Private Forest Financing Flows

Review of constraints, challenges, opportunities, and the way forward
- preliminary findings from an on-going study
Data availability and key challenges

• Forest sector specific investment data available for FDI and plantation investments
• FDI flows in public databases generally over stated, double counting
• FDI cross-country comparisons indicative at best
• Sector specific information is not entirely accurate
• Data on investments in forestry less scarce than for forest industry
Private sector investments dwarf ODA

- Private sector greenfield investments into plantations and processing in the forest sector clearly higher than forestry ODA
- Only in Africa forestry ODA is a significant source relative to private sector investments

Data combined from ECLAC, Indufor Plantation Databank, OECD
Global forest plantation investments

- Few countries in Latin America receive majority of plantation investments
- Private sector plantation greenfield investment is estimated at minimum around USD 1 800 million in 2011
World forest industry FDI flows to developing countries

- FDI flows to developing countries have increased significantly
- FDI flows to developed countries have decreased drastically
- Overall the FDI flows doubled

![Graph showing FDI inflows to processing of wood, pulp and paper](data:image/png;base64,iVBORw0KGgoAAAANSUhEUgAAAIoAAAD2CAMAAAAuGvAdAAAAGXRFWHRTb2Z0d2FyZQBBZG9iZSBJbWFnZVJlYWR5ccllPAAAArBElEQVR42uT4gqROiQjAAAAABJRU5ErkJggg==)

Data by UNCTAD
Constraints:
Forest sector investment environment (1/2)

- **Weak forest sector governance** - Opaque system of issuing concessions, corruption and weak enforcement of legislation act as investment barriers to more responsible companies
  - E.g. in Liberia some international investors decided not to enter to bidding on concessions due to the governance concerns

- **Red tape** – Delays in permit systems, linked often to corruption
  - E.g., in case of Russia these have lead foreign investors to favor M&A of existing assets rather than greenfield investment

- **Information is inadequate**
  - e.g. only 25 countries have frequently updated forest inventories
Constraints:
Forest sector investment environment (2/2)

- **Tenure insecurity** - Risks of land and resource conflicts because of weak (forest) land tenure and inadequate enforcement of property rights
  - E.g. in Laos land conflicts growing as concessions are given without consulting local people and addressing traditional rights

- **Perverse incentives** – Financing is more easily available for competing and/or unsustainable land uses
  - E.g. in Malawi domestic banks’ lending forest-related financing is available for short-term exploitation of forest resources but not for sustainable plantation investment

- **Technical capacity**
  - both business and forestry; local networks weak
Case Brazil
Key lessons from Brazil

• Besides favourable policies, **key factors** have been
  ➢ Good growing conditions
  ➢ State-of-the-art plantation technology and overall R&D
  ➢ Investments in enabling infrastructure
  ➢ Access to markets, including rapidly expanding domestic industry

• **Key lessons**
  ➢ Public incentives in plantation establishment and industrial development can accelerate investments; incentives should be performance based and inclusive covering small, medium and large tree growers
  ➢ Private sector investments can drive small- and medium scale tree growing with significant social development
  ➢ Private sector investment in plantation needs to complemented with strong environmental and social regulation
Case Malawi
Perverse incentives in the financial sector

• In late 2000s the Malawi’s financial sector was liberalized which resulted in improved access to financing

• Forest-related financing is also available but mainly for short-term exploitation of forest resources ➔ short-term profit based on exploiting forests unsustainably, not for sustainable plantation development

• Domestic debt financing is available interest rates are high (up to 40%) and loan pay-back periods very short (from 6 months to 2-3 years) ➔ barrier to private investment
Case Malawi
Looking outside the box

• Positive developments based on private sector investment taking place
  ➢ One of the biggest tobacco companies using USD 4 million/yr. for forestry operations; 4x Forest Department plantation expenditure and 2x total budget
  ➢ Tobacco and bioenergy companies developing plantations without link to the Forest Department, using their own staff, and prefer minimum meddling from government’s side
THANK YOU