,033
	Oaxaca	27,007	29,204	7,373	21,671	6,527	91,782
Ger VI	Coahuila	7,188	4,460	15,058	700	2,721	30,127
	Chihuahua	11,279	8,253	3,110	-	-	22,643
Ger VII	Neuvo Leon	1,450	1,762	2,059	-	-	5,271
	San Luis Potosi	9,874	200	12,044	433	-	22,551
	Zacatecas	-	1,416	132	-	-	1,548
Ger VIII	Aguascalientes	-	1,541	-	-	-	1,541
	Colima	5,846	333	494	-	-	6,673
	Guanajuato	-	3,655	2,180	-	-	5,835
	Jalisco	5,956	21,058	7,829	-	277	35,120
	Nayarit	3,222	4,494	2,332	-	124	10,172
Ger X	Puebla	5,586	6,386	2,395	125	1,992	16,484
	Veracruz	11,067	8,545	11,764	135	1,362	32,873
Ger XI	Chiapas	-	10,111	20,334	3,420	7,531	41,396
	Tabasco	-	579	100	843	-	1,522
Ger XII	Campeche	-	3,451	-	-	-	3,451
	Quintana Roo	-	361	76	-	-	437
	Yucatan	-	3,918	7,603	-	-	11,521
Ger XIII	Distrito Federal	5,058	4,796	-	-	-	9,854
	Tlaxcala	-	845	338	-	-	1,183
<b>TOTAL</b>		<b>124,485</b>	<b>184,240</b>	<b>169,031</b>	<b>30,460</b>	<b>26,990</b>	<b>535,206</b>

Source: Carlos E. Gonzalez Vicente, 'Servicios Ambientales Forestales'

lack of information and a lack of experience, buyers face high costs of finding, negotiating, and monitoring deals. Legal and regulatory frameworks are not designed to make these tasks easier, and conflicts over resource rights and responsibilities continue to plague the system.

Despite this, the carbon market is now booming even after only one year. The European Trading Scheme (ETS) traded US \$11.3 billion for 400 million tons of carbon in the 1st year alone. Deutsche Bank says this market could trade over \$60 billion, while others say US\$250 billion by 2008; this would make it the world's largest commodity market. Other markets are beginning to take off: wetland banking, conservation banking, voluntary biodiversity offsets, etc. The Ecosystem Service Marketplace and the Katoomba Group are specifically designed to ensure that market information is available, and facilitate the transactions between those that want to sell and those that want to buy transactions for ecosystem services.

### ***Servicios ambientales forestales***

Carlos E. Gonzalez Vincente, General Coordinator of Forest Production and Productivity of CONAFOR (Mexico), described the evolution of the Pago por Servicios Ambientales Hidrológicos (PSAH) in Mexico. Between 2003 and 2005, more than 535,206 hectares were protected under this program, valued at more than US\$88 million. PES are an opportunity to support conservation of forest resources. The Mexican national strategy should increase compensation for providers of public benefits which previously had no value, helping to alleviate poverty. The PSAH program has protected more than half a million hectares in three years but still faces problems with targeting, monitoring, and promotion. The Pago por Servicios Ambientales (PSA) for carbon capture has had some successes, but funding is coming solely from the government to-date. Preparing the strategy for local compensation has required the collaboration of different institutions, including NGOs and international organizations. This cooperation has also generated federal resources and funds from the Fondo Forestal Mejicano (FFM), World Bank, and the GEF. With payments from actual users, this program should be financially sustainable.

### ***Fostering public-private investment alliances for forestry communities in Central America and Mexico***

Luis Felipe Duchicela, Regional Project Director for Central America and Mexico, Rainforest Alliance, described their work in Central America and

Mexico directed at increasing the supply and value of key certified forest products, and thus positively impacting the livelihoods and environmental conditions in rural areas of the region. Duchicela gave several examples of companies that are working to improve their skills and as a result are reaching the market better. Support that is needed includes help creating the direct interface between sellers and buyers, improved negotiations on prices and export conditions, and improved quality specifications and designs. In sum, the certification process and the support that often comes with it from NGOs and international groups has led to increased demand for certified products. Consequentially, the higher value resulting from processing is bringing additional income to communities and greater satisfaction from buyers. Certification is thus a tool for investment-related decisions concerning product quality, productivity, costs, and market demand.

## **Panel VI: Analysis of Country Investment Climate in the Forest Sector**

### ***Perfil de inversión México***

Luis Alfonso Arguelles, Director Tropical Rural of CONAFOR (Mexico) described the basic characteristics that make Mexico a good site for forest investment in terms of infrastructure, basic services, legal system, regulations, financial sector, and external risk. For example, the legal framework is currently clear and the Mexican government is working to reduce the time required for basic bureaucratic processes to take place. Excess regulation and high costs of extraction continue to be a limiting factor, but the government is aware of this and working to rectify the problems (e.g. identifying that the forest sector receives less public investment than other extractive and primary production sectors). Mr. Arguelles discussed three cases of forest companies (Canankax de Quintana Roo SPR, Productos Forestales del Sureste y Centroamérica SA and Noh Bec SPR) which cover a range of forest types and administrative and forest models. Overall, Mexico does have additional opportunities for investment in SMFEs in tropical areas, but thus far there is a lack of experience in the area.

### ***Mexican Forestry Fund for production forestry***

Cuernavaca Workshop Next Steps: Molinos Vicente of CONAFOR (Mexico) provided highlights of the design and evaluation of the FFM, developed by CONAFOR with technical support from the World Bank. Phase 1 of the FFM included US\$20-



30 million per year for watershed protection and carbon sequestration, but in early 2006 CONAFOR began to explore the possibility of an FFM for production forestry (FFMp).

At the Cuernavaca Workshop in March 2006, CONAFOR analyzed the performance for a US\$70 million credit to the forest sector which was handled through Fideicomisos Instituidos en Relación con la Agricultura (FIRA), a second-tier bank, for a majority of short-term loans (under 10 years) of which 50% for sawmills. In general, credit guarantees were available but mostly for commerce and services. The forest sector requires a mix of equity and debt capital, loans and subsidies, and longer-term programs.

The CONAFOR program will start graduation, with the simpler projects first. The Program will leverage CONAFOR resources (with an average of 75% to be financed by the private or state resources and 25% coming from FFM), and will focus on linking SFM to competitive industry models and the early participation of communities, private firms, investors, governments, banks, and NGOs. FFMp seeks US\$1 million in seed funding to leverage another US\$3 million, which will be used to implement no more than three projects, using private industries and buyers for joint ventures. Incentives will be designed to promote alliances between communities and private sector firms and to look at multiple revenue streams for ecosystem services.

### **Outline of the forest situation and investment opportunities in Myanmar**

Aung Nyunt, General Manager for Planning of the Myanmar Timber Enterprise of the Ministry of Forestry in Myanmar, introduced some new rules for foreign investment in Myanmar – a country rich in hardwood species with 50% of its surface area covered by forests (32.4 million hectares). The Myanmar harvesting system is designed to protect future crop trees, aiming to sustainable yield harvesting through the use of a system that dates back to 1856. Harvesting is implemented by the Myanmar Timber Enterprise, often with elephants, under a RIL process.

Three types of industries (government-owned, joint ventures, and private) produce teak and hardwood logs, rough-sawn timber, and some wood based finished products. Foreign businesses can either be wholly foreign-owned, or a joint venture with an individual, a private company, a cooperative, or a state-owned enterprise.<sup>10</sup> The minimum amount

<sup>10</sup> Minimum share of foreign party is 35% of total equity capital in each case.

of foreign capital required under the Foreign Investment Law (FIL) is US\$0.5 million (industry) or US\$0.3 million (service). The FIL offers tax incentives, state guarantees against nationalizations, and the repatriation of foreign capital and profits in order to attract funds.

### **Guyana country investment profile**

Edward Goberdhan, Head of Finance for the Guyana Forestry Commission, walked through the investment profile for Guyana, covering the following factors:

- *Availability and Cost of Capital:* The cost of capital is likely more of an issue to investors than its availability, with interest rates of 17-20%. Short repayment periods are a constraint to the forest and wood products sector, as well as the fact that short, non-exclusive, and non-tradable leases or concessions cannot be used as security for loans or to attract joint venture capital. Several commercial banks provide credit facilities in Guyana, while other organizations such as the Guyana Small Business Association and the Institute of Private Enterprise Development offer financing to small and medium-sized investors.
- *Transportation,* which is concentrated along the settled Atlantic Coast. Many inland road networks are being developed by forest operators.
- *Energy,* which is not currently available in volumes required for continuous industrial operation, leading many processors and manufacturers to generate their own electricity using costly imported petroleum products.
- *Communications,* which are generally well established in Guyana.
- *Water Sources,* with significant increases in potable water supply in the past 10 years.
- *Legal and Regulatory Systems* with several investment regulations that govern forest activities, providing legal protection for investment and increasing the predictability, stability, and transparency of the legal framework, and calling for the development of an Investment Promotion Council.
- *Land Titling and Tenure* where several government agencies have overlapping responsibilities. The Government still owns approximately 90% of the land.
- *Firm Registration,* which is mandatory in order for a firm to have legal recourse. Single

ownership, partnerships, and incorporated businesses (both foreign and domestic) are covered under various acts.

- *Law Enforcement and Court Systems* with a Supreme Court, Court of Appeals, High Court and several magistrates' courts.
- *Trade Regulations*, where Customs and Inland Revenue have been merged into the Customs and Trade Administration. Tariffs on imports have recently been reduced, and customs clearance now takes only 2-3 days.
- *Labor Regulations* which are bound by a number of related acts.

### **Trinidad and Tobago, investment opportunity profile**

John Radgman from the Trinidad and Tobago Ministry of Public Utilities and the Environment, outlined the investment profile of forest operations in Trinidad and Tobago. The government supports SFM in the country's forests, which are managed for multiple uses and represent the country's pride because of the well achieved balance between industry and the environment. The political climate is good, with governmental social infrastructure programs and adequate legal and financial systems supporting sustainable growth and development. Private land owners (23%) are interested in developing forest-related enterprises on abandoned citrus or coconut plantations. Leading opportunities include plantations (teak and mahogany), ecotourism, NTFPs, agroforestry, and some natural forests (indigo, cedar, and mahogany). Despite the high cost of land and labor and the strict environmental regulations, Trinidad and Tobago offers opportunities to increase the value in land investments, community participation, carbon trading and expand the involvement in tropical forest investment.

### **La producción de plantas meristemáticas y la implementación de proyectos forestales, bajo la modalidad de "Llave en Mano"**

Amnon Ronen, Gerente General of Galitec SA in Honduras, described the company characteristics of Galitec SA, a Honduran corporation originally from Israel with forest operations and banana, pineapple, and ornamental production. Galitec believes that the social, economic, and environmental benefits of such operations are the future of Honduras.

## **Panel VII: The Way Forward: Vision for the Process and Preparing for Regional or Sub-Regional Investment Fora**

After a presentation on *Regional Forest Investment Forums: A Way Forward and A Possible Global Forest Situation by 2050*, John Spears of the World Bank chaired the panel consisting of Mayor Carlos Gonzales; Dr. Manoel Sobral Filho, Executive Director of the ITTO; Gerhard Dieterle, Senior Advisor for Forests for the World Bank; Michael Jenkins, President of Forest Trends; and Jan McAlpine, Senior Negotiator for the US State Department.

In these presentations, Spears noted the diverse views of the participants of the Forest Investment Forum (FIF) – from those who believe in the potential of natural forests, to those who ponder plantations, from small-medium to large sized enterprises. Future investment will want to pursue consensus on priority areas between different stakeholder groups, *inter alia*, governments, local communities, industry, both SMFEs and large enterprises, conservation agencies, financial institutions. These groups need to continue to identify ways to overcome constraints to investment – but more time for in-depth discussion on key issues through working groups or break-out groups will probably be needed for this. Difficult issues call for further discussion.

This Forum had a significant focus on SMFEs, especially in relation to poverty. 90% of India's production comes from SMFEs, as does China's. Larger scale pulp, paper, and wood-based panel industries (such as CIB in Congo and Grupo Orso Brazil) offer huge complementarities with SMFEs. One billion people rely on agroforestry in farm-forest wood lots offering huge opportunities in tree crops. Many participants noted that plantations will be providing 50% of world's wood supply within 10 years, while others noted that natural forests and plantations can be complementary sources of wood materials. PES will more and more influence how forest landscapes will be managed.

Vertical integration can help to achieve a balance between small and large-scale enterprises. Small-scale wood and NTFP-based enterprises share many of the same constraints as large-scale industries face: the high cost of capital and financial transactions, political risks and taxation policies, corruption and illegal logging, and environmental and social concerns. Additional problems also faced by the small-scale enterprises often include

poor technical and business management skills, insecure land tenure and access rights, and poor market access – although these problems can be experienced by larger firms as well.

In general, small-scale enterprises support the trend towards community and private forest ownership, and would like to see innovative financial incentive mechanisms and better markets for certified products. Simplified governmental regulatory and bureaucratic procedures would also be welcome. Larger-scale companies may focus more on the need for transparent and secure concession contracts and political risk insurance mechanisms.

Less complex and more equitable taxation and revenue sharing mechanisms would be welcome. Independent certification with adequate market access, as well as strengthened forest governance (including environmental safeguard policies by financial institutions), would help to level the playing field and gain recognition for responsible enterprises. At the same time, programs to foster the development of markets for ecosystem services will be boosted by emerging mechanisms such as the Kyoto Protocol. Monitoring procedures will be necessary to ensure the credibility of these markets.

## Closing remarks

**Mayor Carlos Gonzalez** urged the international community not to forget the natural tropical forests, and to identify strategies to help them compete with alternative land uses. In Central America and elsewhere, natural forests should be as competitive as plantations, energy, housing, and tourism. Investors need to have a more comprehensive view which includes natural forests. This FIF has showed that collaborative efforts are needed, big and small players all have to be considered, and that long-term perspectives are essential. The vision of payments for ecosystem services is now becoming a reality. Natural forests include millions of small indigenous communities who need be engaged and committed to innovative and competitive models of forest management and subsequent processing. With market globalization, we all have to respond to existing demands for quality and transparency – but at the same time ensure that the natural tropical forests are in harmony with other sectors such as energy, health, and a good quality of life.

**Michael Jenkins, President of Forest Trends** agreed that an integrated vision must be shared by all, but it will need to be a focused vision as too many obstacles exist and solutions are being repeated. It is time to move ahead in the scale that is needed. Jenkins proposed that participants call for the establishment of a large insurance fund of US \$500 million for investing in natural forests in tropical areas – sending a strong signal that the risks of engaging in natural forest management must be brought down. Institutions such as the World Bank, IDB, IFC, and Equator Banks could develop an instrument of that scale. A parallel investment fund could assist business development for firms interested in taking advantage of new markets. FIF participants could form an advisory group to ensure the transparency of such a fund, and to incubate strategies to encourage enterprises to be more innovative. The forest sector is no longer about the timber industry, but about a forest land management industry which manages a portfolio of multiple goods and services which are independently verified. With such an investment package, many of the obstacles to investment in tropical natural forest-related industries would disappear.

**Gerhard Dieterle, Senior Forest Advisor to the World Bank** reiterated the need to mainstream biodiversity and social concerns into mainstream forest management. PES is already gaining momentum, and water schemes will become

the next “big thing” globally. But ecosystems, including watersheds, can only be protected through integrated measures, requiring a change in attitudes and approaches. The World Bank is trying to influence EU emission trading schemes which currently do not recognize afforestation – a potentially vital tool for tropical countries and north-south investments. The dynamics of demand and supply are shifting as China and India enter the market in force. This presents both opportunities and threats to forests and the economies that depend on them. Both SMFEs and large players can help meet that demand through SFM, but markets need to provide more incentives. Governments could also recognize the public value of SFM and provide tax incentives for responsible enterprises. Structural adjustment loans can help to change the frameworks for SFM, and the World Bank Group commits to supporting future FIFs as a means to exchange views, and build ties and market opportunities.

**Jan McAlpine, Senior Negotiator for Forests for the US Department of State** congratulated the Cancún FIF for exemplifying the types of partnership needed to help promote positive investment in sustainable natural tropical forest industry. She notes that every speaker is calling for a new path of forest sector development – but one which will need to include players from sectors outside the forests such as the financial and insurance sectors. McAlpine suggested that the ITTO and FIF participants think about collaborative efforts in Liberia or Tanzania as pilots.

**Manoel Sobral Filho, Executive Director of the ITTO** described some of the history of the FIF, with the initial concept emerging at the first Investment Forum at the World Bank in October 2003. He acknowledged that despite considerable constraints, SFM is being implemented in many countries. The forthcoming ITTO document “State of Forest Management in the Tropics” identifies 36 million hectares now under some form of SFM in natural forests. Investors and financial institutions are beginning to become aware; but since natural tropical forests have a difficult time competing with plantations and other timberlands, more creativity is needed. The ITTO in collaboration with the World Bank and other interested sponsors will back at least three regional FIFs to continue these discussions, as well as a major international conference focusing on forest industries managed by indigenous and other local communities where we can learn how to integrate them better into the economy.

## Conclusions and recommendations

The International FIF contributed useful information and discussions for the preparations for future regional investment fora. Key priority areas need to be further discussed among a range of stakeholders. Forum participants identified specific priorities for action for small-scale enterprises, larger scale companies and environmental services. Specifically, the following were priorities for small-scale enterprises:

- Support the trend towards community and private forest ownership;
- Create innovative financial incentive mechanisms;
- Develop markets for certified products in both producer and consumer groups;
- Mobilize technical assistance for training; and
- Simplify government regulatory and bureaucratic procedures.

For larger scale companies, priorities for action included:

- Transparent and secure concession contracts;
- Political risk insurance mechanisms;
- Less complex and more equitable taxation and revenue sharing;

- Independent certification to gain market access;
- Strengthen forest governance (i.e. FLEG processes);
- Promote adoption of environmental safeguards by financial institutions including export credit agencies and commercial banks; and
- Outsource fiber supply to local communities and small holders.

A priority action to address environmental services was to take advantage of emerging mechanisms, such as the Kyoto Protocol, and support reliable monitoring procedures.

To address these priorities, Forum participants highlighted a number of sources of investment capital and project development assistance. These were: private companies and consulting firms; institutional investors/TIMOs and Eco Trusts; IFC/World Bank and Regional Development Banks; WWF's-GFTN; ITTO/Forest Trends Business Development Facility; FAO's Investment Centre; and government grant schemes. Such investment opportunities are necessary to accommodate future scenarios where, for instance, industrial roundwood demand could be 2.5 billion cubic meters by the Year 2050. Based on this scenario, about 40% of the world's forests would be community owned natural forests managed for meeting local needs and wood requirements of small-medium scale forest enterprises and about 40% would be economically inaccessible forests and Protected Areas (IUCN, Categories I-VI).

## Annex 1: Agenda

### Wednesday, 26 April 2006

- 09:00 Opening and welcome remarks by Organizers and Host Country**  
 CP Carlos Manuel Joaquin Gonzalez, *Mayor of the City of Solidaridad, State of Quintana Roo*  
 Ing. Manuel Reed Segovia, *Director-General, Comisión Nacional Forestal (CONAFOR)*  
 Dr. Manoel Sobral Filho, *Executive Director, International Tropical Timber Organization (ITTO)*  
 Lic. Félix Gonzalez Canto, *Governor of the State of Quintana Roo*
- 09:30 Natural Tropical Forests Opportunities and Constraints to Investment (ITTO report)**  
 Mr. Michael Jenkins, *President, Forest Trends, Washington DC, USA*
- 09:50 Opportunities Presented by Effective Forest Law and Governance**  
 Mr. Dan Reifsnyder, *Deputy Assistant Secretary for Environment, Bureau of Oceans and International Environmental and Scientific Affairs, US Department of State*
- 10:10 Following up on Previous Forest Investment Forums**  
 Mr. Gerhard Dieterle, *Lead Forest Advisor, World Bank*
- 10:30 – 11:00** Coffee break
- 11:00 – 13:00 Panel I: Nature of Tropical Forest Industries: Trends and Meeting Investment Needs of the Private Sector**  
 Chair: Mr. Dan Reifsnyder, *Environment, Bureau of Oceans and International Environmental and Scientific Affairs, US Department of State*  
**Developing sustainability**  
 Mr. Roberto S. Waack, *President Orsa Florestal, Brazil*  
**Issues and opportunities for investment in natural African forests**  
 Mr. J.J. Landrot, *former President Interafrican Forest Industries Association (IFIA)*  
**Conditions for timber processing in the Republic of Congo**

Mr. Yves Dubois, *Director, Congolaise Industrielle des Bois (CIB)*

**Small-medium forestry enterprises – the 'best bet' for reducing poverty and sustaining forests?**

Mr. James Mayers, *Head, Natural Resources Group, International Institute for Environment and Development, IIED, London, UK*

**The constraints for small & medium sized forest enterprises in Guyana in the context of sustainable forest management**

Mr. Andrew Mendes, *Farfan and Mendes, Ltd., Guyana*

**13:00 –** Lunch

**14:00**

**14:00 – 15:45 Panel II: Enabling an Investment Climate: The Role of Governments and International Organizations**

Chair: Dr. Ivan Tomaselli, *Director STCP Engenharia de Projetos Ltda., Brazil*

**Financing sustainable forestry in the tropics: a global overview**

Mr. Adrian Whiteman, *Senior Forestry Officer, Forestry Department, FAO – Roma, Italy*

**The role of governments in creating the enabling environment for investments in natural tropical forests (movie)**

Mr. Jorge Viana, *Governor of the State of Acre, Brazil*

**Forest investment attractiveness index**

Mr. Jose Rente Nascimento, *Senior Natural Resources Specialist Inter-American Development Bank, Washington DC, USA*

**Export credits, illegality risks and sustainable forest management**

Ms. Jade Saunders, *Associate Fellow, Chatham House, London, UK*

**16:00 – 17:45 Panel III: The Role of International Investors/Mechanisms**

Chair: Mr. Gilberto Siqueira, *Secretary of Planning, State of Acre, Brazil*

**Tropical forests for institutional investors**

Mr. Peter Larsen, *Head of Investment Development and Analysis, The International Woodland Company AS, Denmark*

**An emerging markets forestry investment strategy**

Mr. Kevin Tidwell, *Associate, Global Environment Fund, Washington DC, USA*

**IFC's requirements for investing in tropical natural forests**

Mr. Peter Neame, *Principal Environmental Specialist, International Finance Corporation, Washington DC, USA*

**Financing responsible forest management & trade (RFMT) in natural tropical forests: working examples from Latin America**

Mr. Steve Gretzinger, *Regional Coordinator Latin America, Global Forest & Trade Network, Washington DC, USA*

18:00 Cocktails

## Thursday, 27 April 2006

09:00 – **Panel IV: New Investment Tools and Approaches (Risk Mitigation and Governance)**

10:30

Chair: Mr. Peter Neame, *Principal Environmental Specialist, International Finance Corporation, Washington DC, USA*

**The Business Development Facility: bringing the value of ecosystem services to forest enterprises bottom line**

Ms. Hege Salvesen, *Forest Trends, Washington DC, USA*

**An insurance contribution to sustainable forestry investment**

Mr. Phil Cottle, *Managing Director, ForestRe, UK*

**Creating a new business model for forestry investments**

Dr. Ivan Tomaselli, *Director STCP, Brazil*

**Certification and business opportunities for small and medium enterprises in Brazil**

Mr. Luis Fernando Guedes Pinto, *Executive Director IMAFLORA, Piracicaba, Brazil*

10:30 – Break

11:00

11:00 – **Panel V: Ecosystem Service Payments**

13:00

Chair: Mr. James Mayers, *Head Natural Resources Group, IIED, UK*

**Payments for ecosystem services to achieve conservation and development**

Mr. Michael Jenkins, *President, Forest Trends, Washington DC, USA*

**Servicios ambientales forestales**

Ing. Carlos E. Gonzalez Vicente, *General Coordinator of Forest Production and Productivity, CONAFOR, Mexico*

**Fostering public-private investment alliances for forestry communities in Central America and Mexico**

Mr. Luis Felipe Duchicela, *Regional Project*

*Director Central America and Mexico, Rainforest Alliance, Guatemala*

13:00 – Lunch

14:00

14:00 – **Panel VI: Analysis of Country Investment Climate in the Forest Sector**

16:00

Chair: Mr. Jose Rente Nascimento, *Inter-American Development Bank, USA*

**Perfil de inversión Mexico**

Mr. Luis Alfonso Argüelles, *Director Tropical Rural - CONAFOR, Mexico*

**Mexican Forestry Fund for production forestry: Cuernavaca workshop, next steps**

Mr. Molinos Vicente, *CONAFOR*

**An outline of the forest situation and investment opportunities in Myanmar**

Mr. Aung Nyunt, *General Manager Planning, Myanmar Timber Enterprise, Ministry of Forestry*

**Guyana country investment profile**

Mr. Edward Goberdhan, *Head of Finance, Guyana Forestry Commission*

**Trinidad and Tobago: investment opportunity profile**

Mr. John Radgman, *Forestry Division*

**La producción de plantas meristemáticas y la implementación de proyectos forestales, bajo la modalidad de "Llave en Mano"**

Mr. Amnon Ronen, *Gerente General, Galiltec S.A., Honduras*

16:00 – Break

16:30

16:30 – **Panel VII: The Way Forward – Vision for the Process and Preparing for Regional or Sub-regional Investment Fora**

17:30

Chair: Mr. J. Spears, *World Bank, USA*

**Regional forest investment forums: the way forward, a possible global forest situation by year 2050**

Respondents:

Dr. Manoel Sobral Filho, *ITTO*

Mr. Gerhard Dieterle, *World Bank*

Mr. Michael Jenkins, *Forest Trends*

Ms. Jan McAlpine, *US Department of State*

17:30 **Closing Remarks**

*Forest Trends, CONAFOR, World Bank, ITTO*

Closing dinner

## Annex 2: List of participants

Name	Company
ACOSTA, Naly Diana	Banco Nacional de Comercio Exterior, Mérida, Yucatán, Mexico
ANDERSON, Chris	Forest World LLC, North Carolina, USA
BAHLER, Karl	Sustainable Forest Systems, Canada
BAQUEDANO, Víctor	Baquedano Mueblera, SA de CV, Mérida, Yucatán, Mexico
BARBOSA RODRIGUEZ, Gustavo	Comisión Forestal del Estado de Michoacán, Morelia, Michoacán, Mexico
BETANCUR, Luis	Director Nacional Forestal, USAID-MIDAS, Colombia
BISSUMBHAR, Narpath	Chamber of Commerce & Industry
BLANKENAGEL, Griselda	Agrinet SA de CV, Cuernava, Morelos, Mexico
BORHANUDIN, Arshad	Forestry Department, Peninsular Malaysia
BUCHANAN, Dewevai	Buchanan & Associates
CALDERÓN LOAIZA, Luis Manuel	Director de Promoción de GBM, Fondos de Inversión
CANALES PEREZ, Rodrigo	Secretaría de Desarrollo Rural del Gobierno del Estado de Tamaulipas, Mexico
CANBY, Kerstin	Forest Trends
CASTAÑON REYES, Hector	FLOSSIER SA de CV, Guadalajara, Jalisco, Mexico
CHIANG SAM GARCIA, Griselda	Banco Nacional de Comercio Exterior, Mérida, Yucatán, Mexico
CORDEIRO, Mancio	Bank of Amazon, Belem, Para, Brazil
CORDOBA PACHECO, Silvestre	Director Regional, Sedari Zona Norte, Gobierno del Estado de Quintana Roo
CRUZ LOBO, Santos Edgardo	Administracion Forestal del Estado AFE-COHDEFOR, Depto. de Francisco Morazán, Honduras, CA
DE LA CONCHA, Horacio	Agrinet SA de CV, Cuernava, Morelos, Mexico
DE LA CRUZ, Ernesto	Fundación Produce Yucatán, AC, San Miguel, Yucatán, Mexico
DE VAAL, Anya Lorena	Banco Interacciones, SA, Mexico, DF, Mexico
DOLNIKOFF, Henri	Timbertek Forest Investment, SA, Mexico, DF, Mexico
DOMINGUEZ ZAMUDIO, Cesar Esteban	Financiera Rural, Mexico, DF, Mexico
EKE, Andreas	Futuro Forestal, SA, El Dorado, Panama
ENSEÑAT, Pedro	Rancho Timul, SPR de RL, Uman, Yucatán, Mexico
ESCALANTE, Ligia	Gerente de la Cámara Nacional y Maderera, Yucatán
ESCUADERA, Valeria	Ecuador Corporation for the Promotion of Exports and Foreign Investment, CORPEI, Quito, Ecuador
ESPINOZA GARATE, William	CORPEI, Quito, Ecuador
ESPINOZA, German	Ministerio del Ambiente, Quito, Ecuador
FERNANDEZ, Víctor Hugo	Director Servicios Técnicos, Agropecuaria Santa Genoveva SA de CV
FLEMING, Ronald	Founder CEO, Pacific Teak, Pacific Management Group



Name	Company
GARCIA, Zazil Ha	Tropica Rural Latinoamericana, AC, Chetumal, Quintana Roo, Mexico
GOBERDHAN, Edward	Guyana Forestry Commission
GOMEZ, Ruben	Reforestada de Bosques Tropicales, SA
GONZALEZ PARRA, Humberto	Representante Técnico, Csecoya SPR
GONZALEZ, Francisco	Banco de Interacciones, SA, Mexico, DF, Mexico
GRANJA PEREZ, Carlos	Administrador, Grupo Agropecuario Xcay SPR de RL
GRANJA RICALDE, Carlos Antonio	Grupo Agropecuario SPR de RL de CV, San Damián, Mexico
GUARITA, Dario	Inteligencia da Floresta Viva
GUEMEZ, Luis Alberto	Fondo Jalisco de Fomento Empresarial, Guadalajara, Jalisco, Mexico
HALL, Richard	Ecuador Corporation for the Promotion of Exports and Foreign Investment, CORPEI, Quito, Ecuador
HJORTH, Bjarne	Frioport, SA, Ecuador
HO, Allan	Greenheart Resources Holdings, Ltd., Hong Kong
ILAN, Cohen	Marketing Manager, Galiltec
ITUARTE PADILLA, Antonio	Subdirector, GBM
JIMENEZ MALDONADO, José Luis	Condiciones Liz de Tuxtla SA de CV
JULES, Pearl	Foundation for Forest Management and Production Control (SBB), Kingweg, Suriname
KALYAWONGSA, Suchat	Royal Forest Department, Bangkok, Thailand
KROLIS, Iwan	Foundation for Forest Management and Production Control (SBB)
LIMA CORDERO OLIVIERA DE LA CRUZ, Walderine	Promotora de Justicia do Estado de Acre Brasil, Ministerio Publico do Estado Acre Brasil
LIRA, Valentina	Fundación Chile, Santiago, Chile
LORET DE MOLA DIAZ, Emilio	Grupo Lodemo, Mérida, Yucatán, Mexico
LUI CHUN BING, Tommy	Greenheart Resources, Hong Kong
LUI, Toraray	Advisor, Greenheart Resources Holdings Limited
MAC PHERSON, Alexander	University of Florida, Florida, USA
MAGALLON GONZALEZ, Felix	Autoridad Nacional del Ambiente, Panama, Republica de Panama
MAGAÑA MAGAÑA, Reynaldo	Presidente, Confederación Nacional de Organizaciones de Silvicultura AC
MANNOTHRA, Jacob Mani	Sounds of Forest, Ltd., New Zealand
MARTINEZ BECERRA, Martha	Financiera Rural, Mexico, DF, Mexico, Mexico
MC ALPINE, Jan	Department of State, Office of Ecology & Terrestrial Conservation, Washington, DC, USA
MADRID RAMIREZ, Lucia	Jefe de Departamento de Informacion Sobre Política Ambiental, Instituto Nacional de Ecología
MENDANI, Richard	Papua New Guinea Forest Authority, Boroko, National Capital District, Papua New Guinea
MENDES, Andrew	Farfan & Mendes, Ltd., Georgetown, Guyana
MENDOZA CHAVEZ, Trinidad	Tecnología de Monterrey Campus Guadalajara, Jalisco, Mexico

Name	Company
MORALES AGUILAR, Reyneer	GIBOR, Sociedad Anónima, Peten, Guatemala
MORRIS, Paul	Global Holdings, LLC, Florida, USA
MUNIS, Francisco	Embassy of Malaysia, Mexico City, Mexico
MUÑOZ CARDONA, Leonardo	Ministerio de Ambiente, Vivienda y Desarrollo Territorial, Bogota, Colombia
NGA YING, Tse	CTO, Greenheart Resources Holding Limited
NIETO, Dolores	Asesora del Gob. de Acre
OLLOKI DOMINGUEZ, Adolfo	Refostadora de Bosques Tropicales, SA, Ciudad de Panama, Panama
OLLOKI, Rafael	Tropibosques
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