Private foreign direct investment (FDI) in the forest sector considerably exceeds public official development assistance (ODA). In recent years, forest financing has been characterized by an increase in FDI into developing countries to approximately US$8-10 billion a year, and a decline in ODA to about US$1.75 billion a year. However, current levels of investment in the forest sector, both domestic and foreign, fall far short of investment requirements necessary to realize the potential of well-managed forest resources to contribute to poverty alleviation, the protection of vital environmental services, and sustainable economic growth in developing and transition countries.

To address this issue, the Forest Investment Forum brought together 150 senior executives of domestic and multinational forest product companies, private and public sector financial institutions, and leading conservation agencies from around the world. Organized jointly by the World Bank, the International Finance Corporation (IFC), World Business Council for Sustainable Development (WBCSD), WWF, the Program on Forests (PROFOR), and Forest Trends, the forum set out to:

- Identify opportunities for investments in environmentally and socially sustainable forestry in developing and economic transition countries;
- Consider actions that the World Bank Group and Forum participants could take to create an enabling environment for responsible private sector investment; and
- Explore the willingness of forum participants to support a process to develop clearly defined and mutually compatible social, economic and environmental investment guidelines specific to the forest sector.

This publication includes a summary of workshop proceedings as well as an analysis of opportunities and key constraints to environmentally and socially responsible private sector investment in the forest sector.
Overcoming Constraints to Private Sector Investment in Socially, Environmentally, and Economically Sustainable Forest Management: Perspectives of Leading Forest Industrial Companies, Conservation Agencies, and Financial Institutions

Constraints to Responsible Private Sector Investment

Insecurity of Raw Material Supply and Political Instability

Illegal Logging and Forest-Related Corruption

Lack of Environmental Assessment Procedures and Safeguard Policies

Lack of Consensus on Independent Certification

Differing Strategies for Protecting HCVFs

Ongoing Debate on the Impacts of Plantation-Based Forestry

Underdevelopment of Markets for Forest Environmental Services

Constraints to Investment in Small-Scale Enterprises

Emerging Investment Opportunities: Proposals for Follow-Up Action

Investment Forum Reference Materials and Information Sources

Certification

Environmental Assessment Procedures and Safeguard Policies

Illegal Logging and Corruption

Markets for Forest Environmental Services

Plantations

Protecting High-Conservation-Value Forests

Security of Raw Material Supply

Small- and Medium-Size Forest Enterprises

Annex 1: Agenda

Annex 2: List of Participants

Forest Companies and Industrial Associations

Financing and Development Agencies

Nongovernmental Organizations and Policy Research Institutions

REPORT OF THE FOREST INVESTMENT FORUM
## Abbreviations and Acronyms

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<th>Description</th>
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Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFLEG</td>
<td>Africa Forest Law Enforcement and Governance</td>
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<tr>
<td>BCF</td>
<td>Biocarbon Fund (World Bank)</td>
</tr>
<tr>
<td>CEO</td>
<td>chief executive officer</td>
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<tr>
<td>CEPF</td>
<td>Critical Ecosystems Partnership Fund</td>
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<tr>
<td>CIFOR</td>
<td>Center for International Forest Research</td>
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<tr>
<td>COO</td>
<td>chief operating officer</td>
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<tr>
<td>CPF</td>
<td>Collaborative Partnership on Forests</td>
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<tr>
<td>CSA</td>
<td>Canadian Standards Association</td>
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<td>CSR</td>
<td>corporate social responsibility</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>ECA</td>
<td>export credit agency</td>
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<tr>
<td>ESSD</td>
<td>Environmentally and Socially Sustainable Development</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation of the United Nations</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<tr>
<td>FIN</td>
<td>Forest Integrity Network</td>
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<td>FLEG</td>
<td>Forest Law Enforcement and Governance</td>
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<td>FSC</td>
<td>Forest Stewardship Council</td>
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<td>GEF</td>
<td>Global Environment Fund</td>
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<td>GFW</td>
<td>Global Forest Watch</td>
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<td>HCVF</td>
<td>high-conservation-value forest</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>IDB</td>
<td>International Development Bank</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IIED</td>
<td>International Institute for Environment and Development</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ISO</td>
<td>International Standards Organisation</td>
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<tr>
<td>ITTO</td>
<td>International Tropical Timber Organization</td>
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<tr>
<td>MDB</td>
<td>multilateral development bank</td>
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<tr>
<td>NFP</td>
<td>national forest program</td>
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<tr>
<td>NGO</td>
<td>nongovernmental organization</td>
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<tr>
<td>ODA</td>
<td>official development assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<td>PCF</td>
<td>Prototype Carbon Fund (World Bank)</td>
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<td>PEFC</td>
<td>Pan-European Forest Certification</td>
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<td>PROFOR</td>
<td>Program on Forests</td>
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<tr>
<td>SFI</td>
<td>Sustainable Forestry Initiative</td>
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<tr>
<td>SFM</td>
<td>sustainable forest management</td>
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<tr>
<td>SMEs</td>
<td>small and medium-size enterprises</td>
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<tr>
<td>Acronym</td>
<td>Organization Name</td>
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<td>--------------------------------------------------------</td>
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<tr>
<td>TFD</td>
<td>The Forests Dialogue</td>
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<td>TI</td>
<td>Transparency International</td>
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<td>TNC</td>
<td>The Nature Conservancy</td>
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<tr>
<td>UNFF</td>
<td>United Nations Forum on Forests</td>
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<td>WBCSD</td>
<td>World Business Council for Sustainable Development</td>
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<td>WRI</td>
<td>World Resources Institute</td>
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<td>WWF</td>
<td>World Wide Fund for Nature</td>
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The Forest Investment Forum brought together nearly 150 senior executives of domestic and multi-national forest product companies, private and public sector financial institutions, and leading conservation agencies around the world. The objectives of the Forum were to:

- explore opportunities for private sector companies, the World Bank, the IFC and other financial institutions to invest in environmentally, socially and economically sustainable forest enterprises in developing and economic transition countries;
- explore actions that the World Bank Group and Forum participants could take to create an enabling environment for responsible private sector investment; and
- explore the willingness of forum participants to support a process that beyond the Forum, would encourage companies, financial institutions, and the conservation community to develop clearly defined and mutually compatible social, economic and environmental investment guidelines.

The host partners of the Forum—The World Bank, World Business Council for Sustainable Development, WWF, Forest Trends, IFC, and PROFOR—view the Forum outcomes very positively. Specifically:

- Strong recognition was expressed on the primary importance of sustainable management of forests in order to realize their potential to contribute to poverty alleviation, sustainable development, protection of environmental services of both local and global importance, and products that improve the quality of life. There was also strong agreement that containing illegal logging operations and forest corruption are essential prerequisites to achieving sustainability. It was further recognized that sustainability would depend heavily on establishing effectively managed protected area networks, and on environmentally and socially responsible management and development of both natural forests and plantation resources. There was agreement that achieving genuine sustainability in forests would require considerable investment in policy reform and institutional development, as well as addressing cross-cutting issues at a landscape level.

- There was agreement that expansion of demand for forest products, especially in developing countries, indicates that there is considerable likelihood of expanded investment in the forests sector in many developing regions of the world; major prospects among these are Russia, China, Brazil, and India.

- There is a growing convergence of interest between leading forest enterprises, financial
institutions—including commercial banks, investment funds, export credit agencies and the multilateral development banks—and conservation organizations, that investment in the sector must occur under a credible framework of safeguards and environmental assessment procedures, that can act as an incentive to responsible investment and a deterrent to unsustainable and destructive activities. Strong interest was also expressed in developing mechanisms for analysis and underwriting of political, social and environmental risks. The forum organizers welcome recent developments and progress in these areas.

There is a need to address issues such as the identification and protection of forests that are a high priority for biodiversity conservation; protection of the rights and resource interests of forest-dependent people; certification and other systems of independent verification of forest management performance; and the establishment and management of forest and agricultural tree-crop plantations.

It is clear that a great deal of work remains to be done in achieving consensus on the above issues, harmonizing the various safeguard initiatives presently under implementation or development, and also on the extension of the application of these to a broader range of investing groups.

There was strong recognition that forest investment will involve large and small scale investments, and that considerable potential exists for these investments to deliver significant benefits to farmers, small forest owners, local communities, and indigenous peoples. Nevertheless the financing of smaller scale forestry and wood processing requires further strengthening.

The importance of forest environmental services was recognized, and there was considerable discussion of problems and options for developing markets for these services and some recent examples of success and failures in this area.

There was strong support for a multi-stakeholder process involving major groups as the most effective way to continue building consensus in the above areas. Initiatives already launched by the World Bank/WWF Alliance, The Forests Dialogue (TFD), and the Forest Trends Katoomba Group could provide appropriate platforms for advancing these processes. Specifically:

- to assist in the establishment of investment guidelines and safeguards, the World Bank, WWF, WBCSD and Forest Trends will explore means to expand support to accelerate development of multi-stakeholder consensus and action on key sustainable forest management issues of high conservation forests, intensive forestry, illegal logging and forest crime, and certification;
- to support cost-effective and credible third-party verification of performance, over the next 12 months the World Bank, WWF and WBCSD will catalyze creation of a core alliance of stakeholders to foster interaction and conflict resolution between certification systems.
- to explore opportunities that would provide funding at small scales and mechanisms that would strengthen the supply chain for small- and medium-sized enterprises.

This Forum has focused on opportunities and challenges to private sector investments and on how the Forum sponsors can help to support responsible investments. However, it is clearly recognized that as this collaborative dialogue moves to the country level, it will be crucial to involve both local communities and Governments to ensure that the initiatives being discussed contribute to National Forest Development Plans. There will clearly be a role for other organizations and intergovernmental groups such as FAO, UNFF, ITTO.
Private foreign direct investment (FDI) in the forest sector considerably exceeds public official development assistance (ODA). Forest financing in recent years has been characterized by an increase in FDI into developing countries to approximately US$8–10 billion a year, and a decline in ODA to about US$1.75 billion a year. Current levels of investment in the forest sector, both domestic and foreign, fall far short of the level necessary to realize the potential of well-managed forest resources to contribute to poverty alleviation, the protection of vital environmental services, and sustainable economic growth in developing and transition countries.

To address the issue of investment in the sector, the Forest Investment Forum brought together 150 senior executives of domestic and multinational forest product companies, private and public sector financial institutions, and leading conservation agencies from around the world. Organized jointly with the World Business Council for Sustainable Development (WBCSD), the World Wide Fund for Nature (WWF), Forest Trends, the International Finance Corporation (IFC), and the Program on Forests (PROFOR), the forum set out to:

- identify opportunities for investments in environmentally and socially sustainable forestry in developing and economic transition countries;
- consider actions that the World Bank Group and forum participants could take to create an enabling environment for responsible private sector investment; and
- explore the willingness of forum participants to support a process to develop clearly defined and mutually compatible social, economic, and environmental investment guidelines specific to the forest sector.

OPENING REMARKS

James Wolfensohn, President, World Bank Group, welcomed forum participants, stating that “the future of forestry as a sustainable and environmentally sound area is key for both life and for advancement of the fight against poverty and the maintenance of biodiversity.” He emphasized the importance of the private sector in creating a sound forest sector and thus the need to continue building partnerships between the private sector and the Bank.

Odd Gullberg, Chief Operating Officer (COO), WBCSD, highlighted WBCSD’s commitment to
bringing businesses, government, and civil society closer together on key environmental and social issues, and said actions of the key stakeholders in the forum would “shape how the world’s forests are managed for current and future generations.”

Claude Martin, Director General, WWF International, discussed the successful and unique partnership of the World Bank/WWF Alliance and highlighted its work in concession reform, illegal logging, and timber tracking. He said governance and illegal logging are issues central to improving forest management in many parts of the world, and advocated that all investment projects that impact forests—whether carried out by development banks, aid agencies, commercial banks, export credit agencies, or others—apply safeguard policies to ensure that they do not threaten the world’s forests.

**KEYNOTE ADDRESSES**

Kevin Cleaver, Director of the Agriculture and Rural Development Department, World Bank, chaired this session that explored different perspectives on the increasing demand for wood products, on the appeal of timber investments, and on the environmental and social safeguards that should be adopted by industry.

**Global Forest Trends**

Rainer Häggblom, Chief Executive Officer (CEO), Jaakko Pöyry Consulting, presented an overview of trends in global forest product consumption and fiber supply.

The demand for wood fiber is increasing, with industry alone expected to need 1.9 billion cubic meters per year by 2015. Demand for paper making fiber is projected to increase by 126 million tons, with recovered paper expected to meet approximately 70 percent of that demand. Hardwood production, primarily of fast-growing varieties, is tending to move to the southern hemisphere, but northern hemisphere natural coniferous forests, particularly in Russia, continue to be competitive suppliers of softwood. Recovered paper supply is tight, raising the demand for hardwood.

In the southern hemisphere and in China, fast-growing plantations are the key trend for the future of fiber procurement. This shift of focus from natural forests to plantations is due both to their greater competitiveness and to environmental reasons. Developing countries such as Argentina, Brazil, Chile, China, Indonesia, and South Africa can be expected to become increasingly important world producers.

Häggblom suggested that the World Bank support growth by (a) mitigating risk; (b) committing resources to get projects off the ground; (c) providing a clear vision on environmental and social objectives; (d) communicating a broad global agenda on issues such as carbon sequestration; and (e) building cooperation among industry, government, and local interests.

**Timberland Investment**

Clark Binkley, CEO, Hancock Natural Resources Group, summarized why institutions are attractive owners of timberland, why timberland is attractive to institutions, and what the World Bank can do to attract institutional investment.

Binkley identified private investment funds as attractive because they require long-term assets, are focused on total economic returns, hold trillions of dollars of capital for investment, and typically represent the broad public. In turn, timberlands are attractive to institutional investors because they have strong cash yields, are of low to moderate risk, provide portfolio diversity, and preserve capital. The average annualized return for US timberland during the period 1960–2002 was 12 percent. Non-US investments with a high-risk profile generally require a higher return. In this context, the World Bank should help to reduce the risk of timberland investment in client countries by (a) improving policies, institutions, and legal frameworks; (b) supporting technical assistance; (c) helping to privatize; and (d) working to create markets for environmental services.

**Best-Practice Guidelines for Forest and Forest Industry Investment Policies**

Duncan Pollard, Head of the European Forest Program, WWF International, overviewed the WWF’s work with industry over the last decade and its emerging work with the financial sector.

Pollard identified export credit agencies (ECAs) as the largest source of public international finance, providing US$500 billion/year. He highlighted the nongovernmental organization (NGO) communi-
ty’s call for reform of ECAs with the May 2000 Jakarta Declaration, which was signed by 347 NGOs from 45 countries. He also drew attention to the 2003 Collevecchio Declaration, which calls on financial institutions to commit to the six principles of sustainability, “do no harm,” responsibility, accountability, transparency, sustainable markets and good governance. WWF is developing guidelines for investment in operations that impact forests. These guidelines address the issues of: (a) respect for national laws and international conventions; (b) forest management, conservation, conversion, and community-based operations; (c) environmental management; (d) respect for the rights of local communities and indigenous peoples; and (e) labor codes and standards.

PANEL DISCUSSIONS

During the forum, panel discussions were held on the following themes: the perspectives of industry; the perspective of conservation organizations; the perspective of financial institutions; experience from business–community partnerships; and experiences with financing forest environmental services. These discussions are summarized below.

Industry Perspectives

Scott Wallinger, Senior Vice President, MeadWestvaco Corporation (United States), and panel chair, said industry makes decisions based on individual strategy in the context of market demand, competitiveness, risk, the cost of capital, and the ability to make a profit. He noted that approximately 75 percent of harvesting in the Amazon and Indonesia is illegal, posing significant competition for legal operators. He also suggested that there is a need to find ways to conserve biodiversity and high-conservation-value forests (HCVFs) within managed forests.

David Bailey, Vice President, International Paper (Eastern Europe Division), spoke about the need to promote the development of local processing to create jobs and add value to exports. He said
International Paper’s operations in Russia are International Standards Organisation (ISO)-certified and set an example for good practices. He said illegal operators with short time horizons distort market prices for timber, making it difficult for responsible companies operating legally to be competitive and discouraging investment in sustainable forest management (SFM). He stressed the need for an enabling environment that encourages good decision-making on investments.

Zachary Smushkin, Chairman, ILIM Pulp Enterprise (Russia), said demand for pulp and paper products is increasing in Russia as well as in China, to which Russia is the primary exporter. He noted also the shift of pulp and paper production to less developed countries with lower labor costs and abundant resources. He identified trends in Russian production as including a greater focus on processing; changes in the forest code; an evolving role in the forest sector for government, either as regulator or regulator and participant; and growth in the number of Russian NGOs. He noted also that many forest sector workers have lost their jobs, and suggested that either operations should be expanded or that these workers be assisted in their search for alternative work.

Daniel Spitzer, CEO, Plantation Timber Products (China), overviewed the situation in China, noting the massive size of the emerging markets for pulp, paper, and other forest products. While there is no shortage of financial capital in China, there is a lack of technical and management expertise. China has the largest plantation program in the world and China’s goal is to become self-sufficient in wood supply. Spitzer noted also that there is a growing awareness in the country of the importance of conserving biodiversity and mitigating climate change.

Kevin Lyden, President, UPM Kymmene, said establishing a modern pulp mill can cost the better part of US$1 billion, and commented that investment on this scale can come only from global corporations or from joint ventures involving local partners and development banks willing to cover the risk. He described a joint log tracking scheme between UPM Kymmene and Axel Springer, a German publishing company. The tracking system enables Axel Springer to guarantee to its customers that the paper products they purchase were derived from legal sources and from forests that have been independently certified as being under sustainable management. He also illustrated how the adoption by UPM Kymmene of corporate social responsibility (CSR) principles is helping to raise awareness of issues relating to labor rights, health care, and other needs.

Thierry de Mont Marin, Deputy CEO, Africa Development Division, Bollore Group, emphasized that poor regulation and law enforcement are an obstacle and disincentive to legal operators, whose observance of the law incurs for them higher operating costs than those of the illegal operators with which they must compete.

Elizabeth Bjorklund, President of Wood Supply for Europe, Store Enso, said there are many ways of investing in sustainable forestry and therefore of supporting sustainable development. She strongly supported the need to achieve consensus agreement on certification, and emphasized the need to verify the legality of industrial log supply. She also contributed a Stora Enso perspective on the need to strengthen private woodland owner associations, especially in the Eastern European region.

Several industry panelists expressed their support for The Forests Dialogue (TFD), a multistakeholder forum for working toward consensus on strategies for addressing difficult policy issues (see Box 1).

**Conservation Community Perspectives**

Nigel Sizer, Director for the Asia Pacific Program, The Nature Conservancy (TNC), chaired this panel. He noted that TFD had met in October 2003 in Brazil to discuss issues related to forestry and biodiversity. He confirmed that from a TNC perspective, the three key themes of the forum—the containment of illegal logging, forest governance, and investment safeguard policies—fit well with what TNC is attempting to address through its projects in Indonesia and elsewhere.

Richard Donovan, Director, the Rainforest Alliance, discussed how to “hardwire” social and environmental values, and suggested that certification is one tool that achieves this goal. Positive outcomes from certification operations undertaken by the Rainforest Alliance in Brazil and other countries include the adoption by forest companies of reduced-impact logging; promotion of the High-Conservation-Value Forest (HCVF) concept; and social benefits such as the provision of worker housing and safety equipment.
Masya Spek of the Center for International Forest Research (CIFOR) summarized the findings of a CIFOR review of pulp and paper mill financing. She said that existing safeguards to promote the responsible financing of pulp mills (notably the Equator Principles; see Box 2) do not capture the high proportion of pulp mill financing that is negotiated in the international bond markets. She also noted that even should a financial institution wish to apply the Equator Principles as a screen, the information necessary to do so is not disclosed. She recommended that the pulp industry disclose more information to investors, and urged all financial institutions to withhold funding from pulp mills unless they are certain adequate fiber supplies are available from sustainable and independently certified sources.

Kenneth Rosenbaum of the Forest Integrity Network (FIN) explained that FIN, a Transparency International (TI) initiative, is working to audit companies and to identify corruption. FIN is in the process of testing the potential applicability of TI anticorruption tools, such as Integrity Pacts and the publishing of Corruption Indices, to the forest sector. Through its newsletters FIN also is tracking other promising anticorruption initiatives (see http://www.transparency.org/fin/newsletter.htm).

Stephen Cox, Executive Director, World Resources Institute (WRI), emphasized the importance of data and information for decision-making, policy implementation, and monitoring. He described the WRI’s Global Forest Watch (GFW) network, which is designed to promote the sharing of information among organizations and institutions. For example, GFW studies in several West African countries are providing a picture of the extent and impact of logging operations, enabling the identification of areas where such operations are encroaching on protected areas or are spreading into forest areas that fall outside government-authorized timber concessions.

Jon Son, International Policy Analyst, Friends of the Earth, focused on the need to reform ECAs, as recommended by the 1999 Jakarta Declaration, and on the need for ECAs to adopt environmental and social standards. He drew attention to the weakness of institutional mechanisms for monitoring the impact of safeguard policies. Efforts such as the recent adoption by many commercial banks of the Equator Principles will make little impact unless the banks develop the capacity, internal or outsourced, to monitor the compliance of client companies with these safeguards. Son commented that indigenous leaders and communities were absent from this forum and should be included in any future forum discussions.

Duncan Pollard, WWF, said illegal logging in some places occurs because governments do not

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**BOX 1**

**The Forests Dialogue**

In 1999 separate initiatives by the WBCSD, the World Bank, and the World Resources Institute merged to form The Forests Dialogue as a forum at which the private sector and civil society might discuss of issues related to SFM. TFD focuses on the following priority issues for its multistakeholder dialogues:

- forest certification;
- forest and biodiversity conservation;
- illegal logging and forest governance;
- intensive forest management (a vision for world forests); and
- the potential contribution of forests to poverty alleviation.

TFD is supported by a secretariat at Yale University and guided by a steering committee that includes representatives of private landowners, the forest products industry, environmental NGOs, retailers, development agencies, and academia.

Source: TFD website: http://www.theforestsdialogue.org
provide adequate funds for forest management. He noted that many companies, including those that buy wood that is not certified as legally sourced, see illegal logging as a problem caused by others. Regarding certification, Pollard said mutual recognition is an outdated concept, and suggested as a way forward that standards be put in place for certification systems.

Financial Community Perspectives

Gavin Murray, Director, Environment and Social Development Department, International Finance Corporation (IFC), chaired this Panel. In his introductory overview he briefly summarized the IFC experience of developing and applying safeguard policies that most recently have triggered the adoption by 16 commercial banks of the Equator

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**The Equator Principles**

The Equator Principles arose out of an October 2002 IFC-sponsored meeting on environmental and social issues in project finance, at which participating banks decided to develop an industry framework for addressing environmental and social risks in project financing. The Equator Principles were subsequently developed based on the policies and guidelines of the IFC and the World Bank.

In June 2003, the first 10 banks adopted the Equator Principles. These were ABN AMRO Bank, N.V.; Barclays PLC; Citigroup, Inc.; Credit Lyonnais; Credit Suisse Group; HVB Group; Rabobank; Royal Bank of Scotland; WestLB AG; and Westpac Banking Corporation. Together, these banks underwrote approximately US$14.5 billion of project loans in 2002, representing approximately 30 percent of the global project loan syndication market.

The banks will apply the Equator Principles to all loans for projects that have a capital cost of US$50 million or more. Loans will be provided only to those projects that comply with the comprehensive processes that are enshrined in the Equator Principles and that aim to ensure that projects are developed in a socially responsible manner and according to sound environmental management practices. In applying the Equator Principles, banks will categorize projects as A, B, or C (high, medium, or low environmental or social risk). For A and B projects, the borrower must complete an Environmental Assessment that addresses such issues as:

- sustainable development and the use of renewable natural resources;
- the protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems;
- the use of dangerous substances;
- major hazards;
- occupational health and safety;
- fire prevention and life safety;
- socioeconomic impacts;
- land acquisition and land use;
- involuntary resettlement;
- potential impact on indigenous peoples and communities;
- the cumulative impacts of existing projects, the proposed project, and anticipated future projects;
- the participation of affected parties in the design, review, and implementation of the project;
- consideration of environmentally and socially preferable alternatives;
- the efficient production, delivery, and use of energy; and
- pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions), and solid and chemical waste management.

Subsequently, and after appropriate consultation with affected local stakeholders, Environmental Management Plans will be prepared to address mitigation and the monitoring of environmental and social risks.

Source: http://www.ifc.org/equatorprinciples.
Principles. IFC has a long history of involvement in supporting forest-based industries, and many of the lessons learned from IFC experience with environmentally sensitive problems in other sectors and from its application of safeguard policies are likely to be of relevance to the forest sector.

Christopher Wells, Socially Responsible Investment Manager, ABN AMRO, said that in 2001 ABN AMRO developed and published a set of risk polices specifically targeted to the forest sector and covering a range of environmental safeguards, including pollution control in pulp mills, acceptable forest management practices, and guidelines for plantation establishment. ABN AMRO policies prohibit the financing of operations that involve log extraction from primary forest or from an HCVF. ABN AMRO has signed an agreement with the Forest Stewardship Council (FSC), and all operations in Brazil must be certified or otherwise show credible evidence that they are in the process of becoming certified.

Robert Brokaw, Managing Partner, GMO Renewable Resources, highlighted work that is being undertaken together with Yale University and the United Nations Development Programme (UNDP) on the development of public–private partnerships. He described a proposed Brazil Forest Fund that would provide capital for the establishment of sustainable harvesting and forest management in the Amazon region, where the Brazilian Government is about to implement a major program for national forest development and protected area conservation. GMO is a major investor in the Brazilian Gethal enterprise and had the plant FSC certified. The company also is assessing possibilities for introducing producer–worker equity programs that would give Gethal employees a direct ownership stake in that enterprise.

Peter Mertz, CEO of Global Forest Partnerships LP, a timberland management firm with investment in some 560,000 hectares of forests in both temperate and southern hemisphere countries, strongly stressed the need for the World Bank and others to create effective risk reduction mechanisms in emerging markets.

James Mahoney, Vice President, Engineering and Environment, Export–Import Bank of the United States, said most ECAs have adopted environmental policies with procedures for the screening, classification, environmental review, and monitoring of projects. Negotiations underway at the Organisation for Economic Cooperation and Development (OECD) to establish a common ECA approach on the environment include provisions for the application of World Bank environmental guidelines and safeguard policies. Mahoney identified transparency and stakeholder involvement in decision-making processes as key issues facing ECAs.

Charles di Leva, World Bank, raised the question of whether the environmental and social safeguard policies of the multilateral development banks might be harmonized. In general, the social policies of these banks are less harmonized than are their environmental policies. All projects go through an environmental review; however, differences arise due to variations in the definitions used for forests and due to the various procurement policies that the banks apply. While no single approach is likely to be applicable for all of the regional banks, there are opportunities for increasing the harmonization of safeguard policies.

John Earhart, Chairman, Global Environment Fund, highlighted the fund’s investment in medium-sized, proactive environmental enterprises in emerging markets. Earhart said the largest constraint to investment is high transaction costs. He stressed the need for innovative financing and technical assistance mechanisms capable of meeting the needs of smaller-scale forest product enterprises whose investment requirements fall below the threshold limits for investment set by many financial institutions. He challenged the World Bank and others to create more flexible financing mechanisms to mitigate some of the risks.

### Business–Community Partnerships

Claes Hall, former Vice President, Aracruz Celulose (Brazil), chaired this panel, which investigated successful examples of business–community partnerships that have had a positive impact on poverty alleviation. The panel also discussed mistakes to be avoided in the future. Hall highlighted Aracruz’s forest farmer program in Brazil, which engages 2,600 farmers in the provision of 15 percent of Aracruz’s raw material needs.

David Lawrence, Business Development Officer, IFC Small and Medium-Size Enterprises (SME) Programs, overviewed the IFC’s 10 SME facilities.
These facilities, in numerous countries around the world, provide technical assistance to service providers and product input suppliers, with the objective of helping them take advantage of the opportunities created by larger investments in processing infrastructure.

James Mayers, Director, Forest and Land Use Programme, International Institute for Environment and Development (IIED), discussed IIED’s recent publication “Company–Community Forestry Partnerships: From Raw Deals to Mutual Gains?” (Mayers and Vermeulen 2000), which looks at 57 business–community partnerships in 23 countries. In general, such partnerships were found to make a significant contribution to community livelihoods, but not enough to pull people out of poverty. While land rights, infrastructure, and job opportunities have improved, community bargaining power and the ability to secure livelihoods and to realize other major benefits remains underdeveloped.

Sofie Beckham, Forestry Manager, Ikea Trading Americas, said Ikea’s goal is to create a long-term wood supply from well-managed sources. The company is working with partners such as the WWF to help communities move up the Ikea “staircase” model for sustainable sourced wood. With the WWF, Ikea has produced global toolkits for standards-setting on multistakeholder participation, producer groups, and HCVFs.

Kevin Cazalet, General Manager, Mondi Ltd (South Africa), described the company’s projects to empower local communities. A collective of 3,820 growers in Khulanathi, each of whom works approximately 2 hectares of land, supplies Mondi. In turn, Mondi intends to help these producers become certified. SiyaQhubeka, a joint-venture company involving Mondi, the local community, and the government, additionally is operating a program to build skills in the local community and to capitalize on the business opportunities presented by SiyaQhubeka.

Raj Chaurasia, CEO, BILT Tree Tech Ltd (India), said 80 percent of the fiber sourced by the company is supplied by individual farmers. Chaurasia highlighted BILT’s work with these farmers to develop plantations on degraded forest land, with the objectives of helping meet the growing demand for paper products in India, of generating rural employment, reducing the dependence on imports, increasing the supply of fodder and fuel, and of improving water harvesting and soil conservation.

Jorge Vrsalovic, CEO, Jolyka (Bolivia), emphasized the need for an integrated solution to catalyze the forest product production chain in Bolivia. Vrsalovic called for investment in all stages of the chain, from the provision of raw materials by indigenous communities to the construction of processing plants and the development of consumer markets.

**BOX 3**

The Katoomba Group

The Katoomba Group, formed in 2000, is an international working group dedicated to advancing the markets for ecosystem services provided by forests, such as watershed protection, biodiversity habitat, and carbon storage. Leaders from forest and energy industries, finance companies, environmental policy and research organizations, government agencies, and NGOs are engaged in the group. This diversity of participants supports the creation of the strategic partnerships that are necessary for the successful launch of green forest products in the marketplace.

To date, the Katoomba Group has held six international multistakeholder workshops on payments for environmental services. These events have served to raise awareness of the potential for private sector investment in such services and to foster an understanding of the conditions under which market-based instruments for environmental services can work.

Source: Katoomba Group website: http://www.katoombagroup.org/
Financing Environmental Services

Michael Jenkins, President, Forest Trends, chaired the panel on experiences with private sector investment in environmental services and opportunities for the wider replication of successful programs. He emphasized the recent progress that has been made toward valuation of forest-related environmental services, and asked panelists to focus on the magnitude of markets and their possible significance.

Kenneth Newcombe, Manager, World Bank Biocarbon Fund (BCF), projected that by 2012 the carbon market will be worth approximately US$3–4 billion in trades under the Kyoto Protocol Clean Development Mechanism (projects in developing countries) and US$15–30 billion for all other carbon. He highlighted the pioneering role that the Bank’s Prototype Carbon Fund (PCF) has played in providing real examples of how carbon finance can work, and suggested that the BCF will play a similar role in interpreting rules that, established through an intergovernmental process, currently lack clarity and certainty.

Newcombe cited the Brazilian Plantar Project as an example of the PCF’s ability to leverage carbon finance. By establishing 23,100 hectares of eucalyptus plantations for the production of charcoal, the project will help negate the need for imported coal as a coking fuel in pig iron production and will help reduce the pressure on natural forests in Minas Gerais state as a source of charcoal. Through securing a market for carbon sequestered, the rate of return on the project was increased from 5 percent to 12 percent. Revenues from carbon additionally were escrowed to cover the debt service for the plantation, resulting in a low interest rate of 6 percent and lengthened tenure.

Kanta Kumari, Senior Environmental Specialist, GEF, described the GEF’s partnership with the IFC, the aims of which were to help SMEs cover the incremental risks for the private sector and to provide institutional and technical assistance. She also overviewed a new project under development with the World Bank in Venezuela that would initiate payments for the hydrological services that a protected area provides to a power company. The GEF initially will pay indigenous and local communities in the protected area for the service, with the power company eventually taking over these payments. Kumari said the market for environmental services is tremendous, with a potential value in the trillions of dollars.

Cassie Phillips, Weyerhaeuser, expressed skepticism over the premise that users would be willing to pay for environmental services that currently cost nothing, such as the improvement of water quality. She noted that in industrial countries forest management measures for the protection of water quality are built into regulatory structures, but that in developing countries investment in such services probably would need to be provided by government. With reference to the market for environmental services, she described a joint venture with First Nations in British Columbia, where forests are being managed in such a manner as to attract funding for biodiversity values, to compensate for the reduced timber value. She said that the real opportunity is in mitigation banking, and urged the World Bank to help reduce the transaction costs that, due to uncertainty and delays in these markets, currently are high.

Clark Binkley, CEO, Hancock Timber Resource Group, spoke about the Hancock Natural Resource Group’s Forest Program, which focuses on carbon sequestration and salinity planting (for transpiration credits) in Australia. He said that traditional markets for environmental services (such as conservation, conservation easements, and recreation services) are already affecting forestry, and that new markets for environmental services have the potential to move the focus from timber functions to other services, such as carbon sequestration. To tilt the production set of forestry toward new markets, institutional, technical, and market infrastructure will be required. For example, Australia has a standard system for measuring carbon sequestration, an institutional arrangement that separates carbon titles from land titles, and (in New South Wales) a market for greenhouse abatement certificates.

DISCUSSION ON PANEL OUTCOMES

Jim Douglas, World Bank Forests Team, chaired a session wherein the chairs from the earlier panels on industry, conservation, and finance perspectives highlighted some points that emerged during the panel discussions.
Scott Wallinger, chair of the industry panel, noted the following points:

- There are clear opportunities for investment in Russia, Brazil, and China.
- Illegal logging is a major constraint and growing concern for industry.
- Certification is a useful device. A multilateral approach to evaluation of the multiple certification systems also could be useful.
- There are opportunities to improve cooperation with the conservation community.
- The expansion of wood supply by private and community forest owners should be encouraged.
- The World Bank and others could help with policy reform to improve the investment environment.

Nigel Sizer, chair of the conservation perspectives panel, made the point that while illegal logging and corruption are related they are distinct issues. He emphasized the capability of business to assume a leadership role regarding these issues, for example through integrity pacts, through developing independent verification of the legality of wood sources, and through engagement in processes such as the Ministerial Forest Law Enforcement and Governance processes in Asia and Africa. He noted that the TFD was tentatively scheduled to convene a spring 2004 session, in China, on illegal logging. Additionally, he suggested that:

- The IKEA staircase model, or something like it, could be considered for certification.
- There are opportunities for the World Bank to promote safeguards for ECAs.
- More data and information are needed.
- Fewer mainstream actors (NGOs and private sector) should be engaged in discussions on important issues.
- Further investigation should be made of the possibility of applying insurance risk management to smaller-scale projects.
- The World Bank could help to strengthen the policy and regulatory frameworks for responsible investments.

Gavin Murray, chair of the finance panel, noted the following:

- Progress toward the adoption of environmental and social standards has been considerable.
- Performance verification, validation, monitoring, and supervision are needed.
- A risk-sharing facility could help to address some scale and transaction cost issues.
- Use by several commercial financial institutions of the Equator Principles has helped them advance the mitigation of the environmental and social risks inherent in project financing.
- There is a need to look at what is driving certification, the reward attached to it, and the value it signifies.
- Use of the OECD process is helping advance the development of safeguards for ECAs. There remains a need for convergence on the definitions used for these safeguards, but a one-size-fits-all solution is most likely not achievable.
- Multilateral development banks (MDBs) have a role to play in the development of principles and agreed approaches, but the key to this process lies in the strengthening of national investment climates.

In the discussion of these points, one participant stressed the importance of fostering a truly independent monitoring and verification industry. Another participant noted that discussions on safeguards had focused on the need for a comprehensive landscape approach, including the conservation of HCVFs, and on social safeguards. On illegal logging, the importance was stressed of the need to get the legal, fiscal, and institutional systems in place that can encourage legal logging. The need to educate markets and to develop among consumers an interest in the products they buy also was emphasized. On illegal logging, the need was emphasized for partnership between the private sector and government. The innovative alliance between SGS (Société Général de Surveillance—a Swiss inspection, verification, testing and certification company) and the Government of Ecuador, which produced the Vigilance Verde surveillance team, was cited as an example.

The forum participants also expressed a range of views on the topic of certification. Some drew attention to the obstacles to certification, such as fragmented forest ownership in Eastern Europe and requirements that contradict national legislation.
Others expressed concern over the small area of forest that is certified in developing countries. One participant said that certification effectively amounts to risk mitigation for clients and projects, and that there is an opportunity for investors to demand certification to protect themselves and their projects. Some suggested there should be a single standard; others supported multiple schemes. It was noted that a common standard for chain-of-custody certification may be feasible in the foreseeable future. Jim Douglas stressed that the World Bank does not endorse any particular forest certification scheme, and noted the need for further dialogue and open discussion on the topic in other venues.

EMERGING INVESTMENT OPPORTUNITIES: OPPORTUNITIES FOR COLLABORATIVE FOLLOW-UP ACTION

John Spears, World Bank Forests Team, chaired a concluding panel on emerging investment opportunities. He invited representatives of some of the main forum stakeholder groups to comment briefly on their perceptions of the opportunity for collaborative follow-up action. Such action would be aimed at creating an enabling environment for private sector investment, with special reference to some of the emerging investment opportunities identified by forum participants.

It has been suggested that follow-up activities should focus in particular (but not exclusively) on the major forest-rich countries, such as Brazil, China, the Democratic Republic of Congo, Indonesia, and Russia, that together account for almost one-half of the world’s forest resources (see Figure 2). The forests, open woodlands, farm forest resources, and small-scale forest product enterprises of low-income, forest-poor countries such as India and countries of Sub-Saharan Africa also have the potential to play a significant role in poverty alleviation and in improving household income, food security, and agricultural productivity.

FIGURE 2
Countries with the Largest Percentage of the World’s Forests

Michael Jenkins, President, Forest Trends, described the opportunities for investment in China. He also underscored the need to encourage wood product producers in China to consider the source of the wood they use, as much of it comes from areas with poor forest governance, including Papua New Guinea, Gabon and the eastern regions of the Russian Federation. He identified water supply as an issue of growing significance for China, and one that could represent an opportunity for ecosystem service markets. With reference to Brazil, he also suggested that experiences from successful community–company partnerships in southern parts of the country could be transferred to northern Brazil to help address illegal logging.

Bruce Cabarle, Director, Global Forest Programs, WWF–US, referred to the potential of the WWF to support responsible private sector investment. He noted that there is a need for dialogue with capital markets to find a common approach to achievement of conservation and poverty alleviation goals. With regard to safeguards, he said that investments should go beyond simply “doing no harm,” and should look at ways in which they might generate value for both shareholders and stakeholders. In closing, he underscored the need to scale up success stories at a much more aggressive rate.

Hosny El Lakany, Assistant Director General, United Nations Food and Agriculture Organisation (FAO) Forest Department, said the role of international organizations such as the FAO has become one of providing information, providing a neutral forum for discussion, and establishing norms, codes, and definitions. He suggested that the FAO could act as a focal point for interaction with national governments, and highlighted the FAO’s longstanding collaboration with the World Bank to help developing countries prepare investment projects. He encouraged participants to engage in the ongoing intergovernmental discussions at the United Nations Forum on Forests (UNFF), and highlighted the work of the Collaborative Partnership on Forests (CPF).

Ole Sand, IFC Principal Investment Officer, said the IFC has been doing business in the forest sector since the late 1960s, over which period it has provided US$1.5 billion to finance projects worth more than US$5 billion. Over the last 10 years, the IFC’s forest sector investments have been on average US$65–75 million per year. Financing in the forest sector continues to increase, he said, with approximately US$600 million in the pipeline. The IFC has substantial commitments in China and Russia. Sand said that environmental and social engineers are engaged in project development, and emphasized the need for investors to go beyond compliance and to select projects that have good values in terms of sustainability. He referred also to the usefulness of collaboration between the IFC and the World Bank in forest-supported economic sector work and forest investments.

David Cassells, World Bank Forests Team, said the Bank’s new forest policy focuses on proactive action to ensure better protection of critical forest areas. He said the broader challenge is to encourage a comprehensive land-use planning approach, with the objectives of encouraging sustainable land-use patterns and addressing cross-sectoral impacts. While the Bank has some influence on macro policy and can bring investment opportunities to governments, partnerships are needed to achieve results. In the follow-up to the forum, Cassells suggested that the dialogue continue in areas where there are opportunities to build appropriate policy environments and the institutional capacity to attract responsible investment. He reiterated that the key goals are poverty alleviation, the integration of forests into economic development, and the protection of local and global environmental values.

James Griffiths, Director, Sustainable Forest Products Industry and Biodiversity, WBCSD, said the WBCSD is focused on collaboration and partnership with NGOs, international organizations, and the broader industry in the effort to find solutions for sustainable development. He highlighted the WBCSD’s efforts to connect with the broader industry community through the International Forest Industry Roundtable, the International Council of Forest and Paper Associations, and the CEO Forum. He also noted the WBCSD’s commitment to TFD, and highlighted TFD’s plans to hold discussions on the contentious and sometimes divisive issues of certification, HCVFs, intensive forestry, and illegal logging. With reference to potential opportunities in Brazil, he drew attention to Veracel, a joint venture between Aracruz and Stora Enso in Bahia that is helping to build social infrastructure and local wealth, and that is seeking also to help recover the rainforest.
GLOBAL FOREST VISION 2050

In conclusion, John Spears referred briefly to an analysis by the World Bank/WWF Alliance and based on earlier work by the FAO, that had developed a Vision of Global Forests for the Year 2050 (see Figure 3).

That vision predicts that by the middle of this century 40 percent of global forests will be managed primarily for the protection of biodiversity and other forest environmental services. Community and privately owned woodland, which has more than doubled in area in the last decade, might be expected to double again. In 2050, 50 percent of industrial roundwood demand will be for pulp and paper. While much of the softwood needed for pulp and timber will come from Canada and Russia, increasing volumes of hardwood fiber will come from private-sector-financed plantations in countries of the southern hemisphere and in China. This would create increasing opportunities for smallholders and local communities to play a significant role in world pulpwood supply. There is growing recognition that there are real possibilities for the production of industrial wood to be combined with the protection of biodiversity, forest carbon, and water resources—a belief that is underscored in the Bank’s 2002 Forests Strategy.

This vision of global forests suggests that, notwithstanding the inevitability of the further transfer of forest land to agriculture, by 2050 the global forest area will be approximately the same as it is today.

FIGURE 3
A Possible Global Forest Situation for the Year 2050

Global closed forest area: 3,000 million ha
Global industrial roundwood demand: 2,500 million m³

- Protected areas that are inaccessible for logging (IUCN categories I–VI): 1,200 million ha (40%)
- Multiple end use: Community-owned forests 1,200 million ha (40%)
- State forests and privately owned woodlands managed primarily for timber production: 500 million ha (17%)

Plantation forests managed primarily for fibre and timber production: 100 million ha (3%)

Note: Preservation of biodiversity and other environmental benefits is integrated into objectives of management of all four categories of forest land use depicted in this chart.
CLOSING REMARKS

In his closing remarks, Kevin Cleaver noted that in wealthier countries forest health is improving, but in developing countries the demand for forest products and for environmental services from forests is increasing, in parallel with increasing demand for agricultural land. He emphasized that there is a need to find ways of investing that address the need for conservation and that support social measures, while at the same time addressing the expanding demand for wood products. He also endorsed the emphasis given by this forum to creating an enabling environment for private sector investment.

Cleaver noted that there is broad agreement on the emergence of investment opportunities in Brazil, China, India, Russia, and a number of other countries. He remarked that there are increasing opportunities for collaboration between the Bank and the various stakeholder groups that contributed time and input to the forum, and welcomed such collaboration in the future.
The decision to hold the Forest Investment Forum was based on recognition by the forum sponsors of the converging interest and similarity of actions being taken by the more responsible forest industry companies, the World Business Council for Sustainable Development (WBCSD), the World Wide Fund for Nature (WWF), and other leading conservation agencies. Additionally, many public and private sector financial institutions increasingly are seeking to ensure that the world’s forests are managed in socially, environmentally, and economically sustainable ways.

Individual members of these different constituencies have made much progress toward the goal of responsible forest management. The interchange of information during this forum focused particularly on identifying ways in which industry, conservationists, and financial institutions might collaborate in their efforts to address the major constraints to sustainable forest management (SFM). Resolving the constraints discussed in this report are central concerns not only of the World Bank, the WBCSD, the WWF, and other forum sponsors, but also of the many other investment and technical assistance agencies that participated in the forum, including, for example, the Food and Agriculture Organisation of the United Nations.

Note: The views expressed and information presented in this piece are based on background material and suggestions contributed by the many industry, conservation agency, financial, and policy research institution representatives who were consulted during the run-up to the forum. They also reflect the perspectives on constraints to investment and the possibilities for collaborative action to overcome these constraints that emerged during the panel discussions.
(FAO) and the International Tropical Timber Organization (ITTO).

As follow-up action moves to the regional and country levels, it is essential that local communities and government policy leaders become involved. It also is essential that any actions that are proposed fit within the framework of national forest programs (NFPs).

From the perspectives of the World Bank and the International Finance Corporation (IFC) this was a helpful and timely gathering. The World Bank Forest Strategy approved by the Bank’s board in November 2002 gives special emphasis to the role in this area of the private sector in investing in sustainable forest activities. Since approval of the strategy there has been a surge of interest from leading forest companies and financial institutions seeking to collaborate with the World Bank Group.

The 2002 strategy also emphasizes the need for Bank support for improved forest governance. During the 1990s nonsustainable, socially disruptive, and ecologically damaging logging operations expanded at a rate faster than ever in previous history. Many Bank client countries that are wrestling with difficult problems, such as illegal logging and pressure from politically powerful vested interests seeking to gain access to state-owned forest resources for corrupt timber deals, are seeking Bank assistance to address these problems.

CONSTRAINTS TO RESPONSIBLE PRIVATE SECTOR INVESTMENT

The following constraints were identified at the forum as the major obstacles to private sector investment:

Insecurity of raw material supply and political instability. These represent risks for investors and threaten the continuity of manufacturing operations. Special emphasis was given to the need for the reform of timber concessions, with the aims specifically of: introducing greater transparency into timber allocation processes; involving local communities in the dialogue; achieving equitable revenue sharing; encouraging value-added processing; and guaranteeing to responsible timber companies the long-term security of raw material supply. The possibility of minimizing the political risks through the application of mechanisms such as the World Bank’s Partial Risk Guarantee Facility was of particular interest.

Illegal logging and forest-related corruption. Illegal activities in many countries are a deterrent to responsible private sector investment. Numerous initiatives have been launched to address these issues, and some governments have displayed a willingness to put the issues of forest-related corruption and improved forest governance high on their agendas.

Lack of environmental assessment procedures and safeguard policies. This can both deter socially and environmentally responsible companies and encourage investment by irresponsible operators. Weak institutional mechanisms for the monitoring of environmental procedures and safeguard policies furthermore can impede the implementation of such procedures and policies. Capacity building at the national level, to develop multistakeholder institutional mechanisms for monitoring forest harvesting and management should be a priority where such mechanisms are weak.

Lack of consensus on independent certification. There is much confusion in the marketplace over the merits of the different certification schemes. Attempts to achieve mutual recognition so far have been unsuccessful, and the emphasis has shifted to development of minimum standards or legitimacy thresholds, and to the definition of processes for measuring step-by-step progress toward SFM.

Inconsistent strategies for the protection of high-conservation-value forests (HCVFs). The different strategies employed by industry and conservation groups to protect HCVFs and to integrate biodiversity protection into forest management practices must be brought into accord. Examples of successful collaboration were identified during the forum, and these and ways of encouraging their wider replication are discussed below.

Debate on the impacts of plantation-based forestry. Given the worldwide trend toward greater reliance on plantation forests, there is a need for
agreement between the conservation community and industry on where and how plantation forests can be developed such that any potentially negative social and environmental impacts can be avoided. Small-scale farm and community-owned plantations can play a key role in contributing to income generation and to economic growth.

**Markets for forest environmental services are underdeveloped.** An enabling environment must be developed to help accelerate private sector investment in environmental services such as carbon sequestration, biodiversity protection, and water services must be encouraged through developing an enabling environment for such investment. Encouraging progress has been made in recent years, and some 280 deals have been concluded. However, uncertainties about these markets and their potential financial benefits remain a constraint to the replication of such deals.

**The financial mechanisms and technical assistance support for small- and medium-size forest enterprises are inadequate.** The forum discussed opportunities for partnerships between larger forest industrial companies and small-scale, low-income producers. A number of partnerships are making a significant contribution to community livelihoods and to resolving problems such as the clarification of land rights. However, community bargaining power and the ability to mobilize capital remain weak.

**Insecurity of Raw Material Supply and Political Instability**

From the perspective of many companies and timberland investment firms participating in the forum, by far the greatest deterrents to private sector investment are the risks posed to investors by the combination of political instability, uncertainties about the continuity of raw material supply, disagreement over appropriate taxation regimes, and the ineffectiveness of government regulatory policies.

The forum participants strongly endorsed the need to introduce timber concession reforms and contracting procedures that require greater transparency in timber allocation processes, involve local communities in the dialogue, achieve equitable taxation and revenue sharing, provide incentives for value-added processing, and guarantee the long-term security of raw material supply to responsible timber companies. The early resolution of these issues is of particular urgency in major forested countries, such as Brazil, Indonesia, Russia, and countries of the Congo basin region, that are seeking to attract foreign direct investment (FDI).

The introduction of concession policy reform in Cameroon and Peru provides useful lessons, with the potential for wider replication. Difficulties experienced by the World Bank in introducing such reforms in Indonesia and Papua New Guinea and the lessons learned have been well documented. Transparency International’s Forest Integrity Network also has developed a proposal to test the application of integrity pacts to timber concession allocation processes in Russia.

Forest sector reform processes are underway or being considered in Russia and several transition economy countries. **Institutional Changes in Forest Management: Experiences of Countries with Transition Economies (PROFOR 2003)** provides a useful analysis of the efforts of a number of transition economies to tackle forest sector reform. ILIM Pulp, Volga OAO, International Paper and other companies present at the forum identified early resolution of reform issues as a matter of critical concern in relation to investments they are contemplating in large-scale value-added manufacturing capacity and forest harvesting and management equipment.

Given the history of repeated failure by national governments to tackle politically difficult problems, the forum explored whether attempts today to reform timber concession policies would have any better chance of success. Three factors were put forward to suggest that they would:

- the determination recently demonstrated by national government leaders in Southeast Asia, West Africa, and Russia to address the issue of forest-related corruption;
- the pressure from financial institutions, in the form of preconditions for investment, that governments adopt more stringent environmental assessment procedures and safeguard policies; and
- the identification by responsible companies and national governments of independent certifica-
tion processes as a mechanism for assuring stakeholders that their forest operations are socially and environmentally sustainable.

The World Bank, IFC, and International Monetary Fund (IMF) have the potential to play a key role in promoting the adoption of such policy reforms. They can achieve this through judicial use of conditionality applied through policy-based project and structural adjustment lending. A joint Bank/IMF paper on this topic as it relates to future Bank involvement in the Congo Basin countries is in preparation. In Russia, discussions also are focusing on how the IFC could use a World Bank Coal and Forestry Sector Guarantee Facility to help structure lower-cost, lower-risk financing packages for potential IFC clients. The guarantee would be especially useful in forestry sector projects, as the security of forest lease contracts frequently can be a make-or-break issue.

To summarize, closer collaboration between responsible industrial companies, conservation agencies, local communities, and financial institutions would be highly desirable in development strategies for the practical application and testing of initiatives such as those summarized above.

Illegal Logging and Forest-Related Corruption

Illegal activities associated with commercial-scale logging include logging in protected areas and outside concession boundaries; the use of bribes to obtain concessions; logging of protected species; the extraction of timber at levels higher than authorized; the undervaluing and under measuring of harvested timber; and the transport, export, and import of illegally harvested timber without paying taxes and without compliance with government reporting requirements.

Revenues lost to illegal logging in developing countries are estimated at close to US$15 billion a year, nearly matching official development assistance (ODA). Ghana alone is estimated to be losing US$37 million a year. In 2001, Indonesia was losing an estimated US$600 million a year in foregone payments on stolen timber—four times the combined local and central government investment in the forest sector.

Many companies participating in the forum revealed an unwillingness to invest in places where governance is weak, and argued that there is an urgent need for a level playing field. For example, in 1994 Weyerhaeuser pulled out of a planned investment in Russia due to the high risk of corruption and unclear legal frameworks. In Cambodia from 1977 to 1998 the payment of bribes added US$50 per cubic meter to the costs of some logging operations. Other more responsible companies deferred investment in the country.

Strategies identified at the forum for tackling illegal actions include:

- the reform of concessions, policies, and regulations, and the termination of concessions for noncompliance with regulations;
- ending the construction of roads and other infrastructure in the vicinity of protected areas;
- the use of independent observers, and log auditing;
- the adoption of technology that enables timber to be tracked from harvest through milling, thus ensuring that illegal wood does not enter the legal supply;
- the visible demarcation of boundaries between concessions, protected areas, and indigenous territories;
- establishment of certification processes that track the chain of custody and that give importing countries the capability to reject illegally harvested timber;
- increased investment in SFM (in addition to its environmental and other benefits, this also would motivate investors to prevent illegal forest management practices, as these distort market prices);
- development of common standards for measuring and reporting forest crime; and
- the boycotting of timber harvested in conflict zones, particularly from areas outside the control of recognized governments, and the ending of collaboration with companies that trade timber for arms.

The pressure to stop illegal logging originates not only with environmental nongovernmental organizations (NGOs) and environmentally aware consumers, but also with governments (both of producer and consumer countries), intergovernmental organizations, and some actors in the private sector. At the 1998 summit of the Group of Eight (G8), the responsibility of importing coun-
tries was recognized and members were formally requested to control the trade of illegal timber. In 2001, ministers of East Asian countries gathered at the East Asian Ministerial Conference on Forest Law Enforcement and Governance (FLEG) and signed a declaration committing their countries to combating illegal logging. In October 2003, the Africa Forest Law Enforcement and Governance (AFLEG) ministerial summit in Yaoundé, Cameroon revealed the strong determination of several African governments to tackle corruption. The Government of the Russian Federation additionally has announced plans to host a meeting in early 2005 on forest law enforcement and governance.

In Bolivia, policy reforms adopted in 1996 have empowered private citizens to inspect forest operations and denounce illegal acts. Legally recognized local community associations are now more directly involved in decision-making, and participation by forest-dependent communities is helping to increase accountability and transparency in concession allocation procedures. This has eliminated the discretion that forest officials previously had to unilaterally determine concession fees.

Several NGOs have ongoing initiatives on forest law enforcement and governance. Notable among these are the Environmental Investigation Agency, the Forest Integrity Network and Global Witness. The Nature Conservancy and the WWF also are supporting a major initiative to contain illegal logging in Indonesia, and several major Japanese importing companies have signaled a willingness to commit themselves to purchasing timber only from legally certified sources. The Global Forest Watch of the World Resources Institute uses satellite imagery to monitor legal concession areas and to pinpoint where illegal logging operations are taking place.

Promising industry initiated activities noted during the forum include a log tracking system introduced in Russia by UPM Kymmene, in partnership with Axel Springer of Germany. Other examples included Ecuador’s recent creation of “Vigilance Verde,” a Green Surveillance team comprised of public and private institutions working together to monitor illegal timber operations. The project is funded by the proceeds from auctions of seized illegal timber. In its first year, the project recovered five times the amount of illegal timber that was seized in the year before it began operations.

In summary, there is great potential for wider replication of initiatives such as those listed above. The forum sponsors could play a key role to that end.

**Lack of Environmental Assessment Procedures and Safeguard Policies**

The report “Export Credit Agencies and Sustainable Development” by the Royal Institute of International Affairs (Saunders 2003) suggests that the role of financial institutions, and notably of those that are privately owned, has so far been given inadequate attention by policymakers. The forum discussed the need for financial institutions to adopt clear environmental assessment procedures and safeguard policies. Safeguard policies can act both as an incentive to investment by responsible companies and as a deterrent to companies that engage in nonsustainable, socially and ecologically damaging logging operations.

All of the multilateral development banks that participated in the forum (the International Bank for Reconstruction and Development (IBRD), the IFC, the International Development Bank (IDB), the Asian Development Bank (ADB), and the European Bank for Reconstruction and Development (EBRD)) have developed their own approaches to environmental assessment and safeguard policies. Commercial banks participating in the forum (such as ABN AMRO) also reported on their respective guidelines and on the decision by 16 of their number (which in 2002 accounted for 70 percent of all global project finance) to adopt the IFC safeguard policies and Equator Principles as guidelines for their investment decisions.

Transparency and stakeholder involvement in decision-making processes are becoming major issues for export credit agencies (ECAs). Most ECAs employ environmental policies that incorporate procedures for the screening, classification, environmental review, and monitoring of projects. Negotiations at the Organisation for Economic Cooperation and Development (OECD) to establish a common ECA approach on environment issues additionally are considering the application of World Bank environmental guidelines and safeguard policies.

Despite these promising developments, some forum participants expressed concerns about inconsistencies in the safeguard policies being
applied by different financial institutions. It was acknowledged that realization of a single, standardized set of policies will be difficult given the diversity of national government legislative and regulatory frameworks. Nonetheless, the harmonization of such policies and their consistent application should be achievable. Questions also were raised about the applicability of the Equator Principles to the forest sector. Banks have adopted a minimum threshold of US$50 million for their application, but many forest harvesting and management operations fall in the US$5–10 million range.

The weakness of state forest administrations and other institutional mechanisms in the monitoring of environmental procedures and safeguard policies also was identified by many forum participants to be a major problem. For example, a Center for International Forest Research (CIFOR) study on “Corporate Debt and the Indonesian Forestry Sector” (Barr and others 2003) illustrated how in Indonesia the failure to apply environmental assessment procedures and safeguards has contributed to decisions that have allowed the pulp industry to source raw material from biologically diverse rainforests. The WWF has highlighted the same problem as it relates to the extensive clearing of Indonesian forests by agribusiness companies that are investing in large-scale oil palm plantations.

The WWF position paper “WWF Guidelines for Investment in Operations that Impact the Forest Industry” (WWF 2003) provides guidelines covering the legality of forest operations, policies for forest conversion, forest management and conservation practices, community-based forest operations, environmental management, the protection of the rights of indigenous peoples, and labor codes and standards.

Several companies participating in the forum shared their experiences of adopting corporate social responsibility (CSR) principles. A recent World Bank publication, “Race to the Top: Attracting and Enabling Global Sustainable Business” (Berman and Webb 2003), based on a survey of 107 multinational enterprises that apply CSR practices in the extractive, agribusiness, and manufacturing sectors, confirms their positive impact on company performance in areas such as environmental management, labor rights, corruption, human rights, community health, and land rights.

Lack of Consensus on Independent Certification

Independent certification has accelerated dramatically since the creation of the Forest Stewardship Council (FSC) in 1993. Other regional schemes, such as the Pan-European Forest Certification (PEFC), the Sustainable Forestry Initiative (SFI), and the Canadian Standards Association (CSA), also have advanced rapidly. All such schemes together encompass 130 million hectares of certified forest worldwide; with additional certification schemes being developed in Indonesia, Malaysia, and Russia, it would appear that certification is here to stay.

Certification is most widespread in the developed and temperate countries of Europe and North America, which account for more than 90 percent of certified forest area. The tropical forests and other developing country areas account for less than 5 percent of the total certified global forest area, and much of this certification is of timber plantations rather than natural forests.

Evidence presented to the forum by the Rainforest Alliance and earlier studies by the International Institute for Environment and Development (IIED) suggested that in some developing countries certification is helping to promote the adoption of new forest management standards. Certification, it is argued, provides a vehicle for national dialogue on issues of forest tenure, worker equity, citizen participation in the allocation and management of public resources, community value systems, and sustainability.

Several of the multinational forest product companies at the forum confirmed that despite the lack of a price premium for certified products, certification has provided benefits. These benefits include company prestige, better definition of SFM, greater engagement of stakeholders, greater access to international markets, and improved planning and management practices, include conservation measures. Some companies shared their experiences with certification schemes tailored to national government, regional, and /or customer preferences. Some participants, particularly the timberland investment firms, additionally asserted that independent certification is a useful tool for reassuring their shareholders that the forests in which they are investing are managed in a socially and environmentally responsible way.
Nonetheless, there remain significant constraints to certification and consequently to investment. Primary among these, as identified by forum participants, are the following: failure to achieve mutual recognition across different certification schemes; confusion in the marketplace about the relative merits of alternative schemes; the fact that a substantial proportion of developing country forest output is consumed in local, nonenvironmentally discriminating markets; and the fact that price premiums have only emerged for a fraction of the global output of certified forest products.

Recent efforts to achieve greater accord between stakeholders objectives for certification and among different certification schemes have included a proposal by The Forests Dialogue (TFD) to use the Legitimacy Thresholds Model (LTM) concept to assessing and evaluating different forest certification systems. The World Bank/ WWF Alliance has developed a Questionnaire for Assessing the Comprehensiveness Of Certification (QACC) Systems. The QACC is intended to help Alliance managers assess progress toward its target of 200 million hectares of certified forest worldwide by 2005.

To summarize, many forum participants endorsed the desirability of an end to the debate and confusion in the marketplace about the merits of different certification schemes. There is widespread acknowledgement that past attempts to achieve mutual recognition have been unsuccessful, but there is also acceptance that differences between regional approaches will persist. The emphasis of the debate has as a consequence been shifting to the development of minimum standards for certification and to the definition of processes for measuring step-by-step progress toward SFM.

Differing Strategies for Protecting HCVFs

Throughout the last decade, pressure increasingly has been brought to bear on forest industrial companies to persuade them to end logging in old-growth forests, to set aside high-conservation-value forests (HCVFs), and to protect endangered wildlife species and upland watersheds. These environmental pressures have played a significant and positive role in raising awareness of conservation issues and in creating opportunities for civil society to become more actively engaged in the debate about how forests should be managed and for whose benefit.

Many of the companies participating in the forum expressed concern that these environmental pressures and the time spent in confrontational debate can act as major constraints to responsible investment. The discussion accordingly veered to ways of improving the accord between industry and conservation groups, and specifically to the creation of appropriate strategies for the protection of HCVFs. Promising examples of collaboration brought to the notice of the forum included the agreement reached between Rougier (a French-owned, West African timber company) and conservation interests in Gabon, where a mutually acceptable revision of forest concession boundaries avoided logging certain areas.

The Forests Dialogue additionally reported to the forum on a recent multistakeholder consultation in Brazil that has developed guidelines for improved industry–conservation community collaboration for the protection of biodiversity. The Critical Ecosystems Partnership Fund (CEPF), a joint initiative of the CI, the GEF, the Macarthur Foundation, the World Bank, and the Government of Japan, is providing support to such initiatives in 20 different countries.

In the Archangelsk region of Russia, the WWF, in collaboration with leading Russian forest industrial companies such as ILIM Pulp, similarly is pioneering a process for identifying and demarcating HVCFs. Model forests have been used to demonstrate best management practices and ways of mainstreaming biodiversity protection measures into production forest management. The World Bank and the WWF could explore possibilities for replicating the initiatives underway in the Archangelsk region in other areas.

Ongoing Debate on the Impacts of Plantation-Based Forestry

In his keynote address, Rainer Häggblom of Jaakko Pöyry Consulting stated that plantations will in the coming decades become one of the most significant forms of industrial forestry development. This is true especially in the tropics and subtropics. As a proportion of total world roundwood consumed, the supply from plantations has increased from 5 percent in the early 1990s to 35 percent today. It is forecast to exceed 50 percent by 2040. Fast-grown plantation fiber is a technically superior and cheap-
er sustainable source of pulp fiber than mixed hardwoods from tropical rainforests, and planted wood increasingly is being used for the manufacture of engineered wood products. Given these facts, it is not surprising that a large portion of private sector investment in forestry now finances plantation establishment as a source of future pulpwood supply.

Environmental groups concerns over plantation forestry and a lack of consensus on technology such as that related to tree breeding, fertilization, and weed control are factors slowing the development of new plantations. In the past, NGO resistance to plantation forestry largely has been founded in concerns about the impact on local communities and on the environment of large-scale, industrial-corporation-financed commercial plantations. In practice, however, in developing countries an increasing proportion of future plantation forests will likely take the form of small-scale farm or community-owned woodlots that could benefit local communities. In light of this, opposition to plantations may in some cases be to the detriment of poorer segments of society.

At the forum, Mondi Corporation (South Africa), BILT Corporation (India), and Aracruz Corporation (Brazil) presented examples of community-owned plantations making significant contributions to household incomes. Companies such as MeadWestvaco and Aracruz have been pursuing a collaborative dialogue with local communities, scientific research institutions, and local municipalities, with the aim of reaching a consensus on where plantations make sense and where they do not. Such collaborative approaches could be more widely applied.

The forum discussion of this controversial issue benefited from an exhaustive study by CIFOR of the social, environmental, and economic advantages and disadvantages of plantation forests. CIFOR assembled the study in collaboration with scientists, conservationists, and representatives of multinational forest industrial companies.

Industrial companies have sometimes exaggerated the employment potential of plantations, an observation that is supported by CIFOR’s social audit. In certain circumstances plantations can bring jobs, schools, roads, and other benefits. However, it is also true that in some parts of the developing world plantations have sparked off serious conflicts with local people. This particularly has been the case where the plantation has deprived people of the land on which their livelihoods were based.

On the environmental front, the CIFOR study concluded that there have been cases where plantations have replaced habitats rich in biodiversity, but on balance the study suggested that such claims may also be exaggerated. The efficacy of including biological corridors in plantation design, to reduce the impact on biodiversity, is being researched; and in situations wherein the plantation is established on derelict or abandoned agricultural land, the change in land use may even enrich the biodiversity. In contrast, the claim that industrial plantations take pressure off natural forests and thus help to redress biodiversity losses in natural forests is controversial. For a few countries (New Zealand and Sri Lanka are examples) this may be true, but it is unlikely to be the case in forest-rich countries where there is pressure from the rural poor for the conversion of forest lands to agriculture and where the transfer of additional forest land to farming is almost certain to occur.

The CIFOR study observed that the role that trees play in hydrological cycles is complex and often misunderstood or misinterpreted. For example, forests (and plantations) cannot prevent major floods, and, with rare exceptions, they do not help to create and attract rainfall. Plantations in fact may reduce annual water yields, especially where they replace grasslands and farmland, and large plantations often reduce stream flow during the dry season.

Plantations are generally much less degrading to the soil than are many agricultural crops, and in some situations they can have a beneficial influence. However, plantation soils are highly susceptible to erosion during harvesting and planting. In terms of nutrient cycling, plantations remove relatively small quantities of nutrients when compared with most agricultural crops, and therefore require relatively modest doses of fertilizer. Leaving branches, twigs, leaves, and other plant litter in place after each harvest also can help to retain some nutrients.

In conclusion, the CIFOR study found a landscape approach to plantation development to be essential. The establishment of and investment in a plantation should only be considered when the following conditions are met: there is no risk to hydrological cycles or reduced water quality; local com-
ommunities will retain access to firewood, grazing land, and other goods and services on which they depend; and biologically unique forest ecosystems will not be lost.

The conclusions of the forum were that, when poorly planned and executed, plantations can cause grave problems, but when well planned and executed, they can deliver not just large quantities of wood, but also a range of environment and social benefits. The safeguard polices developed by multilateral development banks and taken up by some of the commercial banks that participated in the forum uphold these criteria. The challenge is how to ensure that these safeguards are applied in practice.

**Underdevelopment of Markets for Forest Environmental Services**

There has been encouraging progress made toward recognition of the opportunities for private sector investment in environmental services such as carbon sequestration, the protection of biodiversity, and water services. A recent review by the IIED of emerging markets for environmental services identified 280 cases of actual or proposed payments. The cases included 75 deals for carbon sequestration, 72 for biodiversity conservation, 61 for watershed protection, 51 for the preservation of landscape beauty, and 28 for “bundled” environmental services.

Several factors are seriously hampering faster progress. Carbon market development is hindered by the reluctance of the United States to ratify the Kyoto Protocol and the lack of suitable infrastructure for such a market, including an institutional registration system for carbon titles and the technical capacity to verify the amounts of carbon sequestered. For biodiversity conservation, the potential financial returns from investment are uncertain. With regard to water services, there is a lack of appreciation of the potential for financial transfers from downstream users and municipalities to act as an incentive to upland communities to protect forest resources and to practice sustainable land use. Finally, the lack of technical skills and of the institutional capacity for monitoring and certifying the delivery of environmental services are overriding constraints to greater private sector investment in such services.

The policies and institutions needed to accelerate the development of markets for ecosystem services have been slow to materialize, with the results that timber remains the principal source of revenue from forests, and forests continue to be more economically valuable cut down than standing. The major cause of deforestation continues to be the more profitable use of the land for agriculture or development. It is vital for the future of forests that this trend be arrested.

With the launch of the Katoomba Group in 1998, Forest Trends spearheaded a new effort to commercialize ecosystem services from forests. Interest and support for this initiative from many private companies and financial institutions has been encouraging. With the backing of the IFC, Forest Trends recently has added a Business Development Facility to promote sustainable forestry projects through the development of markets for ecosystem services and by facilitating certification. The facility will support the development of a pipeline of potential sustainable forest project deals for IFC investment, and will help forest owners inventory and market nontimber environmental services. It also will conduct due diligence on potential partners, assist the assessment of the potential value of services, identify potential buyers, and market the services. Companies that have already expressed interest in pursuing such deals include Global Forest Products in South Africa and Precious Woods in Amazonas, Brazil.

In sum, many forum participants endorsed the need for policymakers, advocates, and market participants collectively to play a more proactive role in the foundation of a new forest economy. The new economy should be capable of delivering multiple revenue streams from the same forest, capturing value from timber as well as from carbon sequestration, water flow regulation, water quality management, conservation, and nontimber forest products.

**Constraints to Investment in Small-Scale Enterprises**

Small to medium-size forest products processing and trade was one of the three largest categories of nonfarm rural activity in several studies undertaken by the FAO in the late 1990s. Worldwide, small-scale sawmilling, joinery, furniture manufacture, and other small wood-based enterprises employ some 33 million people. Community forest ownership additionally has more than doubled in the last decade,
from 350 million hectares to more than 700 million hectares, a trend that is projected to continue.

At the forum, a number of promising examples of partnerships between large industrial companies, forest outgrowers, and/or small-scale enterprises were identified. These included the following:

**Brazil.** Since 1990, the Aracruz pulp and paper company has developed a partnership program with some 2,500 farmers and 113 municipalities. These small suppliers currently meet about 15–20 percent of pulp mill needs, and plans are in place to quickly increase this to 30 percent. Land disputes presented an early obstacle to the arrangement, but the scheme is now well established and operates under state environmental permits that restrict its implementation to unused agricultural and nonnative forest lands.

**China.** Plantation Timber Holdings has successfully developed a joint program with several hundred thousand farming families and village municipalities.

**India.** BILT Corporation, India’s leading pulp manufacturer, has a strongly developed farm forest program in six states. The corporation sources 85 percent of its raw materials from some 9,000 farming families, and plans over the long term to increase this to 60,000 farmers.

**Russia.** IKEA, the world’s largest furniture retailing company, has developed contracts with numerous small-scale furniture manufacturing companies in Russia and in more than 50 other countries worldwide. Through a joint program with the WWF, IKEA has been assisting small manufacturers to obtain independent certification of the forests from which they draw their raw material supplies.

**South Africa.** Mondi Corporation, through a Kulanathi woodlot scheme in Kwa Zulu Natal, has contracted with 3,820 growers to supply 120,000 tons of roundwood to the market. The growers each work a plot of an average 2 hectares. Through this arrangement in excess of US$3 million will be transferred to the local community. A second community-based scheme in Siyaghubeka is based on land leased by Mondi from the government, but ownership of which will be transferred to the local community.

In India, the BILT Corporation perceives restrictions on access by industrial companies to state-owned forest lands as a constraint to the expansion of community-based tree farming. It has been suggested that India allow companies leasehold access to some areas of state forest lands, within which community and smallholder outgrower arrangements would be pursued. Governments have sometimes been reluctant to support leaseholder arrangements of this nature because of their potentially negative impact on those local communities that rely on state-owned forests for fuelwood, fodder, and many other needs. The forum discussed the possibility of putting safeguard policies in place to protect local community interests and at the same time to enable the orderly expansion of pulp, paper, and other forest industries.

The IIED report *Company—Community Forestry Partnerships: From Raw Deals to Mutual Gains?* (Mayers and Vermeulen 2002), which reviewed 57 business–community partnerships, identified the key issues for successful partnership development. These included particularly the need to support community thinking and to develop the capacity of the community to work within business and organizational forms, and the need to develop company thinking as regards livelihoods and community rights-based approaches. The report also suggested that there are clear needs to develop systems for tracking and improving the output, process, quality, and impact of partnerships. Insecurity of land tenure is a clear constraint to community participation in such arrangements.

The Global Environment Fund prepared a note for the forum highlighting the difficulties facing small enterprises. These include the problems inherent in scale, high due diligence costs, the lack of market education and lack of business expertise, and the fact that small, fragmented industries are not attractive to capital markets. Proposals for overcoming these constraints included consideration of a special equity fund that would focus on forest deals of less than US$20 million, the possible establishment of a due diligence funding facility that would allow qualified fund managers access to funding under terms that would mitigate development risks, and the establishment of a business development instrument that could be used to train local entrepreneurs.

SMEs frequently operate in business environments that are littered with obstacles to small-scale
investments, such as lengthy and expensive registration procedures, distorted and often changing policies and regulations, and inefficient commercial legal systems. They typically also face many problems in competing at the national and international levels, in part due to limited information and access to markets but also due to inadequate infrastructure and poor communications. The IFC Small and Medium-Size Enterprises (SME) unit provides technical assistance and direct investment to help tackle some of the issues faced by SMEs.

For example, in a project in Bolivia, specific targets suggested for IFC support over the next two years include improvements in quality control for SME sawmillers; coaching in selling for SME sawmillers; assistance to forest community groups in forming SMEs; the earning of carbon credits for forest activity; saw rectification for forest sawmills, research into kiln drying and joint ownership of kiln projects; the development of a timber exchange to maximize the use of timber species; and the development of a business plan preparation scheme.

EMERGING INVESTMENT OPPORTUNITIES: PROPOSALS FOR FOLLOW-UP ACTION

In a concluding discussion of emerging investment opportunities, the forum agreed to explore with national governments the possibilities for collaborative follow-up action between industry, conservation, and financial institutions. The objectives of this action would be primarily to test the possibilities for the practical application of some of the more promising initiatives that were presented by forum participants.

A suggestion was made that forum follow-up activities should give special emphasis to major, forest-rich countries such as Brazil, China, Indonesia, the Democratic Republic of Congo, and Russia, which between them account for one-half of the world’s remaining forest area. All five of these countries are seeking foreign private sector investment and will need strong external aid support to overcome the formidable constraints to investment identified by this forum.

At the same time, however, it is important that follow-up activities should also target low-income, forest-poor countries such as India and countries of Sub-Saharan Africa. Forests, open woodlands, and small-scale forest product enterprises can in these countries make a significant contribution to poverty alleviation, household income, food security, and agricultural productivity.
The following materials are good resources for more information on issues discussed in the forum. The reference materials are organized according to topics. However, some materials may cover more than one of these issue areas. This is not a comprehensive list of materials tabled or presented at the forum. Forum participant websites also provide a wealth of information and should be visited for more recent information on these issues.

**Certification**


**Environmental Assessment Procedures and Safeguard Policies**


Illega Logging and Corruption

Environmental Investigation Agency (EIA): http://www.eia-international.org. This website publishes numerous EIA studies on illegal logging.


Global Forest Watch: http://www.globalforestwatch.org/ This website publishes reports on the status of forest resources and illegal logging in 10 target countries.

UPM Kymmene: http://www.upm-kymmene.com/tracingimports This website publishes “Tracking Russia Wood Imports,” a regularly updated report that aims to increase transparency in the paper chain in general and of Russian wood imports in particular.


Markets for Forest Environmental Services


**Plantations**


**Protecting High-Conservation-Value Forests**


Security of Raw Material Supply


Small- and Medium-Size Forest Enterprises


Wednesday, 22 October

10.15–11.15 WELCOMING REMARKS

Ian Johnson
Vice President, Environmentally and Socially Sustainable Development, World Bank

James Wolfensohn
President, World Bank and International Finance Corporation

Odd Gullberg
Chief Operating Officer, World Business Council for Sustainable Development

Claude Martin
Director General, WWF International

11.15–11.30 Break

KEYNOTE ADDRESSES

11.30–12.00 GLOBAL FOREST TRENDS
How Are These Likely to Influence Investment in Forest Operations in Developing and Economic Transition Countries?
Rainer Haggblom (Chairman, Jaakko Poyry Consulting)

12.00–12.30 TIMBER LAND INVESTMENT
Opportunities and Constraints for Financial Institutions
Clark Binkley (Managing Director, Hancock Timber Group)
12.30–13.00 BEST-PRACTICE GUIDELINES FOR FOREST AND FOREST INDUSTRY INVESTMENT POLICIES
Conservation Community Perspectives
Duncan Pollard (Head of European Programmes, WWF)

13.00–14.15 Lunch (MC 12 – 700 Gallery)

PANEL DISCUSSIONS, PART 1
INDUSTRY, CONSERVATION COMMUNITY, AND FINANCIAL INSTITUTION PERSPECTIVES

14.15–15.15 INDUSTRY PERSPECTIVES
Panel Chair: Scott Wallinger (Vice President, MeadWestvaco Corporation, UNITED STATES)
- How do companies see the need, opportunities, and constraints to forest investment in developing and economic transition countries?
- What actions could the World Bank and other agencies participating in the forum take to create an enabling environment for responsible private sector investment?

15.15–15.30 Break

15.30–16.30 CONSERVATION COMMUNITY PERSPECTIVES
Panel Chair: Nigel Sizer (Director, Asia Pacific Programmes, The Nature Conservancy)
- How does the conservation community see the need, opportunities, and constraints to forest investment in developing and economic transition countries?
- What conservation community perspectives on environmental and social policies are needed to achieve responsible private sector investment in sustainable forest management?

16.30–17.30 FINANCIAL COMMUNITY PERSPECTIVES
Panel Chair: Gavin Murray (Director, International Finance Corporation, Environment and Social Development Department)
- How do financial institutions see the need, opportunities, and constraints to forest investment in developing and economic transition countries?
- Could an agreed set of principles and best-practice guidelines be used as incentives to encourage responsible investment and to discourage companies that fail to adopt sustainable management?

18.00–20.00 Reception (MC 12 – 700 Gallery)

Thursday, 23 October

PANEL DISCUSSIONS, PART 2
OPPORTUNITIES FOR BUSINESS–COMMUNITY PARTNERSHIPS AND PRIVATE SECTOR FINANCING OF FOREST ENVIRONMENTAL SERVICES

09.00–10.00 BUSINESS–COMMUNITY PARTNERSHIPS
Panel Chair: Claes Hall (Former Vice President, Aracruz, Brazil)
The potential of business–local community partnerships to contribute to poverty alleviation and sustainable livelihoods

Lessons learned and directions for the future

10.00–10.15 Break

10.15–11.15 FINANCING FOREST ENVIRONMENTAL SERVICES
Panel Chair: Michael Jenkins (President, Forest Trends)

What role can private sector companies play in financing forest environmental services?

PANEL DISCUSSIONS, PART 3
PLENARY DISCUSSIONS: FORUM CONCLUSIONS AND PROPOSED FOLLOW-UP ACTION

11.15–12.45 What are the potential business opportunities for responsible investment in developing and economic transition countries in the near- to mid-term?

12.45–14.00 Lunch (MC 12 – 700 Gallery)

14.00–15.45 PLENARY DISCUSSIONS (continued)

What actions should be taken by the World Bank and forum partners to address the policy, institutional, and political constraints to responsible private sector investment?

How can environmental and social policies and best-practice guidelines be used as a positive incentive to encourage industry, the private and public sector, and financial institutions to invest in forest industries in developing and economic transition countries?

PROPOSED FOLLOW-UP ACTION

CLOSING REMARKS
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Private foreign direct investment (FDI) in the forest sector considerably exceeds public official development assistance (ODA). In recent years, forest financing has been characterized by an increase in FDI into developing countries to approximately US$8-10 billion a year, and a decline in ODA to about US$1.75 billion a year. However, current levels of investment in the forest sector, both domestic and foreign, fall far short of investment requirements necessary to realize the potential of well-managed forest resources to contribute to poverty alleviation, the protection of vital environmental services, and sustainable economic growth in developing and transition countries.

To address this issue, the Forest Investment Forum brought together 150 senior executives of domestic and multinational forest product companies, private and public sector financial institutions, and leading conservation agencies from around the world. Organized jointly by the World Bank, the International Finance Corporation (IFC), World Business Council for Sustainable Development (WBCSD), WWF, the Program on Forests (PROFOR), and Forest Trends, the forum set out to:

• Identify opportunities for investments in environmentally and socially sustainable forestry in developing and economic transition countries;
• Consider actions that the World Bank Group and Forum participants could take to create an enabling environment for responsible private sector investment; and
• Explore the willingness of forum participants to support a process to develop clearly defined and mutually compatible social, economic and environmental investment guidelines specific to the forest sector.

This publication includes a summary of workshop proceedings as well as an analysis of opportunities and key constraints to environmentally and socially responsible private sector investment in the forest sector.