Forest Business Environment Attractiveness comparison of Key Latin American Countries

Dr. José Rente Nascimento
Inter-American Development Bank

AEL FinPRO Seminar
The Opportunities for the Forest Industry in Latin America - Should the smaller players follow the larger ones?
8 June 2006, Helsinki, Finland
Overview

I- IDB in one minute

II- IAIF
  – Objectives
  – Usefulness
  – Model

III- Results
  – Sub Indices
  – Supra, Inter,
  – Intra

IV- PROMECIF and IAIF Evolution

Inter-American Development Bank
I
Inter-American Development Bank
Basic Facts: the IDB Group

- **IDB Group:** IDB (1959); IIC (1989); MIF (1992); and PRI (1994)
- Oldest and largest regional multilateral development bank
- Largest source of development finance for Latin America
  - Approved over $118 billion in loans
  - Total cost of projects: $281 billion
- 46 Member countries
  - 26 Borrowing (50% of the shares)
II- IAIF

II

IAIF Results

2002

Inter-American Development Bank
IAIF - Objectives

General objective: To measure the business climate for investments in the sustainable forest business.

The IAIF allows the systematic, periodic, quantitative and more rigorous analyses of the factors that affect the success of forest direct investment and business decision-making.
IAIF principal clients

- International investors and entrepreneurs
- Domestic investors and entrepreneurs
- Governments (national, regional or local)
- National and international NGOs
- Bilateral and multilateral donors
The IAIF is useful for

- representing the forest business climate as a single number per nation
- initial screening BY INVESTORS of countries with best investment climate for sustainable forest businesses
- facilitating a more precise and constructive dialogue about forest business climate issues among stakeholders
The IAIF is useful for

- setting **priorities** among policy areas by governments interested in improving their forest business climate
- monitoring the **success** of policy interventions on specific indicators
- identifying **issues** where national performance is above or below expectations or aspirations
The IAIF is useful for

- serving as a **working framework** to encourage research, debate, dialogue, and learning.
- clarifying policy and investment **tradeoffs**
- designing **intervention** strategies and better define goals, programs, and policies
The IAIF allows comparisons of countries, regions, years, indicators, sub-indexes, such as:

- Among nations in a given year
- Country’s performance trends over time
- Country’s performance in relation to neighbors or sub region for given year
- Subindex performance and trends
The IAIF allows analysis of:

- Measured (real)
- Differential (potential improvement)
- Potential (potential maximum)
- Contribution to IAIF (weighted)
- Simulations

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II- IAIF

IAIF – Basic hypothesis

[Diagram showing IAIF and relationships between attractiveness of forest businesses to DI and forest investment profitability]
Methodology – 3 Sub indexes
Sub index – SUPRA sectorial factors

- GDP growth
- Exchange rate stability
- Interest rate
- Tax rate
- Trade openness
- Political risk
- Favorable SUPRA sectorial factors
- Forest investment profitability
Sub index – INTER sectorial factors
Sub index – INTRA sectorial factors

- Forest investment profitability
- FP domestic market
- Commercial forest stock
- Forest productivity
- FVL availability
- Favorable INTRA sectorial factors
- Adverse actions
- Favorable supports
- Cost reducing support
- Benefit increasing support
- Cost increasing actions
- Benefit reducing actions
Methodology
20 indicators; >80 variables
II- IAIF

IAIF and Sustainability
Sources of information

- Secondary data and indexes (World Bank, FAO, World Economic Forum, etc.)
- Primary information through surveys
  - Agriculture policies
  - Planting and harvesting restrictions
  - Adverse actions
  - Favorable supports
III- Results

III

IAIF Results

2002

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III- Results

IAIF Real (measured) - 2002

- Brasil
- Chile
- Argentina
- Uruguay
- Costa Rica
- Colombia
- México
- Panamá
- Venezuela
- Bolivia
- Nicaragua
- Surinam
- Perú
- Trinidad y Tobago
- Jamaica
- Bahamas
- El Salvador
- Rep. Dominicana
- Guyana
- Barbados
- Honduras
- Paraguay
- Bélice
- Guatemala
- Ecuador
- Haití

0 10 20 30 40 50 60
III- Results

Real – Potential - Differential

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III- Results

IAIF – Real for Best Performers

- Brasil: 60
- Chile: 53
- Argentina: 44
- Uruguay: 44
- Costa Rica: 41
- Mexico: 40
- Colombia: 40

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### III- Results

#### IAIF – Highest Potential

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<th>Country</th>
<th>Percentage</th>
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<td>Mexico</td>
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III- Results

Possible improvement over current levels (%)

- México: 115%
- Colombia: 101%
- Argentina: 81%
- Costa Rica: 69%
- Brasil: 66%
- Uruguay: 60%
- Chile: 39%
III- Results

SubIndex SUPRA

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<td>69</td>
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<tr>
<td>Colombia</td>
<td>66</td>
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III- Results

SubIndex INTER

- Brasil: 46
- Chile: 63
- Argentina: 46
- Uruguay: 57
- Costa Rica: 51
- Mexico: 51
- Colombia: 50

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III- Results

Sub Index INTRA

- Brasil: 69
- Chile: 42
- Argentina: 41
- Uruguay: 36
- Costa Rica: 27
- Mexico: 27
- Colombia: 29
III- Results

INTER vs INTRA

Brasil
Chile
Argentina
Uruguay
Costa Rica
Mexico
Colombia

0 20 40 60 80

INTER
INTRA

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III- Results

IAIF – Sub Indexes

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III- Results

INTER-Sector Indicators – Sample

Prop. Rig.

Labour

Ec. Infrast.

0  25  50  75  100

Argentina  Brasil  Chile  Colombia  Costa Rica  México  Uruguay

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III- Results

INTRA-Sector Indicators

- Dom. Market
- FVL
- For. Res

Argentina
Brasil
Chile
Colombia
Costa Rica
Colombia
México
Uruguay

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III- Results

Perception Indicators

Argentina

Brasil

Chile

Colombia

Costa Rica

México

Uruguay

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IV

PROMECIF and

IAIF Evolution

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What is PROMECIF?

- Proceso de Mejoría del Clima de Negocios para Inversiones en el Sector Forestal.
- Process to Improve the Business Climate for Forest Investments.
- Process that uses IAIF’s methodology as a basis for improving the climate for investments in sustainable forest businesses.
PROMECIF’s three phases

I: Country identification and commitment to change.

II: Diagnosis and strategy definition.

III: Implementation, follow-up, and evaluation.
The case for Nicaragua (2002)

- SUPRA Sectorial Sub-index
- Tax Share of GDP
- Political Risk
- Trade Openness
- Exchange Rate Stability
- Passive Real Interest Rate
- GDP Growth Rate
- INTER Sectorial Sub-index
- Planting & Harvesting Restrictions
- Agriculture Policies
- Capital Flow & Foreign Investment
- Property Rights
- Capital Market
- Labor
- Licenses & permits
- Social Infrastructure
- Economic Infrastructure
- INTRA Sectorial Sub-index
- Adverse Actions
- FVL
- Domestic Market
- Favorable Support
- Forest Resource

Recent developments

- IDB licensed FGV and INCAE to calculate the IAIF every two years and to provide associated goods and services to governments and the private sector.
- IAIF 2004 will be presented in an event latter this year.
- PROMECIF is being (or about to be) applied in: Paraguay, Panama, Equator, and Honduras.
- IAIF-BRAZIL: Index will be adjusted and calculated for Brazil’s states.
- Development of Sub-Indices for plantations and natural forests.
Potential partners

- Multilateral Banks: Asian Development Bank; African Development Bank; World Bank
- UN related agencies: FAO; ITTO
- World Economic Forum Indexes partners

Current Partners:

Fundação Getulio Vargas (Brazil, for South America)

INCAE Business School (Costa Rica, for Central America, Caribbean, Mexico)
Further information

- www.iadb.org/pforestal
- forestal@iadb.org

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