



Towards the Establishment of a Sustainable Forestry Development Fund

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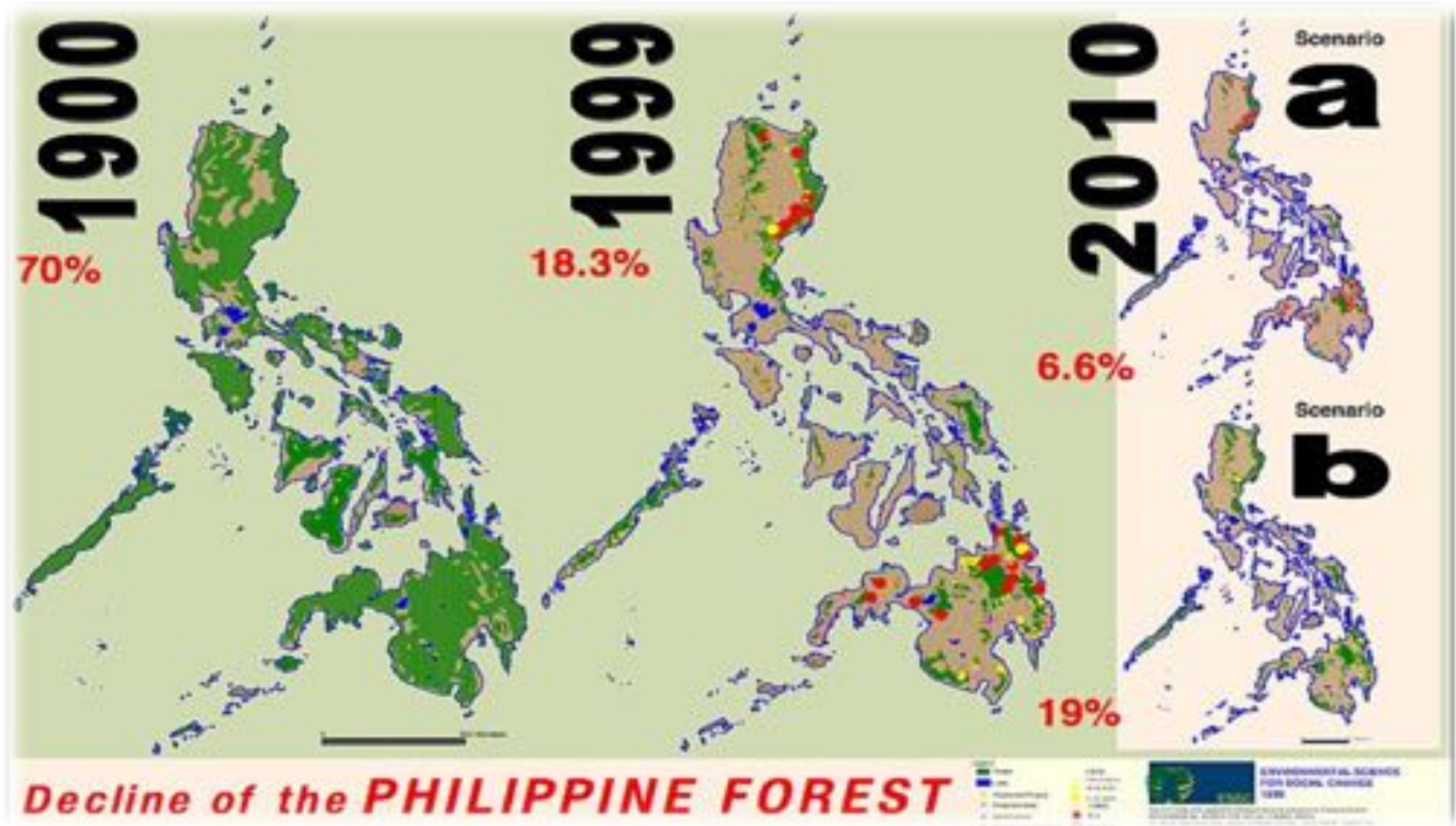
Objectives

- Propose a design for a sustainable funding mechanism for forestry development that will serve as frame of the guidelines for the management, development, and operationalization of the SFD Fund
- Identify avenues on how qualified forest managers can participate and gain from this forestry development fund

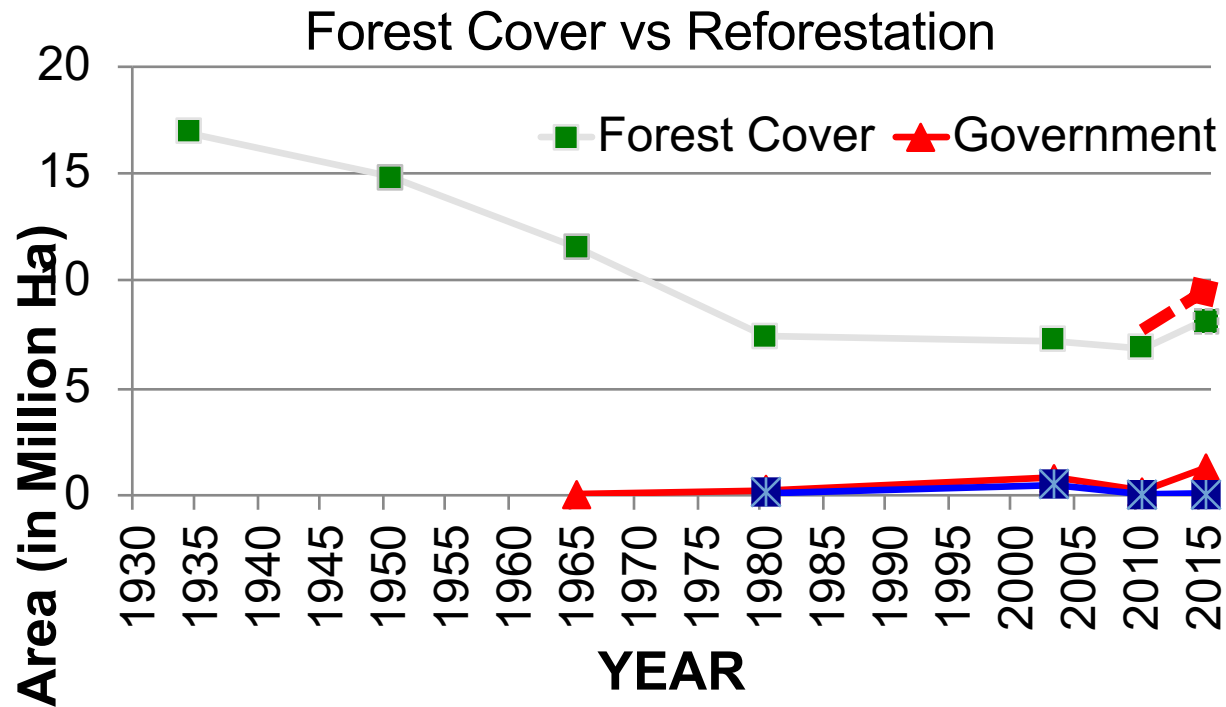
Outline

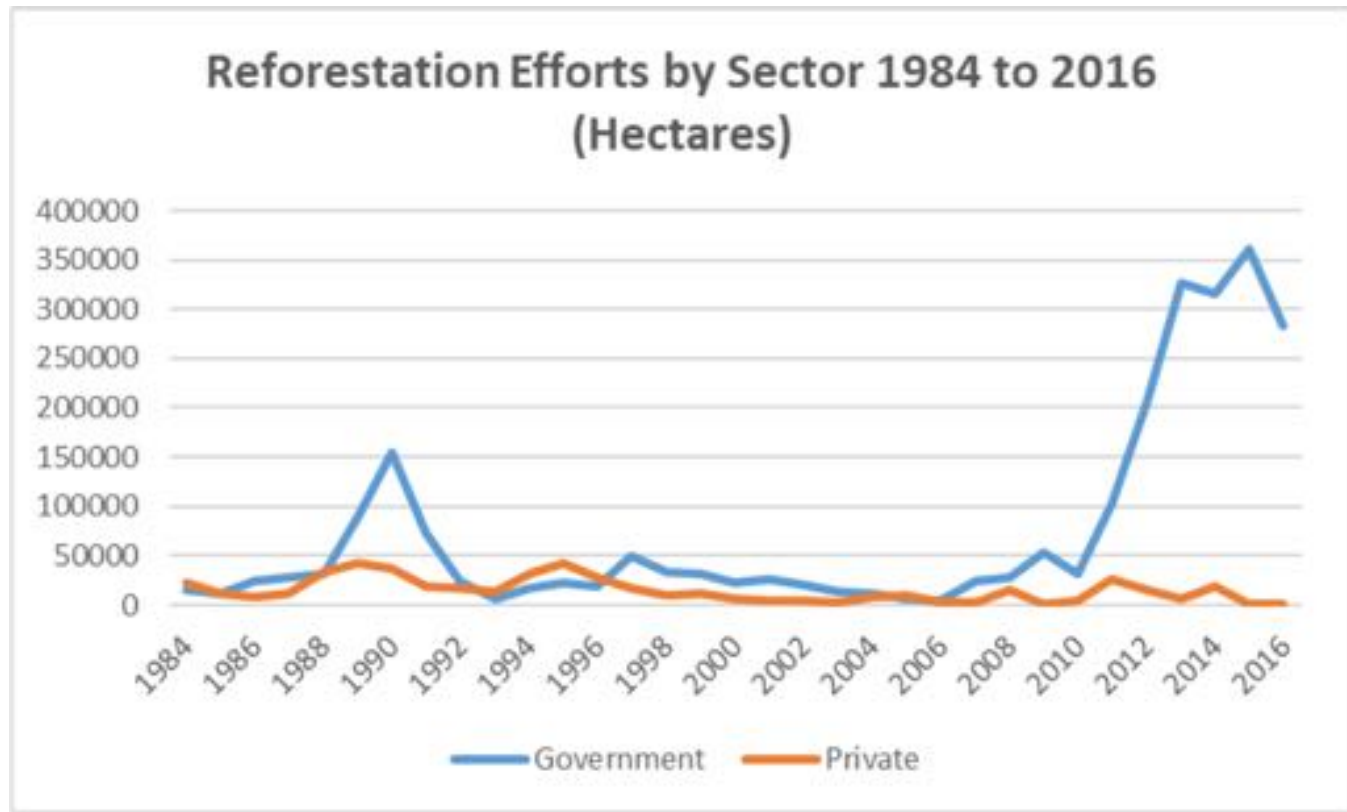
- I. Introduction: Current State of Philippine Forests
- II. A sustainable fund source for developing the Philippine Forest Industry
 - ↗ Proposed Framework
 - ↗ Proof of Concept: Case Studies
- III. Avenues for participation of professional foresters
- IV. Recommendations

Philippine Forest Cover through the Years



Reforestation Efforts Primarily Driven by the Government





- Investments in production forest zones should be left with the private sector
- Government funds should be limited to Protection and Geohazard Zones

Forest-based Products Imports Summary 2016 (Value in Thousand US\$, FOB)

Forest Based Products	Value
Paper and Articles of Paper and Paperboard net kilogram	1,116,920
Plywood and Plywood Veneered Panels cubic meter	196,202
Forest-Based Furniture gross kilogram	127,032
Lumber cubic meter	113,592
Wood-Based Manufactured Articles gross kilogram	108,921
Pulp and Waste Paper net kilogram	79,879
Fiberboard net kilogram	32,598
Log cubic meter	23,452
Particleboard gross kilogram	23,413
Veneer and Other Wood Worked cubic meter	10,489
Wood Continuously Shaped gross kilogram	9,537
Densified Wood and Reconstituted Wood cubic meter	831
Wood Residues net kilogram	769
Wood Chips and Particles gross kilogram	648
Wood Wool, Wood Flour net kilogram	347
Wood Simply Shaped gross kilogram	259
Selected Non-Timber Manufactured Articles - m	164
Wood Charcoal net kilogram	85
Non-Timber Forest Products net kilogram	36
Total Forest Products Imports	1,845,173
Forest Products Imports as % of the Total Imports (in terms of value)	2.19

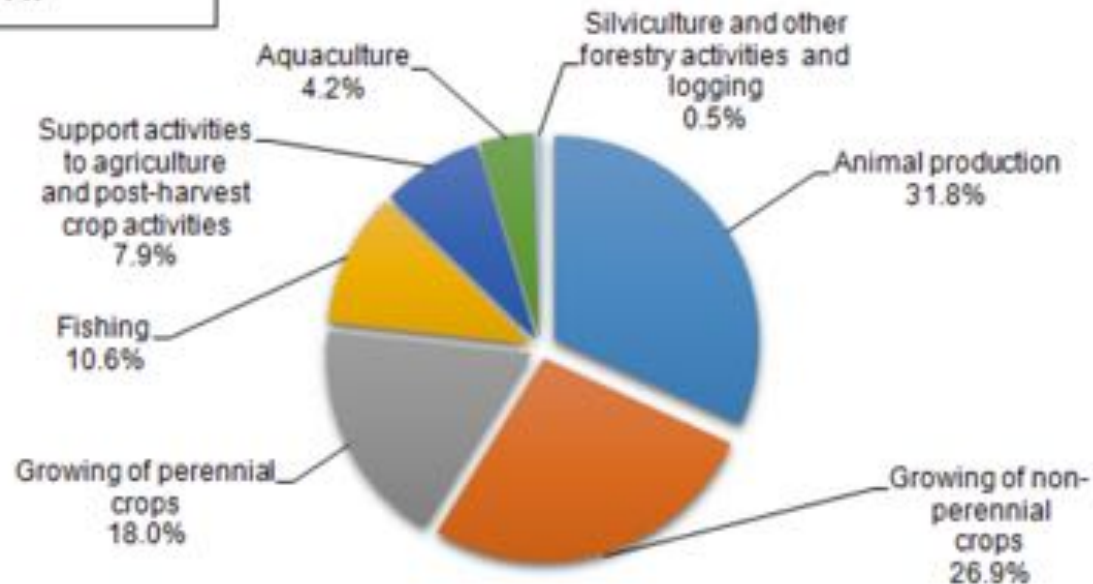
Forest-based Products Imports

- Non-Paper Products 33.4%
- Paper Products 66.6%

Logging companies focused on exporting unprocessed logs rather than processing it into various products for value adding

Percentage Distribution of Agriculture, Forestry and Fishing Establishments with Total Employment of 20 and Over by Industry Group: Philippines, 2015

**Total Establishments
1,147**



During the last 19 Years, % share of forestry to GDP is negligible
Highest In 2000 at 0.15% and has been declining; 2016 at 0.04%



Current Status of Private Business and Finance

- Bulk of private investment into SFM has been channeled to non-tropical and developed countries.
- A study done in 2012 estimates that around US\$ 50 billion has been invested in forests by institutional investors (pension funds, insurance companies, endowments, etc.). Of this, 80% has been directed to North America.
- Despite this overwhelming focus on the developed world, private money also represents the largest source of financing for SFM in the tropics.

(Source: Issue No. 54, European Tropical Forest Research Network, Dec 2012)

Current Status of Private Business and Finance...cont.

- Around US\$ 15 billion is invested every year by the private sector in tropical forests, outstripping the combined investments of governments and development agencies by more than nine times.
- Private forestry business is a massive employer; more than 160 million people worldwide find work through small and medium-scale forest enterprises, especially in developing countries

(Source: Issue No. 54, European Tropical Forest Research Network, Dec 2012)

Barriers to Securing Private Investments

Tenure insecurity, information gaps, informality, small scales of operation and lack of business organization and capacities present formidable barriers to securing financial investment.

(Source: Issue No. 54, European Tropical Forest Research Network, Dec 2012)

Provision in the Proposed PSFM Bill

SEC. 39. Sustainable Forestry Development Fund. A Sustainable Forestry Development Fund (SFDF) to be administered by a Government Financial Institution as a special account in the National Treasury is hereby established to provide sustainable funds for forest protection, reforestation, and forest development.

At least seventy percent (70%) of forest charges and government share collected, including proceeds from the sale of confiscated forest resources, machinery, equipment, and tools, fines, and penalties shall be set aside for the SFDF. The SFDF may be augmented by grants, donations, and endowment from various sources.

No amount from the SFDF shall be disbursed to cover the ordinary and necessary expenses of the Department and other concerned agencies.

The Department shall include in the implementing rules and regulations of this Act the guidelines for the management, development, and operationalization of the SFDF, in coordination with other concerned agencies.

Framework for a Sustainable Forestry Fund

Name of Fund

Philippine Sustainable Forestry Development Fund (Phil-SFD Fund)

Policy Description

The Phil-SFD Fund is a proposed financing scheme to provide necessary and sustainable fund/capital in the development of the forestry sector in the Philippines

Framework for a Sustainable Forestry Fund

Objectives

- 1) Support the expansion of the forestry sector industry (value chain development)
- 2) Drive private investment in forestry activities
- 3) Encourage the establishment and growth of sustainable forest-based enterprises in the general categories of
 - timber
 - non-timber
 - environmental services

Framework for a Sustainable Forestry Fund

Objectives

- 4) Strengthen partnerships between and among private and public institutions, and existing financial institutions in sustaining forest-based enterprises
- 5) Meet the domestic demand for wood products and create surplus to regain presence in international markets
- 6) Contribute to the conservation of remaining natural forests

Framework for a Sustainable Forestry Fund

Sustainable source of Phil-SFD Fund

ENDOW- MENT FUNDS

SINKING FUNDS

REVOL- VING FUNDS

- Fines and penalties from violation of forestry laws
- Forest charges and government share collected
- Petroleum tax
- DOE Energy Regulation 1-94
- Water tax
- Profits from investments from ENR investments
- Grants

Sustainable source of Phil-SFD Fund

- 1) Funding from Petroleum Tax (BIR Revenue Regulations No. 2-2018)

Rationale: Why BIR RR 2-2018 should fund forestry development

- Link between fossil fuel and climate change & disaster
- RA 10963: Tax Reform for Acceleration and Inclusion (TRAIN) Law
- BIR RR No. 2-2018 (Providing for the Revised Tax Rates and other Implementing Guidelines on Petroleum Products Pursuant to Republic Act. No. 10963)

Petroleum Tax for the Environment

- Imported a total of 200 million barrels of petroleum in 2016 valued at US\$11.8 B
- Assuming an environment tax of one half of one centavo per liter (Php 0.005/liter), that is Php 3.12 Billion annually

Sustainable source of Phil-SFD Fund

2) Funding from Energy Resource and/or Energy-generating Facilities (DOE ER 1-94)

Rationale: Why DOE ER 1-94 should fund forestry dev't

- RA 7638, Sec 1: *“...giving direct benefits to the province, city, or municipality, especially the community and people affected, and equitable preferential benefit to the region that hosts the energy resource and/or the energy-generating facility”*
- ER 1-94, Sec 6 (g. Livelihood and Development Fund): Rules and Regulations Implementing Section 5 (i) of Republic Act No. 7638, otherwise known as the “Department of Energy Act of 1992”: *“Consistent with Section 5 hereof, all power producers shall set aside twenty-five percent (25%) of one centavo (P 0.0025) per kilowatt-hour of the total electricity sales of the energy-generating facility to establish and maintain a development and livelihood fund (amended as: DLF at 12.5% of one centavo per kWh (P0.00125/kWh)”*

Sustainable source of Phil-SFD Fund

2) Funding from DOE ER 1-94...cont.

Rationale

- ER 1-94, Sec 6 (h. Reforestation, Watershed Management Health and/or Environment Enhancement Fund.): Rules and Regulations Implementing Section 5 (i) of Republic Act No. 7638, otherwise known as the “Department of Energy Act of 1992”: *“One-half of one centavo (P 0.0005) per kilowatt-hour of the total electricity sales of the energy generating facility shall be set aside by the power producer to be used for reforestation, watershed management, health and/or environment enhancement (amended as: RWMHEEF at 12.5% of one centavo per kWh (P0.00125/kWh)...”*

Water Tax for the Environment

- La Mesa and Balara Treatment Plant produces 4 Million cum/day
- Assuming an environment tax of 25 cents per cubic meter (Php 0.25/cum), that is Php 365M annually

Framework for a Sustainable Forestry Fund

Governance of the Phil-SFD Fund

- Who will manage the Phil-SFD Fund? What are the various levels of management?
- What is the general process of accessing the Phil-SFD Fund?
- Who/ what are the institutional stakeholders and what roles will they play the implementation of the Phil-SFD Fund?
- What will be the investment channels under the Phil-SFD Fund?

**Management of
the Phil-SFD
Fund**

**Implementation
Overview**

**Phil-SFD Fund
Investment
Channels**

Management of the Phil-SFD Fund

Two main levels/office of management of the Phil-SFD Fund:

1) Investment committee/ office

- Under the NDC and/or the NRDC
- its roles:
 - set policy and criteria
 - project approval and progress supervision

2) Fund managers

- will be appointed by the investment office
- their roles:
 - marketing and project development
 - appraisal of projects
 - due diligence
 - coordination with financial institutions, funds and other investors
 - the signing contractual agreements
 - advice to project clients
 - portfolio and risk management

Management of the Phil-SFD Fund

- Fund Managers shall oversee the following process as follows:
 - Investors submit their application to the Fund Manager
 - The Fund Manager proposes the project to the Investment Committee for approval
 - Project appraisal / due diligence is conducted by the Fund Manager

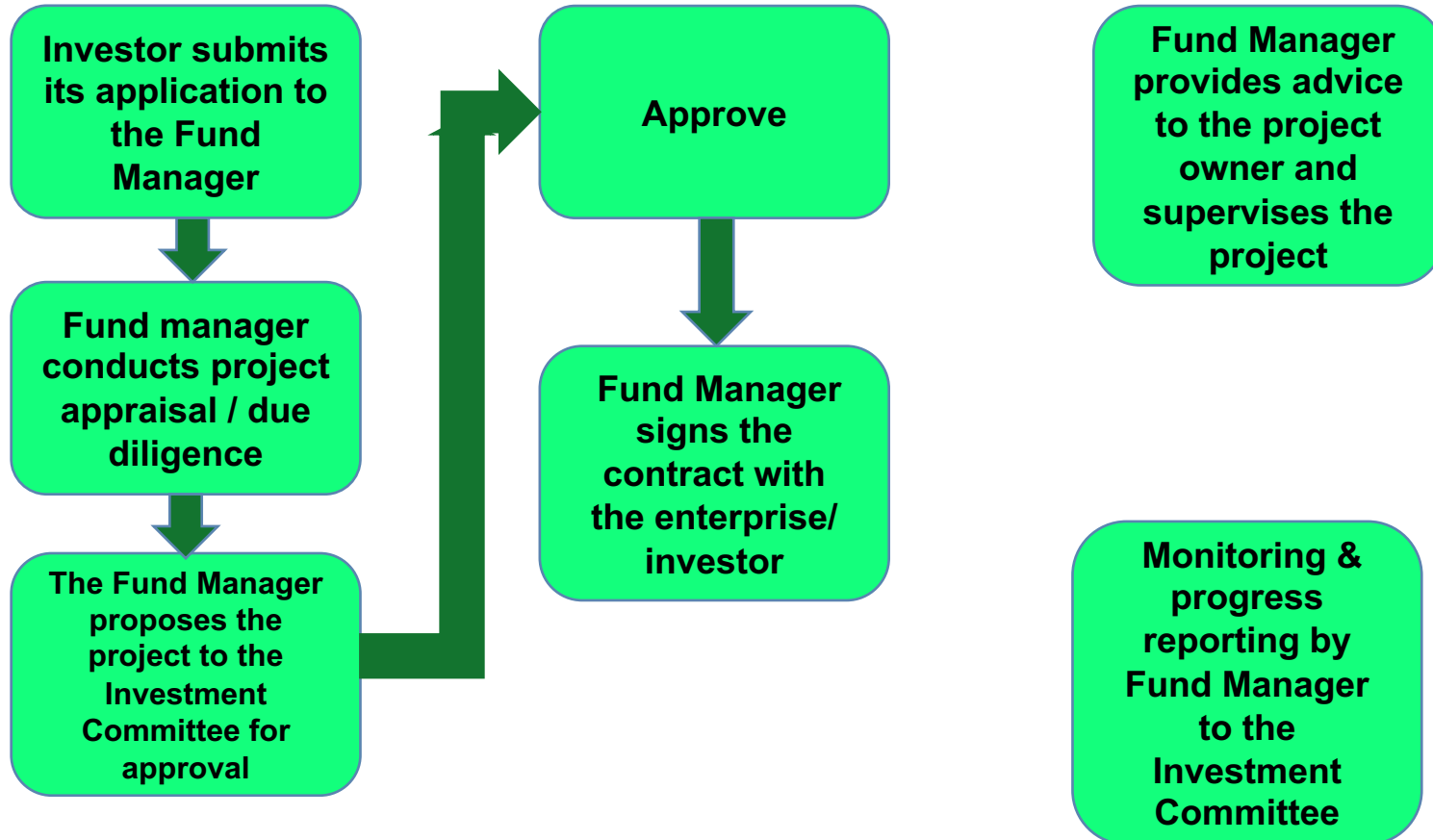
Management of the Phil-SFD

Fund...cont.

- Once the project is approved, the Fund Manager signs the contract with the project owner or investor, provides advice to the project owner and supervises the project;
- The Fund Manager reports regularly to the Investment Committee on the progress of the project

Management of the Phil-SFD Fund

When investor apply for funding, the suggested process will include the following:



National Development Company (NDC)

- The National Development Company (NDC) is an attached agency of the Department of Trade and Industry (DTI), managing about P 4.5 billion worth of investment portfolios.
- NDC was created to function as the government's investment arm. It develops, finances and implements pioneering development-oriented projects (forestry included) vital to the sustainability of the government's structural reforms and economic policies.

Natural Resources Development Corp (NRDC)

- The Natural Resources Development Corporation (NRDC) is a government-owned and controlled corporation attached to the Department of Environment and Natural Resources. It is mandated to promote investments in natural resource-based industries by providing financial, technical and management assistance.
- Since its creation in 1982, NRDC has been involved in projects like reforestation, management and disposition of lahar materials, mining, development of patrimonial properties and fund management for EIA RC.

Implementation Overview

Governance of the Phil-SFD Fund

Eligible forestry activities for funding:

- Forestry operations & products value chain development
- Nursery operations
- Plantation development and maintenance
- Forest protection
- Harvesting operations
- Wood processing

Management of
the Phil-SFD
Fund

**Implementation
Overview**

Phil-SFD Fund
Investment
Channels

Investment Channels & Services

Governance of the Phil-SFD Fund

- Equity
- Venture capital
- Credit
- Credit guarantee
- Technical assistance

Management of
the Phil-SFD
Fund

Implementation
Overview

**Phil-SFD Fund
Investment
Channels**

Investment Channels under the Phil-SFD Fund

- The Phil SFD Fund will provide capital for investments in sustainable forest development projects and enterprises through various channels.
- Examples of Phil-SFD Fund investment channels and services:
 - 1) Equity investments - for forest plantation projects, wood & wood processing with the following basic features:
 - Size of equity investment: up to 30% of total investment cost but limited to Php25 Million per project.
 - Investment period: Maximum of 7 years
 - Exit method: Share sell-back to the entrepreneur, or find & match new strategic partners
 - Exit price: Market price (negotiable)

Investment Channels under the Phil-SFD Fund...cont.

- 2) Venture Capital - for forest plantation projects, wood and wood processing projects according to the following description:
 - Size of equity investment: 30% of registered capital but limited to Php25 Million per project.
 - Investment period maximum of 7 years
 - Exit method: Share sell-back to the entrepreneur, or find & match new strategic partners
 - Exit price: Market price (negotiable)
- 3) Credit Facility - loans for low premium rates e.g. 4% PA
- 4) Credit Guarantee Facility – the SFD Fund cooperates with financial institutions or credit guarantee agencies to assist entrepreneurs in accessing long-term loans from banks by providing credit guarantees depending on the project risk and limited to Php 25 Million at low premium rates

Investment Channels under the Phil-SFD Fund...cont.

- 5) Technical Assistance – the SFD Fund will provide financial support for technical assistance, e.g. audits and feasibility studies. The support shall be limited to Php 100,000 per project and this fee must be reimbursed to the SFD Fund if the proposed TA has not been implemented.

Opportunities for foresters and forest managers

- foresters as entrepreneurs and business owners
- foresters as professional managers
- foresters for technical assistantships/consultants
- foresters as PDOs

Recommendations


- Towards refining the design
- Towards increasing participation and gains of forest managers



Thank you !

~end~

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