IFC Investments in the Forest Product Sector: A Global Perspective

We promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives.

Ole C. Sand, Ph.D.
Beijing, September 23, 2004
**ICF - Private Sector Arm of the World Bank Group**

- Largest source of loan and equity financing for the private sector in emerging economies: Since 1956, over $60 billion invested in 3,000+ companies in 140 developing countries
- Financial Highlights (June 30, 2003)
  - Total Assets at US$31.5 billion
  - Total Capital at US$6.8 billion
  - Operating Income US$528 million
- Committed portfolio $23.4 billion (June 30, 2003), of which
  - IFC’s own account US$16.8 billion
  - B-loans US$6.6 billion (over 200 participants)
- AAA/Aaa Rating
- IFC Homepage: [www.IFC.org](http://www.IFC.org)
IFC’s Forest Products Sector (FPS)

- IFC has over 40 years of experience in the FPS
- Global experience and dedicated team of professionals
- Two in-house engineers with combined experience of over 60 years in sectors
- Total commitments in FPS about $1.7 billion, financing Projects worth over $5 billion
- IFC investment instruments:
  - Long-term debt 76%
  - Equity & Quasi-equity 20%
  - Risk mitigation instruments 4%
FPS Commitments History (+ Est. FY05)

IFC forest lending (FY92-FY05)

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<td>45</td>
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<td>41</td>
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US$ million

FY
Demand for Paper and Paperboard
Growth Lead by Emerging Markets

Growth Rates 2000-2015
Emerging markets
CAGR 3.9%
Mature markets
CAGR 1.3%

Source: Jaakko Poyry
Fiber Sources in Paper:

Wood (of which 1/3 Plantations)          54%
Wastepaper (RCP)                                40%
Non-wood fiber                                       6%
## Forest Plantation Area by Region (Year 2000)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total forest area (mill. ha)</th>
<th>Natural forest area (mill. ha)</th>
<th>Plantation area (mill. ha)</th>
<th>Plantations as % of forest</th>
<th>% of World plantation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>650</td>
<td>642</td>
<td>8</td>
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<td>4</td>
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<tr>
<td>Asia</td>
<td>548</td>
<td>432</td>
<td>116</td>
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<td>N&amp;C America</td>
<td>549</td>
<td>532</td>
<td>18</td>
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<tr>
<td>Oceania</td>
<td>198</td>
<td>194</td>
<td>3</td>
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<td>South America</td>
<td>886</td>
<td>875</td>
<td>10</td>
<td>1</td>
<td>6</td>
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<tr>
<td>World Total</td>
<td>3 869</td>
<td>3 682</td>
<td>187</td>
<td>5</td>
<td>100</td>
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</tbody>
</table>

Source: FRA 2000
Top 10 Countries ~ 80% of all plantations

Source: FRA 2000
Sustainability is a key driver for IFC’s FPS

1. Financial and economic viability (IRR and ERR)

2. Environmental aspects
   - Sustainable Forest Management
   - Pollution control
   - Energy and resource efficiency and conservation

3. Social impact
   - Employment
   - Social profile of Company and Sponsor

4. Corporate Governance

5. See www.IFC.org for *World Bank Environmental and Social Guidelines* (note the Equator Principles)
What IFC Looks for in a Project?

• Sector with good growth & sustainability potential

• Company with
  – good existing market share
  – good profitability
  – strong management team
  – good strategic vision

• Strong Sponsor that stands behind the project and is willing to support it

• Conservative financial plan (e.g., DSCR and D/E ratio)

• Security (e.g., fixed assets and support from Sponsor)
World Bank /IFC Collaboration in the Forest Sector

• Since 1980 World Bank investment in forest conservation and management $5 billion spread over 60 countries

• Revised Forest Policy of 2002 places major emphasis on role of the Bank in creating an enabling environment for private sector investment

• Bank proactively seeking to partner with companies committed to social and environmentally responsible forest management
All IFC Projects in Forest Sector

• Embrace World Bank goals of poverty alleviation and protection of the global environment

• Follow World Bank Safeguard Policies relating to environmental assessment, natural habitats, indigenous people and forests

• Ensure that harvesting activities or plantation developments of IFC client companies do not cause conversion of critical natural habitats

• That all natural forests or plantations over which client companies have management control must be independently certified according to internationally accepted principles and criteria for sustainable forest management (See World Bank O.P. 4.36)
IFC’s Investment Focus in China

1. Fiber source key (sustainability)
   a) Plantations:
      • Integrated P&P or wood panel companies, with either own plantations or as part of a farm forestry program
      • Large (50,000 + ha) stand-alone plantations without downstream activities can also be considered in China given the fiber shortage
   b) Clean technology for non-wood pulping
   c) Recycled paper integrated with paper mill (increasing the domestic recovery rate)

2. Downstream activities without own fiber supply (wood panel, paper, tissue, corrugated, box, sack, other converting)