



# **Forest Investment Attractiveness Index: Usefulness for Sector Management**

**Dr. José Rente Nascimento**  
**Inter-American Development Bank**

**Side event to the**  
**24<sup>th</sup> Session of the Latin American and Caribbean Forestry Commission**  
**26<sup>th</sup> June 2006, Santo Domingo, Dominican Republic**

# Overview

## I- IDB in one minute

## II- IAIF

- Objectives
- Usefulness
- Model

## III- Results

- Sub Indices
- Supra, Inter,
- Intra

## IV- PROMECIF and IAIF Evolution

# 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

Inter-American Development Bank

# 5



### 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)

Contribution to IAIF  
(weighted)

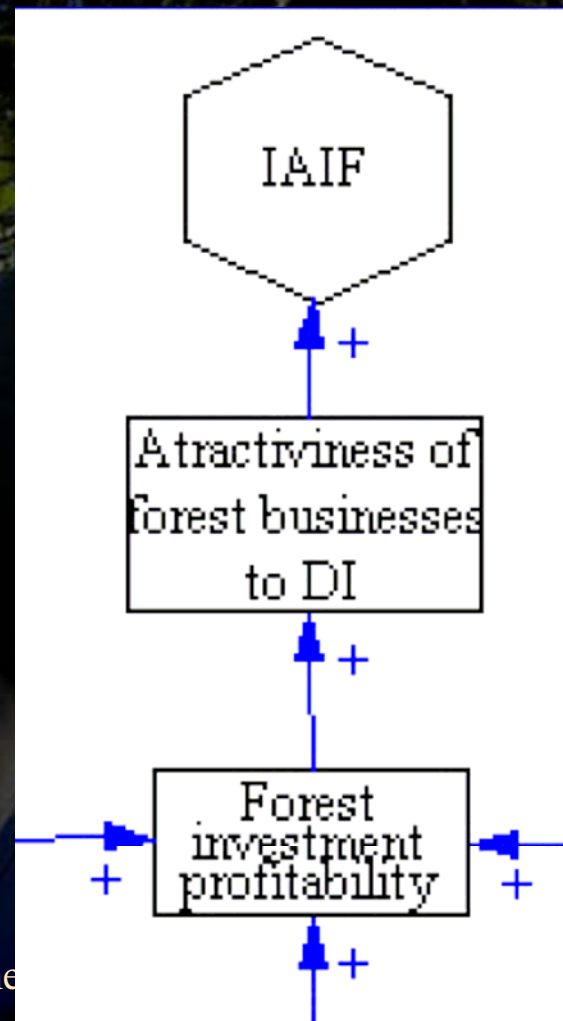
Differential  
(potential improvement)

Potential  
(potential maximum)

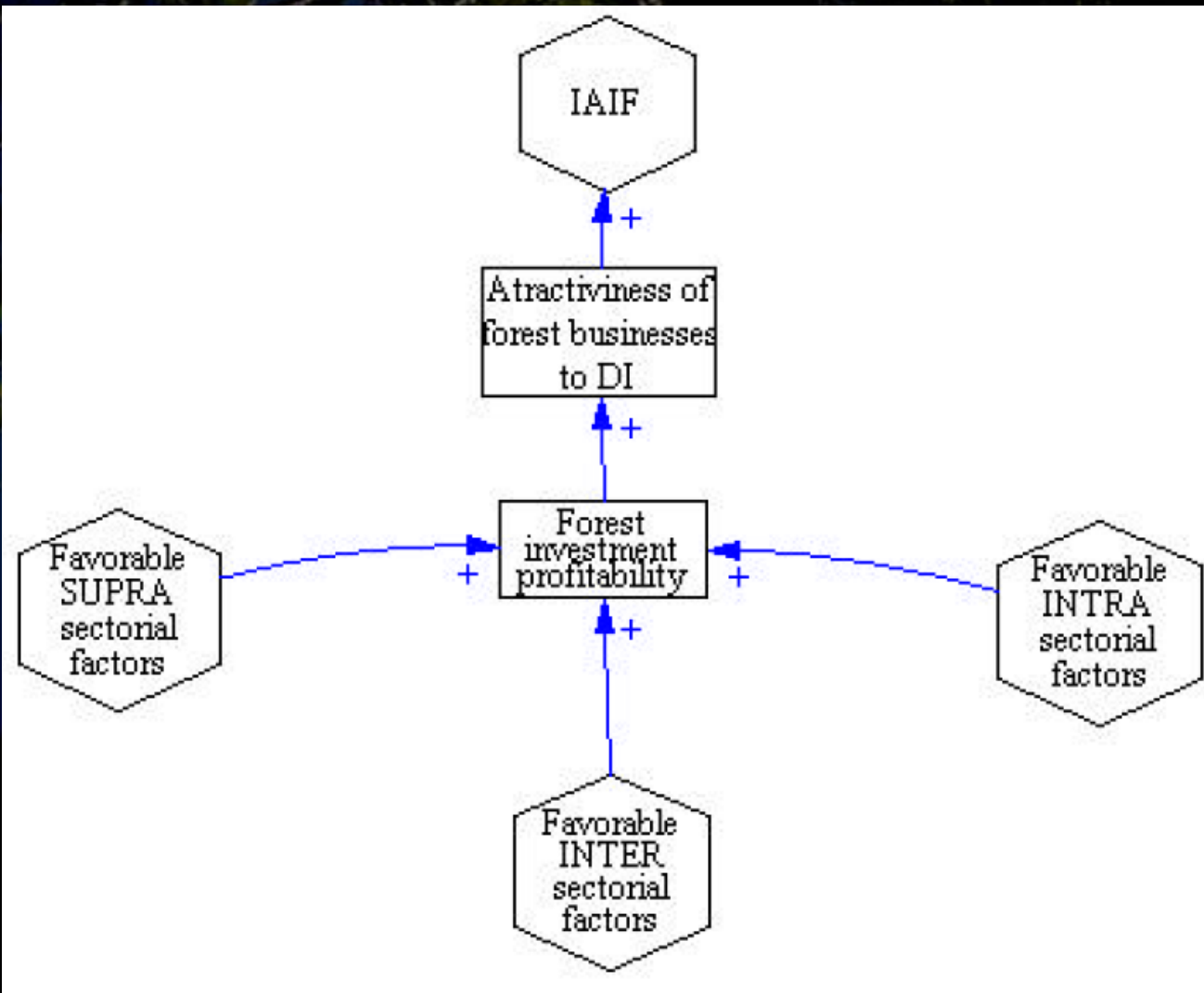
Simulations



# IAIF – Basic hypothesis

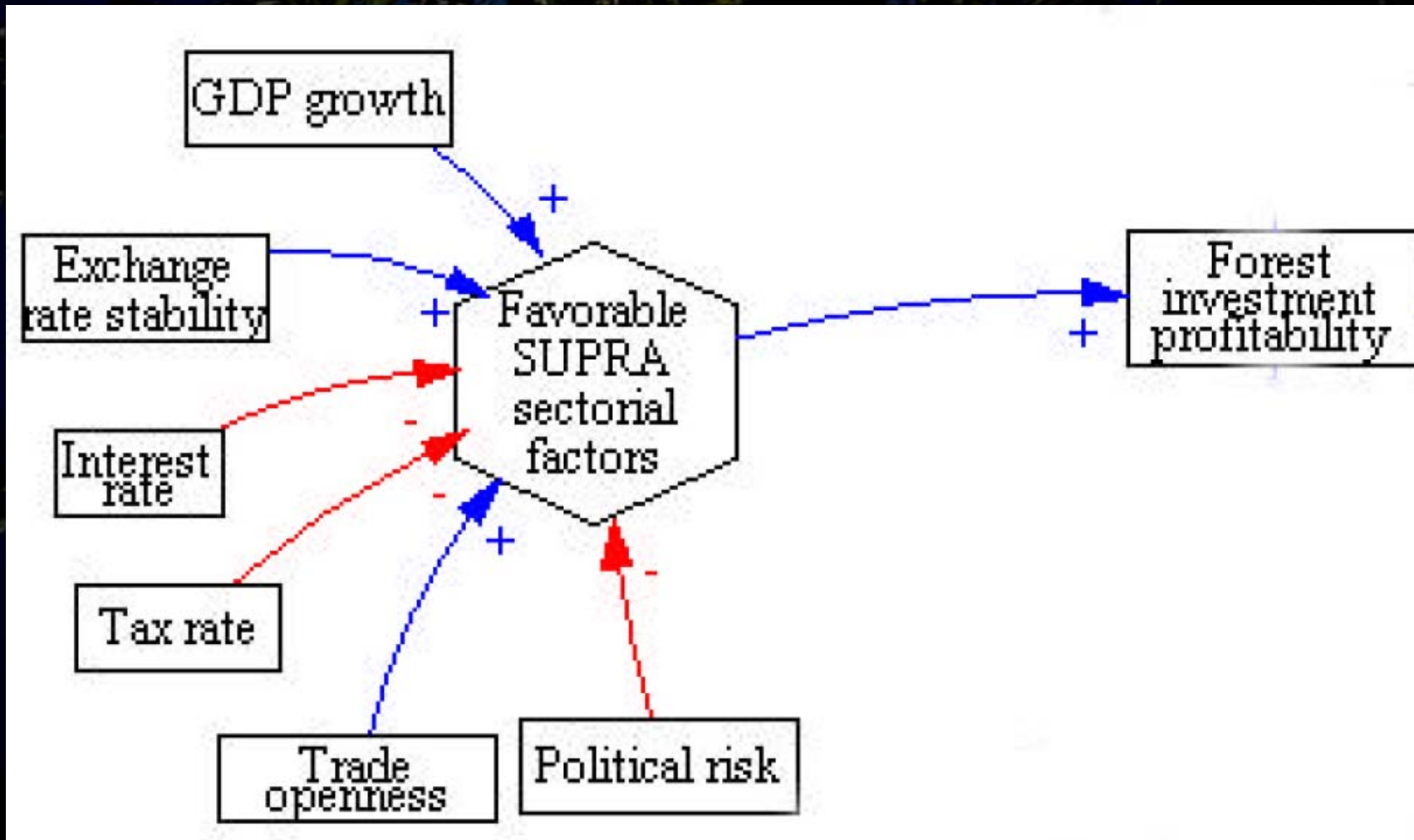


# Methodology – 3 Sub indexes

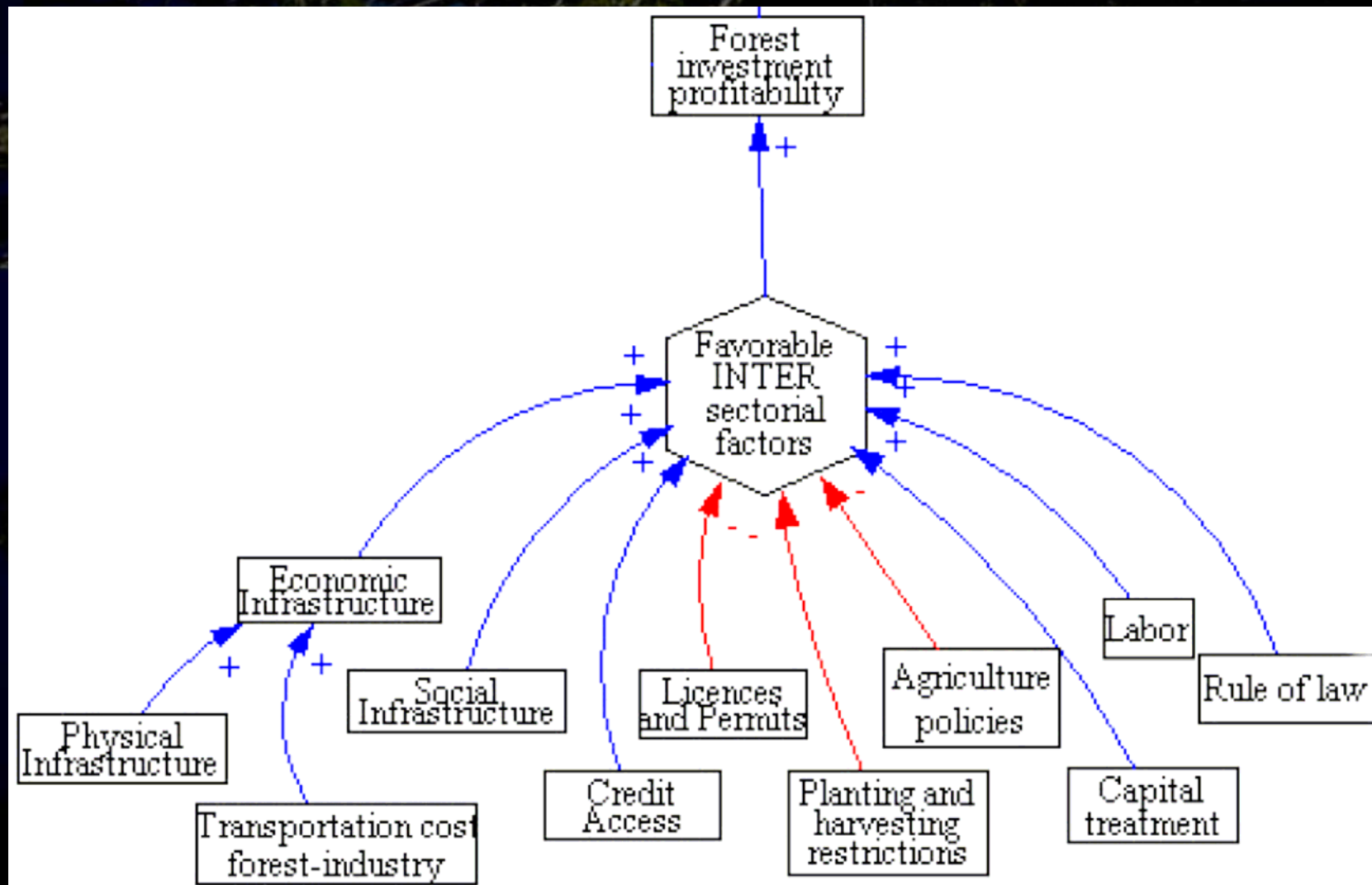




### Sub index – SUPRA sectorial factors



## Sub index – INTER sectorial factors



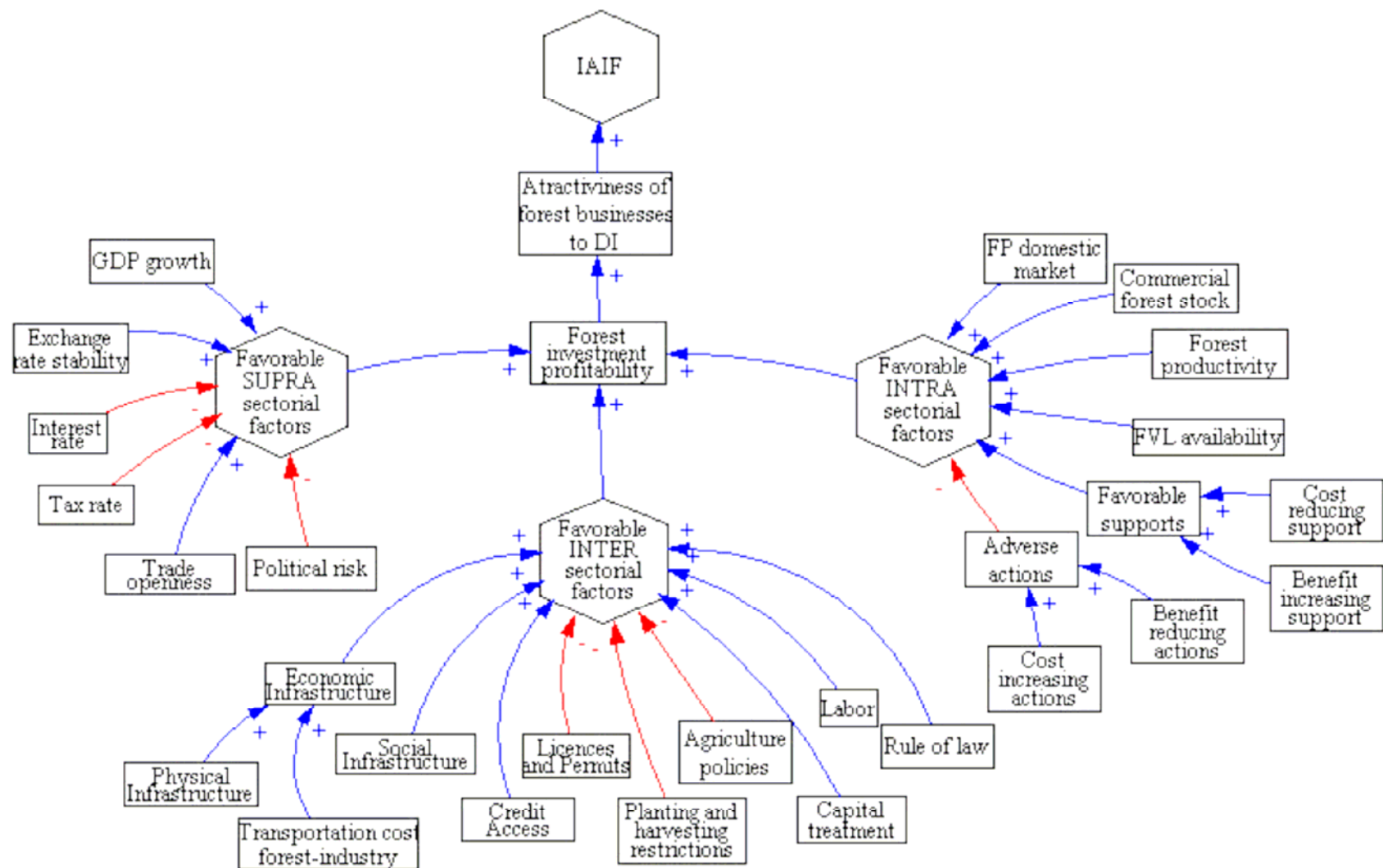
```

graph TD
    FP_domestic[FP domestic market] -- "+" --> FIF{{Favorable INTRA sectorial factors}}
    CS[Commercial forest stock] -- "+" --> FIF
    FP[Forest productivity] -- "+" --> FIF
    FVL[FVL availability] -- "+" --> FIF
    FS[Favorable supports] -- "+" --> FIF
    AA[Adverse actions] -- "-" --> FIF
    CR[Cost reducing support] -- "+" --> FS
    BIS[Benefit increasing support] -- "+" --> FS
    BRA[Benefit reducing actions] -- "+" --> AA
    CIA[Cost increasing actions] -- "+" --> AA
    FIF -- "+" --> FIP[Forest investment profitability]
  
```

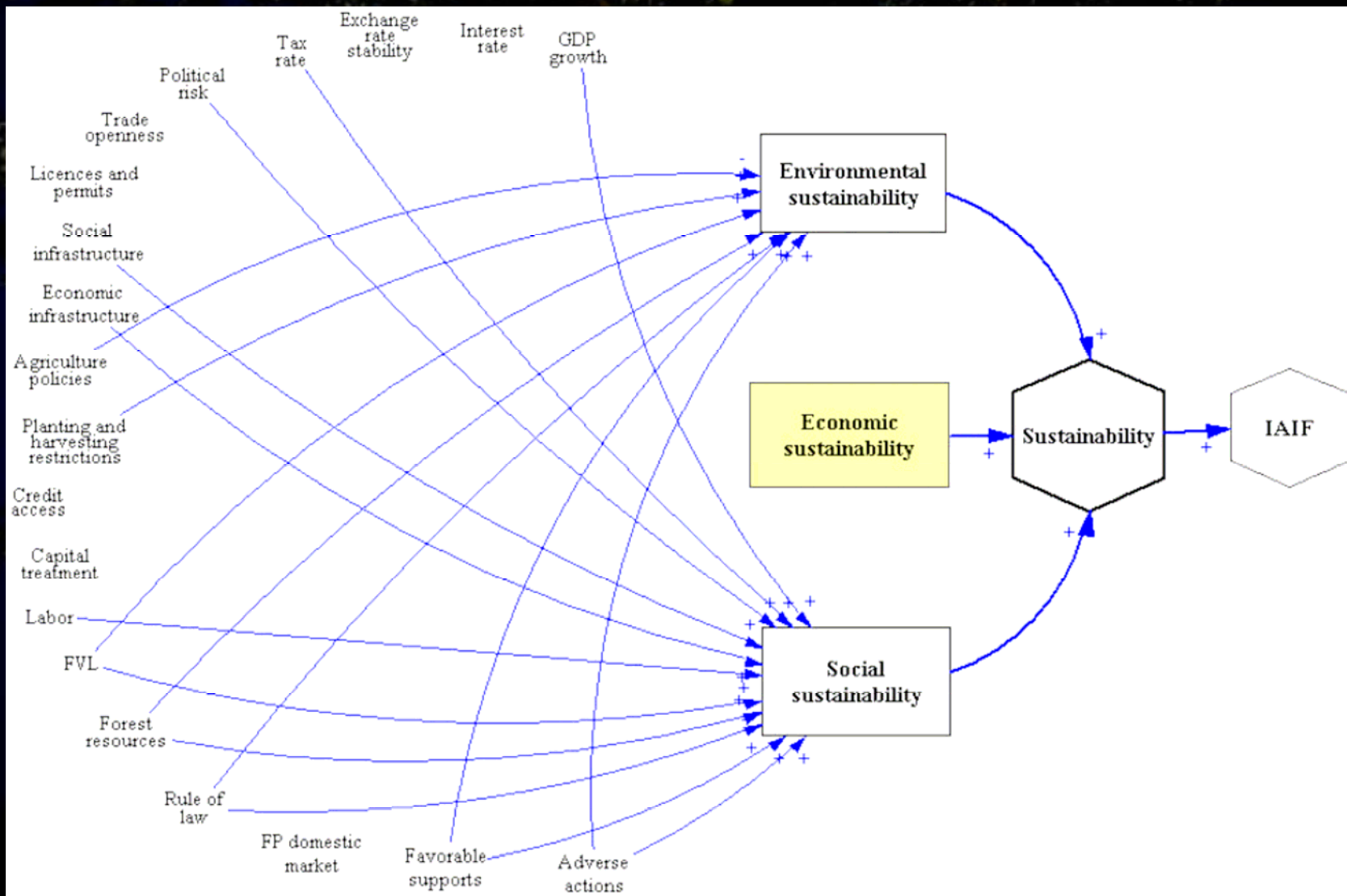


## II- IAIF

### Methodology 20 indicators; >80 variables



# IAIF and Sustainability



### Sources of information

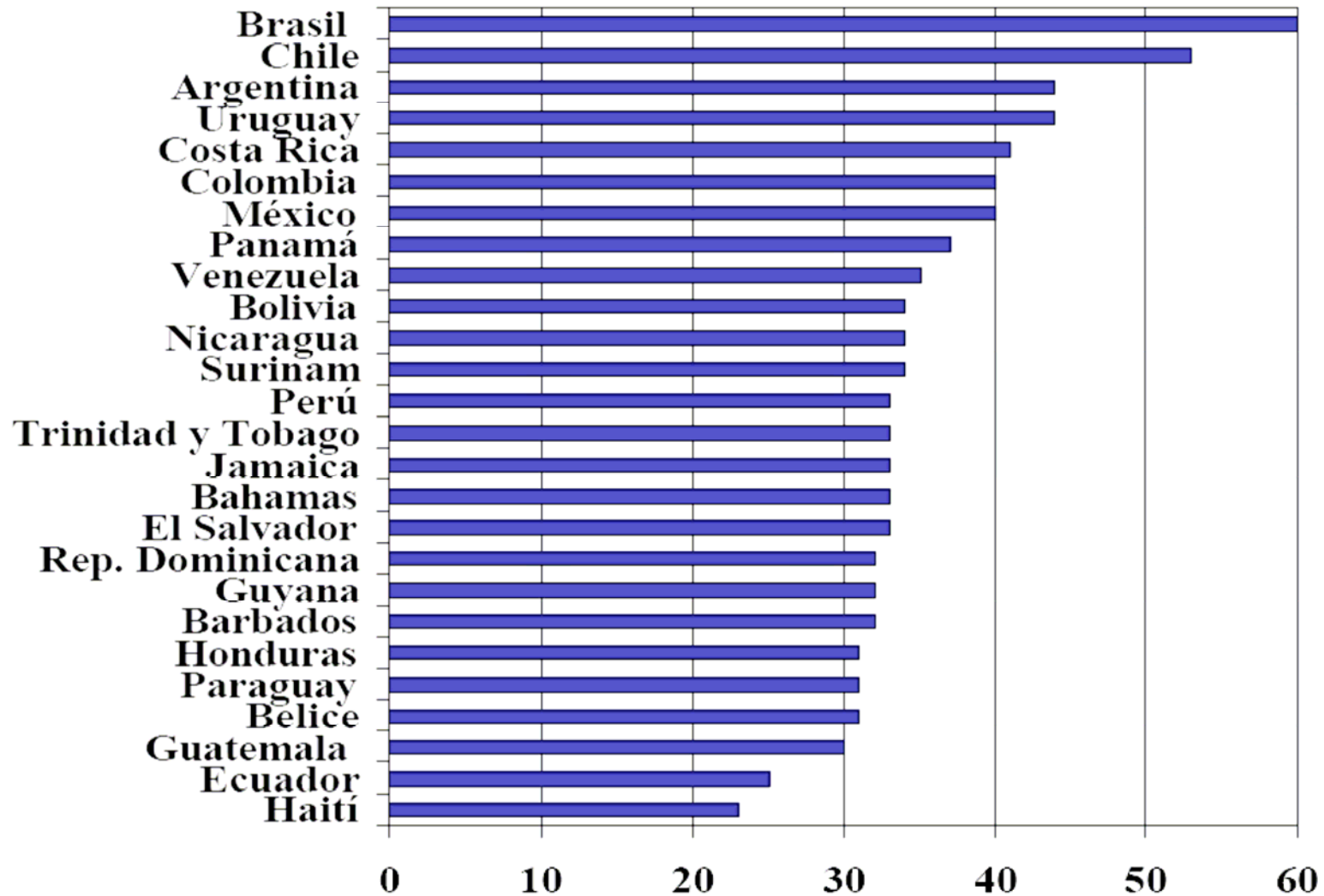
- Secondary data and indexes (World Bank, FAO, World Economic Forum, etc.)
- Primary information through surveys
  - Agriculture policies
  - Planting and harvesting restrictions
  - Adverse actions
  - Favorable supports



# III IAIF Results 2002

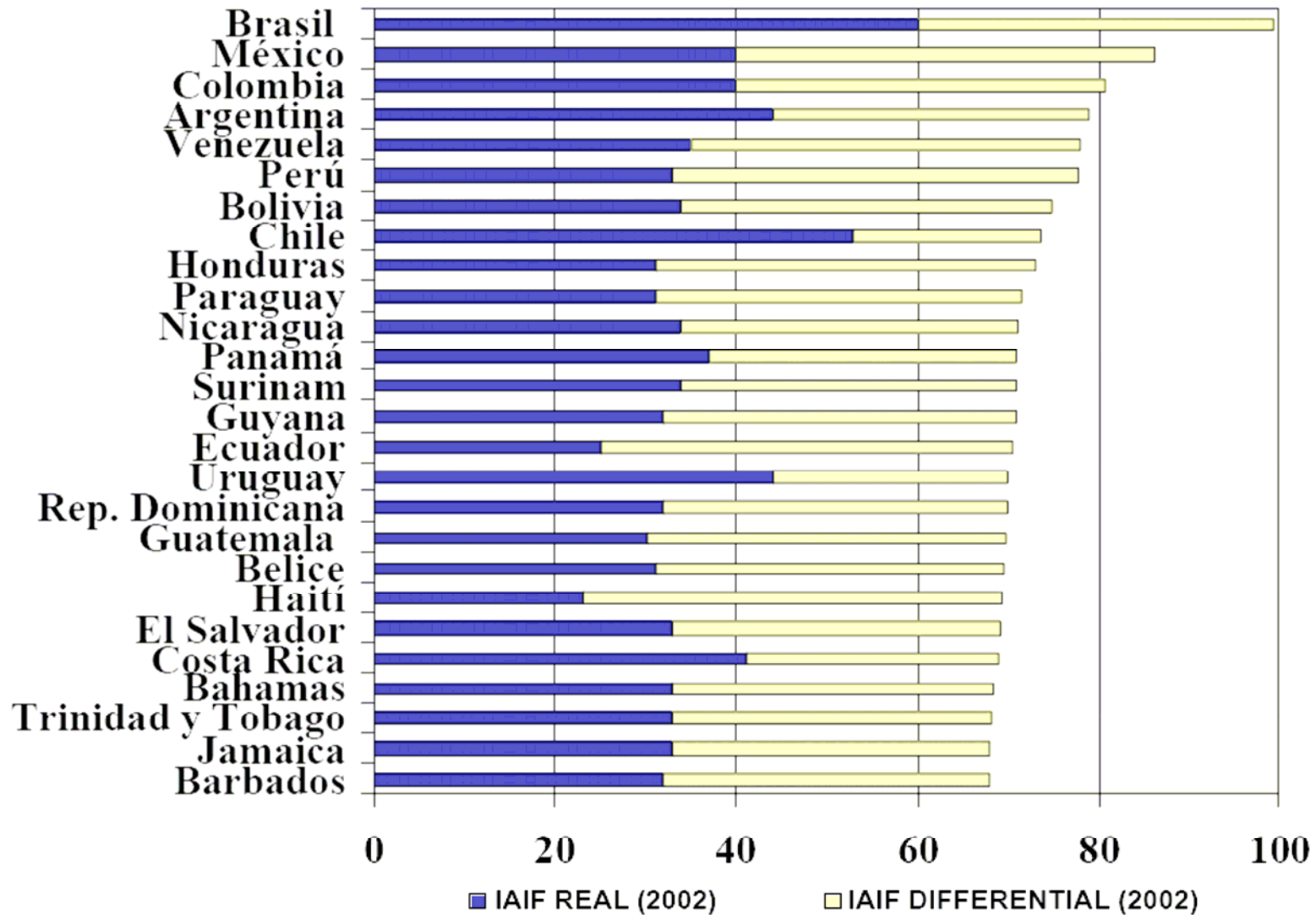
### III- Results

## IAIF Real (measured) - 2002



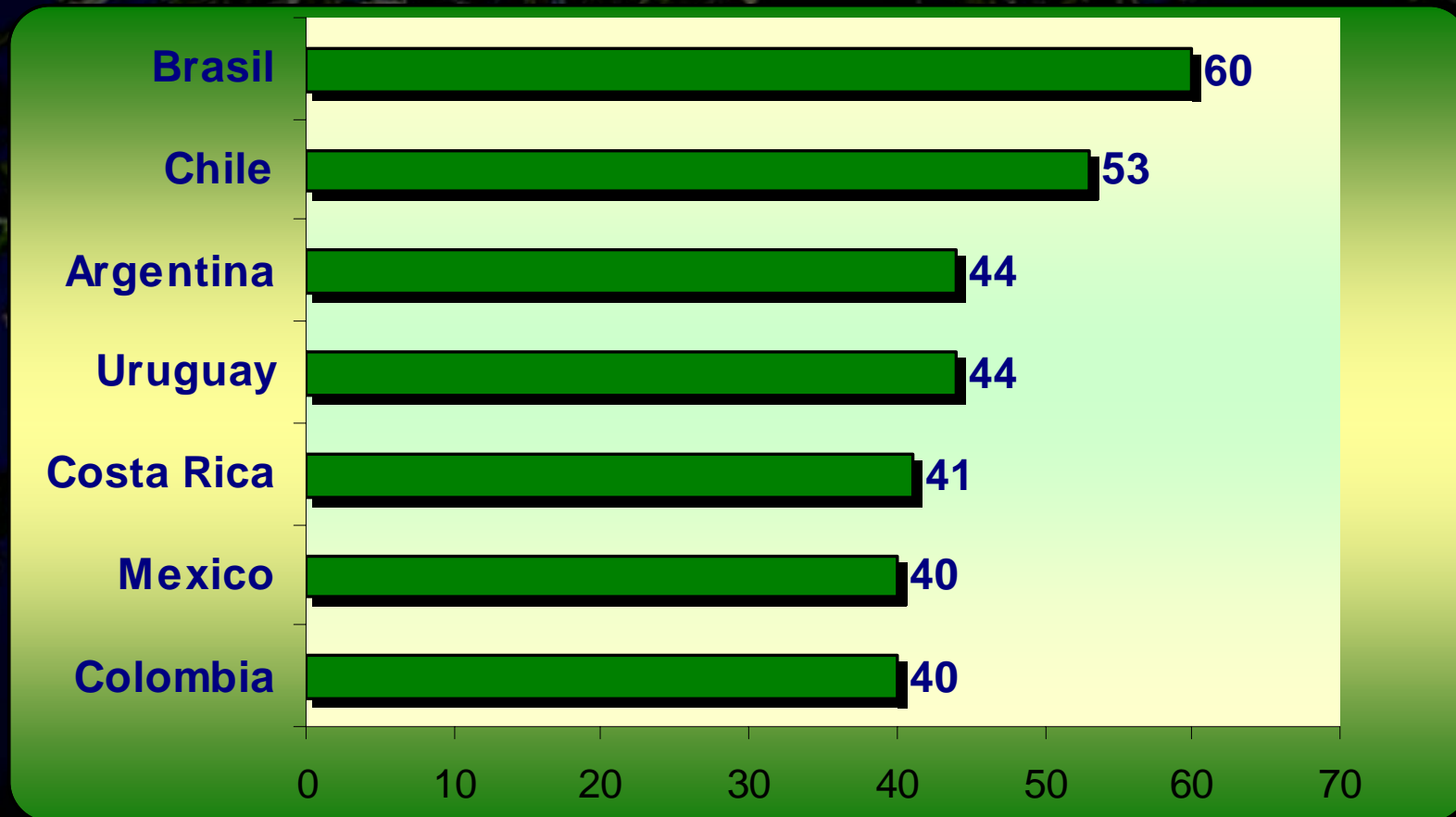
### III- Results

## Real – Potential - Differential

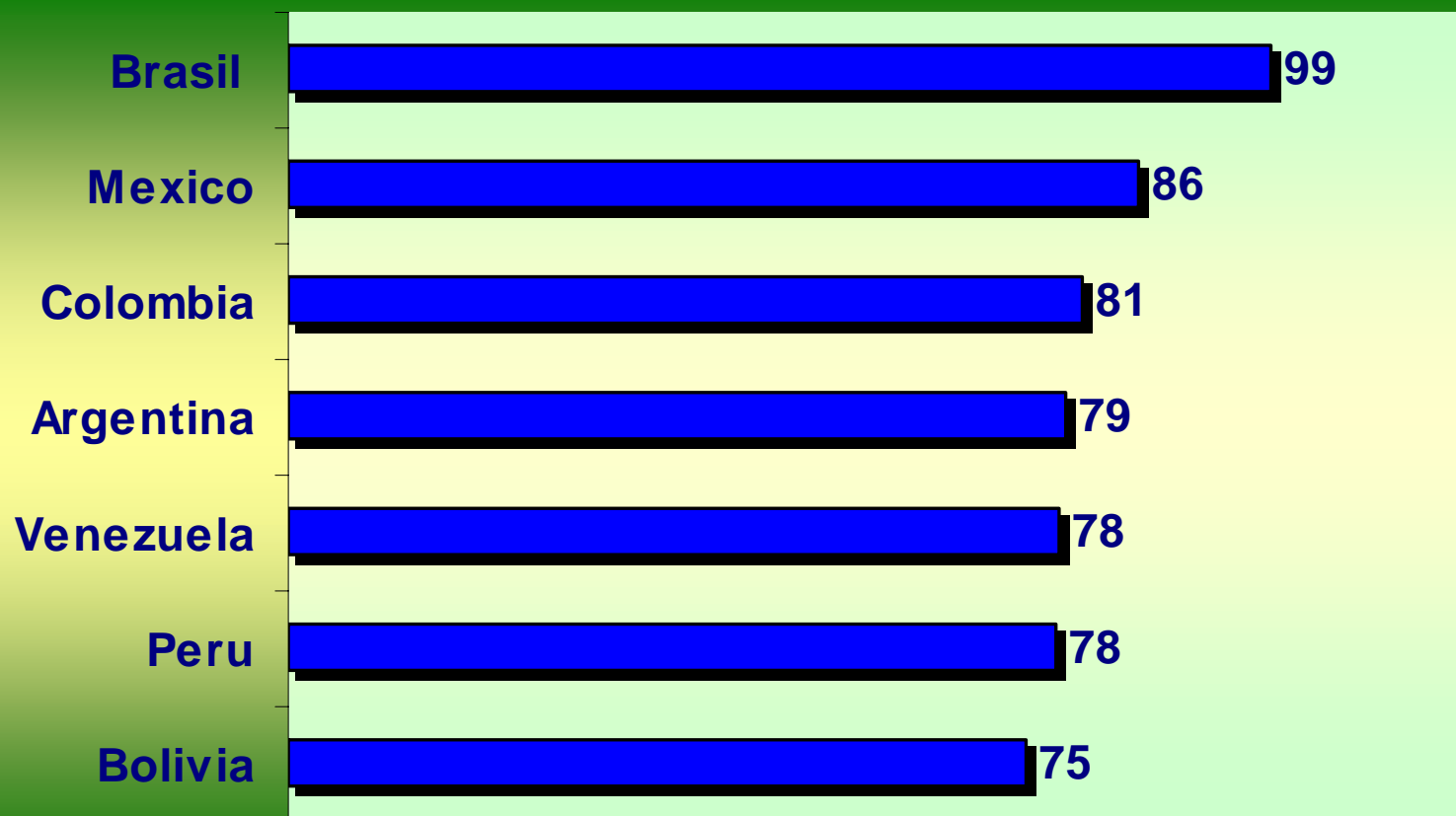




## IAIF – Real for Best Performers



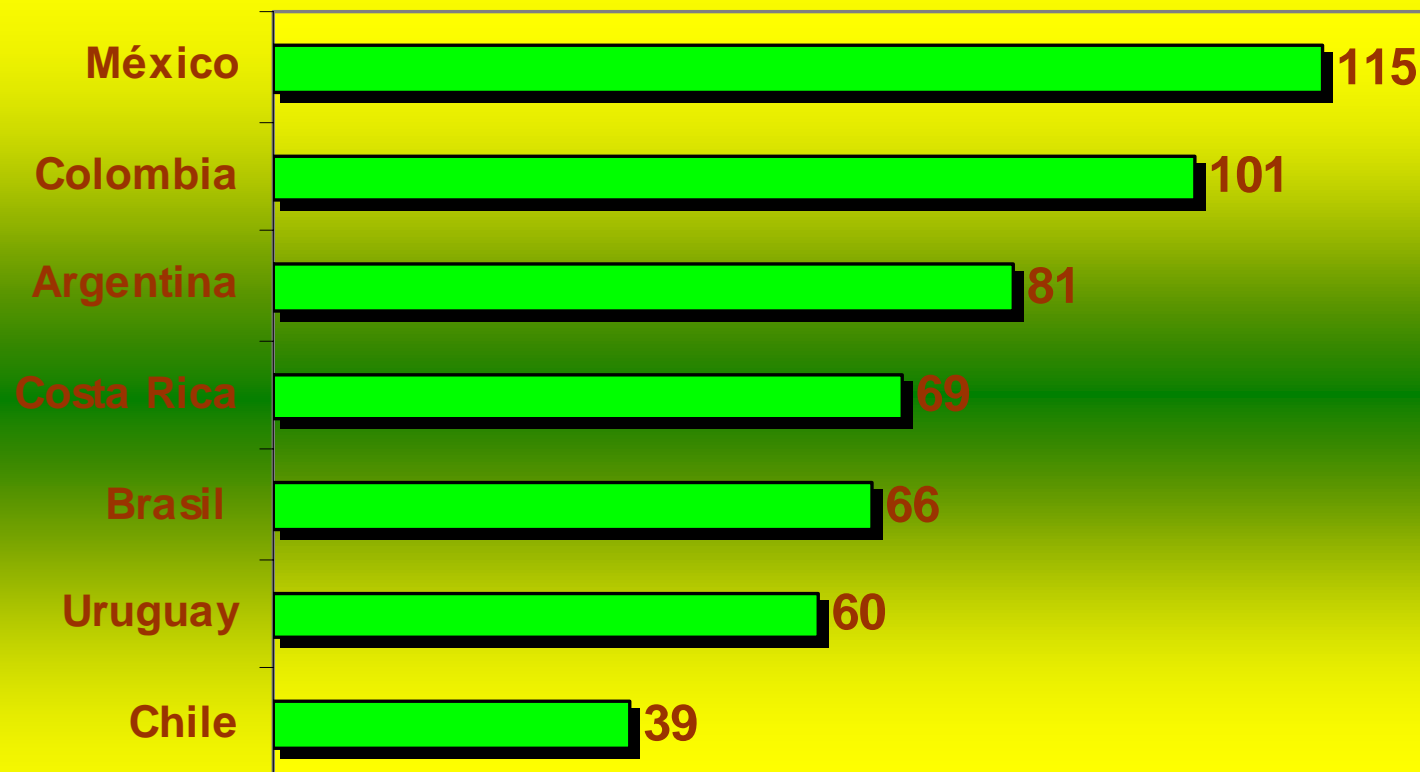
### IAIF – Highest Potential



### III- Results



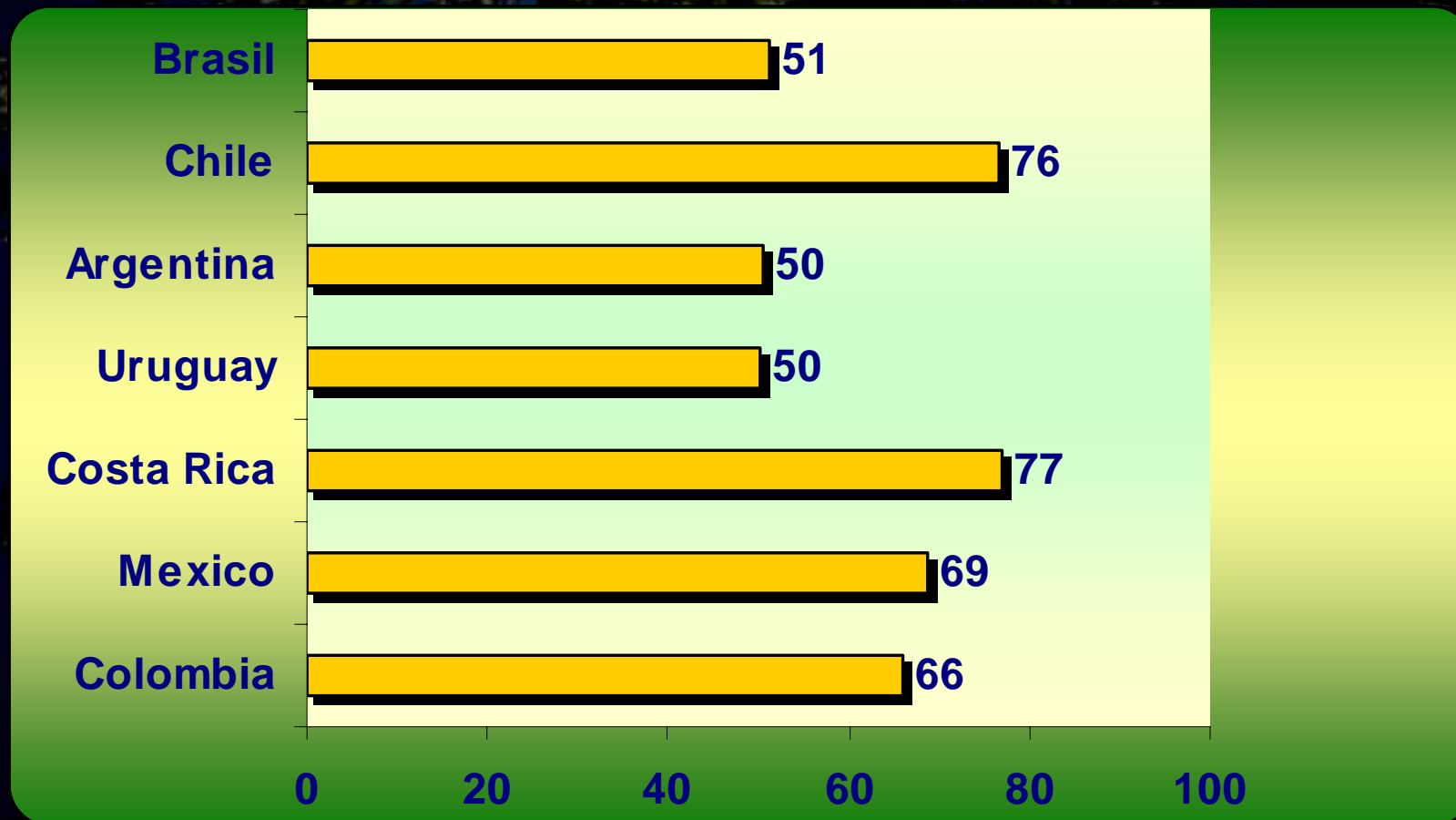
### Possible improvement over current levels (%)





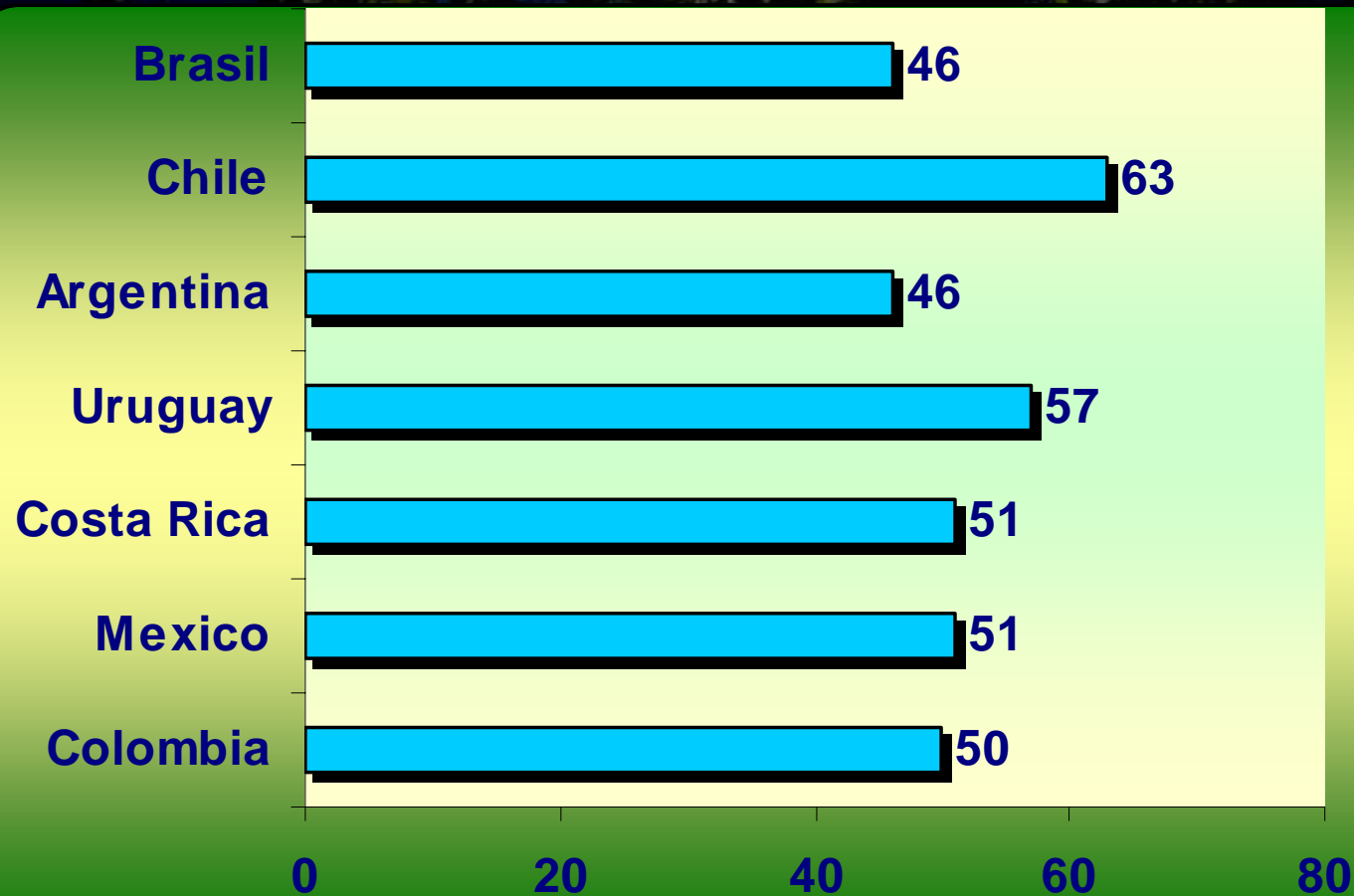
### III- Results

## SubIndex SUPRA



### III- Results

## SubIndex INTER



### III- Results

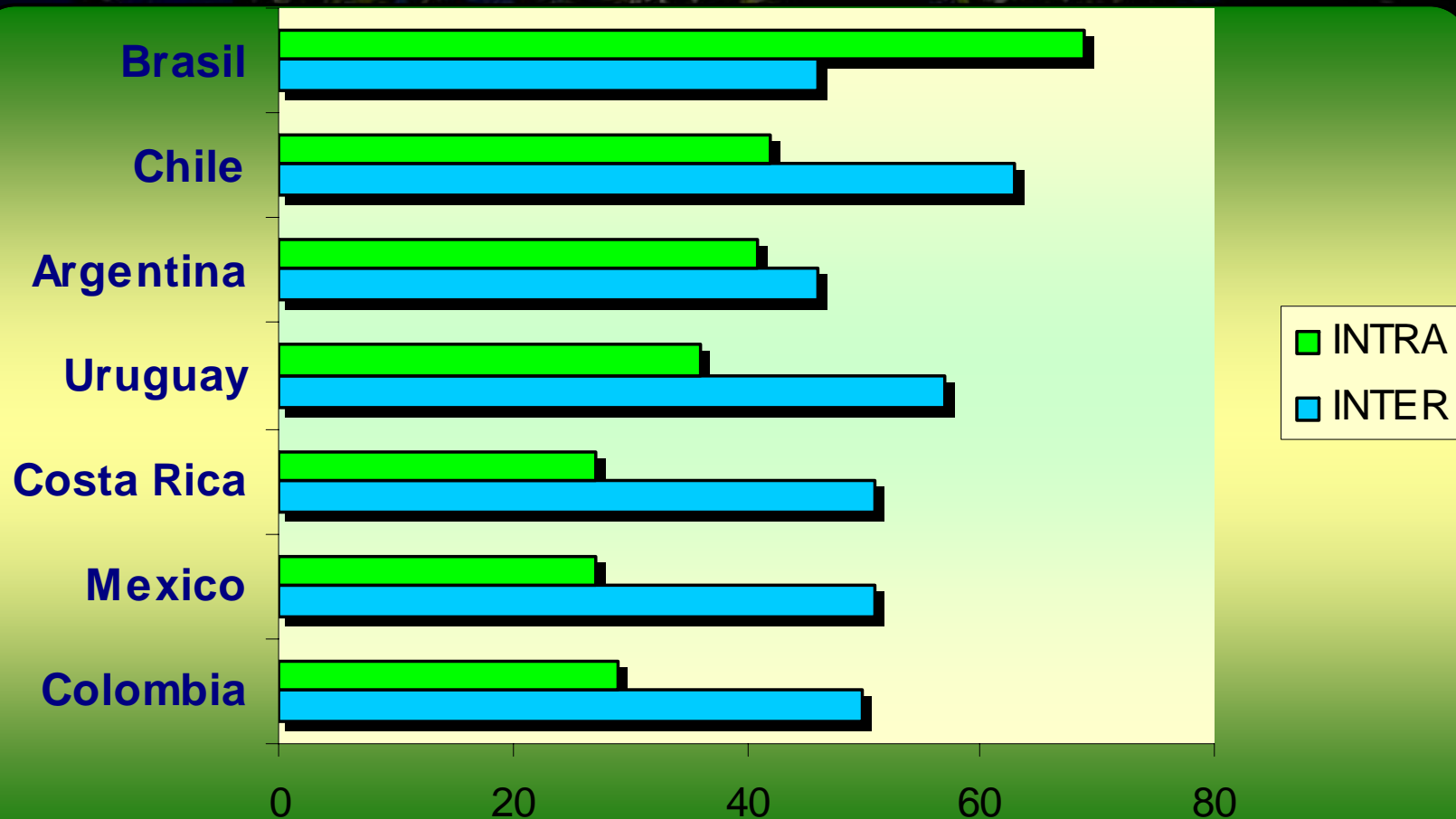
## Sub Index INTRA





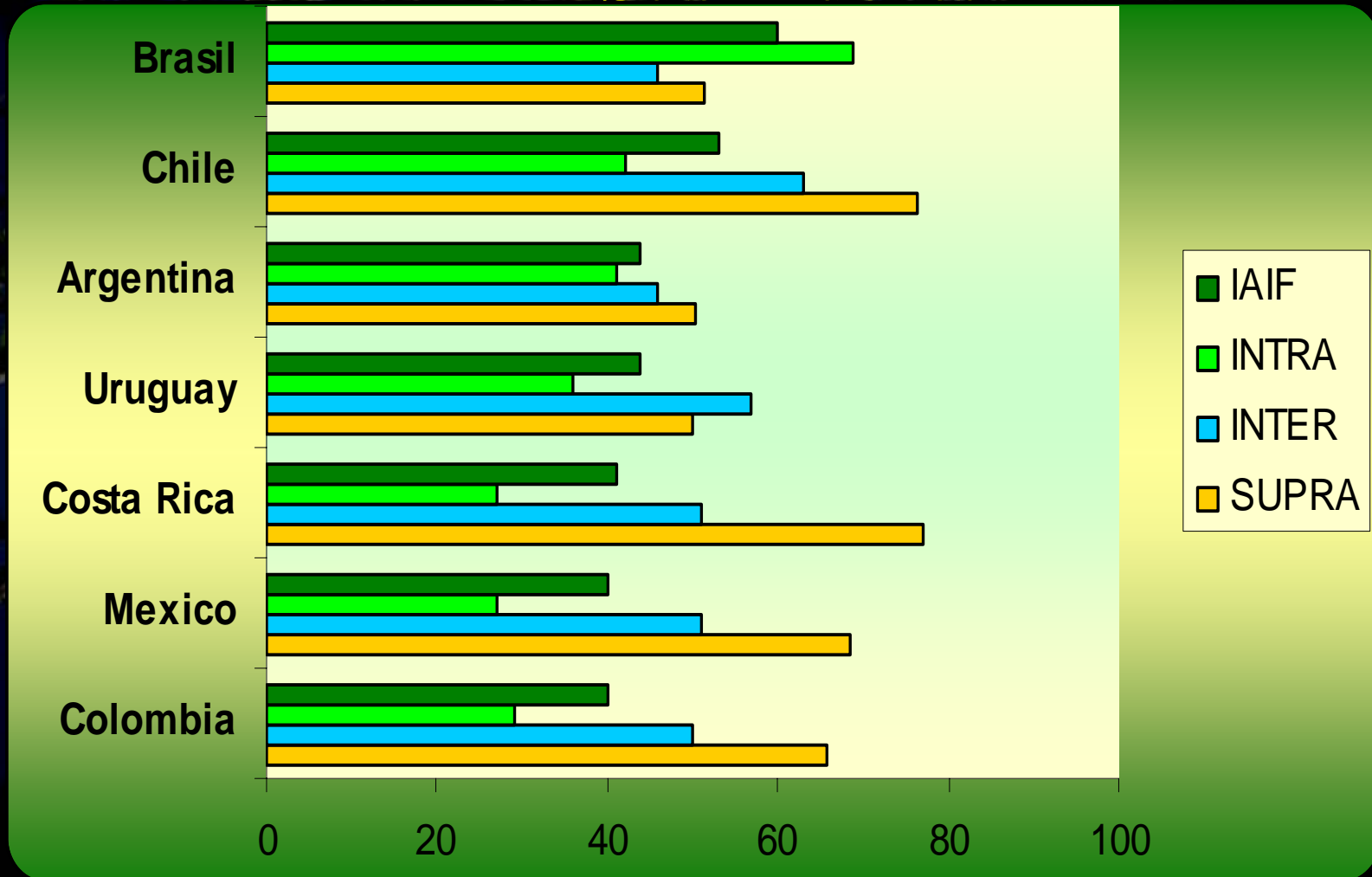
### III- Results

## INTER vs INTRA



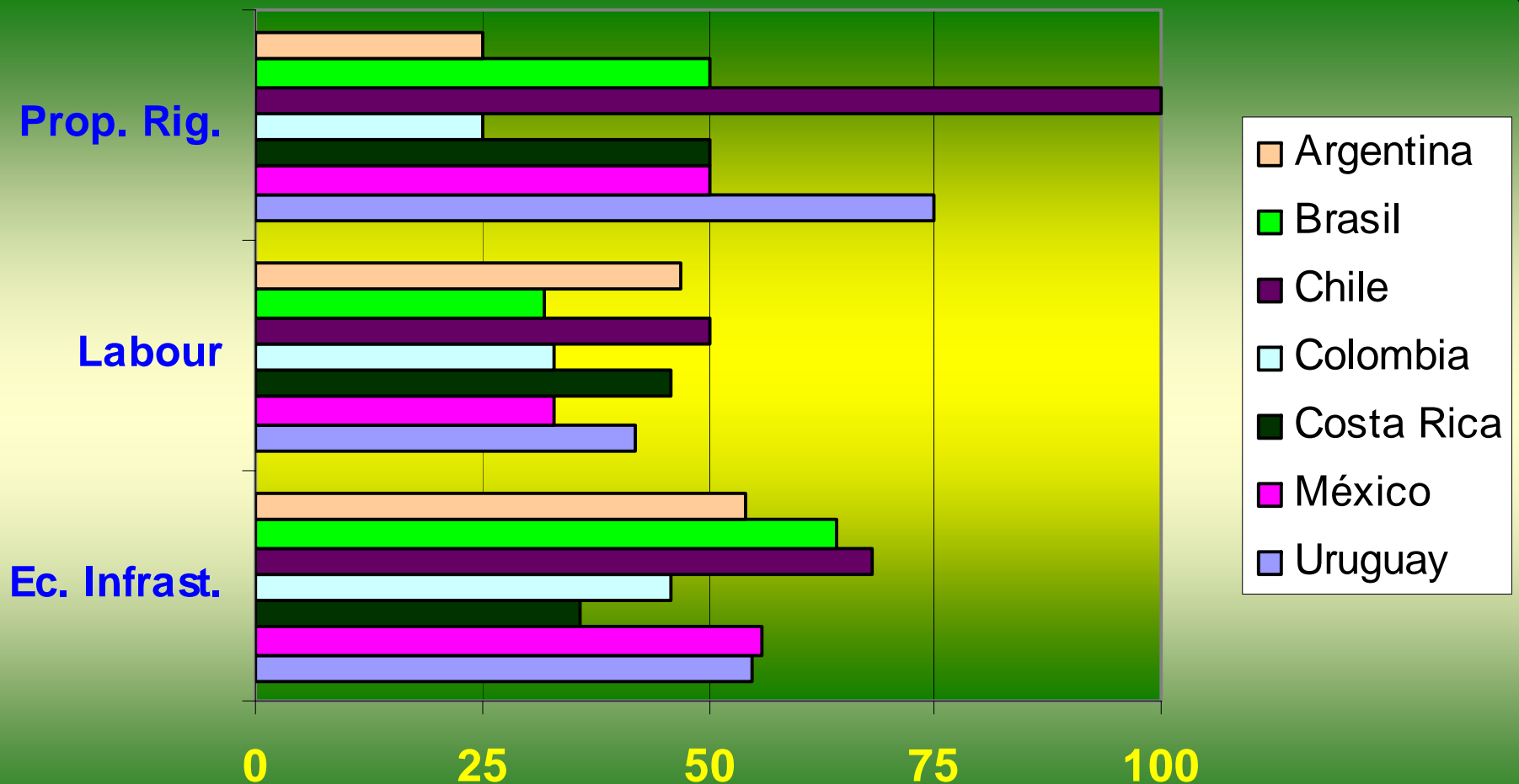
### III- Results

## IAIF – Sub Indexes



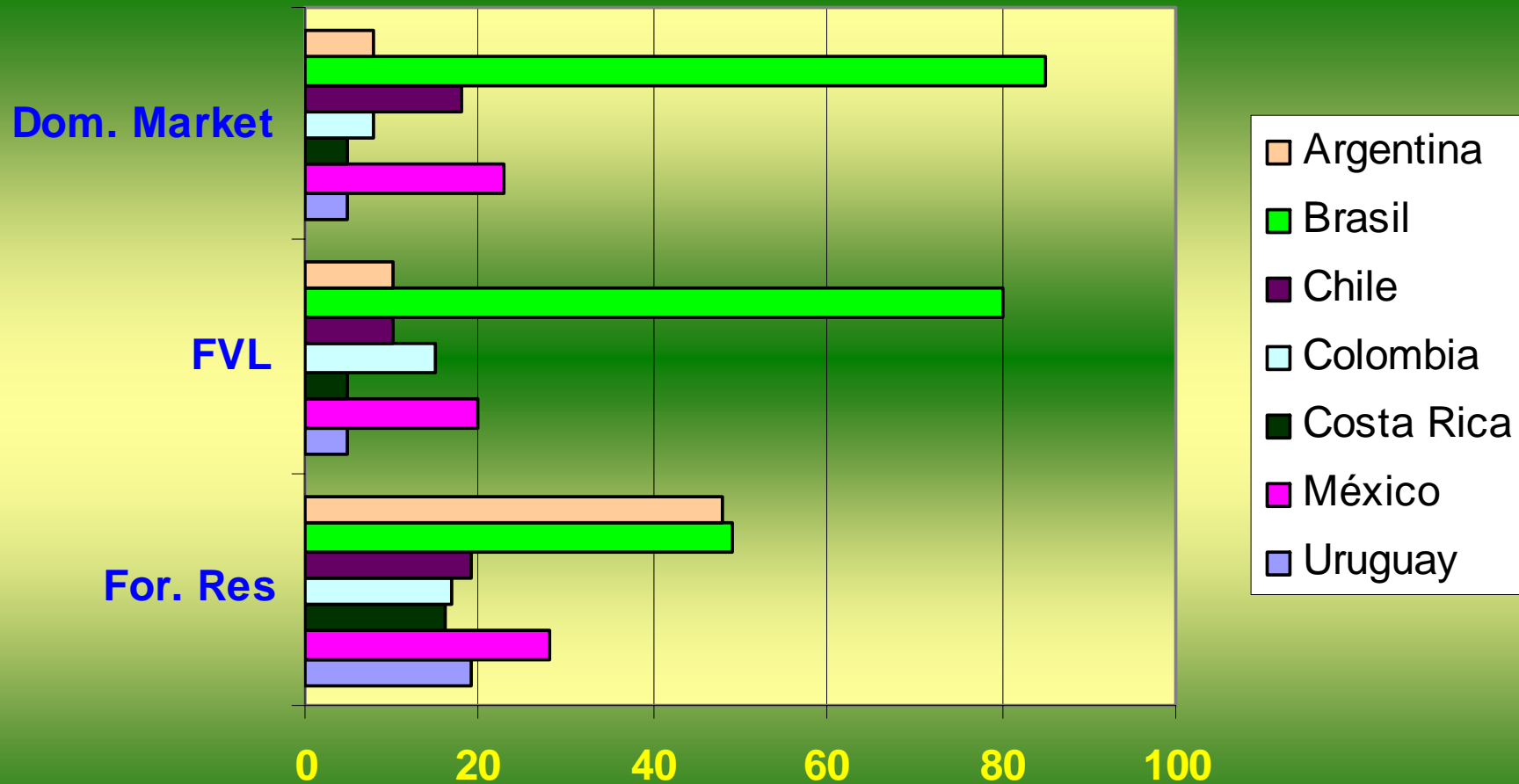
### III- Results

## INTER-Sector Indicators – Sample



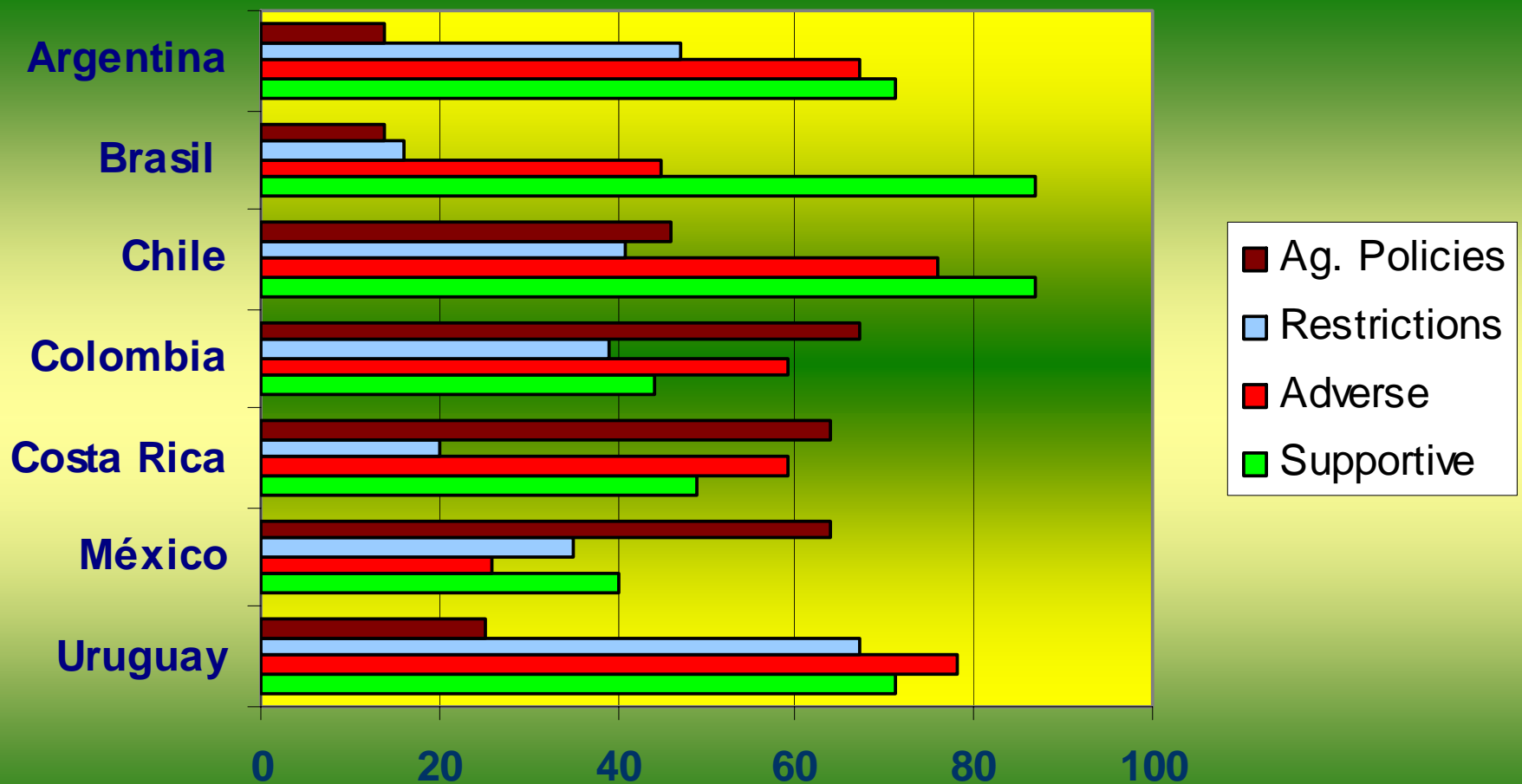


# INTRA-Sector Indicators



### III- Results

## Perception Indicators



# IV PROMECIF and IAIF Evolution



### 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.**

### IAIF Results Supply

**Country's IAIF performance.**

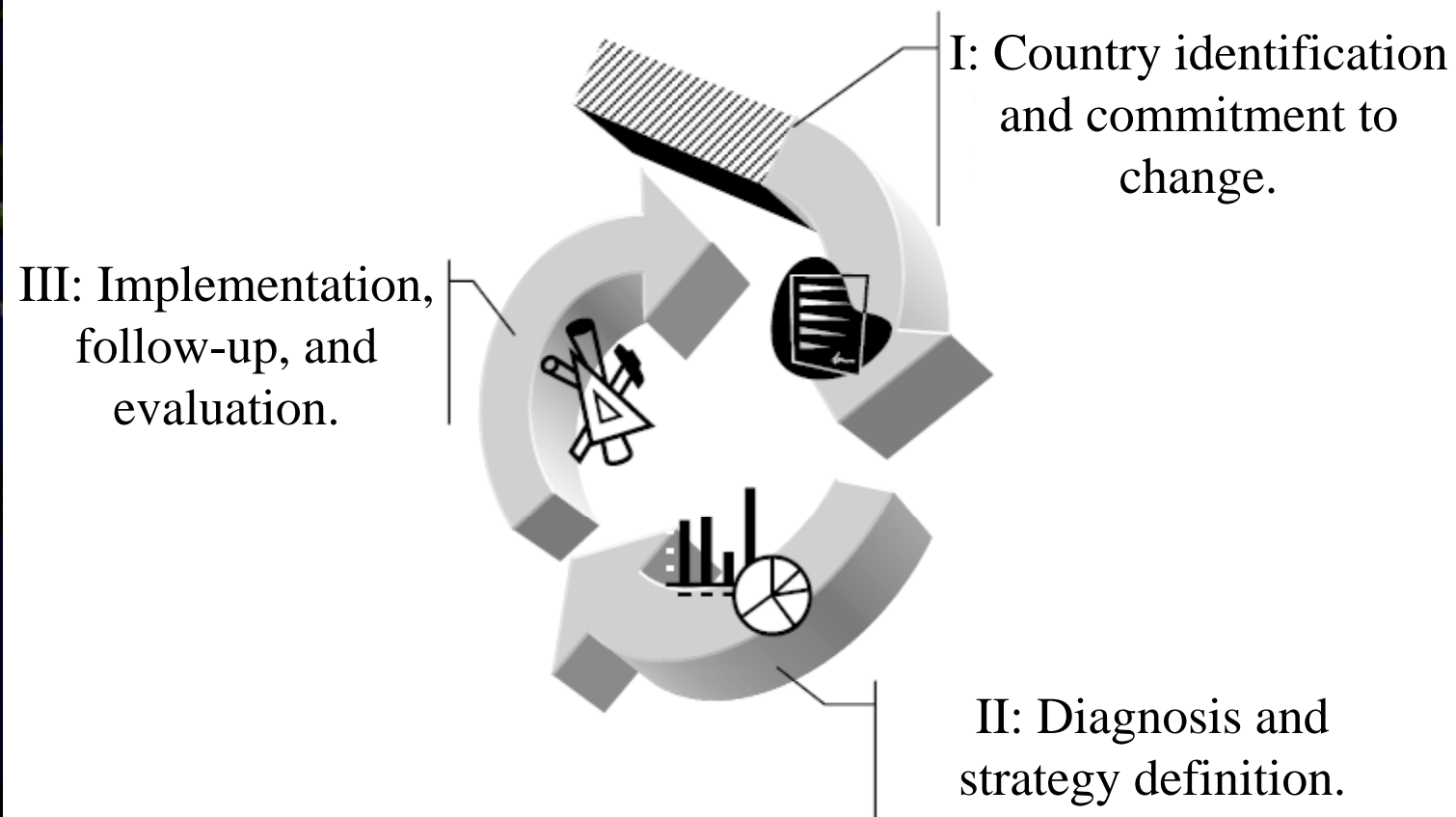
- **Data for comparison among countries.**
- **Understanding of factors that affect positively and negatively the attractiveness of forest investments.**



**Generate interest in improving the climate for investments.**



### PROMECIF's three phases

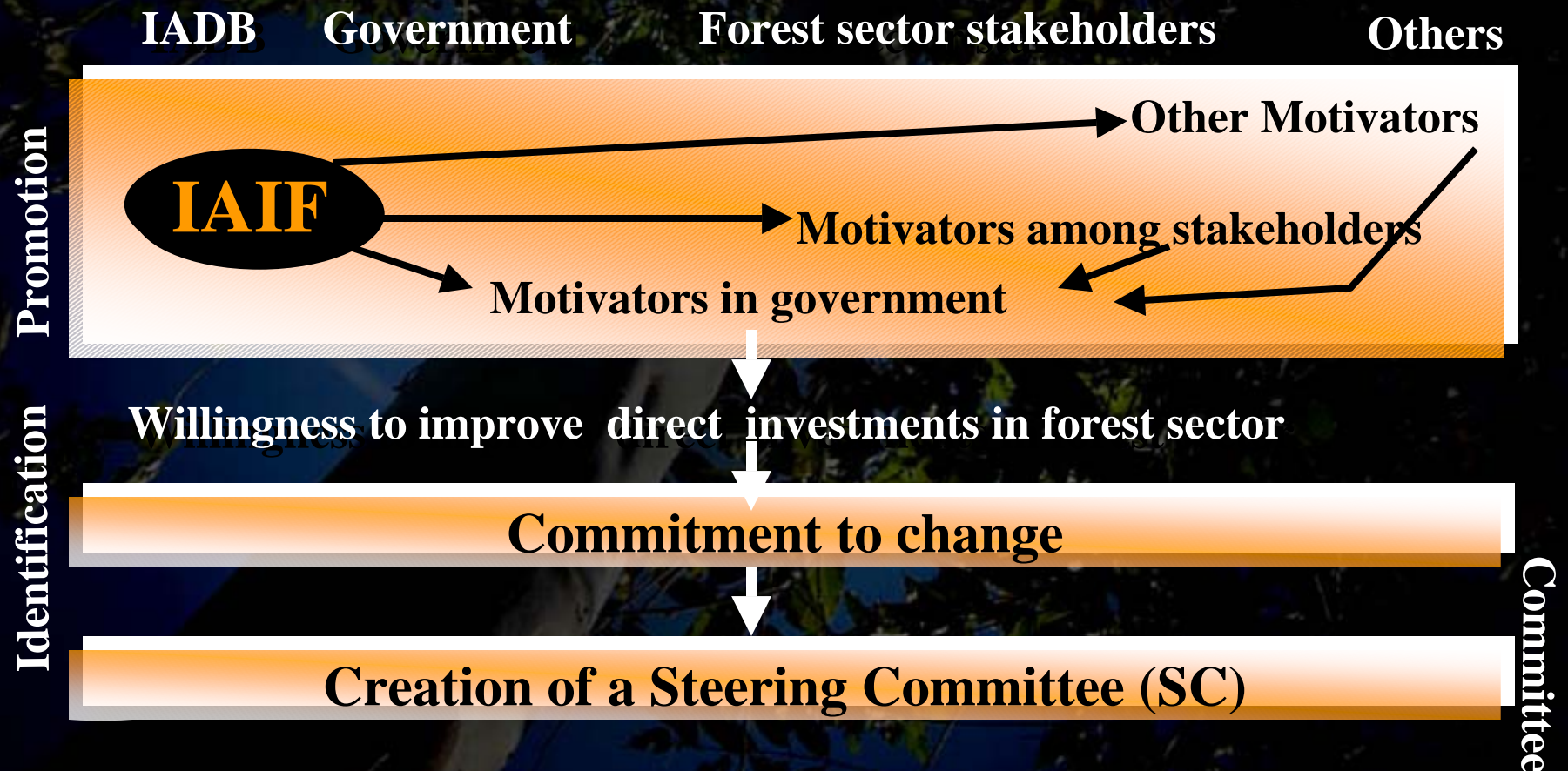




### **Phase I: Country identification and commitment to change**

- **Stakeholders share objective of developing and implementing a plan to improvement of their country's business climate for forest investments.**
- **PROMECIF's Phase I main objective is to construct this ambience.**

## Phase I: Country identification and commitment to change





### **Phase I: Country identification and commitment to change**

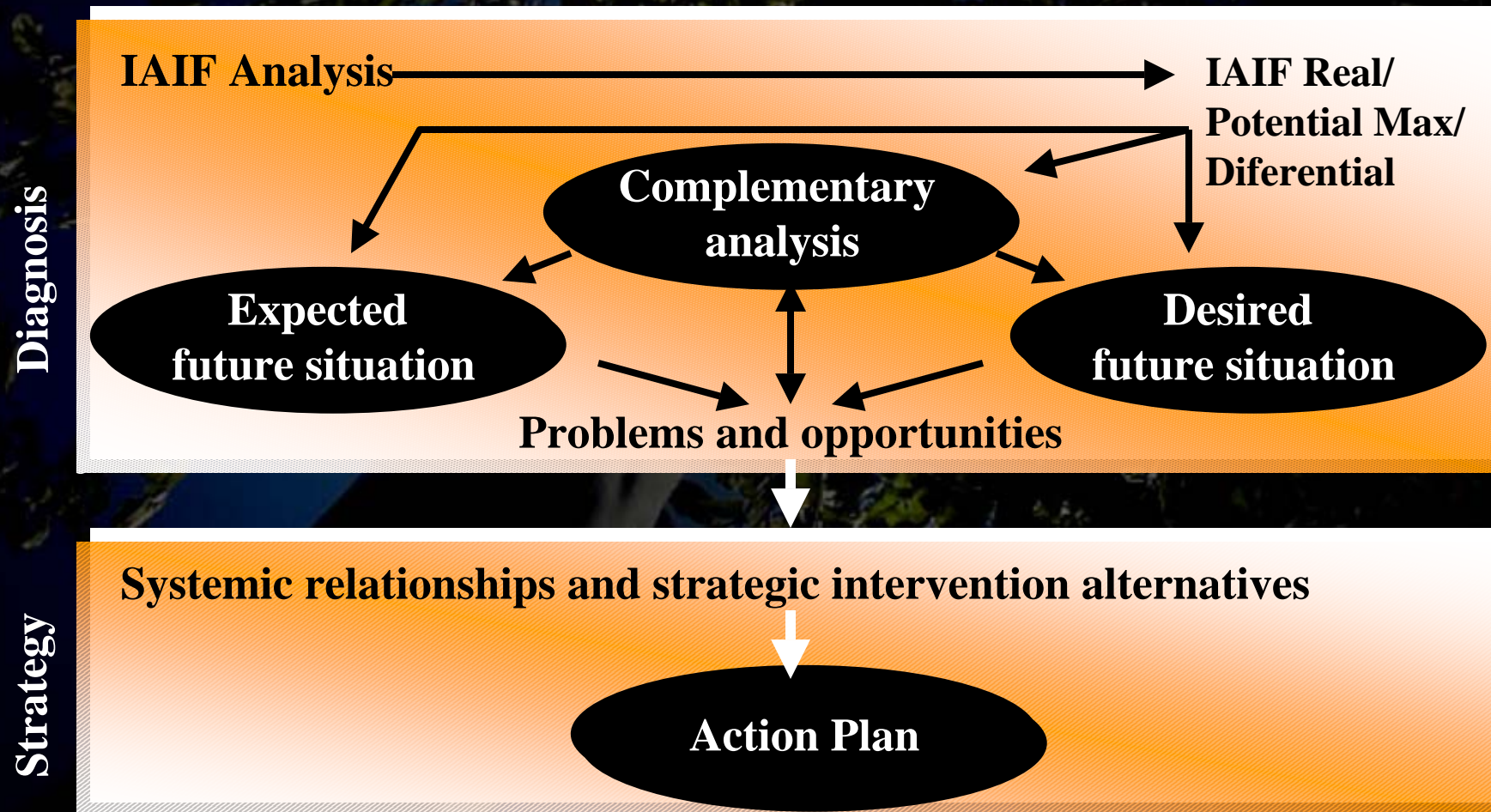
- **Steering Committee (SC)**
  - **The Steering Committee will be responsible for the coordination of PROMECIF's phases II and III.**
  - **Sub commission of a Competitiveness Commission -- Steering Committee's role.**



### Phase I: Country identification and commitment to change

- **IADB Support**
  - The country's government should be the official interlocutor.
  - A letter of commitment has to be signed by the appropriate government agency and IADB.

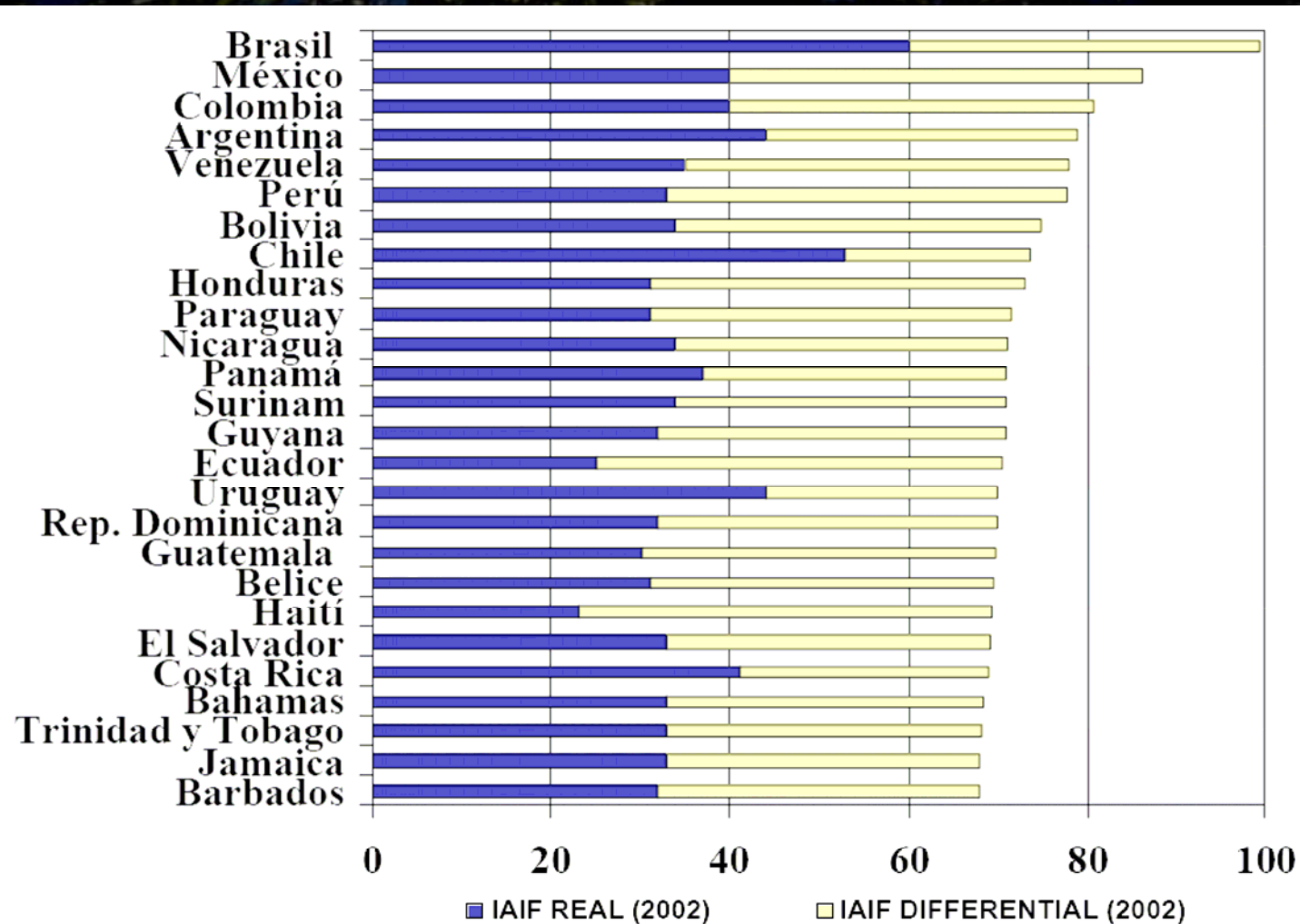
## Phase II: Diagnosis and strategy definition





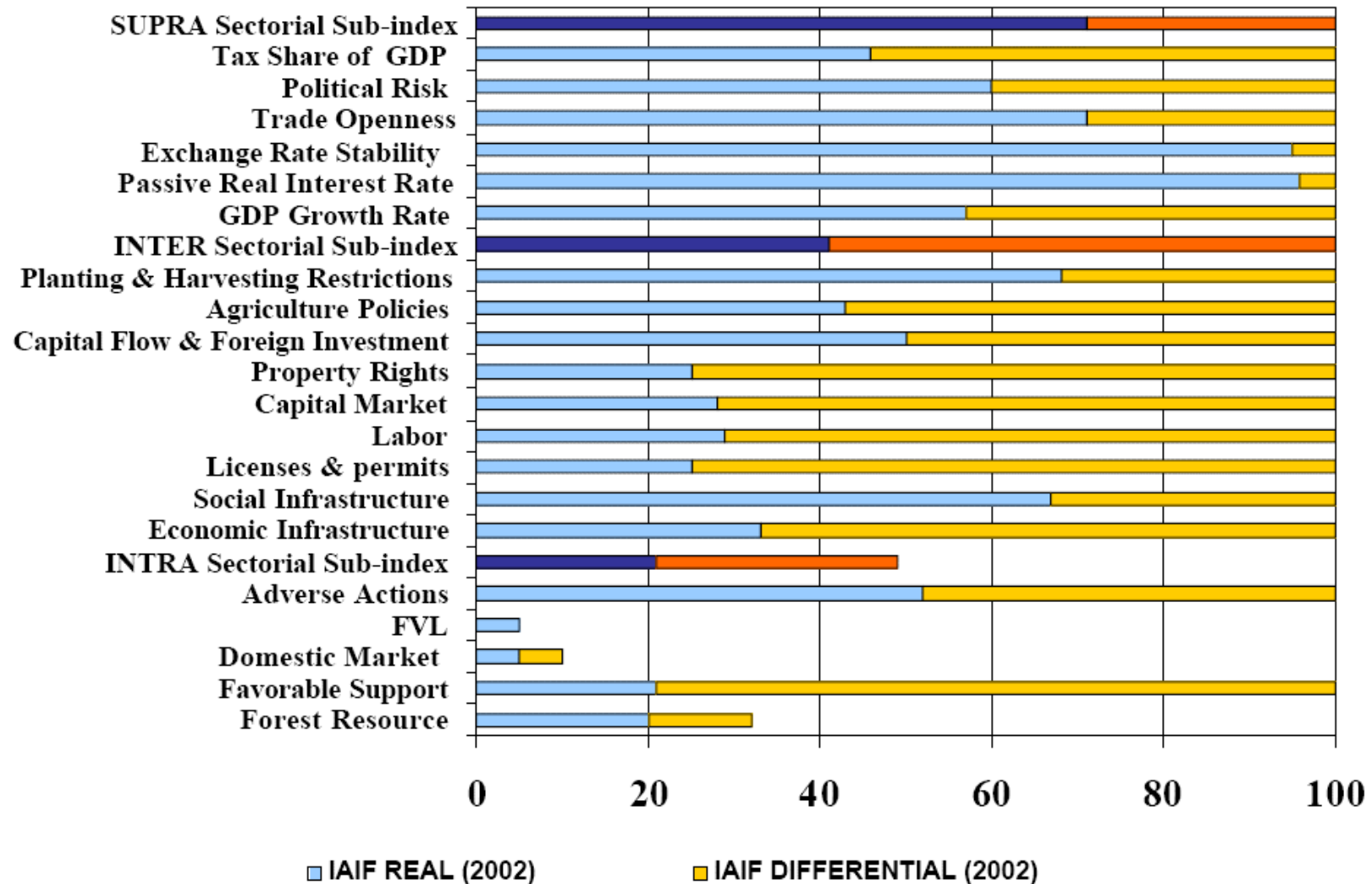
## Phase II: Diagnosis and strategy definition

### ■ IAIF – Real – Potential Maximum - Differential





## The case for Nicaragua (2002)

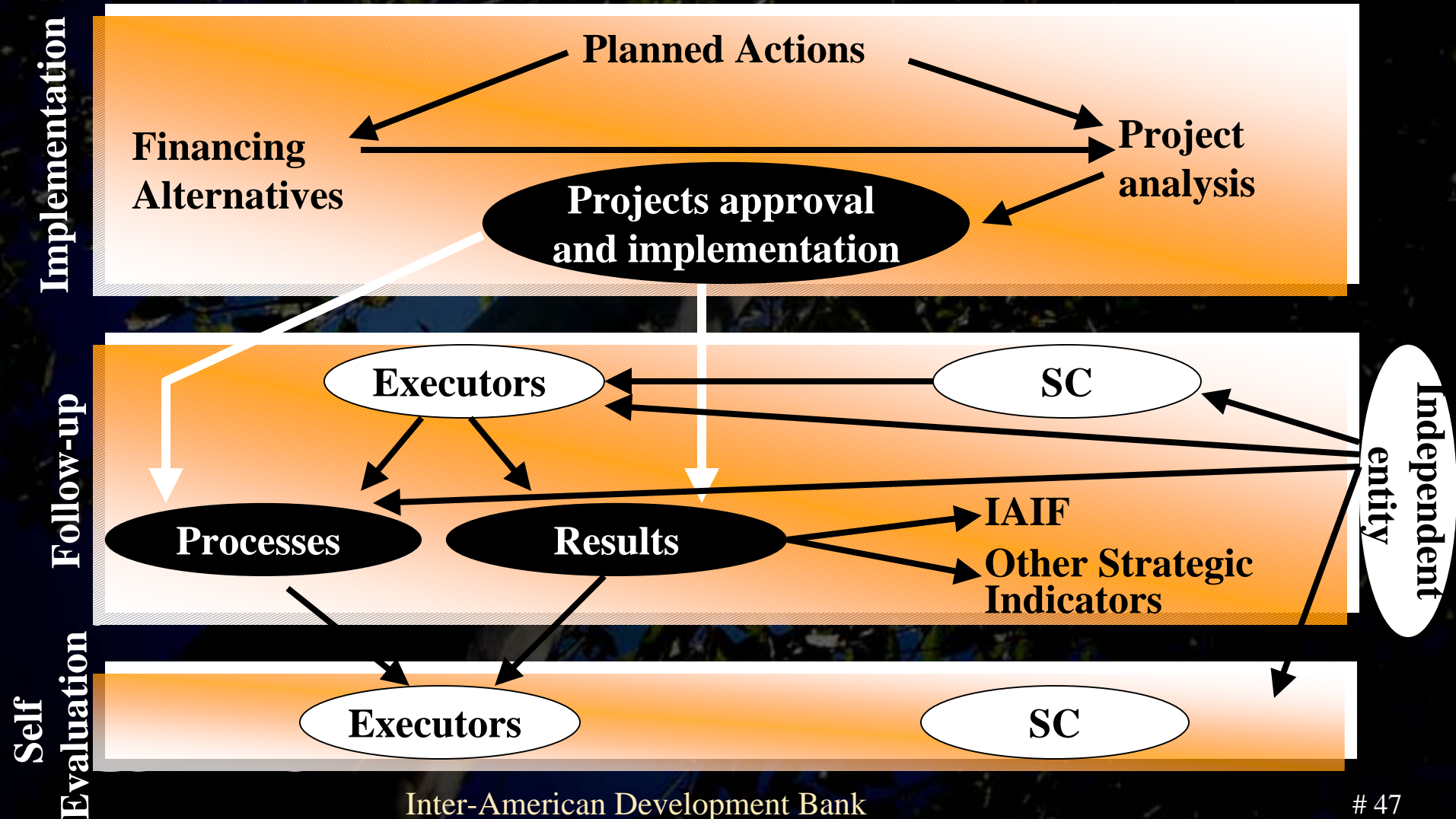


### **Phase II: Diagnosis and strategy definition**

- **Complementary analysis**
  - **Information gathering.**
  - **Dynamic analysis of factors that explain the climate for investments in sustainable forest businesses.**
  - **Definition of expected future situation.**
  - **Definition of desired future situation.**
  - **Identification and analysis of problems and opportunities.**



## Phase III: Implementation, follow-up, and evaluation





### **Phase III: Implementation, follow-up, and evaluation**

- **Implementation comprises the identification of financial alternatives and the detailed analysis of the projects related to the planned actions.**
- **Executers and the Steering Comitee will be responsible for follow-up and evaluation. An independent entity may also be used.**

### 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 a event latter this year
- PROMECIF is being (or about to be) applied in: Paraguay, Panama, and Equator.
- 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



## Further information

- [www.iadb.org/pforestal](http://www.iadb.org/pforestal)

- [forestal@iadb.org](mailto:forestal@iadb.org)

