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联合国粮食及农业组织 Food and Agriculture Organization of the United Nations Organisation des Nations Unies pour l'alimentation et l'agriculture Продовольственная и сельскохозяйственная организация Объединенных Наций Organización de las Naciones Unidas para la Alimentación y la Agricultura منظمة الأغذية والزراعة للأمم المتحدة

LATIN AMERICAN AND CARIBBEAN FORESTRY COMMISSION

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SCALING UP FINANCE FOR SUSTAINABLE FORESTS MANAGEMENT: NATIONAL EXPERIENCES

Executive Summary

Financing for forests is essential for increasing the economic attractiveness of sustainable forest management, adopting sustainable land management practices, advancing restoration and reducing deforestation. Drawing on the latest evidence and data, in particular from the last edition of FAO’s flagship report, *The State of the World’s Forests (SOFO) 2022*, the XV World Forestry Congress, and the Twenty-sixth Session of the Committee on Forestry (COFO26), this document provides an overview of key issues, priorities, and opportunities for scaling up finance for forestry.

The Commission is invited to:

- Invite Members to develop national forest financing strategies to identify and access finance for forest management with the aim to complement public with private-sector finance for forestry, to develop forest based value chains.
- Support countries, upon their request, in developing methodologies to monitor the flows of domestic public finance that impact forests.
- Enhance and facilitate access to markets, innovation and finance for sustainable wood and non-wood forest products value chains;
- Promote access to finance to develop local value addition, including by involving indigenous people, local communities, smallholder producer organizations and small and medium enterprises, in order to build greener economies.

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I. INTRODUCTION

1. Evidence of the vital contribution of forests to the societal transition towards sustainable, inclusive, green and resilient development has been well recognized and documented. In an effort to accelerate this transition, many governments are increasing their investments in climate action, green recovery, economic diversification, and rural transformation. Bilateral and multilateral initiatives and agencies have endorsed the critical role of forests in bringing about a "green, healthy and resilient future". This was achieved through international declarations and initiatives such as the "Glasgow Leaders' Declaration on Forest and Land Use", signed at 2021 UN Climate Change Conference (COP26), the "Seoul Forest Declaration", and the Forest and Climate Leaders' Partnership (FCLP), launched at the Conference of the Parties of the UNFCCC (COP 27) World Leaders' Summit.

2. Climate finance is considered a "game changer" for stimulating forestry investments. Many countries have developed national Reducing Emissions from Deforestation and forest Degradation plus (REDD +) strategies and highlighted the potential of forests in their Nationally Determined Contributions (NDCs) to pursuing efforts to limit a global average temperature increase of 1.5° C above pre-industrial levels. In Latin America and the Caribbean (LAC), within the frame of climate action and policy approaches for REDD+, 21 countries have presented forest reference levels, representing 94.6 percent of LAC forest area. Together with climate finance, they have also made restoration commitments and developed strategies to meet these goals[1]. These strategies include key actions in the forestry and land use sector and provide a framework within which to promote investments in sustainable forestry practices that contribute to the protection and restoration of forest ecosystems. Such investments can contribute to financing a shift toward more sustainable, inclusive and resilient forest value chains[2].

3. The Paris Agreement provides for a broad range of entry points for forest and nature-based solutions, including the payments for results for REDD+ under Article 5; the cooperative approaches, transferable mitigation outcomes and carbon markets in Article 6[3]; and the non-market approaches, still under development, also included in Article 6.
Yet, effective scaling up of public and private investment able to deliver large-scale, system-wide transformational changes in the forestry sector is still lacking.

4. Figure 1 shows that climate-related development finance in the Latin America and Caribbean region has more than doubled from 2019 to 2020, and more than quadrupled the annual flows before 2016.

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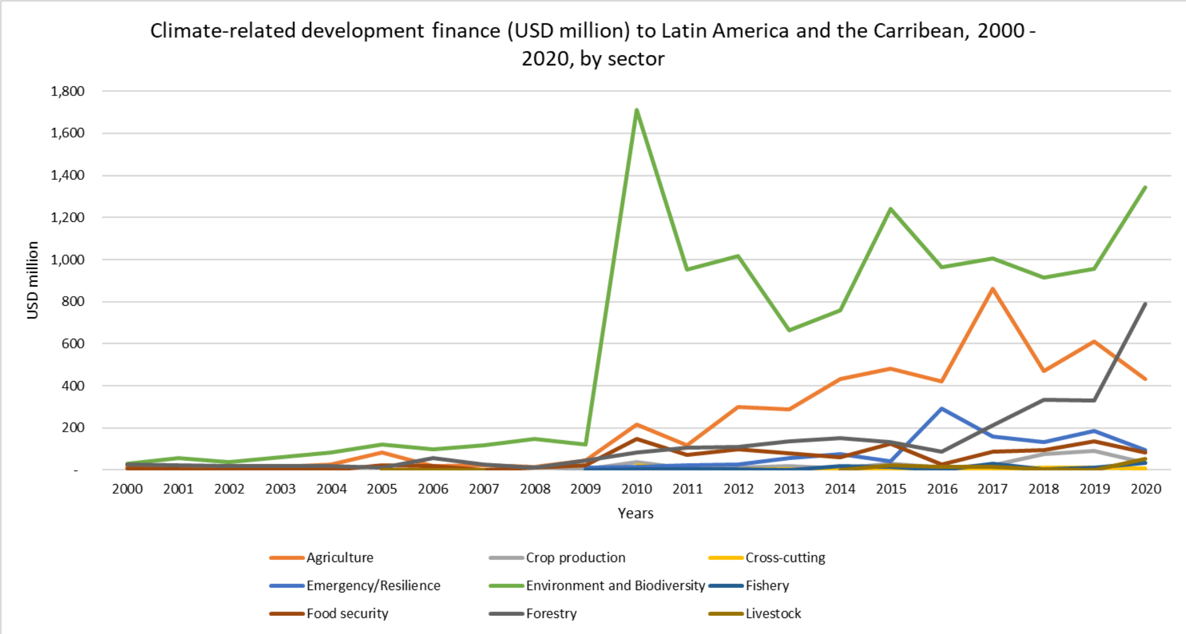
[1] See, for example, the REDD+ Landscape program in Mesoamerica: https://fondodesarrolloverde.org/faseuno/.

[2] A review of opportunities of climate and environmental finance has already been discussed at COFLAC in 2021, which emphasized the importance of creating enabling conditions necessary to mobilize financing and improving the way funding reaches local stakeholders.

[3] https://unfccc.int/sites/default/files/english_paris_agreement.pdf



Source: Organisation for Economic Co-operation and Development DAC Climate-related Development Finance database, compiled by FAO.

5. Despite this significant increase, the level of funding remains insufficient. According to one estimate[4], global total financing for **halting deforestation, restoring forest landscapes, and increasing the use of sustainably produced wood products** needs to increase threefold by 2030 and fourfold by 2050[5].

6. Public forestry agencies play an extremely important role in enabling this societal transition towards sustainable and green growth. Climate finance has mobilized significant political momentum, enhancing the role of forests in national policies and capacities of countries for halting deforestation, restoring forest landscapes and sustainably using forests. In addition, more than 11 countries have produced national REDD+ strategies to undertake climate action and, as of June 2022, the Green Climate Fund (GCF) REDD+ Result Based Payment programme approved a total of USD 1.1 billion, including USD 393 million for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador and Paraguay.

7. However, decades of chronic underfunding for public forestry agencies[6] risk undercutting progress toward the kind of transformation that is needed to halt deforestation, restore forest landscapes, and increase the use of sustainably produced wood products[7]. Public forest agencies are responsible for policy and regulatory functions, as well as those related to planning and facilitating - all essential for informing and orienting forest policy, planning, and practice[8]. The quality of their functioning is also

[4] UNEP. 2021. State of finance for nature: Tripling investments in nature-based solutions by 2030. https://www.unep.org/resources/state-finance-nature

[5] FAO 2022. State of the World's Forests.

[6] In a 2011 analysis, PROFOR noted that "In almost all of the cases reviewed; only a small proportion of the national budget is allocated to the forest sector, despite the sector's importance to local and national economies. The result is that forest departments have been under-resourced relative to their mandates. Typically, they face shortages of qualified staff and insufficient resources to undertake the supervisory and regulatory functions required of them. As a result, the sector has been unable to contribute, at full potential, to livelihoods and the growth of the national economy."

[7] The COVID pandemic may have worsened the financing situation of public forestry agencies in some countries. For example, Alayza and Caldwell (2021), having analysed the impacts of the COVID-19 pandemic on climate finance and climate action implementation in 17 developing countries (6 in the LAC region), found that in many countries climate finance decreased during the pandemic. For example, national public climate finance allocations were halved between 2019 and 2020 in Colombia and Peru (Alayza and Caldwell 2021). See also https://link.springer.com/article/10.1007/s11625-021-01086-8

[8] FAO 2015. Strengthening Public Forestry Institutions.

fundamental to create an enabling environment that can catalyse private investment and steer the sector towards increased sustainability and resilience. Hence, their adequate financing is essential. The following section briefly reviews the modalities that countries in the region have used to address their financing needs in support of forest management.

II. FINANCING PUBLIC FORESTRY INSTITUTIONS

8. Countries in the region have financed their public forestry institutions through a variety of means, including:

9. **Government budget allocations for forestry.** Recent reports ([United Nations Environment Programme (UNEP) 2021, 2022; FAO 2022[9]]) suggest that domestic public finance is the main source of finance for sustainable forestry (higher than Official Development Assistance (ODA) and private sources). However, readily available and consistent information on public expenditures in forestry in the region are lacking. The latest analysis of public expenditure reviews in forestry is more than a decade old and only covered two countries in Mesoamerica (Honduras and Costa Rica).

10. **Climate and environmental finance.** Climate finance data provided by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) is the most comprehensive and consistent data with global coverage that specifically identifies the forest sector. Data reported by both DAC and non-DAC members can be extracted from the OECD DAC External Development Finance Statistics database, which includes ODA, other official flows, private grants and private amounts mobilized. Figure 1 summarizes climate finance flows to forestry compared with other sectors – those to forestry more than quadrupling between 2015–16 and 2020. The climate action potential and financing available can be further enhanced by tapping into synergies, particularly with agrifood systems. While forest conservation, management and restoration have a mitigation potential of close to 6 GtCO2e/yr by 2050, mitigation across food systems and land management is four times larger (24 GtCO2e). Enhancing the synergies between climate actions (including REDD+) and food systems, including through alignment of the financial system, can be an effective strategy to enhance the impact of climate finance.

11. **Environmental taxation for forest conservation and management.** Well-designed and targeted environmental taxation can reduce the costs of environmental and climate policy, provide for adequate capacity of forest agencies, while also improving national economic development outcomes. Many scholars suggest that environmental taxation is among the most cost-efficient climate mitigation policies, and that it can enhance rather than contradict economic development (Acemoglu, Golosov, and Tsyvinski 2011). In particular, the revenue-generating capability of environmental taxation creates many opportunities for synergy between the achievement of national development and climate objectives. The adoption of a tax on gasoline to finance Fondo Nacional de Financiamiento Forestal (FONAFIFO) in Costa Rica is a relevant example. A report on “Fiscal Instruments for Sustainable Forests” (World Bank 2019a) explores in depth the ways in which fiscal instruments can reward and encourage more sustainable practices, if well designed.

12. **Charges for services provided by forests through national programmes and funds (water fees, Chile).** Dedicated funds to reward forest management that maintains the provision of important ecosystem services can be envisaged. For example, The Nature Conservancy (TNC) has established a series of water funds across Latin America that allow diverse public and private downstream water users to pay for investments in watershed protection upstream. The Water Fund in Quito, Ecuador started with an investment of USD 21 000 and now has USD 9 million in capital to invest in watershed protection and improvements in agricultural practices across upstream communities, which serve as stewards and providers of watershed services. Water fees are being charged in Chile, including to support forest management.

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[9] https://www.unep.org/resources/state-finance-nature; https://www.unep.org/resources/report/state-finance-nature-2022; https://www.fao.org/3/cb9360en/online/cb9360en.html.

13. **Enhance revenue collection by combating illegal logging and tax evasion.** A Program on Forests (PROFOR) 2019 report notes, **"**In most countries, revenue collection falls far short of what is owed[10]. While estimates vary and are uncertain, figures have suggested that countries in tropical areas may manage to collect just 20 percent (or less) of the forestry-related revenue they are owed (van Hensbergen 2016). Another estimate holds that governments lose around USD 5 billion each year to tax and royalty evasion on legal logging activity (Castrén and Pillai 2017). Further, illegal logging may account for as much as 50 to 90 percent of forestry operations in the primary producer countries of the tropics, and 15 to 30 percent globally, while the forestry sector loses around USD 29 billion per year globally due to corruption (INTERPOL 2016)[11]. It is also important to keep in mind that annual figures of government revenue or losses do not capture the long-term impact of logging on revenue mobilization, given the impact on the stock of forest going forward (which depends on logging practices and intensity), the long period required for regeneration, and the potentially irreversible impacts on biodiversity." (WBG 2021).

14. **Financing social and economic development.** Some countries in the region are implementing programmes that promote forest conservation, restoration and management while advancing social development goals. Examples are Program to Promote the Establishment, Recovery, Restoration, Management, Production and Protection of Forests (PROBOSQUE) and Smallholder Forestry Incentives Program (PINPEP) in Guatemala, and Socio Bosque Program (SOCIOBOSQUE) in Ecuador. These programmes are implemented with support from national forestry agencies, which are financed accordingly.

15. **Reform to ensure reliable institutional financing.** To facilitate the financing and efficient delivery of public forestry functions some countries in the region have made their forest administrations more financially autonomous. In the Caribbean region, this institutional reform has taken place in Guyana (by creating a Forestry Commission), in Suriname (through a foundation for Forest Management and Production control) and in Jamaica (with an Executive Agency).

16. **National forest financing strategies** have been used to identify and access finance for forest management, and complement public with private sector finance. The opportunities National Forest Financing Strategies represent are four-fold. Firstly, they allow for an assessment of the current situation in terms of policies, resources, markets, financing opportunities and obstacles to overcome. Secondly, they help to identify the multiple sources of finance, public and private, and evaluate how limited public resources that can be used to catalyse private investments. Thirdly, they help identify the opportunities to scale up sustainable forest management and forest value added and income creation. Lastly, they help to define a roadmap for investment and finance, including the enabling conditions that need to be created and the type of financial instruments that are appropriate to the different contexts.

17. A recent example is Suriname, where a strategy focusing on the upgrading of value added chains generating products and ecosystem services, coupled with improvements in the business environment and de-risking and catalyzing investments with appropriate finance from multiple sources. In the context of developing the Forest Financing Strategy, 15 bankable forest-based businesses were developed by the private sector, which the Government of Suriname together with the private sector (will have) presented at the Sustainable Development Goals (SDGs) Fair in New York (18-20 April 2023) to attract international private finance to the forestry sector in Suriname.

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[10] https://openknowledge.worldbank.org/server/api/core/bitstreams/ed38a9a4-da74-5d68-86f0-2748acf6aaa0/content

[11] According to Assunção, J., et al. (2020), 63% of the logging in the Brazilian Amazon in 2019 was illegal. Assunção, J., et al. (2020). "Amazon Deforestation in Brazil." Imazon. Available online: https://imazon.org.br/en/amazon-deforestation-in-brazil/. According to SERFOR (2019), 80% of Peru timber exports were illegal (https://www.gob.pe/institucion/sernanp/noticias/40272-serfor-publica-informe-sobre-estimacion-de-madera-extraida-ilegalmente-en-principales-destinos-de-exportacion). See also UNEP and INTERPOL (2021) "Illegal Timber Trade and Related Flows: Drivers, Trends and Impacts" (2021).

III. FAO'S AND OTHER INITIATIVES IN THE REGION[12]

18. FAO has assisted member countries to access significant funding from the GCF, the Global Environment Facility (GEF) and other donors. As for the GCF, including result based-payments for REDD+, since 2019, FAO has assisted Argentina, Bolivia, Chile, Colombia, Cuba, El Salvador, Guatemala and Paraguay to mobilize USD 478 million with a co-financing of USD 305 million, to halt deforestation, for sustainable forest and land management, reforestation or agroforestry.

19. Regarding resources mobilized through the GEF replenishment, 15 projects are currently being implemented in 11 countries with a focus on sustainable forest and land management, conservation, reforestation or avoiding deforestation, for a total of USD 64.2 million. These projects are in Belize, Bolivia (Plurinational State of), Brazil, Chile, Cuba, Ecuador, Honduras, Nicaragua, Peru, Trinidad and Tobago and Venezuela (Bolivarian Republic of).

20. The GEF, in the 8th cycle, intends to encourage countries to move forward with their programming through large-scale, integrated programmes that address most of the major environmental needs of the planet for which the GEF has a mandate. Among the integrated programmes that are being considered, is the Forest Biomes Integrated Program with the goal of protecting and maintaining the integrity of the last and globally important intact forest landscapes. It proposes four major objectives: 1. Strengthen protection and governance of intact forest landscapes, 2. Promote area-based conservation measures within and outside protected areas, 3. Develop financial incentives for forest protection, 4. Empower Indigenous Peoples and local communities. As of mid-April 2023, seven projects are in pipeline for five countries for 47.4 million, mostly for the GEF 8 cycle for Brazil, Chile, Nicaragua, Panama and Venezuela.

21. FAO has also assisted countries through the Forest and Farm Facility (FFF)[13]. Globally, phase II of the FFF has provided direct financial support to 132 forest and farm organizations that collectively serve tens of millions of members. FFF has reached diverse organizations, from local associations and cooperatives to regional and national apex federations and regional and global alliances. These organizations have directly supported 564 diversified businesses in adding value to their forest and farm products and 115 groups in developing climate action plans; benefited 172,170 people and protected, restored or introduced sustainable management to 161,993 ha. In 2022 FFF has delivered a total of USD 5.29 million. More than two-thirds of the FFF budget in 2022 was provided as direct support to forest and farm producer organizations.

22. The United Nations Forum on Forests (UNFF) has established a clearing house of forest financing, which includes a generic guide and modular training package to assist countries in developing national forest financing strategies, a searchable database on financing opportunities as well as learning materials, good practices and lessons learned.

[12] The next three paragraphs are reproduced from the document on climate finance prepared for COFLAC 2021.

[13] The FFF is a partnership of FAO, the International Institute for Environment and Development (IIED), the International Union for Conservation of Nature (IUCN) and AgriCord. The FFF's mission is to strengthen forest and farm producer organizations representing smallholders, rural women, forest communities and Indigenous Peoples as the key agents for achieving the Sustainable Development Goals (SDGs) and delivering effective climate action. It has been operating since 2012 and is now in its second phase (2018–2025). FFF has 10 core partner countries, among them Bolivia and Ecuador in Latin America, and two network countries.