White Paper

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Public–private partnerships

What can public and private resources achieve together?

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Why this matters

In recent debates on financing for sustainable forest and landscape management, it has been estimated that private financing (foreign direct investment and national investments combined) is much greater than public financing, but it is distributed very unevenly. There still remains a role for the public sector as a source for sustainable delivery of global public goods and ecosystem services or as frontier funding for high-risk investments. At the same time, private financing from domestic and international sources should play an important role to scale up sustainable landscape management and create employment, add value and generate revenue.

Public and private sectors have to work together to increase sustainable financing to forest and landscape sectors. Collaboration between the two sectors needs to be strengthened to increase financing for sustainable landscapes. This collaboration can be broadly grouped into three categories:

- Public sector actively creates a supporting and conducive environment for private sector to operate, but does not engage in individual business transactions. This support can happen through pro-business policies or public investments.
- Public entities contract private firms to provide services and carry out activities on their behalf. This is the "traditional" public–private sector partnership (PPP) model e.g. in infrastructure investments. In the forestry sector, management concessions in state forests could be considered as PPPs, though in public discussion this connection is not often made.
- Joint investment financing by private and public (bilateral or multilateral) entities. Often the public investor is a smaller partner, but very valuable in giving backing in risky environments. Public participation can also happen through risk guarantees covering political, commercial or project risks.

In this session we will try to find the right balance between supporting private initiatives and State engagement.

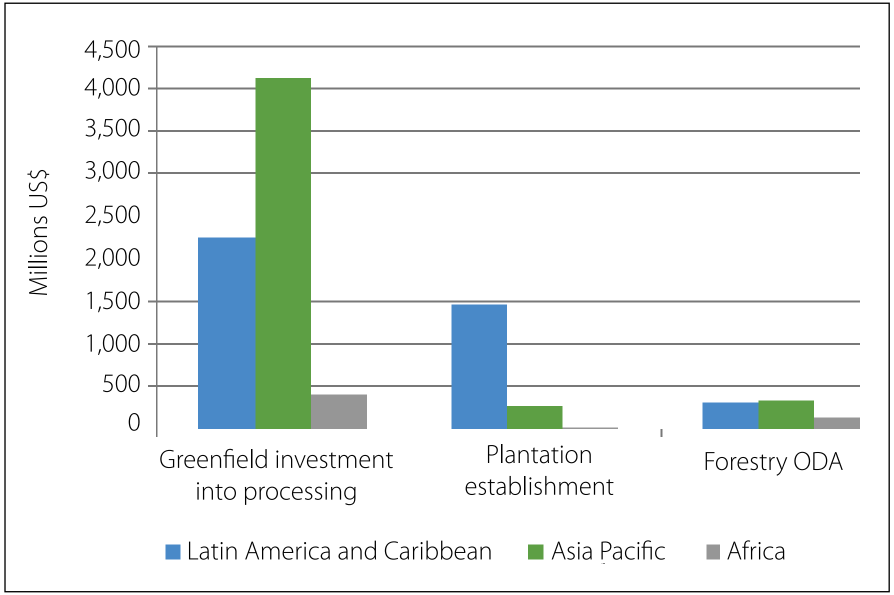
Chapters 1 to 4 in this paper are largely based on two recent studies prepared for PROFOR (a World Bank trust fund) and full references can be found in the reports. The studies are Castrén T, Katila M and Lehtonen P. 2014. *Business Climate for Forest Investments: A Survey*. Washington, DC: Program on Forests (PROFOR); and Castrén T, Katila M, Lindroos K and Salmi J. 2014. *Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers*. Washington, DC: Program on Forests (PROFOR). They can be found at http://www.profor.info/node/2215

What do we know?

Information on private financing for forest and landscape management is scarce and inadequate at both global and national levels. Scarcity and poor quality of data hinder preparation of solid investment policies, informed decision making and effective targeting of bi- and multilateral support. However, there are some things we do know:

- Developing and transition economies together are attracting more than half of total global foreign direct investment (FDI) flows across all sectors. Also, outward FDI from these economies is at a record high, most directed toward other countries in the South.
- The same trend is present in FDI flows to the natural resources sector. For example, in the forest sector, based on UNCTAD (2012) data, the flows to developing countries increased significantly from 1990–92 to 2008–10.[1] From the available data, inward FDI flows to the forestry sector for processing of wood and wood products, pulp and paper have decreased in developed countries and shifted to developing countries and countries in transition.
- Private greenfield investments in the forestry sector are clearly larger than official development assistance (ODA) in all regions (Figure 1). Only in Africa is forest ODA a significant source relative to private sector investment.
- A clear majority of investment flows to plantation establishment has been directed to Latin America, and the majority of processing-related greenfield investments to the Asia Pacific.

Figure 1. Annual average investment flows to forestry sector in developing regions (Millions USD)



Sources: ECLAC/fDi Markets, Indufor Plantation Databank, OECD Creditor Reporting System (CRS).

[1] Some of the increase is likely explained by use of investment intermediary companies in Hong Kong SAR and in other locations with lax tax legislation. This phenomenon is applicable to other sectors and total FDI as well, not just for forestry sector FDI.

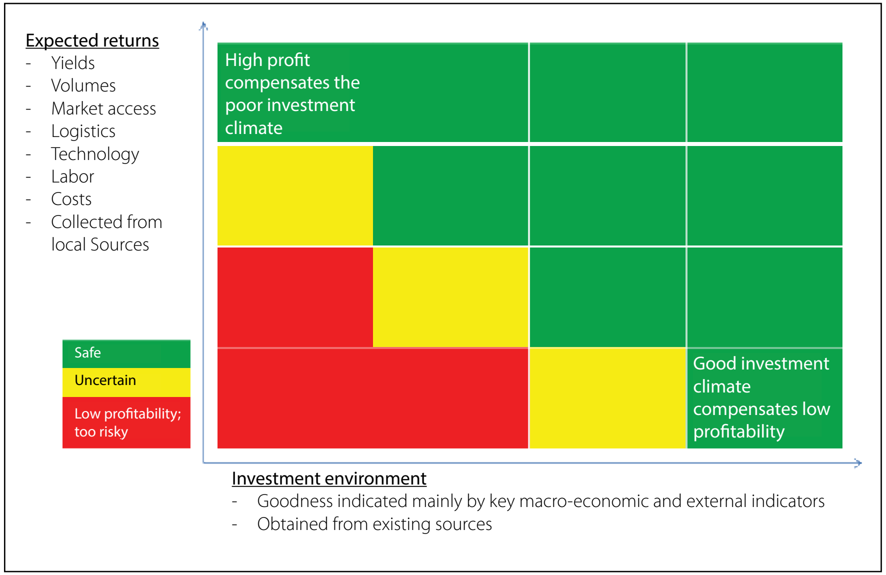
Business climate
How the state sets the stage

Business or investment climate is defined as the economic and financial conditions in a country that affect whether individuals and businesses are willing to lend money and acquire a stake in businesses operating there. Investment climate is affected by many factors, including poverty, crime, infrastructure, workforce, national security, political instability, regime uncertainty, taxes, rule of law, property rights, government regulations, government transparency and government accountability.[2] Positive business climate accelerates investments, promotes good governance, generates rural employment, improves overall sector competitiveness and creates wealth. Differences in business climate can also explain the unequal distribution of FDI among countries. The focus of this type of analysis is often on promotion of foreign investments. However, in "successful" forestry countries, domestic investments, including by the small- and medium-sized enterprise (SME) sector, play a key role, e.g. in terms of employment generation and provision of services needed by bigger companies (sub-contracting).

Multilateral institutions like the World Bank and bilateral agencies recognize the importance of the private sector — be it domestic or foreign, large or small. For example, the World Bank (2013) strategy recognizes the importance of private sector and finance to achieve its corporate goals of sustainably ending extreme poverty and promoting shared prosperity.[3]

Firms and investors of all sizes benefit from a good business climate; for international investors, it has become one of the criteria when selecting where to invest. Therefore, a number of governments have actively been looking for ways to improve business climate. In this they have been supported and helped by both development partners and service and information providers. The annual "Doing Business" survey by the World Bank and the International Finance Corporation (IFC) has become an important tool to guide the improvement of business climate. The basic concept of business environment assessment is illustrated in Figure 2.

Figure 2 Trade-offs between the investment climate and expected profitability



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[2] http://www.investopedia.com

[3] End extreme poverty: reduce the percentage of people living on less than $1.25 a day to 3% by 2030. Promote shared prosperity: foster income growth of the bottom 40% of the population in every country.

Improving business climate and access to financing

Ultimately, building investment climate is a national responsibility, but international partners are in a good position to help national governments do their part. Issues related to forest and landscape finance must be viewed from different angles, including by partners outside the sectors themselves (e.g. people and institutions dealing with financial sector and banking development). Below are short-, mid- and long-term actions that can contribute to improving business climate and access to financing for sustainable landscape management.

Short-term actions

Investors are mainly interested in maximizing risk-adjusted returns. The key factors affecting returns considered by investors include: (i) growth potential and access to growth markets; (ii) political, regulatory and economic stability; and (iii) investment environment and good governance. Land tenure is a key factor within the investment environment, as well as physical and institutional infrastructure (roads, ports, electricity, labor markets). Actions related to policies and investment environment can be directly influenced by government action.

- **Prepare national forest and landscape financing strategies**, including assessment of opportunities and constraints for sustainable financing at the national level and suggesting specific policy reforms that will address the constraints.
- **Arrange investor platforms, special meetings and road shows** bringing together potential investors and other key stakeholders for information exchange and networking. The organization of such events can be easily outsourced to private sector associations or chambers of commerce, national investment promotion agencies or similar organizations. **The establishment of associations with SMEs and building partnerships with larger companies** will complement these actions.
- **Take action against illegal extraction of natural resources** as illegality not only tarnishes the reputation of the sectors, but also causes social and environmental negative impacts.
- The development of **risk assessment methodologies and tools that are suitable for investments in landscapes will contribute toward decision making on financing.**
- **Develop tailored loan facilities in existing national development banks or other financing institutions.** For example, the poor availability of longer-term, reasonably priced market-based loan financing is a major constraint for forest plantation investments, and also for responsible and sustainable processing investments in many developing countries.

Medium-term actions

Many medium-term actions improve the investment environment for sustainable landscapes.

- Poor governance in natural resource management is frequently cited by responsible private sector investors as a constraint for investments. **Governance reforms** are needed in a number of countries. This includes **reforms related to land rights and tenure**.
- **Well-planned tax policies and targeted incentive schemes** have proven effective in promoting investments in a number of countries.
- **Develop legislation and institutions to facilitate public–private partnerships**. These have proven effective in combining the business skills and efficiency of the private sector with the risk-bearing capacity of the public sector. Governments should be encouraged to develop legislation and institutions that are able to establish partnerships with private sector investors.

- **Develop and improve systematic forest and other natural resource inventories and related information systems**. Recent technological development, including in earth observation, has made information collection, processing and dissemination increasingly feasible. This is also a good opportunity for PPPs.
- **Governments should ensure adequate investment in research and development**. This is also a good opportunity for PPPs.
- **Develop risk mitigation tools**, for example, insurance schemes or risk guarantee funds.

Long-term actions

The following long-term **actions for national governments with international support** call for **further intra- and extra-sectoral reforms**. These long-term actions depend on effective implementation of short- and medium-term actions.

- Improve political and economic stability
- Reduce corruption and improve governance
- Reduce complicated regulations that hinder expansion of private business operations, while introducing regulations that provide necessary social and environmental safeguards
- Streamline taxation
- Enhance openness (trade) of the economy
- Enhance competition in the economy and eliminate state monopolies that may distort the market
- Improve education and focus on vocational skills
- Improve tenure and property rights to reduce perceived and actual risk of land and resource conflicts.

Many of these measures are not specific to any one sector and apply to the overall business environment. Also, other long-term public investments matter. For example, the availability of trained labor is an important criterion for large-scale investors when assessing investment opportunities.

Cases of public engagement in private investments

BioCarbon Fund Initiative for Sustainable Forest Landscapes

- The BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) is a multilateral fund managed by the World Bank with USD 380 million from donor governments. The ISFL supports climate-smart development at scale by targeting land-use planning, policies and practices at the landscape level to reduce greenhouse gas emissions from deforestation and forest degradation and promote sustainable agricultural production systems. The initiative deploys results-based finance to incentivize sustainable land-use practices, production systems and value chains.
- The ISFL has built on lessons learned from the BioCarbon Fund's successful engagement in pioneering carbon finance projects in the land-use sector, as well as on experience from partnerships for REDD+, such as the Forest Carbon Partnership Facility, the Forest Investment Program and the World Bank's engagement in sustainable land management and climate-smart agriculture initiatives.
- The ISFL recognizes the important role of the private sector in promoting sustainable land use through improving production systems, mobilizing finance, enhancing value chains, spurring innovation and sharing knowledge to scale up successful land-use practices. The initiative promotes a wide range of actors from governments, multinational corporations, SMEs and smallholders to promote sustainable and equitable land-management practices.

Burundi Coffee Sector Competitiveness Project

- The USD 55 million World Bank project under preparation aims to increase coffee production volumes, enhance coffee quality and increase access to markets for the benefit of smallholders. This is expected to contribute to (i) improving sector productivity and overall competitiveness in the global market; and (ii) the country's strategic goals of poverty reduction and enhanced export revenues.
- The project will cover six provinces that represent more than half of the country's coffee growers and production. It will promote various PPP schemes: (i) the modernization of the coffee-processing facilities, including technologies to reduce environmental degradation; (ii) development of fertilizer subsidy and pest treatment programs; and (ii) coffee research program. These PPPs will involve several private organizations such as InterCafe which Ellysar Baroudy created for consultation and decision making regarding the coffee sector. International partners include Sucafina, Ecom Agroindustrial Corp and Webcor Group.

Liberia Biodiversity Offset Scheme — Liberia's mining sector

- Liberia has designed a roadmap for an aggregated biodiversity offset scheme that will help minimize adverse impacts on biodiversity and ecosystem services resulting from mining. The scheme will provide a concrete opportunity for the private sector to contribute to the country's underfunded protected areas network. The roadmap will be supported by the existing legislative framework and the country's progressive steps toward legally requiring mining companies to implement biodiversity offsets to address the residual impacts of their activities on biodiversity.
- The implementation of the scheme will involve the capacity of the public agencies (Forest Development Authority and Environmental Protection Agency) in charge of supporting the scheme, as well as addressing land tenure issues and designing alternative livelihoods for the communities living around the target areas.
- The Liberian aggregate offset scheme is based on the application of a common methodology to ensure that conservation benefits are at least equivalent to biodiversity losses due to mining investments. Mining company contributions would help secure biodiversity assets in a nationally coherent manner, rather than on an investment-by-investment basis. Responsibility for design, implementation, monitoring and long-term management of biodiversity offsets is transferred from multiple developers to key government agencies, with support from national and international partners.

Questions for discussions

Topic 1

There has been much discussion on *downsizing* the government and getting it out of the way. Or should we rather talk about *rightsizing*? Please share your views on how the State — both at central and local level — could best support investments in landscapes.

Topic 2

What are the main misconceptions about private investments in forests and landscapes and how to correct them?

Topic 3

What are the three key actions to be taken by governments with their multilateral development partners: is there a need for partnerships in this field?

Topic 4

There is often talk that we are not actually lacking financing as such, but rather good bankable projects. Is this correct?

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The Investment Case

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landscapes.org

Coordinating partners

Strategic partners

Funding partners

Author