Forest Investment Attractiveness Index: Usefulness for Sector Management

Dr. José Rente Nascimento
Inter-American Development Bank

Side event to the
24th Session of the Latin American and Caribbean Forestry Commission
26th June 2006, Santo Domingo, Dominican Republic
Overview

I- IDB in one minute

II- IAIF
  – Objectives
  – Usefulness
  – Model

III- Results
  – Sub Indices
  – Supra, Inter,
  – Intra

IV- PROMECIF and IAIF Evolution
I
Inter-American Development Bank
Basic Facts: the IDB Group

- IDB Group: IDB (1959); IIC (1989); MIF (1992); and PRI (1994)
- Oldest and largest regional multilateral development bank
- Largest source of development finance for Latin America
  - Approved over $118 billion in loans
  - Total cost of projects: $281 billion
- 46 Member countries
  - 26 Borrowing (50% of the shares)
IAIF - Objectives

**General objective:** To measure the business climate for investments in the sustainable forest business.

The IAIF allows the systematic, periodic, quantitative and more rigorous analyses of the factors that affect the success of forest direct investment and business decision-making.
IAIF principal clients

- International investors and entrepreneurs
- Domestic investors and entrepreneurs
- Governments (national, regional or local)
- National and international NGOs
- Bilateral and multilateral donors
The IAIF is useful for:

- representing the forest business climate as a **single number** per nation
- **initial screening** by investors of countries with best investment climate for sustainable forest businesses
- facilitating a more precise and constructive **dialogue** about forest business climate issues among stakeholders
The IAIF is useful for

- setting **priorities** among policy areas by governments interested in improving their forest business climate
- monitoring the **success** of policy interventions on specific indicators
- identifying **issues** where national performance is above or below expectations or aspirations
The IAIF is useful for:

- serving as a **working framework** to encourage research, debate, dialogue, and learning.
- clarifying policy and investment **tradeoffs**
- designing **intervention** strategies and better define goals, programs, and policies
The IAIF allows comparisons of countries, regions, years, indicators, sub-indexes, such as:

- Among nations in a given year
- Country’s performance trends over time
- Country’s performance in relation to neighbors or sub region for given year
- Subindex performance and trends
The IAIF allows analysis of:

- Measured (real)
- Potential (potential maximum)
- Differential (potential improvement)
- Contribution to IAIF (weighted)
- Simulations

Inter-American Development Bank
IAIF – Basic hypothesis

IAIF

Attractiveness of forest businesses to DI

Forest investment profitability
Methodology – 3 Sub indexes

- IAIF

  - Attractiveness of forest businesses to DI
  - Favorable SUPRA sectorial factors
  - Favorable INTRA sectorial factors
  - Favorable INTER sectorial factors
  - Forest investment profitability

II- IAIF
Sub index – SUPRA sectorial factors

- GDP growth
- Exchange rate stability
- Interest rate
- Tax rate
- Trade openness
- Political risk

Favorable SUPRA sectorial factors

- Forest investment profitability

+ indicates a positive relationship, - indicates a negative relationship.
Sub index – INTER sectorial factors
Sub index – INTRA sectorial factors
Methodology

20 indicators; >80 variables
II- IAIF

IAIF and Sustainability

[Diagram showing interrelations between Environmental sustainability, Economic sustainability, Social sustainability, and IAIF]
Sources of information

- Secondary data and indexes (World Bank, FAO, World Economic Forum, etc.)
- Primary information through surveys
  - Agriculture policies
  - Planting and harvesting restrictions
  - Adverse actions
  - Favorable supports
III

IAIF Results

2002
III- Results

IAIF Real (measured) - 2002
III- Results

Real – Potential - Differential

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Brasil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>México</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perú</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bolivia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Honduras</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paraguay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicaragüa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panamá</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surinam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guyana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ecuador</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rep. Dominicana</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Haití</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Salvador</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bahamas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trinidad y Tobago</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jamaica</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbados</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
III- Results

IAIF – Real for Best Performers

Bar chart showing performance levels of different countries:
- Brasil: 60
- Chile: 53
- Argentina: 44
- Uruguay: 44
- Costa Rica: 41
- Mexico: 40
- Colombia: 40

The chart is part of the Inter-American Development Bank's presentation.
III- Results

IAIF – Highest Potential

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brasil</td>
<td>99</td>
</tr>
<tr>
<td>Mexico</td>
<td>86</td>
</tr>
<tr>
<td>Colombia</td>
<td>81</td>
</tr>
<tr>
<td>Argentina</td>
<td>79</td>
</tr>
<tr>
<td>Venezuela</td>
<td>78</td>
</tr>
<tr>
<td>Peru</td>
<td>78</td>
</tr>
<tr>
<td>Bolivia</td>
<td>75</td>
</tr>
</tbody>
</table>
III- Results

Possible improvement over current levels (%)

- México: 115
- Colombia: 101
- Argentina: 81
- Costa Rica: 69
- Brasil: 66
- Uruguay: 60
- Chile: 39

Inter-American Development Bank
III- Results

SubIndex SUPRA

- Brasil: 51
- Chile: 76
- Argentina: 50
- Uruguay: 50
- Costa Rica: 77
- Mexico: 69
- Colombia: 66

Inter-American Development Bank
### SubIndex INTER

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brasil</td>
<td>46</td>
</tr>
<tr>
<td>Chile</td>
<td>63</td>
</tr>
<tr>
<td>Argentina</td>
<td>46</td>
</tr>
<tr>
<td>Uruguay</td>
<td>57</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>51</td>
</tr>
<tr>
<td>Mexico</td>
<td>51</td>
</tr>
<tr>
<td>Colombia</td>
<td>50</td>
</tr>
</tbody>
</table>
III- Results

Sub Index INTRA

- Brasil: 69
- Chile: 42
- Argentina: 41
- Uruguay: 36
- Costa Rica: 27
- Mexico: 27
- Colombia: 29
III- Results

INTER vs INTRA

Brasil
Chile
Argentina
Uruguay
Costa Rica
Mexico
Colombia

INTRA
INTER

Inter-American Development Bank
III- Results

IAIF – Sub Indexes

Brasil
Chile
Argentina
Uruguay
Costa Rica
Mexico
Colombia

Inter-American Development Bank

# 31
III- Results

INTER-Sector Indicators – Sample

Inter-American Development Bank
III- Results

INTRA-Sector Indicators

Dom. Market

FVL

For. Res

Inter-American Development Bank
III- Results

Perception Indicators

- Argentina
- Brasil
- Chile
- Colombia
- Costa Rica
- México
- Uruguay

Ag. Policies
Restrictions
Adverse
Supportive

Inter-American Development Bank
IV

PROMECIF and

IAIF Evolution

Inter-American Development Bank
What is PROMECIF?

- Proceso de Mejoría del Clima de Negocios para Inversiones en el Sector Forestal.
- Process to Improve the Business Climate for Forest Investments.
- Process that uses IAIF’s methodology as a basis for improving the climate for investments in sustainable forest businesses.
IAIF Results Supply

- Data for comparison among countries.
- Understanding of factors that affect positively and negatively the attractiveness of forest investments.

Generate interest in improving the climate for investments.
PROMECIF’s three phases

I: Country identification and commitment to change.

II: Diagnosis and strategy definition.

III: Implementation, follow-up, and evaluation.
Phase I: Country identification and commitment to change

- Stakeholders share objective of developing and implementing a plan to improvement of their country’s business climate for forest investments.

- PROMECIF’s Phase I main objective is to construct this ambience.
Phase I: Country identification and commitment to change

Motivators among stakeholders

Motivators in government

OtherMotivators

Willingness to improve direct investments in forest sector

Commitment to change

Creation of a Steering Committee (SC)
IV- PROMECIF

Phase I: Country identification and commitment to change

- **Steering Committee (SC)**
  - The Steering Committee will be responsible for the coordination of PROMECIF’s phases II and III.
  - Sub commission of a Competitiveness Commission -- Steering Committee’s role.
Phase I: Country identification and commitment to change

- **IADB Support**
  - The country’s government should be the official interlocutor.
  - A letter of commitment has to be signed by the appropriate government agency and IADB.
Phase II: Diagnosis and strategy definition

IAIF Analysis

Expected future situation

Desired future situation

Problems and opportunities

Complementary analysis

IAIF Real/Potential Max/Differential

Systemic relationships and strategic intervention alternatives

Action Plan
Phase II: Diagnosis and strategy definition

- IAIF – Real – Potential Maximum - Differential
The case for Nicaragua (2002)
Phase II: Diagnosis and strategy definition

- Complementary analysis
  - Information gathering.
  - Dynamic analysis of factors that explain the climate for investments in sustainable forest businesses.
  - Definition of expected future situation.
  - Definition of desired future situation.
  - Identification and analysis of problems and opportunities.
Phase III: Implementation, follow-up, and evaluation

Planned Actions

Projects approval and implementation

Financing Alternatives

Project analysis

Executors

SC

Processes

Results

IAIF

Other Strategic Indicators

Self Evaluation

Independent entity

Inter-American Development Bank
Phase III: Implementation, follow-up, and evaluation

- Implementation comprises the identification of financial alternatives and the detailed analysis of the projects related to the planned actions.
- Executers and the Steering Comitee will be responsible for follow-up and evaluation. An independent entity may also be used.
Recent developments

- IDB licensed FGV and INCAE to calculate the IAIF every two years and to provide associated goods and services to governments and the private sector.
- IAIF 2004 will be presented in an event latter this year.
- PROMECIF is being (or about to be) applied in: Paraguay, Panama, and Equator.
- IAIF-BRAZIL: Index will be adjusted and calculated for Brazil’s states.
- Development of Sub-Indices for plantations and natural forests.
IV- Evolution

Potential partners

- Multilateral Banks: Asian Development Bank; African Development Bank; World Bank
- UN related agencies: FAO; ITTO
- World Economic Forum Indexes partners
Further information

- www.iadb.org/pforestal
- forestal@iadb.org