Sustainable Forestry Business Initiatives at IDB

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Stora Enso Visit to IDB: Potential Latin American Pulp Mill Projects

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**IDB INITIATIVES: Overview**

- **Improving Business Climate for Sustainable Forest Investments**
  - IAIF - Forest Investment Attractiveness Index
  - PROMECIF - Process to Improve the Business Climate for Forest Investment

- **Improving Governments’ Supporting Role**
  - Inter or Intra Sector Roles
  - Regulations, Policies, Institutions, Public Services
  - Investments or Technical Assistance

- **Supporting Private Investments (PRI, MIF, IIC)**

- **Developing Tools for Sustainable Forest Businesses**

- **Implementing Tools**
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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 allows analysis of:

<table>
<thead>
<tr>
<th>Measured (real)</th>
<th>Contribution to IAIF (weighted)</th>
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<tbody>
<tr>
<td>Differential</td>
<td></td>
</tr>
<tr>
<td>(potential improvement)</td>
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<tr>
<td>Potential</td>
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<td>(potential maximum)</td>
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Simulations
IAIF – Basic hypothesis

IAIF

Attractiveness of forest businesses to DI

Forest investment profitability
Improving Business Climate for Sustainable Forest Investments

Methodology

20 indicators; >80 variables
Improving Business Climate for Sustainable Forest Investments

IAIF Real (measured) - 2002

Brasil
Chile
Argentina
Uruguay
Costa Rica
Colombia
Mexico
Panama
Venezuela
Bolivia
Nicaragua
Surinam
Peru
Trinidad y Tobago
Jamaica
Bahamas
El Salvador
Rep. Dominicana
Guyana
Barbados
Honduras
Paraguay
Belize
Guatemala
Ecuador
Haiti

0 10 20 30 40 50 60
Improving Business Climate for Sustainable Forest Investments

Real – Potential - Differential

[Bar chart showing real and potential differential for various countries]
Improving Business Climate for Sustainable Forest Investments

IAIF – Real for Best Performers

- Brasil: 60
- Chile: 53
- Argentina: 44
- Uruguay: 44
- Costa Rica: 41
- Mexico: 40
- Colombia: 40
Improving Business Climate for Sustainable Forest Investments

IAIF – Highest Potential

- Brasil: 99
- Mexico: 86
- Colombia: 81
- Argentina: 79
- Venezuela: 78
- Peru: 78
- Bolivia: 75
Possible improvement over current levels (%)

- México: 115%
- Colombia: 101%
- Argentina: 81%
- Costa Rica: 69%
- Brasil: 66%
- Uruguay: 60%
- Chile: 39%
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What is PROMECIF?

- Process to Improve the Business Climate for Forest Investments.
- It 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.
Phase I: Country identification and commitment to change

Motivators among stakeholders

Motivators in government

Willingness to improve direct investments in forest sector

Commitment to change

Creation of a Steering Committee (SC)
Phase II: Diagnosis and strategy definition

IAIF Analysis

Expected future situation

Desired future situation

Problems and opportunities

Complementary analysis

Systemic relationships and strategic intervention alternatives

Action Plan

Improving Business Climate for Sustainable Forest Investments
The case for Nicaragua (2002)
Phase III: Implementation, follow-up, and evaluation

- Planned Actions
  - Projects approval and implementation
  - Project analysis

- Financing Alternatives

- Implementation

- Follow-up
  - Executors
  - Processes
  - Results
  - CC
  - IAIF
  - Other Strategic Indicators

- Self-Evaluation
  - Executors
  - CC

Improving Business Climate for Sustainable Forest Investments
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 2006.
- PROMECIF is being applied in: Paraguay, Panama, and Ecuador.
- IAIF-BRAZIL: Index will be adjusted and calculated for Brazil’s states.
- Development of Sub-Indices for plantations and natural forests.
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Improving Governments’ Supporting Role

IDB can help governments to develop and implement actions that will improve the business climate for forestry investments.

IDB can help to improve Inter sector factors such as economic infrastructure (roads, ports, energy), labor (training, education), social infrastructure (education, health), land tenure, small and medium forest enterprises development; reduce unfair agricultural biases; effectiveness of environmental regulations; etc.

IDB can help to improve Intra sector factors by adjusting regulations, policies, and institutions, as well as supporting the provision of public forest related services that reduce private sector costs and/or increase their benefits.

IDB helps by providing investment funding and/or technical assistance directly to government agencies or non-governmental organizations.
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- **Developing Tools for Sustainable Forest Businesses**
- Implementing Tools
Developing Tools for Sustainable Forest Businesses

Tools developed by IDB to support sustainable forest based investments:

- Legal, financial, and institutional tools to facilitate the horizontal integration of owners of small forest lands or their vertical integration with the industry.

- Tools for governments to design and implement forest based business development strategies

- IAIF and PROMECIF

- Tools to implement forest policies that use the concept of forest vocation lands
Developing Tools for Sustainable Forest Businesses

Tools under development by IDB to support sustainable forest based investments:

- Mobilizing Capital markets for forest financing; Unlocking dead forest capital
- IAIF for Brazilian States
- Fuelwood market effectiveness improvement
  - Forest industry supplier development tools to increase the participation of SMEs
- Improving fiscal policies impact on forest businesses in LAC
- Instruments for forest businesses risk management;
- Information services for forest business effectiveness;
- Instruments for increased private sector participation in public forest lands
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IDB is currently assisting the implementation of the following tools:

- PROMECIF is being implemented for Paraguay, Panama, and soon for Ecuador
- Implementation of Forest vocation land policies in Panama;
- Fuelwod market effectiveness improvement in Paraguay
- Capital markets financing for forest based investments in Brazil
Further information

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