

Community of Practice on Forest Financing in Latin America

One of the major challenges for implementing national forest programmes (NFPs) is to fund sustainable forest management. Traditional markets and existing mechanisms (e.g. credit lines and tax incentives) are a good start but are frequently not sufficient to make sustainable forestry competitive with other types of land use, especially where native forests are concerned. Facing this situation, some Latin American countries, such as Brazil, Colombia, Costa Rica and Mexico, are at the forefront of developing, testing and applying new financing mechanisms (such as payment for environmental services) as well as improving existing ones (such as forest-related securities) in order to increase forest financing opportunities.

As these country initiatives evolve, another challenge is to gather, analyse and make available the new information, experiences and knowledge on forest financing to local, national, regional and international levels.

To promote innovation in financing and to share information among the national forest programmes of Latin American countries, FAO, the World Conservation Union (IUCN) and the Central American Commission on Environment and Development (CCAD), with support from the Netherlands, Germany and the leading institutions responsible for national forest programmes in 18 Latin American countries, established in 2005 a knowledge-management partnership called the Community of Practice on Forestry Financing in Latin America. Other institutions are gradually joining in, including Tropenbos International, the National Forest Programme Facility, the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD), the Amazon Cooperation Treaty Organization (ACTO), the Brazilian Silviculture Society and Forest Trends.

Two initiatives, an FAO/Netherlands/IUCN project and a German Agency for Technical Cooperation (GTZ)/ACTO Amazon project, are currently supporting the Community of Practice by promoting national studies on forest financing. Studies have already been completed in Brazil, Colombia, Costa Rica and Mexico and are under preparation in 14 other countries. Both projects use similar

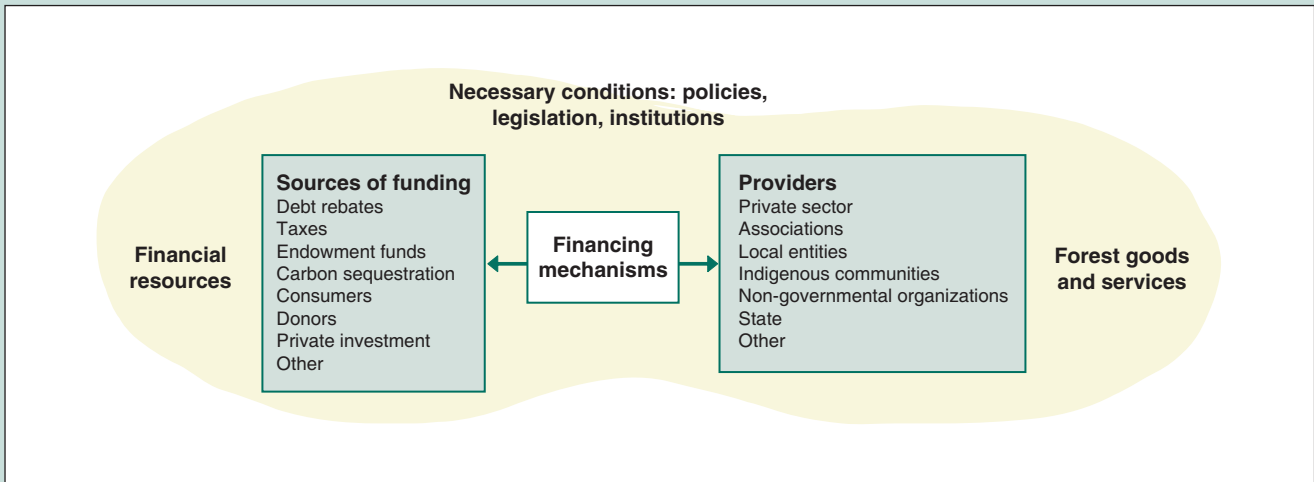
methodologies and coordinate their activities through the Community of Practice.

The Community of Practice is helping national institutions develop comprehensive national financing strategies as an element of their national forest programmes. Basically a national strategy for forest financing consists of an overall vision of all the financial needs and means to promote the sustainable use and conservation of forests in a given country according to its policy and development objectives. The strategy should provide guidance to policy-makers and forest stakeholders on how to finance, in the short and long term, planned activities for sustainable forest management, taking into consideration the many uses of forest resources and ecosystems. Brazil and Costa Rica are examples of countries whose NFP processes are implementing such strategies.

The success of a national strategy for forest financing depends on its capacity to bundle together feasible alternatives for forest financing in a single planning tool. To be complete, it must identify the conditions and changes required for the financing mechanisms to operate (see Figure). It needs to identify all potential goods and services that the country's forests can provide (not only timber) and all their possible providers (right side of the Figure). Accordingly it identifies potential sources of funding for the various goods and services (left side of the Figure). The strategy then proposes ways to link the providers and the recipients (i.e. those who are willing to pay) in the most efficient and effective way. This can only succeed, however, if the policy, legal and institutional conditions are in place for attracting funds towards sustainable forest management.

The Community of Practice has so far elicited a number of important lessons.

- Countries are discussing many ideas for innovative financing mechanisms, but their implementation remains scanty, probably because the requisite conditions (policy, legal, institutional) are not yet in place. The countries in the region differ markedly in their level of advancement in this field, which translates into a good opportunity for knowledge sharing.
- A general lack of data about the financial



flows in the forest sector in Latin America hampers the understanding of forest financing mechanisms. The development of new financing mechanisms is also complicated by lack of knowledge about the value of services (e.g. biodiversity conservation) and of some non-wood forest products, and about consumers' willingness to pay for them. Hence, the valuation of goods and services that are not currently marketed remains an important aspect of a strategy for forest financing.

- Financing mechanisms in forestry seem to function particularly well when applied at the local level (e.g. in a specific district or watershed), where identification of stakeholders, negotiation and monitoring are relatively easy, permitting operational transparency.
- Forest financing provides further opportunities to strengthen the relationship of forestry with other sectors, especially finance and planning.

International interest in the Latin American experience on forest financing seems to be growing. Therefore, the Community of Practice and its partners are also exploring opportunities for exchange of experience and knowledge outside the region. A first effort was an interregional workshop for this type of exchange among Asian and Latin American countries, held in Chiang Mai, Thailand in November 2006. A similar initiative is being planned for 2007 for Latin American and

African countries, and there will certainly be other initiatives of this sort.

More information about the Community of Practice on Forest Financing in Latin America is available at: www.fao.org/forestry/mecanismosfinancieros

*Model of national strategies
for financing multipurpose
forest management*