



IFC and Forestry in East Asia: New Trees and Green Technology

IFC invests in forest companies across East Asia, and in activities that span the forest products value chain. In China, where a booming economy, the urbanizing of the population, and the enormous influx of foreign investment has created the world's most rapidly growing paper market, we are targeting market-leading companies that focus on farm forestry programs and on elemental chlorine free (ECF) pulp-bleaching processes for cleaner air. Across Asia, we are investing in companies that are managing forests sustainably, that are ensuring sustainably sourced timber for furniture, and that are recycling scrap wood for engineered wood panels to decrease use of virgin pulp.

Focus on the Triple Bottom Line: People, Planet, and Profit

IFC's clients in East Asia's forestry sector are making a difference—in their communities, in the environment, and in the economic stability of the region. They are global leaders, profitable firms that have elevated sustainability to the level of strategy. Here's a look at results:



People

- Thousands of direct and indirect jobs, and part-time employment for 30,000 farmers
- Local supply chains and spin-off industries in poor provinces
- Affordable furniture and wood products for the growing middle class

Planet

- Forestry barren wasteland
- Focus on sustainable timber sourcing
- Reducing reliance on imports of illegally sourced timber
- New tree growth to absorb pollution-causing carbon emissions
- Increased local wood supply to reduce transportation-related energy consumption and carbon emissions
- Equipment upgrades to lower energy and water consumption
- Focus on waste recycling, green technology, and farm forestry to reduce national reliance on unsustainable wood sources and on pollution-causing nonwood fiber
- Innovation to develop cleaner sources of nonwood fiber

Profit

- Strong sustainability standards enhance brand, increase access to international financing sources from banks that have signed on to the Equator Principles
- Companies report profit increases, stronger market confidence, lower operational costs, reduced political risk, and better community relations

IFC's Forestry Track Record

IFC's commitments in the forest products sector span the globe. Our current \$1 billion portfolio represents investments across the entire forest products value chain, with an emphasis on farm forestry, sustainable forest management, engineered wood panels, waste paper and recycling, and wood and wood products. IFC's sectoral expertise, regional knowledge, and leadership in sustainability offer significant value to our clients, in addition to the full suite of financial products we offer.

Building The Future: Plantation Timber Products, Sichuan Province (China)

China's rapid economic expansion and subsequent housing construction boom created a strong demand for wood-based panels such as medium-density fiberboard (MDF) and laminate flooring. Plantation Timber Products entered the market in the mid-1990s as one of the first manufacturers of MDF, with a mill in Sichuan Province. IFC's loan and equity financing supported this mill during its start-up phase. Following this successful engagement, IFC financed a second plant in Hubei Province, helping the company become a well-established retail brand with a leading role in China's MDF sector. IFC had a successful equity exit when the founders sold the PTP group to a subsidiary of International Paper in 2004.

IFC Role:

- \$30 million in long-term debt to set up a state-of-the-art timber processing plant in Sichuan; \$38 million in loans to a second plant in Hubei; \$2.5 million in equity at offshore holding company level.
- Helped build up the group's operational standards of corporate governance, environmental protection, and health and safety, which enhanced company value at the trade sale.



Catalyst for Change: Fenglin Group, Guangxi Province (China)

In 2004, IFC formed a partnership with Fenglin, a domestic private sector MDF manufacturer, to promote the expansion of its operations, development of plantation resources, and stronger corporate governance. The partnership represented IFC's first investment in Guangxi Province, one of the poorest interior provinces of China. As part of IFC's strategy to promote long-term sustainability in an underdeveloped region, this project is creating new jobs and increasing incomes in the city of Baise, through Fenglin's manufacturing and the plantation businesses.

IFC Role:

- \$39 million financing package, including debt and equity.
- Advisory services on sustainable forestry and internal systems development, which contribute to the company's long-term success.
- Demonstrating by example that viable investment opportunities exist in China's more underdeveloped provinces.

Realizing Opportunities: Jiangxi Chenming Paper Company, Jiangxi Province (China)

Jiangxi Chenming Paper Company has brought advanced paper manufacturing technology to Jiangxi Province. The construction of a lightweight coated paper facility, including a bleached thermo mechanical pulp (BTMP) mill and a cogeneration power plant, meets world-class standards of environmental compliance. This is the first direct investment in China for Sappi of South Africa and Moorim Paper of South Korea, two of the three joint venture partners in the company, along with Shandong Chenming Group.

IFC Role:

- \$72.5 million financing package including debt and equity to support the set up of the JV paper company.
- Encouraging intraregional relationships by helping companies expand into developing countries.
- Committing to a company that demonstrates strong focus on sustainable practices.

Supporting Sustainable Plantations: Stora Enso, Guangxi and Jiangsu Provinces (China)

In 2006, IFC entered into a global facility with Stora Enso Group of Finland to support the development of the company's plantation and paper-making investments in China. Known to be on the forefront of sustainable development and community engagement, Stora Enso is involved in developing large-scale high-yield eucalyptus plantations in Guangxi Province, which may eventually be a source of fiber for an integrated pulp mill in Beihai City. Funds are also being used to support the company's papyrus paper mill in Suzhou.

IFC Role:

- Mobilizing \$300 million in a flexible syndicated loan facility, supported by Stora Enso guarantee.
- Exploring new program opportunities to strengthen capacity of and engagement with local contractors.

Eco-friendly Furniture In Kh vy Corporation (Vietnam)

Kh vy is a local entrepreneurial success story; a company that started small only 12 years ago. Today, with revenues topping \$35 million, the environmentally friendly furniture exporter operates four factories across Vietnam. The majority of Kh vy's wood is Forest Stewardship Council certified, and the company aims for a supply chain that is 100 percent FSC-certified. This focus on the environment has paid off: an impressive international customer base includes major retailers such as Carrefour and Costco that are committed to sustainable sourcing of products. Now, the company is expanding to meet growing demand. When the expansion is complete, the firm will employ 8,000 people, with above-average wages, advancement opportunities, and strong worker safety standards.

IFC Role:

- \$6 million in financing and Advisory Services are supporting this new round of growth and helping the company achieve the highest environmental, social, and corporate governance standards.

For more information about IFC's Financial Products and Advisory Services in the forest products sector, please contact: Sarvesh Suri 1-202-458-8578 or ssuri1@ifc.org; Yao LI, 86-10-5860-3038 or yli2@ifc.org; Shannon Atkeson, 86-10-5860-3006 or satkeson@ifc.org