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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

IFC - 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

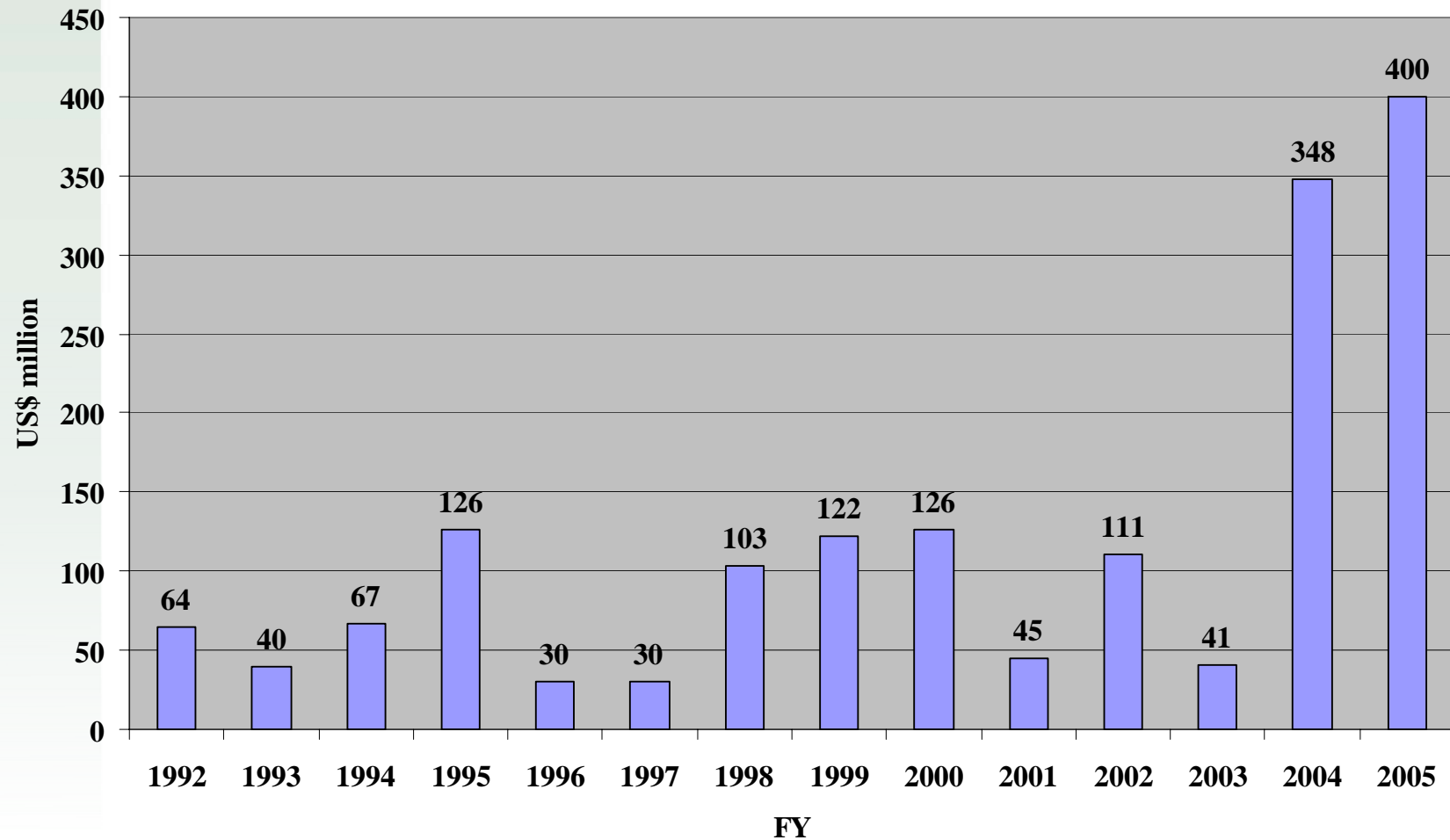
IFC's Forest Products Sector (FPS)

- 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)



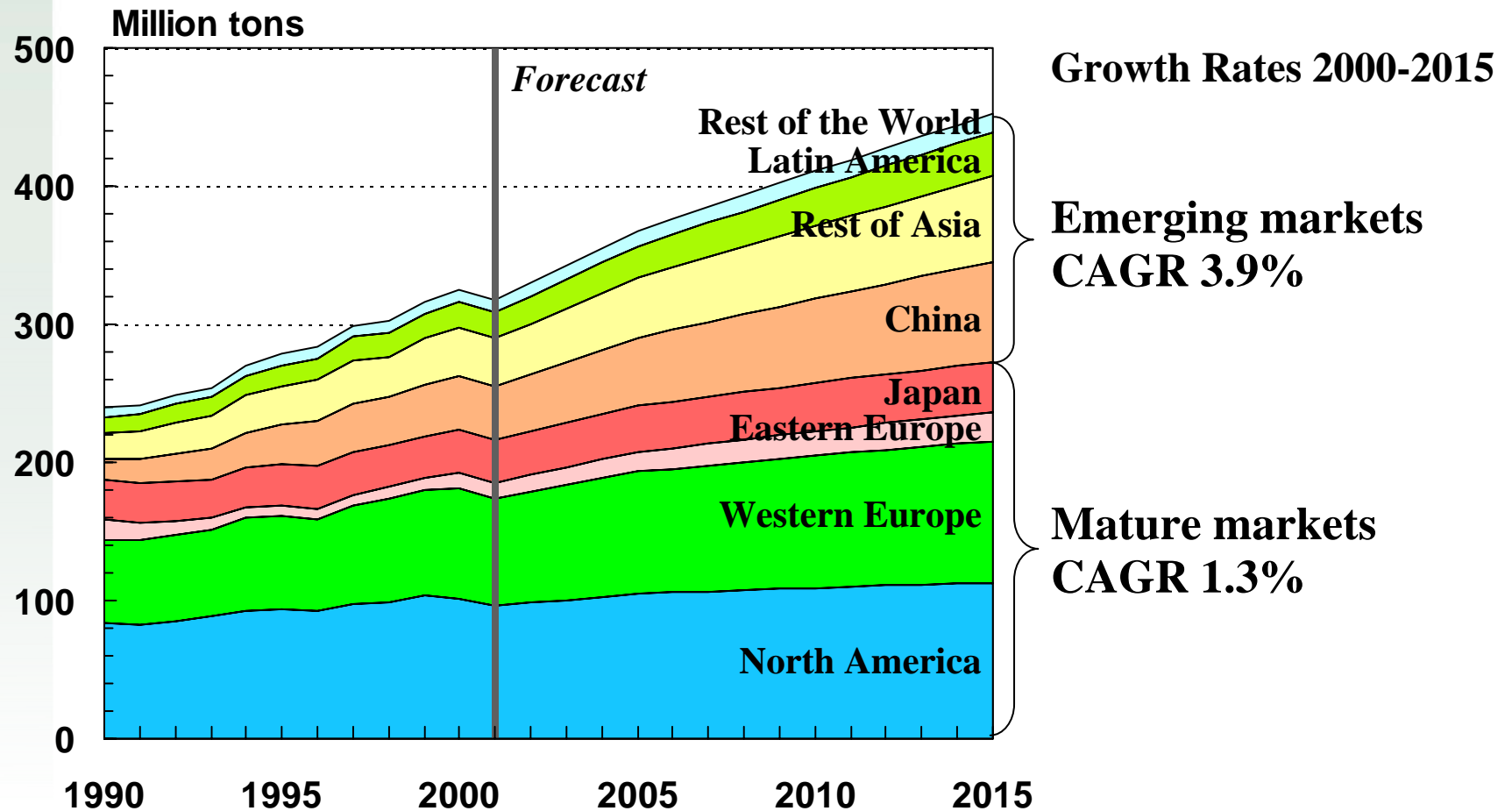
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Demand for Paper and Paperboard

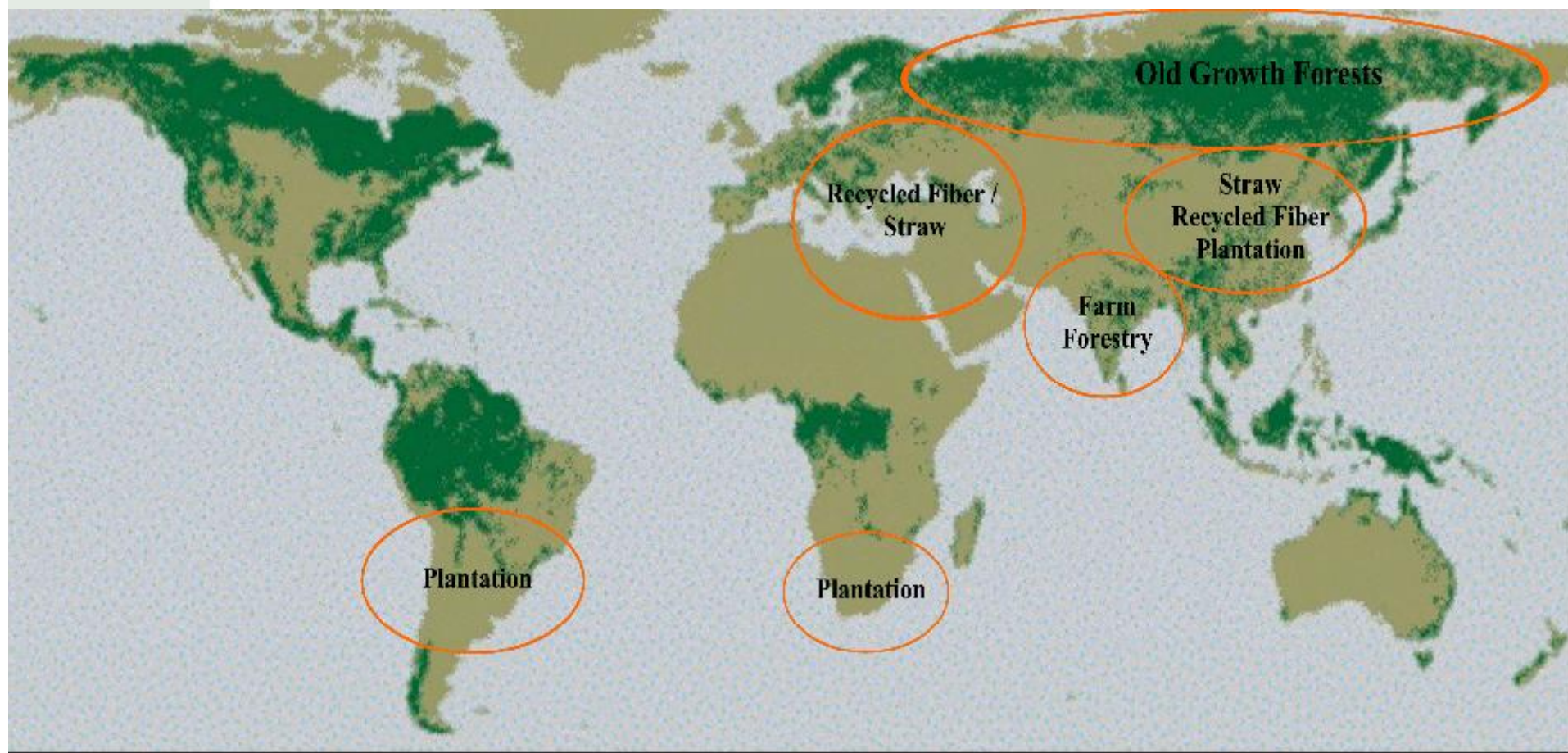
Growth Lead by Emerging Markets



Source: Jaakko Poyry

Fiber Sources in Paper:

Wood (of which 1/3 Plantations)	54%
Wastepaper (RCP)	40%
Non-wood fiber	6%



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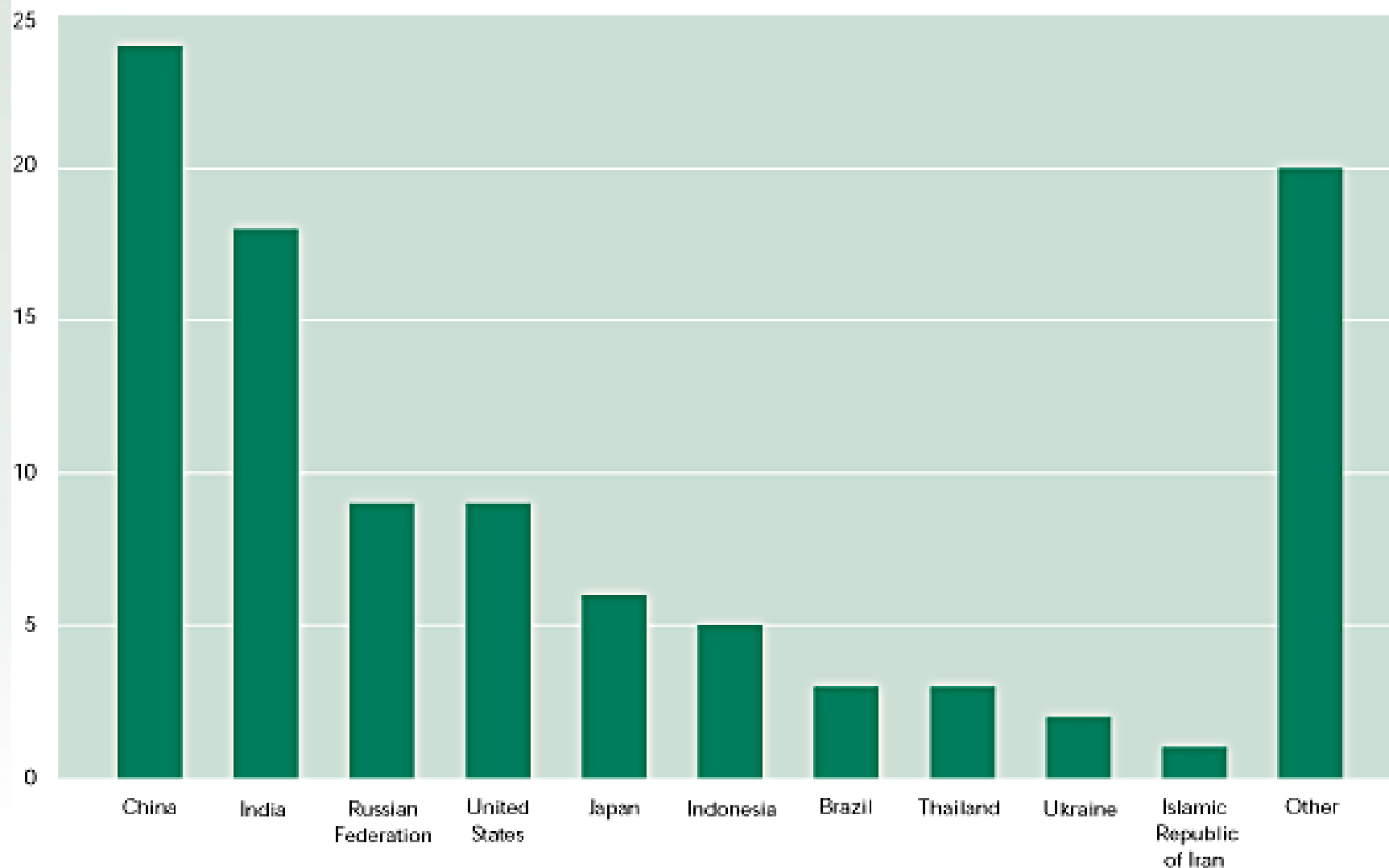
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Forest Plantation Area by Region (Year 2000)

Region	Total forest area (mill. ha)	Natural forest area (mill. ha)	Plantation area (mill. ha)	Plantations as % of forest	% of World plantation
Africa	650	642	8	1	4
Asia	548	432	116	21	62
Europe	1 039	1 007	32	3	17
N&C America	549	532	18	3	9
Oceania	198	194	3	2	2
South America	886	875	10	1	6
World Total	3 869	3 682	187	5	100

Top 10 Countries ~ 80% of all plantations

% of total global plantation area



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)



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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)