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Working Group 3

Indicator 15 "Financial resources from all sources for implementation of Sustainable Forest Management"

Draft discussion paper

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Indicator 15: Financial Resources for Sustainable Forest Management

Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Target 15.b: Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation

Institutional information

Organization(s):

Food and Agriculture Organization of the United Nations (FAO)

United Nations Forum on Forests Secretariat (UNFFS)

Concepts and definitions

Definition and scope:

Financial resources for sustainable forest management are key to achieving SDG15, to the extent that they are the topic of a stand-alone target, 15.b. Yet there is no official or universal definition of the concept of “financial resources for sustainable forest management”, also known as “SFM finance”. However, building on work by Singer (2016), the concept could be defined as financial resources which contribute directly or indirectly, explicitly or implicitly, to the sustainable management of any type of forests or trees outside of forests.

This definition has several implications:

- SFM financing is not necessarily synonymous with **forest sector financing** since some financial flows in the forest sector can result in forest degradation or deforestation (*e.g.*, investing in unsustainable logging). Those flows in the forest sector that lead to degradation or deforestation are not included in this concept.
- However, financial flows which promote sustainable forest management as well as sustainable value chains of forest products (*e.g.*, industry development, transforming and marketing sustainably issued forest products) are included in SFM finance.
- Likewise, financial flows that remain outside the forest sector are included in SFM financing as long as they address extra-sectorial drivers of deforestation, *e.g.*, promoting zero-deforestation agricultural commodities. Such financial flows which remain outside of forests or the forest sector altogether may be labelled “**indirect SFM financing**”. In theory, this would also include any reduction in public subsidies towards commodities driving deforestation.
- SFM financing can include financial flows which are not labelled forests as long as they have a positive impact in terms of sustainable forest management. Some flows termed “biodiversity finance”, “climate finance” or “REDD+ finance”, for instance, may still impact forests without explicitly referring to forests or forestry, let alone SFM. Such financial flows can be called “**implicit SFM financing**”.

- For the purposes of this discussion, all REDD+ financing and REDD+ aligned financing is viewed as part of SFM financing.

Background on SFM Finance:

Forests play a vital role to the well-being of humanity, notably by providing a variety of goods (such as wood and construction materials, fuel, food and medicine) and services (including soil and water conservation, carbon storage, biodiversity).

Yet financial resources to implement sustainable forest management worldwide are vastly insufficient. One estimate places the SFM finance gap (needs minus supply) between US\$70 billion and US\$160 billion annually (AGF 2012:iii). Another calculated that domestic subsidies to agricultural commodities causing deforestation in key tropical countries exceeded REDD+ finance in those same countries by factors of 70 to 164 times (McFarland *et al.* 2015:15). Both these studies suggest that SFM financing is dwarfed by actual needs and financial flows driving deforestation and forest degradation.

Types of SFM finance by instrument and source:

SFM financial flows may consist of any type of financial instrument, including grants, loans, subordinated or concessional loans, equity, guarantees, bonds and others.

SFM financial flows can be broken down by source:

- Public international financing consists of official development assistance (ODA) and other cross-border financial flows, mostly concessional in nature, from public entities including aid agencies and multilateral financial institutions.
- Public domestic financing consists primarily of national budget allocation to forests, which itself is sourced mainly from taxes. Additional sources of public domestic financing may include specific innovative mechanisms payments for ecosystem services. If possible, it may be helpful to distinguish finance aimed at expanding forest assets (capital expenditures) from finance to cover, for example, the costs of public forest agencies or other “enabling conditions”. Private finance may be more appropriate for the former than the latter.
- Private financing includes all financial flows from private entities at all levels – from smallholders and small and medium enterprises to large-scale institutional investors. Private financing may happen at any stage of the value chain of forest products or products with a potential impact on both sustainable and sustainable outcomes. Private financing may be further broken down into domestic private financing and international private financing.

Evidence seems to suggest that public domestic and private financing sources are each several magnitudes larger than public international financing (*e.g.*, Atmadja *et al.* 2018; Zhang *et al.* 2017).

The multiplicity of the sources of SFM financing prevents us from using a single source, *e.g.*, public international financing or ODA, as a proxy, especially as there is no evidence that these categories of sources are correlated, positively or negatively.

Priority Sub-Indicators:

Given that different sources of SFM financing may evolve independently over time (*i.e.*, limited correlation may be observed between financing flows from different sources), a combination of sub-indicators may be needed such as the following:

1. **As a sub-indicator for public international finance: “Forestry ODA (disbursements)”¹** from the OECD DAC Statistics Database. While OECD data exclude most South-South cooperation and focuses exclusively in explicit and direct SFM finance, it represents one of the most reliable sources of information on SFM finance, with a long track records (going back at least to 2002).
2. **As a sub-indicator for public domestic financing: “Public expenditure on forestry activities”.** This sub-indicator was already used by the FAO Forest Resources Assessment in 2010 and includes expenditure on forestry activities by all relevant public institutions. However, there is a risk of double-counting forestry ODA as (i) some of this public expenditure in developed countries may go into forestry in developing countries, while (ii) some of this expenditure in developing countries may come from forestry ODA.
3. **As sub-indicators for private financing:** no source of data on private finance currently exists that would reflect all the types of financial flows which fall into this category. Given the notorious paucity of data available, the two following sub-indicators are proposed as proxies:
 - a. **“Surface area of planted forests”**, an indicator already collected by FAO’s Forest Resources Assessment (FRA), can be considered a proxy for private financing into forestry as it is known to correlate with the level of investment into private forests (SOURCE??). However, it excludes private financial flows to natural forests (*e.g.*, for selective logging activities) as well as indirect financing (see next point).
 - b. **“Progress towards zero-deforestation commitments of companies with exposure to deforestation”** complements the above-mentioned “surface area of planted forests” as it could be used as a partial proxy for financial flows to address the drivers of deforestation. Unlike the above-mentioned sub-indicators, data on such commitments are collected by a think tank, Forest Trends, rather than an intergovernmental organisation.

There are major discrepancies in the availability, reliability and validity of data between the above-mentioned categories. Public international financing is consistently recorded in a much more detailed fashion than any other type of data. Public domestic finance could likely be compiled on a global basis if systematic data collection mechanisms existed.

It is widely acknowledged that private financing is the category with least information, largely because most companies are reluctant to share complete information on their progress towards implementing commitments to reduce their impact on deforestation/degradation or to promote SFM. As an exception to this rule, national data on plantation development and major investments in industrial capacities can be collected with a relatively modest level of effort. Most publicly listed companies with forestry investments are also often transparent with this data.

¹ An alternative could be Total Official Support, or development finance, which is a more inclusive denomination used by OECD as it includes ODA and Other Official Flows, mostly non-concessional. In addition, OECD has data on private finance mobilized by official sources.

Methodology

Computation Method:

- “Forestry ODA (disbursements)” is reported directly by donor countries to OECD.
- “Public expenditure on forestry activities” was compiled by the FAO Global Forest Resources Assessment 2010
- “Surface area of planted forests” is compiled by the FAO Global Forest Resources Assessment
- “Progress towards zero-deforestation commitments of companies with exposure to deforestation” is compiled by Forest Trends’ Supply Change Initiative.

Disaggregation:

No further disaggregation of these sub-indicators.

Sources of discrepancies:

N/A

Methods and guidance available to countries for the compilation of the data at national level; quality assurance:

- For the sub-indicator contained in OECD Stats: A series of CRS² purpose codes identify the forestry sector in OECD Statistics. Policy markers such as the ones for biodiversity, environment, climate change adaptation, desertification can be used to identify sustainability. SDGs targets and goals data is also reported on a voluntary basis. In the future, TOSSD data could be considered. Methodologies are available on the OECD website. Concerning quality assurance, the issue of sustainability of SFM can be assessed with the markers, the SDG data or manual screening. The ownership of the data is of the reporters, OECD checks the quality of ODA data before it makes it available to the public.
- For sub-indicators contained in FAO FRA: Detailed methodology and guidance on how to prepare the country reports and to convert national data according to national categories and definitions to FAO’s global categories and definitions is found in the document “Guide for country reporting for FRA 2015”, <http://www.fao.org/3/a-au190e.pdf>.
- For the sub-indicator contained in Forest Trends’ *Supply Change* Initiative: *Supply Change* runs the world’s largest and most comprehensive database on company commitments to reducing deforestation related to agricultural commodities. For each commitment, *Supply Change* records basic details such as geographical coverage, inclusive of key commitment goals and procurement policies, intermediary milestones, and available progress toward the overall commitment. This information is used in analysis to identify patterns and performance trends. Company information is available via *Supply Change* publicly available company profiles (<http://supply-change.org/profiles/>), direct data sharing agreements. Company and commitment research methodology is available at <http://supply-change.org/pages/full-methodology>.

² Creditor Reporting System

Data Sources

Description and collection process:

- For the sub-indicator contained in OECD Stats: the data source is OECD's Creditor Reporting System, where OECD Member States submit a report to OECD on ODA project by project on an annual basis. Starting 2020, TOSSD data will be collected on a voluntary basis.
- For sub-indicators contained in FAO FRA: Data on the sub-indicators are collected periodically (until now every 5 years) by FAO's Global Forest Resources Assessment (FRA) programme. All data are provided to FAO by countries in the form of a country report following a standard format, which includes the original data and reference sources and descriptions of how these have been used to estimate the forest area for different points in time.

Officially nominated national correspondents and their teams prepare the country reports for the assessment. Some prepare more than one report as they also report on dependent territories. For the remaining countries and territories where no information is provided, a report is prepared by FAO using existing information and a literature search. In order to obtain internationally comparable data, countries are requested to provide national categories and definitions, and in case these are different than the FAO categories and definitions, countries are requested to perform a reclassification of national data to correspond to the FAO categories and definitions and to document this step in the country report. Countries are also requested to use interpolation or extrapolation of national data in order to provide estimates for the specific reporting years.

- For the sub-indicator contained in the Forest Trends' Supply Change Initiative: New companies are researched on a continual basis and are reviewed at least every six months to ensure that the commitment information is up-to-date and to record any newly reported progress. Researchers mine publicly available sources to determine if a company has an existing commitment. Typical data sources include company websites, dashboards, sustainability reports, procurement policies, annual reports, public data from the CDP Forests program, and annual corporate submissions to Roundtable on Sustainable Palm Oil (RSPO) and Round Table for Responsible Soy (RTRS). During this process, researchers may find new commitments or update old ones. An updated commitment may include an increase or decrease in ambition – stringency, product line coverage, or geography coverage – or an acceleration or delay of the target date. If an updated commitment is more ambitious, the previous target will often be incorporated as a milestone. Sometimes commitments may be removed from Supply-Change.org. One cause for removal is if a commitment is no longer publicly documented. Another case is if a new commitment from a parent company changes the profile decision tree outcome described above in the Company Structure section. For instance, if a new commitment from a parent company is equivalent to the existing commitment from a subsidiary company then the subsidiary company commitment would be removed and instead listed under the parent company.

Data Availability

Time series:

- For the sub-indicator contained in OECD Stats: Annual data collection, published yearly
- For sub-indicators contained in FAO FRA: Every 5 years (2010, 2015, 2020)

- For the sub-indicator contained in the Supply Change Initiative: data are collected by Forest Trends at least every 6 months.

Calendar

Data collection:

- For the sub-indicator contained in OECD Stats: Annual data collection, published yearly
- For sub-indicators contained in FAO FRA: Every 5 years (2010, 2015, 2020)
- For the sub-indicator contained in the Supply Change Initiative: data are collected at least every 6 months and updated in real time.

Data providers

- For the sub-indicator contained in OECD Stats: OECD has a statistical correspondent for each DAC (and non-DAC) data provider. These focal points collect all the data from the various national agencies (or local offices of multilateral institutions) and are responsible for the data.
- For sub-indicators contained in FAO FRA: National Forest Authorities, through officially nominated National Correspondents to FRA.
- For the sub-indicator contained in the Supply Change Initiative: Data are collected directly by Forest Trends based on information made public by relevant companies.

Data compilers

Organisation for Economic Cooperation and Development (OECD)
Food and Agriculture Organisation (FAO)
Forest Trends

References

URLs:

<https://stats.oecd.org/>
<http://www.fao.org/forest-resources-assessment/en/>
<http://supply-change.org/#remove>
<http://supply-change.org/pages/methodology>
<http://supply-change.org/pages/full-methodology>

References:

- Atmadja, S.S., Arwida, S., Martius, C. & Thuy, P.T. (2018). Financing REDD+: A transaction among equals, or an uneven playing field? *In* Angelsen, A., Martius, C., De Sy, V., Duchelle, A.E., Larson, A.M. & Pham T.T. (eds), *Transforming REDD+: Lessons and New Directions*. Bogor, Indonesia: CIFOR, pp.29-40.
- Climate Focus. (2017). Progress on the New York Declaration on Forests: Finance for Forests - Goals 8 and 9 Assessment Report. Prepared by Climate Focus in cooperation with the New York Declaration on Forest Assessment Partners with support from the Climate and Land Use Alliance.
- Singer, B. (2016). Financing sustainable forest management in developing countries: the case for a holistic approach. *International Forestry Review* 18(1):96-109.
- Zhang, K., Artati, Y., Putzel, L., Xie, C., Hogarth, N.J., Wang, J.N. & Wang, J. (2017). China's conversion of cropland to forest program as a national PES scheme: institutional structure, voluntarism and conditionality of PES. *International Forestry Review* 19(s4):24-36.

Guiding Questions for Discussion

1. Is the scope of SFM financing as defined appropriate?

Referring to the general definition and scope of SFM financing above, do the existing elements that make up the definition require further refinement to facilitate data collection and reporting for the identified source categories and their sub-indicators? Also, what other elements are missing and ought to be included in the scope, in order to guide reporting on selected source category and sub-indicators?

2. Do other sources of data exist that could be added to the table?

What other sources of data or databases that you are aware of that could be added to the table above? What are the advantages of these identified sources?

3. How often should datasets be compiled (in real time, yearly, every 5 or 10 years)?

What would be a practical or adequate time period that data should be reported, collected and compiled (e.g. in real time, yearly, every 5 or 10 years)? What would be the advantages/disadvantages of more frequent data reporting and/or compilation versus longer periods?

4. Which of the sources of data should be retained for Indicator 15?

Are the proposed sub-indicators sufficient for reporting on the different financing sources/categories (e.g. public international finance, public domestic finance, etc)? If not, what other sub-indicators should be added to the list?

Also, considering the challenges in collecting data and information on private financing, are the proposed sub-indicators adequate to cover reporting on this source category? What other sub-indicators for which data is being collected could be added to the list?

5. What are countries already collecting in terms of information relative to SFM finance? Could you provide some examples, also lessons learned and good practice applied?

Annex: List of Potential Sources of Data

Category	Sub-indicator	Source of data	Advantages	Disadvantages
Public international finance	15.b.1. Forestry ODA (commitments or disbursements)	OECD DAC Creditor Reporting System (CRS)	<ul style="list-style-type: none"> • Systematic annual reporting system • Long track record (goes back to 2002) • Breaks down forestry ODA into sub-categories for greater granularity 	<ul style="list-style-type: none"> • Excludes most South-South cooperation • Excludes implicit and indirect forest finance • Based on donors self-reporting
		International Aid Transparency Initiative (IATI)	<ul style="list-style-type: none"> • Frequent updating (multiple times a year) • Based on reporting by donors and recipients 	<ul style="list-style-type: none"> • Not necessarily as complete as OECD DAC database • Shorter track record (2011) • Excludes implicit and indirect forest finance • Does not offer sub-categories within forestry unlike OECD
Public domestic finance	15.b.2. Domestic public expenditure on forestry	National reporting	<ul style="list-style-type: none"> • Systematic data collection mechanism • Official data • Sub-indicator already used by FAO FRA 2010 	<ul style="list-style-type: none"> • Adds to Member States' reporting burden • Excludes implicit and indirect forest finance • May exclude additional financing mechanisms (e.g., PES) • May exclude finance in the form of subsidies • risk of double-counting forestry ODA as (i) some of this public expenditure in developed countries may go into forestry in developing countries, while (ii) some of this expenditure in developing countries may come from forestry ODA
	15.b.3. Domestic budget allocation to	National reporting	<ul style="list-style-type: none"> • Systematic data collection mechanism • Official data 	<ul style="list-style-type: none"> • Adds to Member States' reporting burden

	the government body in charge of forests			<ul style="list-style-type: none"> Excludes implicit and indirect forest finance
Private finance	15.b.4. Inward FDI flows to wood and wood processing	UNCTAD World Investment Report	<ul style="list-style-type: none"> Global data collection mechanism Official, UN-published data Systematic data collection mechanism 	<ul style="list-style-type: none"> Data collection of this sub-indicator has been discontinued Excludes indirect private finance Excludes domestic private finance Forestry is aggregated with agriculture
	15.b.5. Surface area of planted forests	FAO Global Forest Resources Assessment (FRA)	<ul style="list-style-type: none"> Systematic data collection mechanism Official data Complementary with sub-indicator 15.b.4 	<ul style="list-style-type: none"> FRA collects data only every 5 years Proxy: assumes correlation between surface area and level of investment in planted forests Excludes indirect financing Excludes private financial flows to natural forests
	15.b.6. Progress towards zero-deforestation commitments of companies with exposure to deforestation	Supply Change (Forest Trends)	<ul style="list-style-type: none"> Systematic data collection mechanism Updated in real time 	<ul style="list-style-type: none"> Proxy: assumes correlation between commitments and investments to reduce drivers of deforestation Excludes direct financing
Mixed/ Additional sources	15.b.7. REDD+ finance	Climate Funds Update	<ul style="list-style-type: none"> REDD+ funding (mitigation) is available, pledged and deposited 	<ul style="list-style-type: none"> Includes flows from multilateral funds only
		REDDX	<ul style="list-style-type: none"> Follows each financial flow Includes financing from all sources 	<ul style="list-style-type: none"> Data collection is limited to 2009 to 2012 (discontinued) Data is limited to 14 recipient countries