

Building Investment Capacity for Forestry in the Financial Community

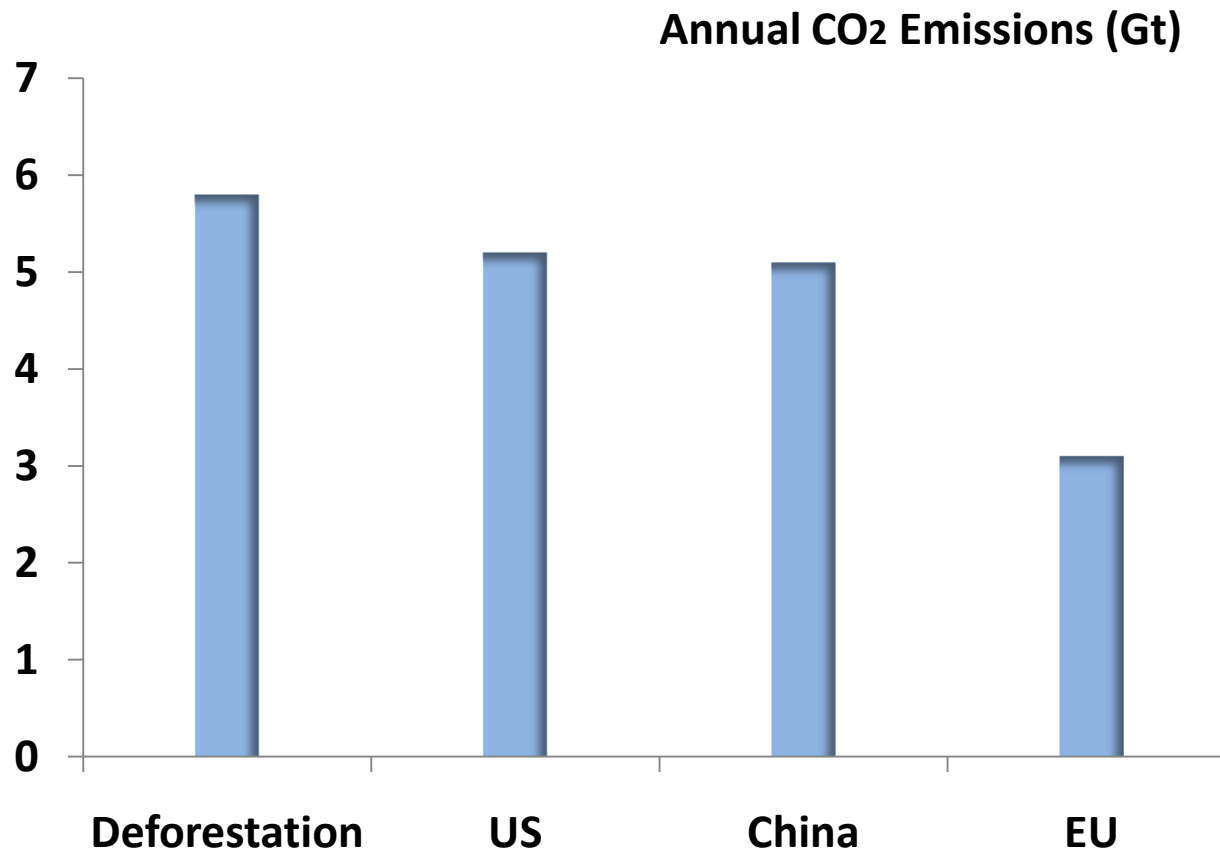
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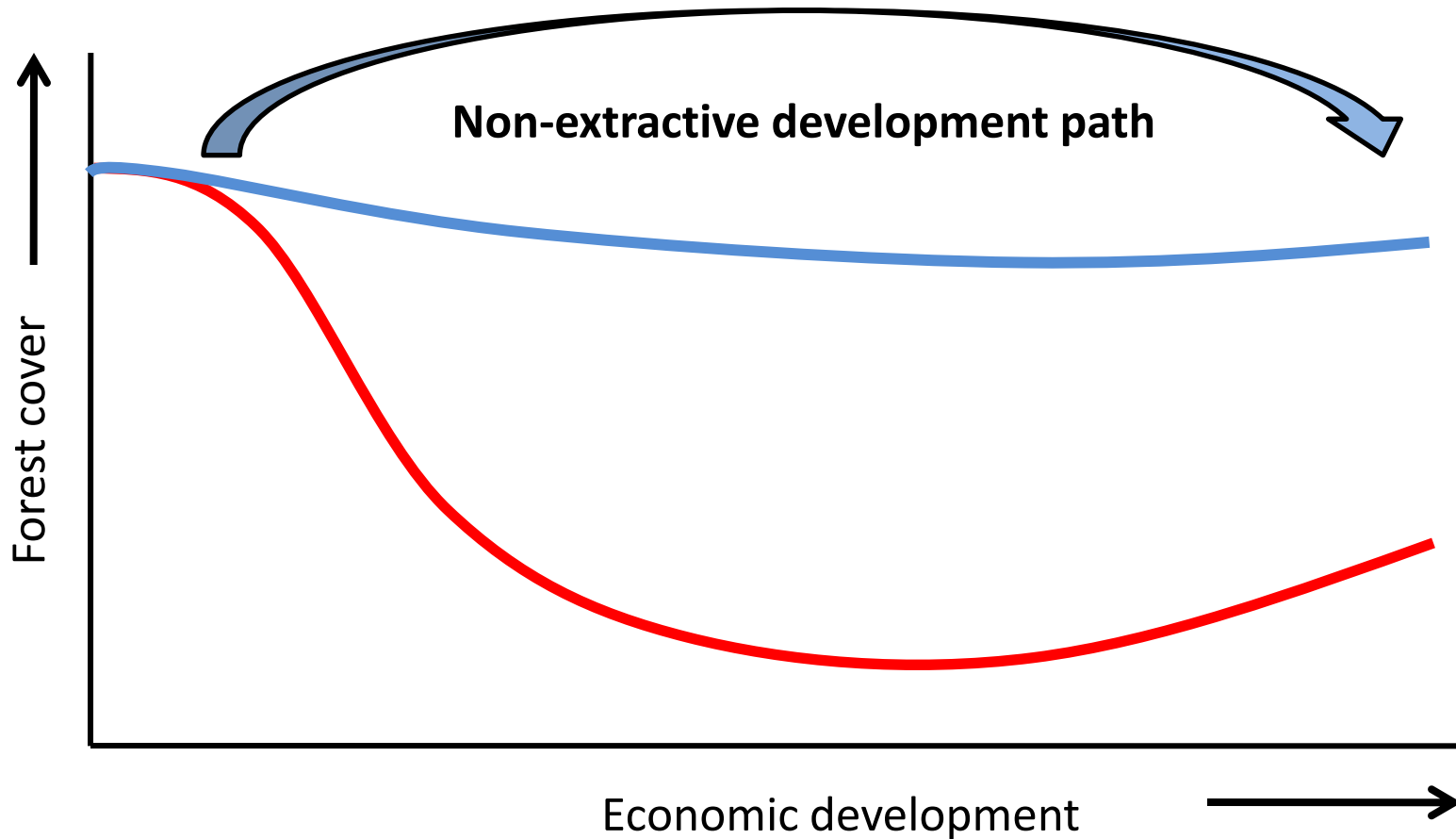
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Investment in forestry is a political priority: REDD+



REDD+ could catalyse economic transformation

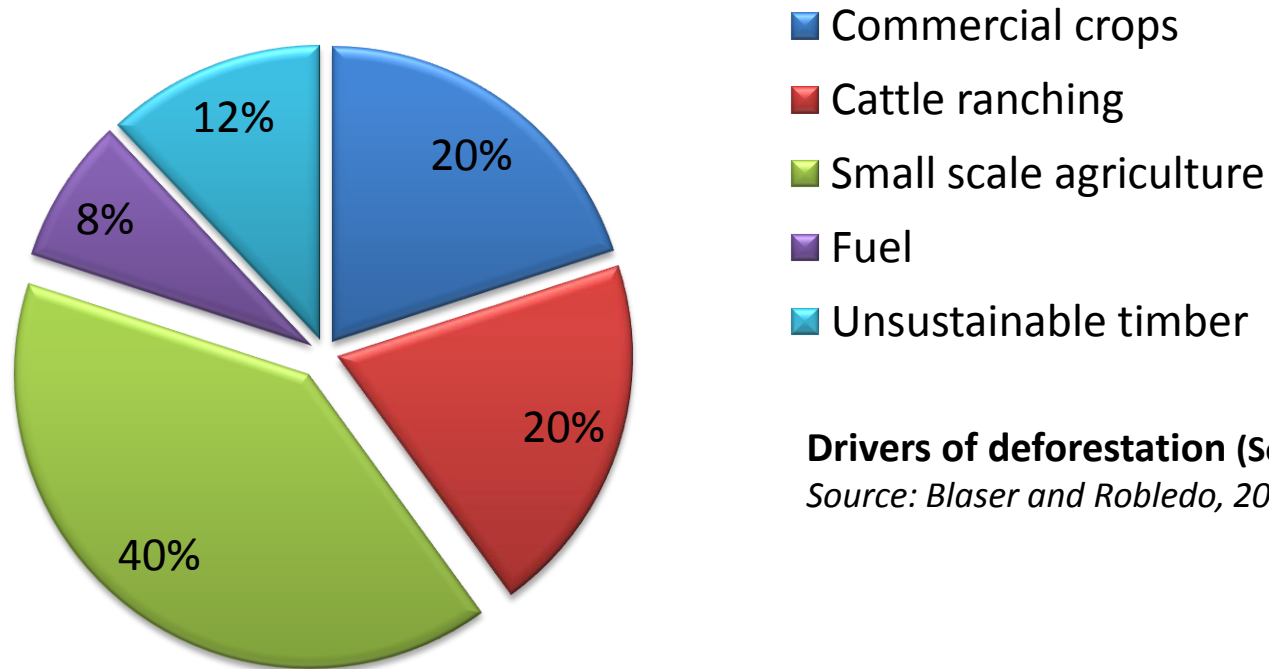


But REDD+ could be reversed if economies stagnate

- **REDD+ must foster sustainable private enterprise**
- **1.8 billion live in tropical forest biomes**
- **1.2 billion live in rural areas**
- **Forestry contributes more than 10% GDP in poorest countries**



Land-based commodities must be produced sustainably



Drivers of deforestation (South America)

Source: Blaser and Robledo, 2007

○ **Population growth and higher living standards will increase demand**

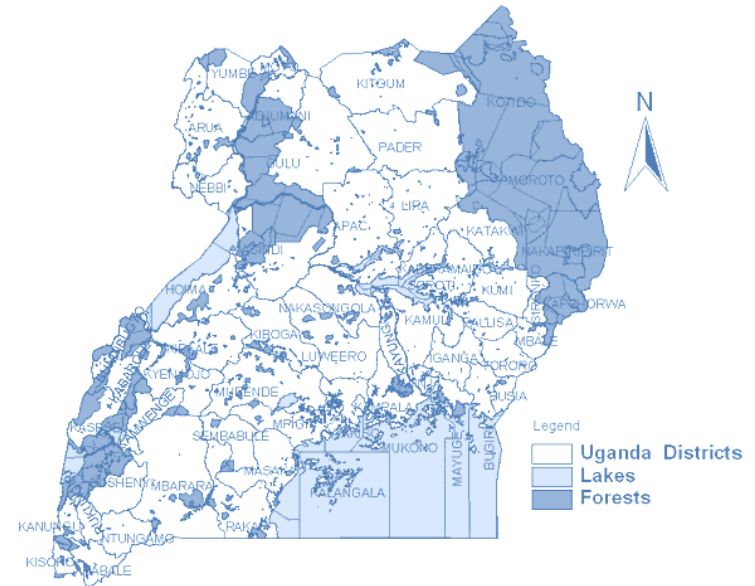


How much investment? Uganda

- **Deforestation drivers:**

 - Agricultural expansion

 - Fuel wood



- **Uganda identifies need for 500,000 ha sustainable plantations**

 - \$1 billion plus?

 - ...and agricultural modernisation etc.

- **Current planting rates c5,000ha a year**



Tropical forestry returns

Country	Project	IRR
Thailand	Teak and agarwood	18%
Peru	Sustainable forestry and sawmilling	25%+
China	Fast growing high yield plantations	20%
Laos	Teak plantations	15-17%



Tropical forestry is wholly underinvested

- **Global institutional investment in forestry: \$50 billion** (DANA)
- **TIMO investments: \$35 billion (80% in USA)**
- **IFC: \$3 billion**
- **More than 90% of forestry investments are private** (Tomaselli)
- **Less than \$1 billion/year Official Development Assistance for tropical forestry**



Investment potential

Type	Fund	Assets
Pension	Government Pension Investment Fund (Japan)	\$1,303 billion
Pension	ABP (Netherlands)	\$225 billion
Sovereign	Abu Dhabi Investment Authority (Abu Dhabi)	\$627 billion
Sovereign	Government Pension Fund (Norway)	\$440 billion
Wealth manager	Bank of America / Merrill Lynch WM	\$1,700 billion
Wealth manager	Citibank Global WM	\$843 billion



Barriers to forestry investment in developing economies

- **High risk perception of long-term investment**
 - **Land tenure**
 - **Political stability**
 - **Weak institutions and regulatory frameworks**
 - **Human rights**
 - **Reliance on local markets**

- **Limited capacity to absorb investment**
 - **Shortage of suitable local partners**
 - **Small and medium sized enterprises**
 - **Skill shortage**



The high cost of bank finance

Country	Lending Rate
Laos	28.5%
Argentina	28.0%
Peru	24.1%
Uganda	19.1%
Nigeria	16.9%

Commercial bank lending rates to prime borrowers

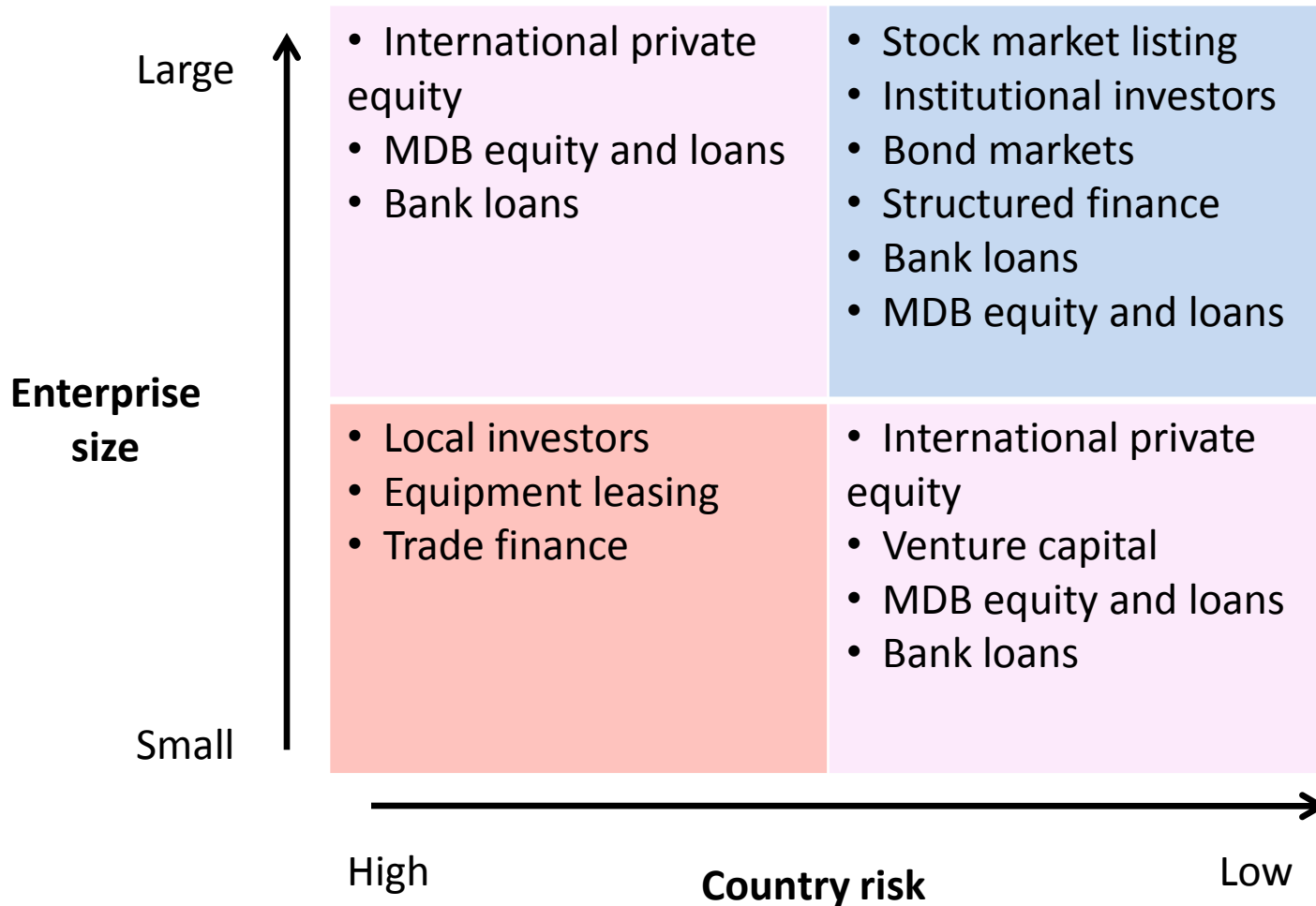
(CIA World Factbook Dec 2007)



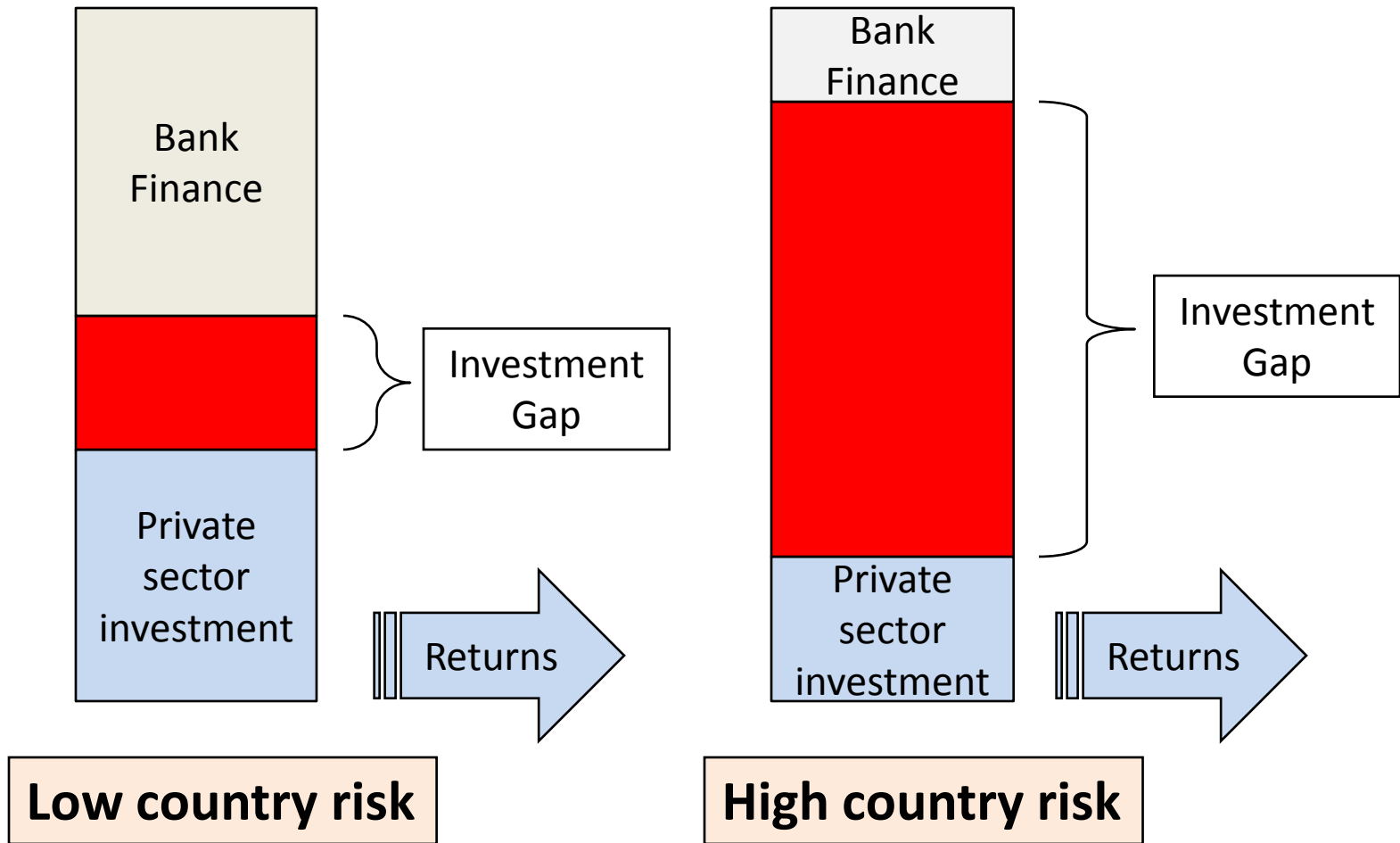
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Fewer investors for small enterprises in weak economies



The investment gap – same project, same returns



Bridge the investment gap

- **National action plans**
 - **Create viable deal flow**
 - **Identify local partners**
 - **Build technical capacity – forestry and business**
 - **Reduce bureaucracy and excessive regulation**
 - **Build capacity in local financial institutions**



Bridge the risk gap – enhanced mandate for MDBs

- **Enhance Multilateral Development Banks' role:**
 - **Debt provision – especially long-term loans**
 - **Insurance – for political and land tenure risks**
 - **Credit enhancement – to facilitate access to trade finance**
 - **Equity co-investment – cornerstone funds**
 - **Finance for small and medium sized enterprises**



Bridge the knowledge gap

- **Enhance investor relations – including international banks**
 - **Characteristics of tropical forestry investment**
 - **Improve price transparency**
 - **Share research**
 - **Accounting treatment e.g. IAS 41**
 - **Promote country plans**



Bridge the markets gap

- **Correct market failures**
 - **Public support ahead of fully functioning carbon markets**
 - **Long-term carbon framework agreements**
 - **Reduce transaction costs**
 - **Strengthen price signals for sustainable products**
 - **Build capacity in local banks**
 - **Share technology**
 - **Support innovation**



**“People always overestimate what they can do
in one year and underestimate what they can
do in ten”**

Bill Gates



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