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ASIA-PACIFIC FORESTRY COMMISSION
TWENTY-FIFTH SESSION
Rotorua, New Zealand, 5-8 November 2013
FOREST FINANCING: INVESTING FOR PROSPERITY
Secretariat Note

Introduction

1. Forests in the Asia-Pacific region are critical for supporting the livelihoods of millions of local people besides serving as catchments for important water systems and as storehouses of critical biodiversity. Coastal forests, for example, safeguard vast areas of productive agricultural lands and aquaculture ponds that are threatened regularly by cyclonic storms and tsunamis, saline water intrusion and soil erosion, all of which have adverse consequences on the livelihoods of the poor. The region is also home to about two-thirds of the world's poor and hungry, with a significant portion of them directly and indirectly dependent on forests for their survival and subsistence. As such, how forest resources in the region are managed and enhanced have direct implications not only for millions of forest-dependent people, but also for prospects of building a sustainable future and the ultimate prosperity of the region.

2. Being a leading economic powerhouse, the Asia-Pacific region exerts tremendous pressure on its scarce and fragile forest resources. In addition to growing populations and economies, the factors that drive demand for forest products and services include rapid globalization and urbanization, rise of the middle class, and mounting food, fibre and fuel needs. While there have been gains from afforestation and rehabilitation in some countries, overall, forest degradation, climate change and limited investments in forestry continue to restrict supplies. Thus, the forests in the region are being "squeezed" from both demand and supply sides and face an imminent threat of loss in the absence of suitable remedial measures.

Investing in sustainable forest management (SFM)

3. Having realized the importance of this dimension, some countries, businesses and organizations have begun to explore ways of mobilizing additional funding for forestry. Some of the positive developments witnessed in the region include:

- Increased flows of foreign direct investment (FDI) and other external investments, particularly as a result of macro-level globalization and liberalization policies;
- Climate change financing mechanisms such as REDD+ that value forests' contribution to climate change mitigation and adaptation and offer additional incentives to landowners;

- Payments for forest ecosystem services (PES) such as watershed protection and biodiversity conservation;
- Improved governance mechanisms that are making SFM a prerequisite for access to key domestic and international markets; and
- Enhanced partnership arrangements between forest industries and smallholders, providing additional opportunities to generate income from forestry for tree growers.

Lack of an enabling environment – a key challenge

4. In terms of creating an enabling environment for forest investment, overall progress has been slow, variable and far below what is potentially possible. While the important contributions of forest ecosystems to society are increasingly being recognized, their economic values are poorly reflected in market considerations. As a result, forests are generally undervalued, often resulting in their degradation or conversion to other land uses. In the absence of an enabling environment that addresses this market failure and thereby improves the economic viability of forest enterprises, the sector will continue to struggle. Key dimensions of this currently unfavourable investment climate include:

- The absence of secure tenure and/or property rights arrangements;
- Ineffective or inadequate institutional mechanisms to promote collaboration among forest agencies, local communities and private investors including forest farmers;
- Cumbersome and restrictive regulatory frameworks (e.g., lengthy, complex, and costly permit and approval procedures) that constrain and discourage investment in forestry;
- Inadequate financial and market services;
- Ineffective and inefficient forest revenue systems and forest product trade and marketing practices, often dominated by government controls that distort markets;
- Small and fragmented value chains; low levels of processing, value addition and marketing, and limited policy/institutional support to promote forest entrepreneurship; and
- Weak governance and organizational capacities.

High share of informal uses including for subsistence such as firewood and NWFP collection that often goes unaccounted for and undervalued.

Opportunities to promote financing for SFM

5. Despite these challenges, the burgeoning demand for consumptive and non-consumptive uses of forests and forest products as well as ecosystem services presents huge opportunities to strengthen financing for SFM and promote forestry in the region. Conceptually, the economic viability of SFM can be enhanced in two ways: by recognizing the social benefits derived from forests and adequately compensating the costs of forest management accordingly; and by ensuring appropriate and adequate remuneration for tangible forest products and services. Efforts are needed to encourage such a favourable investment environment, encompassing all sources of financing: public sector support, private sector funding and international assistance.

6. With close to 80 percent of forests in the region under government ownership, strengthened and sustained public sector support is fundamental to promoting SFM. Often it is the only source of funding for forestry activities that are focused on social and environmental benefits. Thus, the key to obtaining this budgetary support lies in promoting and making apparent these benefits from forestry investments to key policy-makers. In addition, public sector support is needed to establish the necessary enabling environment to harness investments from other sources.

7. Private sector financing includes corporate and institutional funds, but is dominated in most countries by small-scale investments by forest owners and local residents involved in managing community forests. Recent years have particularly witnessed increased private sector interest in many countries as evidenced by the growth in public-private and private-private partnerships (such as out-grower schemes). However, greater support is still required to promote initiatives that reduce management costs, assure raw material supplies for wood processing industries, provide liquidity and mitigate risk and uncertainty for small forest owners and community forestry enterprises. Measures may also include lowering transaction and compliance costs; promoting resource rights and tenure security; providing targeted incentives such as tax breaks; and small grower contracts including purchase and price guarantees. Governments may also consider support for the establishment of systems for payments for forest ecosystem services and dedicated institutional mechanisms such as national forest funds to improve financial governance or promote a targeted portfolio of investments; also to help improve access to financial and market services and information.

8. With the growing recognition of the importance of forests in addressing pressing global challenges such as climate change, international financing is also gaining momentum to support SFM. International payments to protect watersheds and biodiversity and combat land degradation and desertification are becoming more widespread. REDD+ has particularly gained prominence as a significant source of international funding for forestry. Increased recognition of forestry as a potential means to diversify investment portfolios, and as a hedge against cyclical risks, is yet another major driver of investment in forests.

FAO actions for forest financing

9. FAO, along with other development partners, has been helping countries to address some of the above-mentioned challenges and develop appropriate financing strategies and instruments to augment financial resources for SFM. For example, FAO has worked with a number of other international agencies in organizing regional and global information-sharing platforms, and in developing knowledge products on various aspects of forest financing. These include development of policies, capacity building, guidelines for national forest-financing strategies, public-private dialogues, creation of trust funds, a sourcebook on funding and a Web site to provide information on forest financing. These experiences underscore the need for strong political support, good systems of governance, efficient, robust and flexible implementation capacities and the well-defined involvement of all stakeholders. Funding for SFM can increase when the benefits of forestry are strongly linked to broader development goals such as poverty alleviation and rural employment.

Future work

10. There is a need for improvements in knowledge and skills of key forest stakeholders. Improving the administrative and communication skills of forest agencies, for example, is necessary to win the confidence of investors and make a convincing case for increased investment in the sector. A shared vision among different actors on the roles, functions and *modus operandi* of forest financing is needed at the national level to undertake advocacy and communication to mobilize required political will and actions to achieve SFM. Specific capacity building to support the mobilizing of resources for SFM is needed in the following areas:

- Timely and reliable information on the socio-economic contributions of forests to society;
- Creation of multi-stakeholder fora and institutional structures that allow the forest sector to be mainstreamed in national planning and policy-making;
- Knowledge of financing processes and products, and a strong inclination to innovate and adapt new financing instruments and mechanisms; and
- Skills for engaging other sectors, particularly the finance sector, and other top levels of administration.

Points for consideration

11. The objectives of this session are to share experiences and to provide guidance on developing suitable strategies for strengthening financing for SFM. In this regard:

- The Commission may wish to discuss the challenges facing the financing of SFM, particularly in the context of competing land-use options and practices, and how various countries are responding to them;
- The Commission may wish to recommend that countries develop suitable strategies and actions for sustained financing for SFM and strengthen regional and international cooperation in this area;
- The Commission may wish to request FAO to support the efforts of member countries to strengthen the financial basis for SFM, with a specific emphasis on:
 - a. promoting necessary institutional capacities and knowledge sharing;
 - b. developing viable national forest financing strategies including mechanisms to mainstream SFM in national development plans and programmes; and
 - c. assisting in the formulation of innovative financial products, services and mechanisms such as payments for forest ecosystem services.