



**Food and Agriculture Organization
of the United Nations**

Existing and Potential Forest Financing Mechanisms for Smallholders and Community Forestry in West Africa



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Executive Summary

Forests form a vital component of the environment and national economies in West Africa. In recent years, there has been considerable reduction in the forest area in the region which will have significant social, environmental and economical implications. One of the factors contributing to this decline is the absence of adequate and readily accessible finance to support sustainable forest management. This inadequacy is particularly evident for smallholders and forest communities who undertake the bulk of forestry activities and play an important role in rural development and poverty alleviation. Devising forest financing mechanisms that can benefit smallholder and community forestry is a key challenge for the environmental and economic security of the region.

This study reviews some existing and potential financing mechanisms that can benefit smallholder and community forestry in the region, with a particular focus on private financing mechanism and payment for environmental services schemes. On a global level, the level of private financing in the forest sector far exceeds domestic or foreign public funding (Savenije and van Dijk, 2008). This observation however does not apply to several African countries, where the forest sector has not been able to mobilize significant funding from the private sector, and public funding, in particular from foreign sources, remains a major source of forest sector funding. Public funding of the forest sector has however consistently been at insufficient levels for most African countries.

The private financing mechanisms reviewed are microfinance, out-grower schemes, foreign direct investment and remittances. Microfinance has played an increasingly important role in financing small enterprise activities and rural development in the ECOWAS region over the past 20 years and there is mounting interest into tapping into this source of financing for small-scale forestry activities. Indeed several forest activities have already been able to access microcredit, for example the shea sector in Sahelian countries. Microfinance certainly holds potential as a financing mechanism, but it is also characterized by high interest rates, short loan maturity periods and sometimes a low rural outreach. The nature of the forest sector also poses some challenges for microfinance. The most important forest-specific challenges concern the long gestation periods for plantation activities, unclear tenure of forest resources and the externalization by the market of several environmental services provided by forests. It is important to remember that microfinance is a service destined primarily at entrepreneurs. Smallholders and forest communities may need capacity-building support (business-planning, book-keeping, group organization, marketing, etc.) to ensure that they are able to make appropriate use of microfinance resources.

Out-grower schemes, also referred to as contract farming, represent a form of integrated value-chain financing, whereby a buyer higher up the chain provides financing for a producer lower down the value chain. Out-grower schemes provide a response to the constraint of long gestation periods. There are several experiences with out-grower schemes in West Africa, particularly in the tree crops sector in countries like Liberia, Ghana, Côte d'Ivoire and Nigeria, but also some in the timber sector. These schemes are increasingly being integrated into agro-forestry development policies and projects in the region. Government policies aimed at regulating private sector investment in the forestry or agricultural sector may help

provide a framework that promotes smallholder or community benefits in out-grower schemes.

On a global level, forest financing in past years has been characterized by an increase in foreign direct investment (FDI) into developing countries (estimated at approximately US\$8-10 billion a year in 2003) (World Bank, 2004). FDI, investments made by foreign companies operating in a country, under the right framework and when well-managed can provide employment opportunities, finance and transfer of skills and know-how to smaller local companies. Unfortunately, over the past 60 years, there is little evidence that the timber sector, which attracts the bulk of FDI, has lifted rural populations out of poverty or contributed in other meaningful and sustainable ways to local development. In West Africa, most FDI has been concentrated in relatively forest-rich countries, such as Liberia, Sierra Leone, Ghana and Côte d'Ivoire.

In 2006, global remittances were estimated at US\$300 billion, of which \$10.4 billion went to West African countries (IFAD, 2007). There is potential for tapping into this significant source of funds for the financing of smallholder and community forestry activity, but it should be noted that decisions of what remittances are used for are made by individual recipients and studies show that remittances are primarily used to finance consumption. There are, however, mechanisms increasingly being proposed that allow remitters to channel their funds to projects that interest them and that do not necessarily concern personal relations. A proposal has been developed by an investment firm for the creation of a Liberian Diaspora Social Investment Fund, for example. International organizations such as IFAD and the AfDB have also launched initiatives aimed at increasing the development impact of remittances. These funds and initiatives provide some opportunities for smallholders and communities that have the capacity to develop appealing proposals.

Payment for Environmental Services (PES), designed to “capture” the non-market values of environmental services through some kind of economic transaction, is half-way between a public funding mechanism, exposed to the vagaries of changing donor priorities and capacities, and a private funding mechanism. The potential of PES to finance the forestry sector has been in place for more than ten years, but much of that potential has yet to be materialized. Nonetheless, PES mechanisms represent an important innovation in the sense that they tap into a new economic logic that integrates rather than externalizes environmental concerns and may present West African countries with new revenue sources for their forests, particularly in the context of climate change mitigation and adaptation. Regional experiences with carbon finance, community-based ecotourism, conservation concessions, bio-prospecting and watershed services are reviewed.

Carbon finance is a fast-growing market on a global level. Concerning potential benefits for West African smallholders and forest communities, two limitations are evident. Firstly, forestry-related projects account only for a minority of projects financed under CDM and voluntary carbon markets. Secondly, one notes a limited participation of African countries in the different carbon finance schemes. Projects located in Africa accounted for only 3.2% and 1.2% of carbon volumes transacted in the CDM and voluntary markets respectively (Peskett *et al*, 2010). The development of carbon offset projects in Africa is constrained by barriers such as complex rules set by buyers, high costs for evaluation by certifying bodies and poor

governance. Furthermore, poor countries with low levels of literacy have low human, technological and institutional capacities to implement biocarbon monitoring. The role of intermediaries is very important in enabling the participation of rural communities, given the complexities of carbon schemes. The enabling environment is also crucial and lack of tenure security is one of the biggest constraints for carbon finance. The English-speaking high forest cover countries, Liberia, Sierra Leone and Ghana, appear to be the most advanced in developing national strategies and sub-national carbon finance projects. Regional initiatives aimed at increasing participation in carbon markets include the Katoomba Group's Carbon Incubator established in Accra to facilitate start-up projects in ecosystem services targeting mainly communities and small to medium land-owners across the sub-region through technical and financial support.

Ecotourism can be seen as a kind of voluntary environmental service payment in as much as the resource managers receive benefits in return for protecting the scenic beauty and biodiversity of the forests where they live. Several countries in the sub-region have experience with community-based eco-tourism, notably Ghana, Sierra Leone and Gambia. Little information on the benefits generated by on-going community ecotourism initiatives in the region was found for this study. However, a study undertaken in 2009 on the success rate of community-based tourism initiatives in Africa, Latin America and Asia concludes that such initiatives often have very low economic sustainability (Goodwin and Santilli, 2009).

A conservation concession agreement involves governments or local resource users agreeing to protect natural ecosystems in exchange for a steady stream of structured compensation. The opportunity costs of foregoing natural resource exploitation serves as a basis for determining the amount of the payment. There are limited experiences with this PES funding mechanism in Africa. An initiative however is under development in the Gola Forest in Sierra Leone spearheaded by the NGO Royal Society for the Protection of Birds.

The term bio-prospecting covers all activities concerned with the systematic search for sustainable commercial uses of the genetic and biochemical elements of biodiversity. The wealth of biodiversity in natural tropical forests offers great potential for bio-prospecting and the mechanism may be a potential source of additional income for forest communities in Africa (Gondo, 2010). Experience from other parts of the world, however, has shown that the chances of raising significant funds from bio-prospecting are generally low.

Watershed protection is one of the most importance environmental services provided by forests. There is now growing recognition of the importance of forest management in watersheds/catchments on activities that are dependent on water (e.g. water supply to municipal areas, irrigation and hydro-electricity). Examples of payments for watershed services in Africa are still very few. Currently, public budgets are the main source of funding for watershed services, though there are some examples in Latin America involving private buyers (see for example Verweij 2002). In Africa, low income levels, small markets and weak institutional capacity make payment for water services difficult and uneconomic (Gondo, 2010).

The private and PES financing mechanisms reviewed are assessed against three criteria:

- Practicality: the mechanism is useful, realistic and with immediate benefit and skill development to smallholders and forest communities
- Applicability : the mechanism is relevant to situations and conditions of community forestry and community organizations
- Sustainability: the mechanism is (financially) self-sustaining in the long run without external dependencies (i.e. without recourse to government or donor funding.)

	Practicality	Applicability	Sustainability
Microfinance	High	Medium- high	Medium
Out-grower schemes	High	High	High
Foreign Direct Investment	Low-medium	Low-medium	High
Remittances	Medium	Medium	Medium
Forest Carbon finance	Medium	Medium	Medium
Community-based ecotourism	Medium	Medium	Medium
Conservation concessions	Low	Medium	Low-Medium
Bio-prospecting	Low	Low	Low
Watershed services	Low	Low	Low

In terms of private financing mechanisms, out-grower schemes and microfinance probably hold the greatest potential for financing smallholder and community forestry in West Africa. It should be noted that none of the private financing mechanisms integrate environmental sustainability and some additional oversight or actions may be necessary to ensure such sustainability when these mechanisms are used. The PES mechanisms, on the other hand, have the great advantage of integrating environmental sustainability, essentially rewarding forest communities for preserving and/or restoring forests. Most however, have low financial sustainability, as they are still dependent to a large extent on government or donor funding. Of the PES mechanisms, carbon finance and community-based ecotourism probably hold the most potential for smallholder and community forestry.

All forest financing mechanisms need to operate in an enabling environment in order to be able to function well and generate benefits. Savenjie and van Dijk (2008) warn that money is not always the biggest problem. The main constraints to investment in and adequate payments for sustainable forestry are the conditions that prevail in the forest sector, the country and internationally. Investing in the enabling environment may be more effective and sustainable than the financing mechanisms themselves. One key problem for several financing mechanisms is lack of tenure security and clarity on land and forest resources. Most natural forests in Africa are communally owned or owned by the state. This does not provide adequate guarantees that raw materials or environmental services derived from them will continue to be accessible to users, discouraging individual investment, encouraging over-exploitation and creating confusion for the distribution of certain benefits. Unclear tenure may be a constraint for microfinance and out-grower schemes; and it is a major constraint for carbon financing.

Under the Collaborative West African Initiative on Forest Financing being developed by the FAO, the NFP Facility and Growing Forest Partnerships, some of the financing mechanisms reviewed under the study should be subject to further research. Some areas of particular interest concern:

- Microfinance: field research to identify cases of loan products adapted to forest products and to assess the willingness of microfinance institutions in the region to adapt their products to the sector.
- Out-grower schemes: further study on the oversight mechanisms that need to be in place to protect smallholders in out-grower schemes.
- Remittances: there is an opportunity to take the initiative to “market” the forest sector to remittance funds.
- Carbon finance: documentation of nascent experiences in West Africa is important for shared learning.
- Ecotourism: field research to learn from Ghana’s experiences in ecotourism may provide useful lessons for other countries in the region.

ACRONYMS

AfDB	African Development Bank
CDM	Clean Development Mechanism
ECOWAS	Economic Community of West African States
FAO	Food and Agriculture Organization of the United Nations
FC	Forest communities
FCPF	Forest Carbon Partnership Facility
FDI	foreign direct investment
FIP	Forest Investment Programme
FLEGT/VPA	Forest Law Enforcement, Governance and Trade voluntary partnership agreements
GEF	Global Environment Fund
IFAD	International Fund for Agricultural Development
IIED	International Institute for the Environment and Development
ILFC	Investing in Locally Controlled Forestry
MFI	Microfinance institution
NFFS	National Forest Financing Strategy
NFP	National forest programme
NGO	Non governmental organization
NTFP	Non timber forest product
ODA	Official development assistance
PES	Payment for Environmental Services
PRESA	Pro-poor Rewards for Environmental Services in Africa
REDD	Reduced emissions from deforestation and forest degradation
ROSCA	Rotating savings and credit association
RSPB	Royal Society for the Protection of Birds
SFM	Sustainable forest management
SH	Smallholders
SME	Small and medium enterprise
SMFE	Small and medium forest enterprise
USAID	United States Agency for International Development
WAEMU	West African Economic and Monetary Union

1 Introduction

1.1 Study Background and Objectives

Forests form a vital component of the environment and national economies in West Africa. In the ECOWAS sub-region, forest areas are estimated to be about 72 million hectares (15% of total land area); woodlands, which include areas with trees outside forests, account for nearly 23% of land area. The region encompasses the Upper Guinea Forest Ecosystem, which is considered one of the world's biodiversity hotspots and covers parts of Guinea, eastern Sierra Leone, Liberia, Côte d'Ivoire, Ghana and western Togo. Forest cover varies considerably from one country to another; with Guinea Bissau boasting 72% of forest in total land area and Niger only 1% (see Table 1).

Besides being home to invaluable biodiversity and critical to the environmental stability and climatic conditions in the region, forests and trees outside forests support the livelihoods of millions of local people engaged in a variety of activities linked to timber products, non-timber forest products (NTFPs) and tree crops. In Africa most forestry activities are undertaken in the informal sector and it is estimated that more than 70% of forest is under smallholder or community management (Gondo, 2010).

In recent years, there has been considerable reduction in the forest area in the region which will have significant social, environmental and economical implications. One of the factors contributing to this decline is the absence of adequate and readily accessible finance to support sustainable forest management (SFM). This inadequacy is particularly evident for smallholders and forest communities who undertake the bulk of forestry activities and play an important role in rural development and poverty alleviation. Implementation of sustainable forest management in Africa will largely depend on the capacity of local communities, rural producers and small-scale forest based enterprises to mobilize resources to invest in forestry activities (Gondo, 2010). Devising forest financing mechanisms that can benefit smallholder and community forestry is thus a key challenge for the environmental and economic security of the region.

It is a challenge being taken up by ECOWAS countries, who after launching in 2005 a Dialogue on Forests in West Africa, are now working with the FAO, the National Forest Programme Facility and the Growing Forest Partnerships on a Collaborative West African Initiative on forest financing. In a context where information on forest financing is scattered and the region's countries lack comprehensive national forest financing strategies, there is a need to identify, analyze and systematize experiences and lessons of existing mechanisms as a basis to develop suitable strategies to support sustainable smallholder and community forestry.

This study aims to review the existing and potential financing mechanisms that can benefit smallholder and community forestry in the region. It is a background paper that is to serve as a starting point for discussions under the West African Forest Financing Initiative.

1.2 Study Methodology

This study is based on: 1) a literature review of experiences and lessons learnt in forest finance in West Africa; 2) a desk review of mainly internet sources of existing forest financing mechanisms in the 15 ECOWAS countries. Where information on West African experiences is particularly thin, experiences from other parts of the world are presented. The study's terms of reference can be consulted in appendix 2.

Given the diversity of forest situations within ECOWAS (see Table 1) this study defines forests in a broad sense to include degraded and secondary forests, as well as woodlands, agro-forests and trees outside forests. Experiences are thus captured not just from traditional "forestry" activities – timber and NTFPs – but also from the tree crop sector.

Table 1 : Importance of forest sector in ECOWAS countries

	Forest % of land area ¹	Other wooded land % of land area ¹	Contribution of forest sector to GDP in 2006 (%) ²	Main commercial forest product ³
Benin	41	26	2.6	tree crops, NTFPs
Burkina Faso	21	18	1.5	tree crops, NTFPs
Cape Verde	21	0	2.0	--
Côte d'Ivoire	33	8	5.0	timber, tree crops
Gambia	48	10	0.2	tree crops, NTFPs
Ghana	22	0	7.2	timber, tree crops, NTFPs
Guinea	27	24	1.7	tree crops, NTFPs
Guinea-Bissau	72	8	6.3	--
Liberia	45	0	17.7	timber, tree crops
Mali	10	7	1.9	tree crops, NTFPs
Niger	1	3	3.3	NTFPs
Nigeria	10	4	1.4	timber (non export), tree crops
Senegal	44	26	0.9	tree crops, NTFPs
Sierra Leone	38	3	4.8	timber, tree crops
Togo	5	23	1.6	timber (non export), tree crops, NTFPs

¹ Source: (FAO, 2010) ; ²Source: (FAO, 2008). Forestry (logging and related services), wood industry and pulp and paper industry; NTFPs and tree crops not included. Only "formal" activities captured. ³ Author's estimation

Community forestry is defined as any situation which intimately involves local people in a forestry activity. It embraces a spectrum of situations ranging from woodlots in areas which are short of wood and other forest products for local needs, through the growing of trees at the farm level to provide cash crops and the processing of forest products at the household, artisan or small industry level to generate income, to the activities of forest dwelling communities.

The study starts with a review of private sector financing mechanisms in section 2: private finance is the most important source of forest financing on a global level, but this is generally not the case in Africa which currently attracts little investment. Section 3 reviews mechanisms involving payments for environmental services, which represent an important

innovation in forest financing in the past few decades. Section 4 gives a very brief overview of the state of public financing of the forestry sector. Public financing – from domestic sources and donor sources - in many African countries has been the main source of forest financing for several years. However in the context of stretched national budgets that have to address a myriad of priorities and declining forestry official development assistance (ODA) to Africa as a region, public financing is not always a sustainable financing mechanism. The concluding section assesses the different mechanisms in terms of their potential for financing smallholder and community forestry, discusses some key issues to be addressed in the enabling environment and makes suggestions for areas for further work.

2 Private financing mechanisms

On a global level, the level of private financing in the forest sector far exceeds domestic or foreign public funding (Savenije and van Dijk, 2008). This observation however does not apply to several African countries, where the forest sector has not yet been able to mobilize significant funding from the private sector, and overseas development assistance remains a major source of forest sector funding.

The majority of small and medium forest enterprises (SMFEs) operate in the informal sector and mobilize personal or family savings to finance their activity. With income levels so low in the sub-region this places serious constraints on the scale of activity possible. Access to alternative sources of finance is thus key to the development of the private forest sector. This chapter examines the experiences and the potential challenges and opportunities for four private sector financing mechanisms - microfinance, out-grower schemes, foreign direct investment and remittances - to contribute to smallholder and community forestry in the ECOWAS region.

In other regions of the world, particularly high forest cover Latin-American countries, other private sector financing mechanisms have been developed, such as environmental stock exchanges, private equity investment funds and forest-backed securities purchased by institutional investors like pension funds. (FAO, 2008). The West African financial markets generally are not yet developed enough to offer such products and the forest sector in most countries is not large enough to stimulate such developments. However some initiatives are underway to encourage private investment in the forest sector (outside of FDI and out-grower schemes): one such initiative, Dialogue on Investing in Locally Controlled Forestry, is presented at the end of the chapter.

2.1 Microfinance

Microfinance involves the provision of financial services to low-income clients who are normally excluded from the commercial banking sector. These financial services include credit, savings and increasingly micro-insurance. Microcredit generally consists of small short-term loans (12 months or less) that are given against some kind of collateral at interest rates higher than commercial bank rates as microfinance institutions (MFIs) have to cover higher operating costs per loan. Microfinance services are offered by regulated formal financial institutions, as well as by NGOs and projects, member-owned organizations and informal financial service providers, such as traditional kinship networks, rotating savings and credit associations, and moneylenders. These institutions vary in terms of their mission, with some MFIs focusing strongly on their financial viability and others placing greater emphasis on their social missions.

In 2005, it was found that the average microfinance loan balance was roughly US\$ 400 in West Africa (Lafourcade A., 2005). Interest rates vary widely in the region and across institutions; some institutions – particularly NGOs - offer loans at subsidized rates, whilst other institutions are entirely commercial entities that need to cover their operating costs

through revenues from interest on loans. The WAEMU zone has a usury law that caps interest rates for microfinance institutions and cooperatives at 27% per annum. In non WAEMU countries, such as Ghana, depending on the prevailing base interest rate, microcredit interest rates can rise well above 30%.

Box 1 : Microfinance situation in some ECOWAS countries

Benin

In 2007, 95% of loans were distributed by just five MFIs and 40% of service points were situated in rural areas which are home to 60% of the population. In terms of the suitability of the microcredit supply available for forestry activities, one observes that there is lack of resources for MFIs to make long-term loans, there is weak financing of agricultural activities (no specific information on forestry activities) and there are high interest rates – in 2007, most MFI's rates were higher than the usury rate cap of 27% placed by the WAEMU, ranging from 35% to almost 60% per annum.

Source: (UNDP, 2007)

Burkina Faso

In 2009, 285 MFIs were registered by the local microfinance regulating body. There is relatively good geographical coverage, with each of the 45 provinces in Burkina Faso hosting at least one MFI. However coverage is not even as more than 80% of provinces in 2009 hosted less than 6 institutions, whilst the province of Kadiogo, where the capital is located, hosted 18 institutions (and several more agencies). Clientele was estimated at almost 1.5 million borrowers and savers, which represents a penetration rate of 63%. The size of the loan portfolio in 2009 was 63.4 billion FCFA. The *Réseau des Caisses Populaires du Burkina* is by far the biggest microfinance service provider with a strong rural presence; it practices a very low interest rate for the region of 10% per annum.

Source : http://www.lamicrofinance.org/resource_centers/burkina/chiffres

Liberia

A 2007 USAID assessment of the microfinance sector in Liberia noted that the sector is probably 10 to 15 years behind many countries in Africa and the rest of the world in terms of advances in product development, financial sustainability, and human resource capacity. Having endured so many years in civil conflict, this is not surprising. The Liberia microfinance market is highly underserved with the three main microfinance providers, Liberty Finance, LEAP, and LCUNA credit unions reaching only about 10,000 to 11,000 people in 2007. Rural areas are grossly underserved.

Source: USAID (2007): *Liberia Microfinance Sector Assessment, June 29, 2007, draft for comment*

http://liberia.usaid.gov/sites/default/files/4_Liberia_Microfinance_Assessment_June_2007.pdf

Togo

The microfinance sector has seen strong growth recently and in 2009 there were an estimated 600,000 clients and a loan portfolio of more than 50 billion FCFA. As of end 2007, there were 167 registered institutions, including NGOs and projects with loan activities. Nonetheless, despite strong demand, financing of the rural sector remains marginal. Most loans are short term and there is a bias towards the funding of small trade activities, especially those practiced by women.

Source: http://www.lamicrofinance.org/resource_centers/profiltoqo/couverture.

In the past 20 years microfinance has played an increasingly important role in financing small enterprise activities and rural development in West Africa and there is mounting interest in tapping into this source of financing for small-scale forestry activities. There has been significant growth in the microfinance sector recently: in the WAEMU zone, the microcredit loan portfolio increased by 45% between 2006 and 2008 and savings by 36% (Microfinance

Information eXchange, 2010). Nonetheless, investment climate surveys in the region still consistently find that access to finance is one of the major constraints faced by enterprises. One could thus say that there is a surplus of demand with respect to supply of microcredit services. This means that any forestry activity seeking to access microcredit services is in competition with several other activities, including trade activities that have low start-up costs and short turn-over periods, and tend thus to be favoured by MFIs. Box 1 above presents the microfinance situation in some ECOWAS countries and illustrates some challenges for forestry activities: high interest rates, low rural presence, short loan maturity periods.

Table 2 : Constraints in accessing microfinance for the forestry sector

Constraints in common with the agricultural sector	Constraints specific to the forestry sector
<ul style="list-style-type: none"> - Loans/investments perceived as high risk as yields and prices often depend on unpredictable climatic conditions. - Smallholders are often not able to provide collateral for loans. - Smallholders are often based in rural areas, which are sometimes remote and not densely populated, and thus more expensive for financial institutions to service. - Size of loans needed may be small, and therefore of less interest to financial institutions than larger loans of urban clients. Smallholders may be discouraged from accessing loans from formal institutions because of low educational levels, little exposure to paper work and banking procedures, slow release of funds, etc. - Interest rates may be higher than the profitability of certain products. An assessment of expected profitability is necessary before deciding on the suitability of loan financing. - Low technical knowledge of financial service providers to adequately analyse the creditworthiness of agri- or forest business. 	<ul style="list-style-type: none"> - Long gestation periods (several years) between initial investment (planting) and maturity. This calls for long-term financing, which is not easily available, and increases uncertainty and risk even further. High interest rates also become more onerous on longer term loans. - In most African countries, there is insecure tenure of forest resources. There is thus no adequate guarantee that the raw materials derived from them will continue to be available to the same forest users which increases the perception of risk by the financial sector. (Gondo, 2010). The lack of clear tenure may also encourage a “tragedy of the commons” situation with overexploitation of resources. - Forests/trees provide other key environmental services that do not always have a market value. Ill-adapted financing mechanisms may jeopardize these environmental services.

Smallholder and community forestry activities revolving around some kind of income-generating activity have the potential to be financed through microcredit and several have already successfully accessed micro-credit. In Sahelian countries, for instance, several cooperatives, associations and individuals access loans for activities in the shea sector. In reviewing the needs and constraints presented by the forestry sector for accessing microfinance, it can be useful to distinguish between constraints that are similar to those faced by the agricultural sector and constraints that are specific to the forest sector (see Table 2). There are now at least two decades of experience of microfinance for the agricultural sector and an extensive existing literature from which lessons can be drawn for

the forest sector¹. On the other hand, there are some special challenges posed by the forest products that the forestry sector must try to address specifically. The most notable of these forest-specific challenges concern the long gestation periods for plantation activities, the lack of clear tenure of forest resources, and the externalization by the market of several environmental services provided by forests. The long gestation periods can be a significant constraint for financing the start-up of some forest activities (plantation timber, tree crops, etc) where one has to wait several years before plantations mature - cash flows from new timber plantations, for example, are commonly negative during the first ten years (Simula, 2008). The combination of long gestation periods, unclear tenure, and externalization of the ecological value of forests, can lead to situations in which interested parties do not have the incentive to ensure the sustainability of the resource base (see for example Box 2).

Box 2 : Constraints in loan-financing for forest products – an example from the shea sector

Shea is one of the main forest products in the Sahel zone of the ECOWAS region and shea nuts and butter present a significant source of income for rural communities in Benin, Burkina Faso, Côte d'Ivoire, Ghana, Mali, Nigeria, Senegal and Togo. Shea is not a plantation crop and is generally produced through natural assisted regeneration. Shea trees do not usually yield fruit until they are 20 years old (though some grafting techniques can reduce this time period) and do not reach full maturity until they are 45 years old.

The sustainability of the shea resource base to meet growing market demand for shea products is a key concern in countries such as Burkina Faso, Mali and Ghana, where shea nuts are freely harvested by gatherers on a first-come first-serve basis. Microfinance institutions that currently provide credit to the sector also see this as a threat to the long-term profitability of the sector. Currently, however there are no financial products offered that specifically encourage the regeneration of the resource.

Both the agricultural and the forestry sector have come up with various innovations to try to counter some of the constraints listed in Table 2. These include:

Warehouse receipt financing²

Warehouse receipt financing, also known as inventory credit, is a mechanism that addresses the problem of lack of collateral faced by many rural producers. It permits producers to use their non-perishable agricultural/forest produce as collateral for loans. After harvest, the commodities are stored in a licensed warehouse that issues a receipt proving that the commodities are received and physically in the warehouse. In some cases the warehouse may be managed directly by the financial institution. The farmer then takes the receipt to the financial institution that issues a loan based on its evaluation of the market price of the stored commodities. In case of default, the financial institution sells off the commodities. If the producer pays back his loan, he recovers his commodities which he can then sell on the open market. By

¹ See for example the wealth of resources available at the Rural Finance Learning Centre on <http://www.ruralfinance.org/rflc-home/en/>

² Readers wanting to know more about warehouse receipt financing can consult World Bank (2005): Rural Finance Innovation: Topics and Case Studies, Washington, D.C. and USAID (2005): Innovations in Microfinance: Warehouse Receipts – Financing Agricultural Producers, Technical Note No.5 (http://pdf.usaid.gov/pdf_docs/PNACQ697.pdf)

providing liquidity in the post-harvest period, the mechanism also has the advantage of permitting producers to wait until product prices rise before selling their produce. Warehouse receipt financing has been experimented by MFIs in several West African countries (Ghana, Mali, Burkina Faso, Niger, etc.) particularly with products such as cotton, maize and other grains, but also with NTFPs such as shea nuts³. It is adapted to products that are easy to store and that have a strong market so that the financial institution can readily sell them off in case of default. The West Africa Trade Hub, a regional initiative funded by the USAID is planning on implementing a regional warehouse receipt scheme that could involve businesses in the cashew and shea sectors.⁴

Equipment leasing

Equipment leasing is another mechanism that addresses the lack of collateral, more specifically for entrepreneurs engaged in processing activities with significant equipment needs – for example in the wood production sector. A lease is a transaction in which an owner (the lessor, or the financial institution) of a productive asset (equipment) allows another party (the lessee) to use an asset for a predefined period against a rent (lease payment). The lease payment is calculated to cover all costs incurred by the lessor. During the lease period, the lessee is responsible for all operation costs including the maintenance and repair of the leased equipment. The leased asset is assumed to generate the main source of income for the lease payment. Depending on the type of lease, once all lease payments are made, ownership of the equipment reverts to the lessee. FAO (2005) advises that suitable lease equipment should generate a regular income flow, be easily sold on the second-hand market, have multiple uses rather than a single use and have a clear title of ownership for ease of repossession and liquidation. There are financial institutions offering leasing services in the ECOWAS region, but these are currently concentrated in urban markets and access to leasing services will probably remain limited for small rural clients who present higher transaction costs and higher risk for these institutions. Nonetheless, some microfinance institutions in rural areas are more willing to give out loans for the purchase of equipment, than for operating costs, as they consider the equipment to be purchased a type of collateral.

Facilitation to promote mutual understanding between financial and forest sectors

Forest finance experiences from Latin America have highlighted over and over again the limited knowledge the forestry and the financial sectors have of each other (Boscolo et al, 2010). This is an obstacle that has been lifted or diminished for several agricultural products as financial institutions have gained increasing experience with them over the years. Likewise, the Latin American experience has found that when the veil of mutual ignorance is lifted through facilitation and information-sharing activities, significant domestic financial resources become available to the forestry sector and financial institutions become formidable allies in devising innovative solutions to the problems of the forest-dependent poor. A case study from Paraguay is presented in [Erreur ! Source du renvoi introuvable.](#) to illustrate the potential gains from such

³ See http://spore.cta.int/index.php?option=com_content&task=view&lang=fr&id=693&catid=7 for an example from the shea sector.

⁴ <http://www.watradehub.com/taxonomy/term/19/all>

an approach. There are some experiences of smaller-scale facilitation processes undertaken in the framework of projects in West Africa, for example the Village Tree Enterprise project implemented by Tree Aid in Burkina Faso, Mali and Ghana has been liaising with microfinance institutions to increase their understanding of certain tree products.

Box 3 : The potential pay-offs of improved mutual understanding between the financial and the forest sector

In Paraguay, a facilitative process is underway where mutual learning is taking place between the forestry and financial sectors. This mutual learning is taking the form of joint goal and priority setting, multidisciplinary working groups and joint field trips where representatives of the financial sector (e.g. bankers, managers of pension funds, etc.) can visit interesting cases of sustainable forestry (plantations and natural forest management).

This work has produced a number of initial results. *Fondo Ganadero*, a bank that supports cattle ranching, has created a new credit line (initially worth US\$1 million) for tree planting on pastureland and pasture improvements. The *Agencia Financiera de Desarrollo* (AFD), a public development bank, has expressed interest in developing a US\$2 million credit line (PROFLORA) for planting activities. Forest stakeholders are also lobbying the Central Bank to modify a legal resolution that limits fiduciary agencies in the creation of investment trusts.

This collaborative work is helping to increase the visibility of the sector, thus promoting interest in forestry amongst farmers and cattle ranchers. It has also helped identify opportunities to create links between large and small producers through private–private partnerships (e.g. out-grower schemes). Where institutions and extension services are weak, such partnerships offer the opportunity for small producers to increase their access to markets, reduce their market risk and increase access to financing, seedlings, know-how and technical assistance.

Source: Boscolo et al., 2010

Addressing the constraint of long gestation periods

As we have seen above, long gestation periods are one of the major constraints for access to suitable loan-financing for some forest products. FAO (2005) suggests that practices such as intercropping, staggered planting of tree crops and planting of species with different gestation periods can ease cash flow constraints and make it possible to use other income sources for loan repayment whilst waiting for the plantation to reach maturity. Out-grower, or contract plantation, schemes, which provide upfront financing for plantation investments, are also a solution to the constraint of long-gestation periods and are discussed in greater detail in the section below. Finally Gondo (2007) notes that in some countries, forest departments have resorted to establishing special forest funds due to lack of long-term loan products from financial institutions, citing the example of Uganda where a sawlog production fund was established to facilitate access to long-term finance for small and medium scale plantation development.

In thinking of the role microfinance can play in financing the forest sector, one should not focus exclusively on accessing loans from formal MFIs, which may be difficult for small first-time borrowers. In Africa, the use of community-based approaches such as cooperative groups and village associations has played a central role in savings mobilization and expansion of microfinancing services in general (Gondo, 2007). Indeed the setting up of rotating savings and credit association (ROSCA) schemes can be a good first step for

mobilizing savings and providing access to loans for groups that have difficult access to microfinance institutions – due to distance, lack of education, lack of collateral, or other problems. The informal *susu* or *tontine* systems present in several West African countries are examples of ROSCAs. Whilst such schemes tend to provide access to very short term loans at high interest rates, they can nonetheless be useful for funding some processing activities. It should be noted, however, that in poor rural communities with limited resources for savings, funds mobilized through ROSCA schemes will often fall short of what is required for investment in a lucrative forest activity.

It is also important to remember that microfinance is a service that is destined primarily at entrepreneurs. Not all smallholders and forest communities are necessarily entrepreneurs and promoting access to microfinance for such groups will often need to be accompanied by a whole array of capacity-building support (business planning, book-keeping, group organization, marketing, etc.) to ensure that the target groups are able to make appropriate use of microfinance resources. Organizing smallholders into forest producer organizations is one key support activity as group-lending practices often allow MFIs to reduce transactions costs, and smallholders organized in forest producer organizations are often better able to put together bankable proposals due increased capacity and economies of scale. There are several existing microenterprise development methodologies and initiatives, some of which have been developed specifically with the forest sector in mind (see Box 4).

Box 4 : Some enterprise development approaches for the forest sector

Market Analysis and Development (MA&D)

Developed by the FAO, Market Analysis and Development (MA&D) is a participatory methodology designed to assist communities and individuals in developing income-generating enterprises while conserving tree and forest resources. The methodology builds participants skills in identifying market opportunities for forest products and in business planning.

See: <http://www.fao.org/forestry/enterprises/25492/en/>

Local Communities and Natural Products

Developed by the USAID and the Asia Network for Sustainable Agriculture and Bioresources, this manual gives guidelines on how to organize communities for natural resource management and enterprise development and how to integrate the community enterprises into value chains. (USAID, 2007)

Forest Connect

An initiative spearheaded by the FAO and the IIED to improve access of SMFEs to markets and services (financial services, business development services, environmental services, etc) and to increase their voice in forest policy processes. Forest Connect projects are being implemented in several countries in Africa, Asia and Latin America. Currently four West African countries have on-going Forest Connect initiatives – Burkina Faso, Ghana, Mali and Liberia. The network has developed a toolkit for facilitating support to SMFEs available on the website <http://forestconnect.ning.com/>.

Approaches to linking producers to markets

Drawing on experiences primary from the agricultural field, this FAO review provides useful guidelines on the crucial issue of improving access to markets for rural producers. (Shepherd, 2007)

Gondo (2007) highlights some other key thematic areas that cannot be covered by microfinance such as biodiversity conservation in protected areas, securing tenure, development of information systems, management of forests for some environmental services, stakeholder organization for new initiatives such as REDD.

Finally, one notes that whilst most microfinancing of the forest sector in Africa so far appears to have focused on the financing of tree crops and NTFPs, there are also some nascent experiences of microfinance paying attention to the environmental services provided by forests. Gondo (2007) cites a case in Mozambique where microfinance to smallholders was used to finance afforestation programs aimed at carbon sequestration. Farmers accessed prepayments and loans for purchasing and planting seedlings under an afforestation programme for voluntary carbon markets.

2.2 Out-grower Schemes

Out-grower schemes, also referred to as contract farming, represent a form of integrated value-chain financing, whereby a buyer higher up the chain provides financing for a producer lower down the value chain. Under such schemes producers allocate land and other resources to the production and management of trees or other agro-forestry products, for a processing company. The processing company provides a guaranteed market and facilitates the investments necessary for plantation. A contractual agreement between the growers and the processing company defines the responsibilities and benefits of each party. As mentioned above, out-grower schemes provide a response to the constraint faced by the forest sector of long gestation periods. They allow smallholders to access finance for investment in plantation and/or to access input supplies, they often provide some technical support for production, and finally they offer smallholders a guaranteed, if not always equitable, market for their production. Financing for investments by the smallholder farmers often comes in the form of loans (cash advance payments, or in-kind loans, with or without interest) that are repaid upon harvest, when the small-holder sells the produce as agreed to the contractor.

Out-grower schemes have been an important feature of forestry and agro-forestry development in many parts of the world for several decades and there have been several studies on forest out-grower schemes – see for example Race and Desmond (2001) and FAO and CIFOR (2002). In West Africa, Liberia probably has the longest experience with out-grower schemes with the Firestone out-grower scheme in the rubber sector that has been operational since 1926 and that has attracted its share of criticism. A more recent large-scale scheme in Liberia concerns the oil palm sector in which the company, Equatorial Palm Oil, member of the Roundtable on Sustainable Palm Oil, is launching production with smallholders on 169,000 hectares of land. Other countries such as Côte d'Ivoire, Ghana and Nigeria also have examples of out-grower schemes, particularly in the tree crop sector (cocoa, oil palm, mango) but also in the timber sector – see Box 5 for some examples from Ghana. There are also several examples of out-grower schemes in the agricultural sector in the ECOWAS region.

Box 5 : Examples of out-grower schemes from Ghana

Organic Mango Out-growers Scheme: Integrated Tamale Fruit Company

The Integrated Tamale Fruit Company (ITFC) is a private GLOBALGAP certified Ghanaian company producing and marketing certified organic mango for both local and export markets. The company has its own 155 hectare 'nucleus' plantation but also runs an expanding out-grower scheme which has been running since 2001. Its declared aim is to reduce poverty by providing the local people with sustainable income through the establishment of community based organic mango plantations.

As part of the scheme ITFC provides interest-free loans to contracted growers in the form of required inputs and technical services. Each farmer on the scheme is provided with all the necessary inputs for a 1 acre orchard of 100 grafted mango trees. Inputs can include tractor services for land preparation, organic compost, grafted mango seedlings (from ITFCs certified organic nursery), water tanks, organic pesticides and a technical advisory service. Poly tanks are filled with water at regular intervals by an ITFC tanker truck and tractor. The farmers then do the watering with buckets. The standard total cost for inputs over the first 4 years in 2005 was just under US\$3000. The out-growers are expected to start repayment of the loan in the fifth year through deductions from their net incomes. A 12-year repayment period is envisaged.

At first, ITFC tried to form farmers into groups themselves, mixing men and women in the same group. These groups proved unstable, with many internal arguments. They have now moved to working with existing informal groups at sub-village level. Often these are extended family groups. Each member is registered as an individual grower. They have their own trees within the family plot, but they share certain inputs, notably hand tools and water tanks. Other inputs are costed against the individual accounts (seedlings, compost etc.). ITFC provides both groups and individuals with end of year statements of account. The farmers are constituted into an association known as Organic Mango Out-growers Association). This association plays an intermediary role between ITFC and the local farmers and mediating role in any disputes between members. It is also an advocate for the farmers and in time it is expected to develop its own capacity to technical advisory services to farmers.

ITFC has received funding from various donor groups for its out-grower scheme, which has perhaps permitted it to integrate more social development goals than some other out-grower schemes.

Source: (Betser, 2010)

Timber Out-growers scheme: Swiss Lumber Company

The Swiss Lumber Company launched an out-grower scheme in Manso-Amenfi for sawlog production in 1991. The company has a sawmill in Ghana but lacks access to forest areas to obtain an adequate wood supply. While the company has developed plantations on its own concession areas, they will be insufficient to meet the capacity of its sawmill. Consequently it has developed strategies to attract out-growers to produce indigenous trees on land which was degraded and producing marginal agricultural yields.

Under the scheme, the company pays the landholder – who may or may not be the grower – an annual rent for the land. It supplies growers with seedlings and equipment for plantation establishment. The company also employs growers to complete plantation maintenance. At harvest the grower and landholder receive 50% of the wood and the company the other 50%. The company has the first right to buy the grower's/landholder's 50% at market prices. The growers are allowed to keep the low-grade residual wood.

Source: (FAO, CIFOR, 2002)

Out-grower schemes are increasingly being integrated into agro-forestry development policies and projects. For example, Gambia's Growth and Competitiveness Project funded by the World Bank aims at developing the export mango sector through an out-grower scheme. The African Development Bank (AfDB) is launching a "Smallholder Agro-forestry Project" in Ghana which it plans to organize 8,100 rubber farmers into out-grower schemes and channel support and other assistance through bigger rubber estate developers who will provide a mechanism for input distribution, mobilization of producers, as well as a market outlet for the farmers' output.⁵ The Diagnostic Trade Integration Study prepared by the Government of Liberia and titled "Tapping Nature's Bounty for the Benefit of All" (Government of Liberia, 2008) recommended that the national tree crop development strategy integrate a specific policy on out-growers. The report also highlighted a potential constraint for the benefits from out-grower schemes stating that under the current uncertain and risky environment, it is unlikely that industrial estates will agree to provide input and services on credit to smallholders under contract farming arrangements, especially given the risk of side-selling. Nonetheless, the report notes that industrial estates can be mobilized for the production and distribution of seedlings and other inputs and the provision of advisory services to smallholders.

Reviewing forest out-growers schemes from across the world, FAO and CIFOR (2002) found that some of the key issues contributing to the success of schemes include the extent to which:

- Partners have a reasonable likelihood of deriving benefits
- Contribution (e.g. land tenure, business viability) and partnerships are secure
- Production and market risks are accurately calculated and shared
- Partners have the social and technical expertise to genuinely negotiate arrangements
- Partners are informed of realistic prospects and opportunities
- Arrangements and forestry practices are consistent with sustainable forest management principles
- Arrangements contribute to wider community well-being.

It has also been found that typically farmers need a regular alternate source of income to avoid cash flow difficulties between tree harvests so as to avoid dependence on loans.

Government policies aimed at regulating private sector investment in the forestry or agricultural sector may help provide a framework that promotes smallholder or community benefits in out-grower schemes. Ghana, for instance, since 1998 requires logging companies to secure a "Social Responsibility Agreement" with local communities (FAO, CIFOR, 2002). Likewise, Liberia's 2009 Community Rights Law requires the negotiation of social agreements with affected communities in the forestry sector. In 2008, the government of Liberia was also reported to be developing a model concession agreement in line with international best practices concerning social and environment issues, and which was to be tested through the renegotiation of the flagship Firestone's Harper concession agreement.

⁵ See <http://www.afdb.org/en/projects-operations/project-portfolio/project/p-gh-aa0-016/>

2.3 Foreign Direct Investment

On a global level, forest financing in past years has been characterized by an increase in FDI into developing countries (estimated at approximately US\$8-10 billion a year in 2003) (World Bank, 2004). FDI, investments made by foreign companies operating in a country, under the right framework and when well-managed can provide employment opportunities, finance (through out-grower schemes or other mechanisms), and transfer of skills and know-how to smaller local companies.

West Africa's level of industrial forestry activities is very low when compared to other regions of the world, notably Asia and Latin America, and it attracts relatively little forestry FDI. Data on FDI in Africa's forest sector are notoriously difficult to come by. Nonetheless, Gondo (2010) notes that in recent years there has been an increase in foreign direct investment in plantation forests and the associated wood-processing industries, especially in Eastern and Southern Africa but also in some West African countries. This has been spurred by the growing demand for industrial timber on the continent and abroad, especially China. He notes that unfortunately industrial timber production has a poor track record in Africa. Over the past sixty years, there is little evidence that it has lifted rural populations out of poverty or contributed in other meaningful and sustainable ways to local development. This is attributed to a number of factors that include low pricing of the timber; illegal activities and corruption; weak governance systems; low level of in-country processing; low wages; marginalization of rural communities; and little re-investment in the management of natural forests.

In West Africa, most foreign direct investment has been concentrated in relatively forest-rich countries, such as Liberia, Sierra Leone, Ghana and Côte d'Ivoire. There are nonetheless also some smaller-scale FDI in low forest cover countries in sectors such as shea, jatropha (a tree used for bio-fuel) and in the tree-crops sector – cashew, mango, etc. Box 6 highlights some of Liberia's experiences with foreign investment in its forestry sector, which may provide some lessons for other countries in the region. There are also examples of some foreign companies operating corporate social responsibility schemes in West African countries, which are often also aimed at securing the future resource base and that can provide opportunities for smallholders and forest communities (see Box 7).

The environmental research organization, IIED, has recently published a guide aimed at helping developing countries negotiate fairer contracts for investments in natural resources sectors (Cotula, 2010).

Box 6 : FDI in Liberia's forestry sector

Liberia's forest and agro-forestry sector attracts several multinationals, especially in the sectors of timber logging, rubber production and oil palm plantation. In the timber sector, in 2007 the Ministry of Commerce reported that 97 forestry-related companies were registered in the country (Blundell, 2008). Since then, the Forestry Development Authority has proceeded with the issuing of Forest Management Contracts, and several more foreign logging companies must have registered.

Following the negative experiences before and during the civil war in which logging companies were involved in financing parties to the conflict and UN sanctions on logs and timber products from

Liberia from 2003 to 2006, the Government of Liberia undertook significant reforms aimed at installing safeguards in the forestry and agro-forestry sectors, that may help make FDI in the sector more beneficial to local communities.

The 2006 National Forestry Reform Law requires that logging companies (foreign and national) enter into Social Agreements with the affected communities in proximity to their concession areas as a means to ensure that such communities benefit from the forests. The Forestry Development Authority is not to proceed with offering any Forest Resources License unless it has obtained prior informed consent, in writing, from Community Forestry Development Committees – representing all affected communities - to negotiate in good faith a social agreement with the winning bidder. Furthermore, in 2009, a Community Rights Law was passed, which represents another important step, the first of its kinds, towards participatory forest management in Liberia and in the West African Region (SAMFU, FAO, 2010).

In 2008, the government published a guide in English and Chinese entitled “Investment in the Liberian Forest Sector: a Roadmap to Legal Forest Operations in Liberia” to help companies abide by regulations.

Box 7 : An example of corporate social responsibility: Samartex in Ghana

Samartex Timber & Plywood Company Limited was established in 1995 in Ghana. Besides wood processing, Samartex is also involved in the regeneration of the natural resources at its disposal through the establishment of plantation and agro-forestry schemes. The company has a corporate responsibility policy and has integrated securing future resource availability into its business plan. Observing that the traditional slash and burn agriculture has destroyed much of the forest resource of Ghana, with the off-reserved lands being hit the hardest, the company designed programmes to address this through: facilitating the development of agroforestry systems and plantations through collaboration with communities and out-grower farmers; establishing plantations on degraded lands; and promotion the development of NTFPs such as *Thaumatococcus daniellii*.

Under the first strategy a pilot project known as Oda-kotoamso Community Agro-forestry Project (OCAP) was initiated by Samartex in 1997. The project worked in collaboration with various stakeholders: traditional landowners, individual farmers, German Development Service (DED) and Samartex Timber and Plywood Co. Ltd. The District Assembly, Forest Services Division (FSD) and the Ministry of Food and Agriculture (MoFA) had representatives on the steering committee of OCAP. Various interventions have been carried out and the experience is being replicated in other areas with support from German Development Agencies.

Source: <http://www.samartex.com.gh/Company.aspx>

2.4 Remittances

Remittances from migrants to their home countries have over the years become an important source of funds for developing countries. In 2006, global remittances were estimated at US\$300 billion, of which \$10.4 billion went to West African countries. In countries such as Sierra Leone, Liberia and Cape Verde remittances account for 12%, 26% and 34% of GDP respectively.

Table 3 : Remittance flows in West Africa

Country	Remittances in 2006 (millions of USD)	Percentage of GDP (%)
Benin	263	5.5
Burkina Faso	507	8.2
Cape Verde	391	34.2
Côte d'Ivoire	282	1.6
Gambia	87	17.0
Ghana	851	6.6
Guinea	286	8.6
Guinea-Bissau	--	--
Liberia	163	25.8
Mali	739	12.5
Niger	205	5.8
Nigeria	5,397	4.7
Senegal	667	7.5
Sierra Leone	168	11.6
Togo	142	6.4

Source: (IFAD, 2007)

There has been much interest from concerned governments as well as donor agencies in channeling migrant remittances to aid development efforts in home countries. Some countries, like Sierra Leone, have developed specific remittances strategies. It should, however, be noted that several studies show that remittances are used by recipients above all to finance consumption of essential goods and services – food, clothing, lodging, health care and education. IFAD (2007) estimated that 80 – 90% of remittances are spent in this way, though more recent IFAD experience suggest that this share may have dropped to 60 - 80%, with 20 – 40% being saved or invested. Remittances may also raise some macroeconomic issues – the Sierra Leonean remittance strategy cites concern that remittances may be promoting the dollarization of the economy and reducing the effectiveness of the formal banking sector and monetary policy as conducted by the Central Bank (Government of Sierra Leone, 2009).

Nonetheless, remittances provide an important source of revenue for several recipients in rural communities that are excluded from the banking sector. In Ghana, it was estimated that two thirds of remittances were destined for recipients in rural areas (IFAD, 2007). There may thus be some potential for tapping into this source of funds for the financing of smallholder and community forestry activity. No government has presently placed or plans to place restrictions on the right of recipients of remittances to decide themselves how to use funds received. How remittances are used is thus decided entirely by the individual recipients. There are, however, mechanisms increasingly being proposed that allow remitters to channel their funds to projects that interest them and that do not necessarily concern personal relations.

In Liberia, for example, an investment group based in the US, The Khana Group, developed a proposal in 2009 for the establishment of the Liberian Diaspora Social Investment fund to

leverage remittances from the 450,000 or more Liberians in the Diaspora to help spur investment in SMEs. Targeted sectors include agribusiness, fishery, natural resources, technology, infrastructure and health care. The fund is to work in such a way as to allow Diaspora investors (investing up to US\$ 1,000) to choose the sector to invest in, and if desired even the family business. Small business owners looking for funds can also lodge applications. If approved business owners undergo business training before receiving funds, and on-going support is provided by a business mentor.⁶ Smallholders running forest enterprises or organized community forestry groups could try to tap into such types of funds.

International organizations such as IFAD and the AfDB have launched initiatives aimed at increasing the development impact of remittances. The recently launched AfDB's Migration and Development Fund opened its first Call for Proposals in December 2010 and plans on making its first disbursements in April 2011. The IFAD Financing Facility for Remittances has been operating since 2006 and has funded 40 projects in Africa and elsewhere. Most proposals funded have been developed by NGOs; projects address the issue of reducing of costs of transferring remittances as well as other topics deemed relevant. There are some migrant investment projects, mostly related to agriculture. Whilst there have not been any forestry-specific projects funded yet, the IFAD facility is in the early phases of developing a project on the sustainable use of forest for charcoal production.

In West Africa, the IFAD facility is funding a pilot project in Sierra Leone led by the UK African diaspora NGO AFFORD. The project, named "Remittanceplus", will recruit remitters to encourage them to change their remitting patterns – use formally registered money transfer organizations, separate out monies to be used for consumption and social investment from monies to be used for income-generating investments. The receivers of remittances in the pilot shall participate in financial literacy, enterprise development and other productive schemes. They would get support, where appropriate to start small business⁷.

Although, no specific cases of forestry initiatives having been funded by remittances were found in the literature, there is certainly potential for some forestry activities to tap into this source of funds. The main challenge for using remittances as a structured financing mechanism for forestry activities lies in finding mechanisms to channel these funds towards the forestry sector. The facilities developed by IFAD and the AfDB, and funds such as the proposed Liberian Diaspora Social Investment Fund, provide some opportunities for smallholders and communities that have the capacity to develop appealing proposals.

2.5 Other investment initiatives

On a global level, diverse actors from pension funds to investment pundits have observed that returns on forestry investments, while typically not stunning, in the long-run can outperform other investments (Mayers et al, 2010). In some parts of the world – Latin America, for example – investment instruments have already been developed that provide

⁶ See <http://liberiandiasporafund.org>

⁷ See <http://www.migration4development.org/content/revision-consolidated-reply-sierra-leonecomparative-experiencesdiaspora-remittance-system>

new opportunities for channeling investments to the forestry sector – environmental stock-exchange, forest-backed securities, etc. One initiative that is trying to improve the quality and quantity of investment in the forest sector across the world, including West Africa, is the Dialogue on Investing in Locally Controlled Forestry. This joint initiative of the International Union for the Conservation of Nature, the International Institute for Environment and Development and the FAO was launched in 2009 with the goal of building relationships between the stakeholders, identifying the obstacles and opportunities for investment in community forestry, and increasing the visibility, role, and potential that locally controlled forestry can have⁸.

A background paper prepared by the ILCF dialogue notes that it is useful to organize investors into a number of “ideal types”, firstly as ‘hard’ or ‘soft’ investors, and then by their interest in financial, social or conservation goals (Elson, 2010). Different types of investor have different needs, and these will affect how they attempt to form partnerships with local rights-holders. Hard investments have an expectation of a tangible return on the original investment and often concern investments aimed at creating new forest resources, managing forests, building production and processing facilities and other infrastructure. Soft investments, on the other hand, have somewhat more abstract expected outcomes; investments made by donors and NGOs to improve governance or secure forest rights through tenure reform could be said to be “soft” investments. These investments are sometimes necessary for preparing the ground for hard investments and are often publicly funded. Most private sector actors are interested in hard rather than soft investments although the extent to which they are driven by financial, social or conservation goals may vary greatly.

The last ILCF dialogue took place in Kenya in December 2010 and focused on the role that innovative partnerships can play in increasing investments streams to locally controlled forests. The dialogue aimed at developing an investment process model demonstrating the steps necessary for successful forest investment.

⁸ See <http://environment.yale.edu/tfd/dialogues/locally-controlled-forestry/> for more information.

3 Payment for Environmental Services

Payment for the services of forest ecosystems entails providing compensation to the owners of a forest (or other ecosystem) in return for the provision or maintenance of certain environmental services (Gondo, 2010). Payment for environmental services (PES) is designed to “capture” the non-market values of environmental services through some kind of economic transaction, thus creating new markets (Verweij, 2002).

Most of the early examples of PES occurred in developed countries with advanced legal and policy frameworks, but the mechanism has rapidly expanded to Latin America over the past decade and has the potential to expand to Africa. Finding willing buyers is almost always the most important step in developing PES. On a global level, national governments are currently the most important buyers of environmental services and international agencies play an important catalytic role in market development and technical assistance (FAO, 2008). Some PES markets however also have a significant level of participation of private financing, for example, the voluntary carbon market and the ecotourism market. As a funding mechanism, PES is thus half-way between a public funding mechanism, exposed to the vagaries of changing donor priorities and capacities, and a private funding mechanism.

Savenije and van Dijk (2008) note that there have been many expectations of PES as a financing mechanism for SFM in the past years, but that most of these have not been met. The potential of PES to finance SFM has been in place for more than ten years, but much of that potential has yet to be materialized. Most current PES schemes have functioned more like subsidy schemes, often funded by ODA, than as real payments and there may be a tendency to overestimate what markets can do in generating payments for forest and environmental services. Nonetheless, PES mechanisms represent an innovation in the sense that they tap into a new economic logic that integrates rather than externalizes environmental concerns and may present West African countries with new revenue sources for their forests, particularly in the context of climate change mitigation and adaptation. One notes that the potential of forestry-related carbon finance in West Africa is significant as large areas of the region’s forests have been degraded via over-aggressive non sustainable practices and are therefore eligible for reforestation projects under the Clean Development Mechanism. There are nascent experiences with some specific types PES schemes already in West Africa and some initiatives working on developing PES generally, such as the World Agroforestry Centre’s Pro-poor Rewards for Environmental Services in Africa programme (see box below).

Box 8 : Pro-poor Reward for Environmental Services in Africa

The World Agroforestry Centre has set up a Pro-poor Rewards for Environmental Services in Africa (PRESA) programme that aims to generate and share knowledge to build capacity of PES in Africa and beyond. The PRESA programme develops from the Centre’s experiences in Asia, particularly in the framework of the programme Rewarding Upland Poor of Asia for Environment Services they provide (RUPES).

Since December 2005, the Centre has been leading a pan-tropical scoping study of compensation for ecosystem services for the International Development Research Centre. The African regional workshop of this scoping study concluded that rewards for ecosystem services have great potential

in the region, with the major constraints being:

- i) limited number of well-designed and piloted reward projects with lessons for replication and scaling up;
- ii) limited knowledge of tested tools and methods for assessing, designing and implementing reward schemes;
- iii) very limited engagement by the private sector;
- iv) unclear policy and institutional arrangements; and
- v) lack of expertise.

By building knowledge about rewards for environmental services and sharing this knowledge with a network of sites across Africa, the PRESA project will help to address these constraints and complement efforts across the continent and beyond, for establishing fair and effective environmental service agreements. PRESA has projects in Kenya, Tanzania, Uganda and in West Africa, in the Fouta Djallon highlands of Guinea. PRESA will build a community of practice across Africa to share lessons, tools and experience, advise local stakeholders, and provide training.

Source: <http://presa.worldagroforestry.org/>

Experiences in Latin America and Asia have shown that it is important that both buyers and sellers agree on the level of efficiency and fairness of the PES mechanism. If buyers after a few years wonder what in fact they are paying for, or if sellers start to see the payments as an entitlement, the scheme is likely to collapse. The type of environmental service to be provided and to whom it will be provided must be clarified before developing any appropriate incentive scheme (Noordwijk et al, 2008) (Noordwijk, 2008). Most of the literature concludes that it is still too early to come to any conclusions on the long-term sustainability of PES schemes (most schemes have been in place for less than ten years). In understanding the opportunities that PES schemes present for smallholders and forest communities it is thus important to monitor on-going cases over a sufficiently long period of time.

The sections below examine current experiences and opportunities for West Africa in five types of PES – carbon finance, community-based ecotourism, conservation concessions, bio-prospecting and watershed services. The section ends with a brief discussion on marketing labels and certification schemes which allow forest enterprises to access a premium that can also be considered a payment for environmental services.

3.1 Carbon finance

Concern about climate change has led to the development of carbon markets and the growth of carbon offset projects implemented in developing countries that sell emission reductions (carbon credit) on these markets. There are two main kinds of carbon markets:

- Regulated carbon market which includes the **Clean Development Mechanism (CDM)** carbon projects. The CDM regulated market is governed by rules established under the Kyoto Protocol. This is a legally binding treaty under which developed countries, or the industries that they regulate, can purchase carbon credits from developing countries to meet legally binding emissions reduction targets

- **Unregulated voluntary carbon markets** which exist outside of international rules. They have come about mainly because companies and individuals that are not regulated under international agreements have become interested in taking voluntary action to tackle climate change. There is a multitude of different standards and systems in operation within the voluntary markets, meaning that they are in fact a set of separate trading systems. However, as with the CDM, there are project-based systems where carbon offset credits are purchased from projects in developing countries. (Peskett et al, 2010)

Several types of carbon offset activities can be undertaken in order to generate carbon credits for sale in carbon markets. These may include large industrial scale projects such as hydroelectric energy, energy efficiency improvements in industry, landfill gas reductions. The types of carbon offset projects most relevant to the forest sector and in which substantial participation of rural communities is feasible concern:

- Afforestation and reforestation activities: afforestation is conversion of land that has not been forested for at least 50 years to forested land, whilst reforestation involves replanting trees on non-forested land that was once forested.
- Avoided deforestation (or Reduced emissions from deforestation and forest degradation - REDD) activities: REDD projects could include financing protected areas, community forestry, conservation concessions and reduced impact logging.
- Biomass energy projects: activities that produce energy from agricultural and forest residues.

REDD was only recently recognized as a mechanism for reducing carbon emissions following the 2009 Copenhagen Climate Conference. However, REDD is not accepted as a carbon offset activity under the CDM and some of the infrastructure of the REDD mechanism on a global level still remains to be put in place. Financing for carbon offset projects in developing countries comes from public as well as private sources. There are notably a number of REDD-related funding mechanisms that exist which are listed below, along with some other funds that finance carbon offset projects in developing countries:

- UN-REDD: a joint FAO, UNDP and UNEP programme to assist developing countries to prepare and implement national REDD strategies and mechanisms.
- Forest Carbon Partnership Facility (World Bank): a facility to assist developing countries in their efforts to reduce emissions from deforestation and degradation and to build capacity for REDD activities.
- Forest Investment Programme (World Bank): support developing countries with their REDD efforts by providing bridge financing for readiness reforms and investments identified through national REDD readiness strategy building efforts. The FIP will finance efforts to address the underlying causes of deforestation and forest degradation and to overcome barriers that have hindered past efforts to do so (Gondo, 2010)
- Biocarbon Fund (World Bank): set up in 2003 to demonstrate projects that sequester or conserve carbon in forest and agro-ecosystems.
Community Development Carbon Fund (World Bank): created in March 2003 to extend the benefits of carbon finance to the poorest countries and poor communities in all developing countries.

Table 4 : Carbon finance schemes

	CDM	Voluntary carbon market	Funds associated to REDD			Other funds	
			<i>UN-REDD</i>	<i>Forest Carbon Partnership Facility</i>	<i>Forest Investment Programme</i>	<i>Biocarbon fund</i>	<i>Community Devt Carbon Fund</i>
Types of forestry-related projects	Afforestation Reforestation	Afforestation Reforestation REDD	Assist developing countries prepare and implement national REDD+ strategies	Assist developing countries prepare and implement national REDD+ strategies	Assist developing countries prepare and implement national REDD+ strategies	Afforestation Reforestation REDD (exploring agricultural carbon)	mostly non forestry-related projects
Scale of participation – Africa	3.2% of projects in Africa in 2008	1.2% of projects in Africa in 2008	3 African countries amongst 12 pilot countries. 6 other African countries have observer status	14 African countries out of 37 participating countries	3 out of 8 pilot countries are African	6 out of 15 signed purchase agreements involve African countries	7 out of 31 signed purchase agreements involve African countries
Scale of participation – West Africa	Liberia (1 project) Nigeria (5 projects), Sierra Leone (1 project and 1 proposal) , Mali, Senegal and Mauritania (1 joint project)	Unclear	Nigeria has observer status	Ghana has an approved R-PP and Liberia has completed its R-PIN. Burkina Faso has observer status	Burkina Faso and Ghana amongst pilot countries	Mali and Niger have funded projects	Senegal has a funded project in energy efficiency
Potential for community-based projects	High transaction costs and lengthy bureaucratic procedures limit potential. Majority of CDM projects are concentrated in large markets such as India, China and Brazil	Supported by the right intermediary communities in developing countries have been able to access the voluntary carbon market	Depends on the degree to which community-based approaches are integrated in national strategies	Depends on the degree to which community-based approaches are integrated in national strategies	Depends on the degree to which community-based approaches are integrated in national strategies	Several community-based activities funded	Aimed at funding community based activities. Most funded activities concern small-scale energy, biomass, landfill gas, etc.

Sources: Peskett et al (2010), <http://cdm.unfccc.int/Projects/projsearch.html>; <http://www.un-redd.org>; <http://forestcarbonpartnership.org>; <http://wbcarbonfinance.org/Router.cfm?Page=Funds&ItemID=24670>; <http://www.climateinvestmentfunds.org/cif/node/5>

Table 4 summarizes the main types of carbon financing available and the current scale of participation of African and West African countries in these funding mechanisms. Concerning potential benefits for West African smallholders and forest communities, two limitations are evident. Firstly, forestry-related projects account only for a minority of projects financed under CDM and voluntary carbon markets. The majority of projects financed tend to concern sectors such as hydroelectricity or wind power energy. Afforestation and reforestation projects in 2008 accounted only for 7% of the transaction volume in the voluntary carbon market (Peskett et al, 2010).

Secondly, one notes a limited participation of African countries in the different carbon finance schemes. The CDM market had a total value of financial transactions of US\$ 6.5 billion in 2007 and the voluntary carbon market a value of US\$ 397 million and the scale of these markets has been increasing rapidly over the years (albeit with a recent slow down due to the financial crisis). Projects located in Africa, however, accounted for only 3.2% and 1.2% of carbon volumes transacted in the CDM and voluntary markets respectively (Peskett *et al*, 2010). A policy brief prepared by the World Agroforestry Centre (2009) notes that Africa has more than 100 biocarbon projects⁹ ranging from forest conservation to agroforestry, as well as many sustainable land management programmes. Eastern Africa accounts for the greatest share of biocarbon projects in the continent, particularly Uganda, Ethiopia, Kenya and Tanzania who account for a total of 43 projects. Most African projects are at an infant stage, with less than 5% already generating financial benefits to local communities. The World Agroforestry Centre notes that the development of carbon offset projects in Africa is constrained by barriers such as complex rules set by buyers, high costs for evaluation by certifying bodies and poor governance. Furthermore, poor countries with low levels of literacy have low human, technological and institutional capacities to implement biocarbon monitoring.

Box 9 highlights some ECOWAS countries' experiences with carbon financing to date. The English-speaking high forest cover countries, Liberia, Sierra Leone and Ghana, appear to be the most advanced in developing national strategies and sub-national carbon finance projects. Nonetheless some Sahelian countries – Mali, Niger and Senegal – are currently implementing small-scale carbon offset projects mostly with donor funding, some of which have been running since 2006 (see the Acacia Plantation project in Mali, of which a similar project is being implemented in Niger). Regional initiatives aimed at increasing participation in carbon markets include the Katoomba Group's Carbon Incubator established in Accra to facilitate start-up projects in ecosystem services targeting mainly communities and small to medium land-owners across the sub-region through technical and financial support¹⁰. The African Development Bank also launched in November 2010 a two-year African Carbon Support Program geared towards helping member countries access carbon finance.¹¹

The review of country experiences shows that carbon finance is not embraced by all as a positive development (see for instance Liberia and Nigeria). Detailed case studies over several years (five to ten) of these nascent experiences, on a project level or even on a

⁹ Biocarbon is the carbon absorbed by trees and plants, through photosynthesis, and which is stored in their biomass and soils.

¹⁰ <http://www.katoombagroup.org/incubator/static.php?id=225>

¹¹ <http://www.afdb.org/en/news-events/article/afdb-launches-african-carbon-support-program-7499/>

country level for the high-forest cover countries, would be of great interest to better understand the potential of carbon finance for West African communities.

Box 9 : Experiences of select ECOWAS countries with carbon financing

Burkina Faso

A low forest-cover country, Burkina Faso is one of the eight pilot Forest Investment Programme countries. The report of the FIP Scoping mission held in October 2010 states that Burkina Faso was approved by the FIP Sub-Committee Expert Group to become one of the pilot countries as a result of the participatory management of its forest resources and sharing of related experience with other countries¹². The government intends to officially submit its strategy and FIP Investment Program in May 2011. There are also ambitions to move ahead with the preparation of a REDD Readiness proposal. A national committee on climate change is being established.

Currently there are apparently no carbon offset projects traded on the carbon markets. A project funded by Denmark concerning support to the energy sector (*Projet d'appui au secteur de l'énergie*) had amongst its objectives to register under the CDM.

Ghana

Ghana set up a designated national authority (DNA) on CDM within its Environmental Protection Agency in September 2005. The authority has helped design three CDM project idea notes on the following: rubber outgrowing and carbon sequestration in Ghana; afforestation of catchment areas in the Brimsu Reservoir; and afforestation of the catchment area of Lake Volta. So far, no projects have been registered by the CDM. Ghana is one of the eight pilot FIP countries and also a first tier FCPF country. Apparently the African country that is furthest along on the REDD process, Ghana submitted the final version of its REDD Readiness Preparation Proposal (R-PP) in December 2010 with a total budget of US\$ 7.3 million¹³. Ghana emphasizes that under both CDM and REDD schemes, training is important for extension officers, to facilitate private sector involvement in carbon projects and create awareness.

In 2009, the Katoomba Group spearheaded a REDD Opportunities Scoping Exercise (ROSE) in Ghana that aimed at identifying critical constraints to REDD project development, especially those associated with the legal, political and institutional framework for carbon finance. Constraints identified in the report include: perverse policy incentives stemming from state ownership of naturally occurring trees, especially trees on cocoa farms, and the lack of clarity surrounding carbon definitions, carbon ownership and carbon benefit-sharing mechanisms. (Katoomba Group, Forest Trends, Nature Conservation Research Centre, 2010). The report notes that most deforestation and degradation drivers stem from the agricultural sector and as such solutions must be based on actions from that sector. (As such, the Katoomba Group has been involved in the development of the world's first Cocoa Carbon project to be tested in Ghana). To increase community participation, the report suggests that district assemblies could incorporate REDD+ in their Natural Resources Plans. Finally, the report warns that national stakeholders should become more realistic about the levels of financial benefits likely to emerge from REDD, warning that financial returns could struggle to compensate the transaction, implementation and opportunity costs.

Ghana is currently undertaking a carbon mapping exercise, with support from the Katoomba Group and other actors, and the government plans on developing a national Low Carbon Growth Plan.

¹² http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Scoping%20mission%20%20burkina_121410.pdf

¹³ http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jan2011/Revised_Ghana_R-PP_2_Dec-2010.pdf

Liberia

In September 2007, the Liberian government formed a National Forest Carbon Working Group to document the potential of carbon financing and lay the groundwork for pilot carbon projects that integrate community development and biodiversity conservation goals. In 2009 a team led by Conservation International economists undertook a study entitled “Economic Analysis of a Low Carbon Economy for Liberia” (Lawrence et al, 2009) that concluded that the carbon market could bring in annual revenues of US\$ 55 million assuming a price of \$5 per ton, and significantly more if carbon credit prices continued to rise.

The report notes: “Producing carbon credits can provide profit opportunities for entrepreneurs and would be a source of green jobs. As the nation best endowed with forest in West Africa, Liberia has the opportunity to be a regional market leader in this industry, which could easily be worth billions of dollars regionally. This will require effort; land must be monitored for illegal logging and protected from forest fires. Agriculture must become more productive; products and services like organic and inorganic fertilizer, irrigation, and grading will be procured, often locally. Data must be collected and new payment methods developed...Once Liberians have gained expertise in these areas, they can apply it in other countries as the carbon industry expands.”

The challenges for benefitting from the carbon market highlighted by the report include a clearer definition of property rights and the need for a flexible national and legal policy framework and strategy. It is emphasized that as the financing mechanisms may be performance based, communities’ behaviors concerning reducing deforestation and increasing forest regeneration will be critical in determining the level of revenues received.

The report was presented at a government workshop in November 2009 and the analysis is currently being reviewed and discussed further with individual ministries and agencies. If the plan is approved, the NGO Conservation International reports that Liberia will join countries like Guyana and Suriname as the pioneers of the emerging carbon market.¹⁴ So far several different parties have expressed interest in carbon credit markets in Liberia, including the Prince’s Rainforest Trust (established by the Prince of Wales). In 2010, Liberia almost fell victim to an alleged forest carbon scam in the voluntary carbon market involving the UK-based Carbon Harvesting Corporation. The project proposed unrealistic carbon offset targets and exposed the Liberian government to more than US\$ 2 billion in liabilities.¹⁵ One online news report states: “the unregulated nature of the nascent carbon market – whereby landholders are paid for conserving and sustainably managing forests – has sparked concern among environmental and social rights groups over land-grabbing and scams.”¹⁶

Liberia is a first tier Forest Carbon Partnership Facility country and submitted draft 5 of its REDD Readiness Preparation Proposal in January 2011 with a budget of US\$ 5,074,000¹⁷. Liberia also has an approved CDM project concerning waste handling and disposal: “Whein Town Landfill Gas Recovery Project”.¹⁸

Mali

Work has been underway since 2007 on the establishment of a Malian Carbon Fund in this low forest cover country, to support Malian actors sell carbon credits to fund projects. The fund should

¹⁴ http://www.conservation.org/FMG/Articles/Pages/the_wealth_of_forests_liberia_REDD.aspx

¹⁵ http://www.globalwitness.org/sites/default/files/pdfs/press_release_golab.pdf

¹⁶ http://news.mongabay.com/2010/0610-carbon_scam_liberia.html

¹⁷ http://www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Liberia_FCPF_R-PIN.pdf

¹⁸ <http://cdm.unfccc.int/Projects/DB/SGS-UKL1281436499.94/view>

make Malian carbon credits more attractive to investors by pooling them in a diversified portfolio. The Malian Carbon Fund is to cover renewable energy and energy efficiency activities, waste management activities and afforestation and reforestation activities. The fund is to be financed primarily by domestic and international public funds, but contributions from private sector actors will also be sought (Kanouté, 2010).

Currently a carbon offset project is being funded by the BioCarbon Fund in Mali entitled “Acacia Senegal Plantation Project” which plans to undertake the reforestation of 6000 ha between 2006 - 2011. A Malian agribusiness company, Déguessi Groupe developed the project and has signed agreements with local communities for the commercialization of emission reductions produced on their lands. The company will develop and manage cost-effective modern nurseries, contribute to farmer’s training and provide assistance for planting trees, maintaining plantations and Arabic gum harvesting. Deguessi Groupe will purchase Arabic gum from participating farmers and redistribute the proceeds of sales of carbon credits to them. The project is expected to sequester around 300,000 tons of CO₂ by 2017, and 800,000 tons by 2035. Technical support is provided by the International Centre for Research in Agro-forestry and the International Crop Research Institute for Semi-Arid Tropics (ICRISAT). The BioCarbon Fund deems the project is highly replicable in the whole Sahelian belt and notes that the project is inspired from a similar project funded by the BioCarbon fund in Niger¹⁹.

Another carbon offset project “K-TGAL – Kyoto: Think Global, Act Local” is being funded by the Netherlands in Mali, as well as in Senegal and Guinea Bissau. In Mali, the project aims at REDD activities in 11 villages in the Koulikoro region that should sequester an estimated 2,5 tonnes of carbon per hectare per year. With 226 hectares, annual revenues from emission reductions are estimated at US\$ 12,000 (Kanouté, 2010).

Mali has one registered multi-country project in the hydro-electric energy sector under CDM – Felou Regional Hydropower Project concerning Mali, Senegal and Mauritania. The World Agroforestry Centre (2009) reports that Mali has five on-going biocarbon projects.

Nigeria

Nigeria is has observer status on UN-REDD and is currently drafting a REDD Readiness proposal to be submitted in March 2011. Activities are to be focused in Cross River State, which accounts for 60% of Nigeria’s forest. Some local NGOs have been campaigning against Nigeria’s participation in REDD fearing that REDD could become a vehicle for corporate land grabs, that Nigeria’s forest dependent poor may be forcefully evicted from their land and denied access to the forests. They feel that forest-dependent communities have not been engaged or incorporated by government in the REDD negotiation process²⁰.

Nigeria has five registered projects under CDM project in the gas and energy sectors.

Sierra Leone

A 2008 study undertaken by EcoSecurities indicated that the government could generate between EUR 62.7 and 101.9 million over a period of twenty years through the commercialization of carbon credit in the Gola Forest Reserve (Global Witness, 2010). Several NGOs providing funding to the Gola Forest Reserve have the ambition of establishing the reserve as a pilot REDD project that would

¹⁹<http://wbcarbonfinance.org/Router.cfm?Page=BioCF&FID=9708&ItemID=9708&ft=Projects&ProjID=24878>

²⁰<http://www.redd-monitor.org/2010/09/01/our-forest-is-not-for-sale-ngo-statement-on-redd-in-nigeria/>

develop carbon agreement with local communities and build understanding and capacity to implement REDD projects on a national level²¹.

Sierra Leone is pushing hard to be included in the next batch of FCPF and UN-REDD countries. It already has a hydroelectric power project funded under the CDM – The Bumbuna Hydroelectric project, and in November 2009 submitted another proposal to the CDM concerning “Afforestation of Kiri tree on degraded lands in Sierra Leone” that aims to benefit 10 villages and 3500 locals. The Brazilian Green Giant Venture Fund is cited as one of the project participants²².

A study on sustainable financing mechanisms for protected areas undertaken in 2006 by the NGO Royal Society for the Protection of Birds in collaboration with the Conservation Society of Sierra Leone and the National Commission for Environment and Forestry suggested that government could utilize hydroelectric power resources to generate carbon credits to finance the setting up of a trust fund or sinking fund for the financing of protected areas in Sierra Leone (RSPB, 2006).

In the meantime, studies undertaken in other regions of the world can provide some guidelines on the potential of carbon finance to benefit smallholders and forest communities. The review of six forest and bioenergy carbon projects (three in Uganda and three in India) for benefits accruing to poor rural communities provides some lessons (Peskett et al, 2010). The authors note that donors, governments and commercial carbon offset providers are increasingly interested in integrating poverty reduction objectives in carbon offset projects; as such there may be increased opportunities for smallholders and forest communities.

The study reports that the carbon offset projects reviewed vary broadly between two extremes: small-scale community or individually implemented projects, often with local NGOs acting as the main intermediary and having a poverty reduction objective; and large-scale more commercially oriented projects driven by private enterprises. It is emphasized that the role of intermediaries is very important in enabling the participation of rural communities, given the complexities of carbon schemes.

Potential benefits accruing to poor rural communities include employment that is created for both project participants and non-participants; and income from carbon offset payments, although net income from projects reviewed appears to be relatively low in most cases compared with yearly household income. There can also be income gains for the wider community in cases where a community carbon fund is established, but again the experiences reviewed showed a low level of such funds. In some cases, project participants have been able to use trees and carbon payments as security for accessing loans.

On the other hand, carbon offset projects may increase vulnerability of project participants. Lack of flexibility in project contracts, combined with low understanding about the terms of contracts could result in participants becoming involved in projects where they commit to changing activities but the expected returns never emerge. Given the complexities of carbon offset projects, competent and experienced intermediaries are extremely important in enabling participation and in helping avoid some of these risks. Lack of knowledge among

²¹http://www.cepf.net/grants/project_database/guinean_forests_of_west_africa/Pages/strategic_direction_6.aspx

²²<http://www.cdm-bazaar.net/UserManagement/FileStorage/EY8IS135ZRGK7O96LAVT0XFDNUW2H4>

participants, and in some cases intermediaries, about what they are signing up to, appears to be a common issue.

In terms of financial sustainability, new income opportunities for participants appear to be relatively secure over the length of these agreements once projects have been registered and start to trade. However as with any market-based system, the long-term sustainability is not guaranteed. Markets have expanded rapidly over the last four years, but there have also been large fluctuations in price. These have been due to regulatory problems, and the failure of the UN climate talks in Copenhagen in December 2009 means that there is continuing uncertainty in the carbon markets. The security of opportunities for communities may also be affected by the evolution in standards used for carbon offset projects. As the industry develops, standards may become more stringent and some of the approaches that can help to engage communities may become more difficult for project developers to justify.

A key issue is that many of the factors governing whether carbon offset projects can offer opportunities for poor rural communities are outside the realm of the projects themselves. Local and national policies and legislation may have impacts on the types of projects that can be implemented and the approaches used (e.g. specifying guidelines for collaborative forest management). This is particularly true for forestry projects, in which land tenure security is one of the biggest barriers for project implementation. Finally, some projects in the past have not produced convincing results, not necessarily because of technology issues, but because best practice methodologies have not been adopted, for instance in the realm of collaborative forest management approaches.

3.2 Community-based Ecotourism

Whilst ecotourism activities based on forests, or other environmental resources, may not be viewed as environmental services as such, they share the central philosophy behind payments for environmental services. Ecotourism can be seen as a kind of voluntary environmental service payment in as much as the resource managers receive benefits (in the form of additional income, training, improvement in health and education services, and steady well-paid jobs), in return for protecting the scenic beauty and biodiversity of the forests where they live. In this case, the purchasers of the service are environmental tourists and organizations that provide funds to be invested in infrastructure in these areas or support the creation of community tourist enterprises (Gondo, 2010).

Community-based tourism has, for over three decades, been promoted as a means of development whereby the social, environmental and economic needs of local communities are met through the offering of a tourism product. The concept refers to tourism owned and/or managed by communities and aimed at benefiting a wider group than those employed in the initiative. (Goodwin and Santilli, 2009). Community-based ecotourism has obvious potential to benefit forest communities, but it should also be noted that non community-based ecotourism activities can and have also generated significant benefits for communities.

Several countries in the sub-region have experience with community-based eco-tourism, notably Ghana, Sierra Leone and Gambia. Some experiences from Ghana and Sierra Leone are highlighted in Box 10. A study on sustainable financing of protected areas in Sierra Leone pointed out that concerning ecotourism's income generating potential, the simple strategy of charging tourists to enter the protected area is remarkably under-utilised worldwide (RSPB, 2006).

Box 10 : Community ecotourism in Ghana and Sierra Leone

Ghana

Ecotourism is big business in Ghana and was expected to generate US\$ 1.6 billion in annual revenue by 2010. About 20 ecotourism sites are frequently visited in Ghana. Kakum National Park in the Central Region remains a focus of Ghana's ecotourism programme. The number of visitors increased from 20,000 in 1995 to 59,000 in 1998, while revenue from the walkway rose from US\$ 10,000 to US\$ 108,000 for the same period. Construction of the walkway in the national park was funded in part thanks to Canadian government subsidies aimed at increasing exports of Canadian firms that allows buyers to borrow up to 80% of the value of the good or service they are purchasing from Canadian firms. The walkway was designed by the Canadian firm, Greenheart Conservation Company Ltd, which specializes in designing canopy walkways as economically viable businesses that support conservation.²³ A portion of the revenue from park admission fees reverts to the Ghana Wildlife Department, part of the Forestry Commission, which manages the park. The remainder accrues to the Ghana Heritage Conservation Trust, a local NGO that will use the funds to support continued operation of the walkway, conservation activities and sustainable development projects in the communities around Kakum (Osei-Tutu et al, 2010).

The local NGO Nature Conservation Research Centre (NCRC) is a key player in eco-tourism development in Ghana; its website claims the organization is recognized internationally as a leader in developing rural ecotourism. Ghana's National Tourism Policy has adopted NCRC's model as the preferred approach for the development of rural tourism and the organization has recently published Ghana's first eco-tourism guide. The organization cites Wechiau, Avu Lagoon, Boabeng-Fiema, Nyankamba Escarpment, Tafi Atome, Asumura and the Afram Arm of Lake Volta as examples demonstrating that traditional communities can lead highly successful conservation and ecotourism initiatives. As NCRC's work has continued to evolve in Ghana, it is also collaborating on projects in Nigeria, Mali, Côte d'Ivoire and Liberia and is discussing new involvements in Sierra Leone and Senegal²⁴.

Sierra Leone

Sierra Leone has two key forest ecotourism sites: the Tiwai Island Wildlife Sanctuary and the Gola Forest National Park. The former is the longest-running experience and a Tiwai Island Administrative Committee, made up of local authorities and stakeholders, has been established with the idea that the local communities will protect the island from logging, mining and poaching in exchange for community development and livelihood assistance. Training activities related to ecotourism are provided for the local communities and revenues earned from ecotourism are put back into the community. It should be noted that the sanctuary also generates revenue through its research station, established by the University of Sierra Leone in 1988. Researchers interested in research activities on the island are charged fees which go towards the maintenance of the research station as well as the sanctuary. A business plan developed in 2004, projected revenues of USD 60,000 from visitors and researchers fees in 2007²⁵. The initiative is not entirely self-sustaining and

²³ http://www.greenheart.ca/kelson_walkways_ican.htm

²⁴ <http://www.ncrc-ghana.org/>

²⁵ www.tiwaiisland.org and http://www.efasl.org.uk/4_projects/pdfs/Tiwai_DratBusinessPlan.pdf

receives funding notably from the Critical Ecosystem Partnership Fund. The Gola Forest ecotourism experience is more recent: as of October 2009, the Gola Forest National Park had completed the construction of 3 guest houses managed by the local forest communities and the development of 17km of trail²⁶.

Little information on the benefits generated by on-going community ecotourism initiatives in the region was found for this study. However, a study undertaken in 2009 on the success rate of community-based tourism initiatives in Africa, Latin America and Asia concludes that such initiatives often have very low economic sustainability (though they may generate other benefits), with a majority having bed-occupancy rates of only 5% (Goodwin and Santilli, 2009). Several initiatives remained dependent on donor funding for several years, and tended to collapse if donor funding dried-up. Main causes of collapse were found to be weak market access and poor governance. The African initiatives included in the study sample that were found to be successful (i.e. economically sustainable) are listed in Box 11; they could provide useful lessons for ecotourism initiatives in West Africa.

Box 11 : Examples of economically sustainable community-based ecotourism initiatives

Buhoma Village Walk, Uganda: Opened in 2002, this initiative was instigated by the community living in and around the Bwindi Impenetrable National Park. The initiative is based around a three hour walk designed to be taken during the afternoon when camp site guests have no programme following their gorilla tracking in the morning. The initiative includes a handicraft workshop, waterfall, tea plantations, traditional healer and various other activities.

Kahawa Shamba, Tanzania - Opened in 2004, this initiative is a very successful coffee farm visit, with lunch and an option of overnight accommodation for groups, partners closely with one overseas tour operators and supported by the Coffee Co-operative structure within which it sits. The project operates as supplementary livelihood opportunity for coffee farmers.

Meket Community Tourism Project, Ethiopia - Opened in 2003, the initiative involves three community owned lodges and organizes treks with overnight stops, sleeping in *tukuls* (circular huts) built by the villagers, who also act as donkey guides, chefs and guards.

Nambwa Campsite, Namibia - Opened in 2004 and owned by a conservancy, the camp provides accommodation and guiding. Some revenues also come from firewood. The project was initially funded by WWF.

Source: Goodwin and Santilli, 2009

3.3 Conservation Concessions

Conservation concessions are a concept developed by the international NGO Conservation International. Under a conservation concession agreement, governments or local resource users agree to protect natural ecosystems in exchange for a steady stream of structured compensation. The opportunity costs of foregoing natural resource exploitation, including lost employment and government revenue from taxes, serves as a basis for determining the amount of the payment (Verweij, 2002).

There are limited experiences with this PES funding mechanism in Africa. An initiative however is under development in Sierra Leone spearheaded by the NGO Royal Society for

²⁶ www.golarainforest.org

the Protection of Birds (RSPB), working with the Conservation Society of Sierra Leone. The NGOs have been working on managing the Gola Forest sustainably since 1990 and the RSPB now intend to fund the conservation of the Gola Forest through a conservation concession. The RSPB and the Conservation Society of Sierra Leone will sign an agreement with the government to preserve the forest and provide an income stream to government and communities in lieu of income they might have received from logging. The forest will remain under the ownership of the government and the National Commission for Environment and Forestry which will lead on management activities. The RSPB and CCSL, in addition to providing finance will provide support with technical and educational issues and biological monitoring. The partners are working to raise US\$ 10 million to establish a dedicated endowment fund. The fund's annual interest payments will be sufficient to cover the conservation management costs for the forest and sustainable livelihoods projects for local communities in perpetuity²⁷.

3.4 Bio-prospecting

The term bio-prospecting covers all activities concerned with the systematic search for sustainable commercial uses of the genetic and biochemical elements of biodiversity. Under the Convention on Biological Diversity countries have sovereign rights over their resources, and any benefits arising from the use or commercialization of these resources must be shared with the source country. The wealth of biodiversity in natural tropical forests offers great potential for research and bio-prospecting and the mechanism may be a potential source of additional income for forest communities in Africa (Gondo, 2010). Most experiences have taken place in Latin America and Asia and there are few documented cases in Africa. Nigeria however had some experience with bio-prospecting in the late 1990s, which did not come to fruition as the pharmaceutical company involved ended research before the product was fully developed.

Gondo (2010) notes that although the potential of bio-prospecting is recognized, there are also major challenges in the fields of policy, sovereignty, rights of access, intellectual property and equity. Furthermore, experience from other parts of the world has shown that the chances of raising significant funds from bio-prospecting are generally low. According to RSPB (2006) it would appear that to maximize the benefits from bio-prospecting, a country ideally needs to develop a strong national biotechnology industry and infrastructure, and to have established, in law and in practice, clear land/resource use rights.

Box 12 : A rare bio-prospecting experience – Nigeria and Shaman Pharmaceuticals

In 1990, Shaman Pharmaceuticals, Inc. established a research relationship with Nigerian scientific institutions, and the NGO Bioresources Development and Conservation Programme (BDCP) became the focal point for collaborative research. Nigerian scientists proposed initial discussions with healers and traditional leaders to talk about a collaborative relationship with Shaman for bioprospecting.

On October 20, 1997, in Abuja, Nigeria, the BDCP launched the Fund for Integrated Rural

²⁷ <http://www.cbd.int/doc/external/cop-08/ma-gola-2006-03-27.pdf>

Development and Traditional Medicine (FIRD-TM). The FIRD-TM was to be the vehicle for receiving and channeling benefits from many contributors in an equitable and consistent manner. Funds are directed to source communities from which commercially useful bioresources and ethnobotanical knowledge is derived. The BDCP facilitated the establishment of the Fund and was its sponsoring entity. The Fund, however, had an independent board composed of leaders of traditional healers' associations, senior government officials, multiethnic representatives of village councils, and technical experts from scientific institutions. Initial investment in the fund came from a \$40,000 grant from the US NGO "Healing Forest Conservancy", set up in 1990 by Shaman Pharmaceuticals.

Unfortunately the experience did not come to fruition as after 10 years and \$170 million invested, Shaman Pharmaceuticals in early 1999 abandoned attempts to take any of its discoveries through the Food and Drug Administration regulatory process, as future time and costs for additional clinical trials proved prohibitive.

This case study demonstrates the time, costs, and risks associated with drug discovery, a burden shouldered primarily by the company, but with critical implications for benefit-sharing to source countries and community groups. Royalties may never materialize due to the tremendous costs, long time frame, unpredictability and volatility of the market, and the many other potential pitfalls of drug discovery. Some sort of up-front benefits - monetary or non-monetary - as well as "milestone" payments like those Shaman sent to Nigeria, are essential. Royalties come into play only if and when a drug is marketed; it is risky to rely only on benefits from a product that may never materialize.

Source: <http://www.culturalsurvival.org/ourpublications/csq/article/lessons-bioprospecting-india-and-nigeria> and (Moran, 1998).

3.5 Watershed Services

Watershed protection is one of the most important environmental services provided by forests. There is now growing recognition of the importance of forest management in watersheds/catchments on activities that are dependent on water (e.g. water supply to municipal areas, irrigation and hydro-electricity). Good forest management provides a host of watershed services, including water purification, ground water and surface flow regulation, erosion control, and stream-bank stabilization. Various payments for watershed services have been developed in the last decade. Payment for the conservation of watershed areas can be a voluntary arrangement between the parties, promoted and implemented mainly by municipalities, public service companies and local NGOs. In most cases, however, it is a compulsory payment. Potential buyers of watershed services include hydro-electricity companies, municipal water suppliers and irrigation schemes (Gondo, 2010).

Gondo (2010) notes that examples of payments for watershed services in Africa are still very few, and this study review did not find any in West African countries. The market for watershed services in African countries is still very small and usually within the specific countries or between neighbouring countries. Studies have found little evidence of the existence of, or demand for, market-based mechanisms, either by governments or potential buyers of watershed services (Gondo, 2010). The only documented case in Africa appears to be a "Working for Water" programme in South Africa that involves the removal of alien tree

species and restoration of native vegetation, actions which resulted in improved water supply at a fraction of the cost of water delivered through diversion or reservoir projects (Verweij, 2002).

Currently, public budgets are the main source of funding for watershed services, though there are some examples in Latin America involving private buyers (see for example Verweij 2002). In Africa, low income levels, small markets and weak institutional capacity make payment for water services difficult and uneconomic (Gondo, 2010). However, FAO (2008), notes that, based on the Latin American experience²⁸, payments to improve water quality through better forest management is one of three PES that is expected to see the most growth over the next few years. Gondo (2010) notes that the interest in water sharing (and conflict prevention) and valuation of water provision in some regions of Africa (e.g. Zambezi River Action Plan and the Nile Basin Initiative) has brought to the fore the need to value and market watershed services.

3.6 Marketing Labels and Certification Schemes

Marketing labels and certification schemes based on ecological considerations are mechanisms designed to capture a market premium for the provision of environmental services. Products are sold to consumers or retailers who prefer to support suppliers that are good environmental managers and are willing to pay a premium for this. Smallholders and community forests that are able to get their products accredited under internationally recognized marketing labels and certification schemes thus have access to a premium that should in principle allow them to cover the costs of managing their forest resource sustainably.

Examples of schemes operating in West Africa include the Rainforest Alliance marketing label for cocoa that is farmed sustainably (thus preserving forest land) in Ghana and Côte d'Ivoire. Another example is the Forest Law Enforcement, Governance and Trade voluntary partnership agreements (FLEGT/VPA) that Ghana has signed with the European Union²⁹ to ensure that timber exports are legally harvested, in ways that protect the country's forests, and can be allowed entrance into the EU market (CATIE, UNCCD, 2009)

Simula (2008) notes that these market-based instruments can help support the sharing of risks and benefits and ensure that smallholders receive a fairer share of the end-product price.

²⁸ Readers interested in Latin American experiences with watershed services can consult a regional study undertaken by the FAO on practical experiences of compensation for water services provided by forests in Central America. (FAO, 2009)

²⁹ Negotiations on FLEGT VPA are on-going in Liberia.

4 Public financing mechanisms

Public funding from domestic and external sources has been a major source of forest financing for many countries in Africa over the past 30 years (Gondo, 2010) and will probably continue to be the main source in most West African countries, which have low forest cover and as such few opportunities for mobilizing large-scale private financing and/or PES financing.

This report has placed greater emphasis on private financing mechanisms and PES mechanisms as these offer new opportunities for funding different from public funds that have been the status quo and consistently at insufficient levels for African countries. Nonetheless, it is useful to have an overview of the situation of domestic and external public financing in the region given the predominant role it plays and also in light of its importance in providing some of the institutional infrastructure needed for investments in the forest sector.

4.1 Domestic public financing

Table 5 shows the level of public expenditure by governments in the forest sector in 2005 as reported by the FAO's 2010 Global Forest Resources Assessment (FAO 2010). Unfortunately, it is difficult to come by reliable forest statistics and so a lot of the data is incomplete. A general trend that emerges from the table is that often forest revenues are not sufficient to fund domestic expenditure in the forest sector, meaning that some funding is allocated from the national budget – of the seven countries that report data for both forest revenue and domestic expenditure, five of them fall into this case. The second trend is that in most cases the majority of government expenditure on forests is financed from external sources – grants and loans from donors and NGOs.³⁰

The FAO's work on forest revenue systems in the early 2000s concluded that forest revenue collection was unsatisfactory in several countries: for example in Liberia it was estimated that only 30% of revenues that should have been collected in 2000 were collected and it was furthermore deemed that charges were too low, on average accounting for only 6% of the FOB value of products for the period 1998-2000 (Doe, 2004). There is thus probably potential in most West African countries to increase domestic funds available for forest sector financing through more efficient revenue collection systems. Gondo (2010) notes that the introduction of competitive bidding for concessions in Ghana has significantly increased the revenues collected from commercial harvesting from natural forests.

Table 5 : Forest revenue and public expenditure on forestry 2005

Forest	Public expenditure US\$1 000
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³⁰ Note that public expenditure from external sources in this case only covers external funds that are directly channeled through national public institutions. It does not therefore cover all donor funding of the forest sector in the respective countries.

	revenue US\$ 1000	Domestic funding		External funding		Total	
		Operational expenditure	Transfer payments	Operational expenditure	Transfer payments	Operational expenditure	Transfer payments
Benin	3 886	2 451	410	15 925	-	18 376	-
Burkina Faso	607	2 287	-	3 202	-	5 490	-
Cape Verde	-	-	-	-	-	-	-
Côte d'Ivoire	-	-	-	-	-	-	-
Gambia	90	171	0	8 034	0	8 205	0
Ghana	-	-	-	-	-	-	-
Guinea	-	-	-	-	-	-	-
Guinea- Bissau	121	72	-	48	-	121	-
Liberia	-	633	-	-	-	633	-
Mali	692	3608	-	17 640	-	21 248	-
Niger	1 739	-	-	-	-	-	-
Nigeria		4	0			4	0
Senegal	3 157	6 525	12 323	17 152	15 404	23 677	27 727
Sierra Leone	648	623	0	467	-	1 090	-
Togo	140	-	-	--	-	-	-

Operational expenditure is defined as government expenditure on public institutions engaged in the forest sector only

Transfer payments are defined as government expenditure on direct financial incentives paid to non-government and private sector institutions, enterprises, communities or individuals operating in the forest sector to implement forest-related activities.

Source: (FAO, 2010)

In forest rich countries, notably Liberia, but also may be Sierra Leone and Ghana, forest revenues and thus domestic public expenditure could reach quite large amounts. The situation in the forest rich country of Liberia, which was just coming out of a prolonged civil conflict in 2005, appears to have evolved dramatically since the reporting of US\$ 633,000 of domestic forest expenditure in 2005. The Liberian Forest Development Authority reports forest revenues of US\$ 584,000 and domestic expenditure of US\$ 3,064,000 in 2008. The Government of Liberia expects to receive about US\$ 20 million annually once the industrial timber sector is revived, which would be approximately 10% of the country's annual budget (Blundell, 2008).

The extent to which increased forest revenues trickle down to smallholders and forest communities will depend on the national forest programmes in place in respective countries. There are already some examples of public funding mechanisms in place that favour forest communities, in Mali, Niger and the Gambia for instance (see box below).

Box 13 : Public financing mechanisms for forest communities

A number of countries have implemented cost and benefit sharing arrangements to encourage local communities' engagement and investment in forest management and protection. For example, in Niger and Mali, part of the money raised by the state from forest charges is used to support local development, with larger shares going to local communities if harvesting in their area is controlled in some way (up to 90% in Niger and 45% in Mali). A proportion of the revenue shared with communities is reserved for expenditure on forest management. Gambia has a similar arrangement, where local communities enter into Community Forestry Management Agreements with the Forestry Department that allows them to retain 85% of any revenue from forestry activities in their designated areas so long as they demonstrate an ability to manage the forest and 40% of the

revenue is reinvested in the forest. In Gambia, these revenues have been used to fund production and marketing costs for log and fuelwood enterprises through a cash box system.

Source: Gondo (2010) and FAO (2005)

Debt-for-nature swaps, may enable governments to access additional bilateral resources for their forest sectors. This mechanism involves the selling of discounted sovereign country debt by a creditor nation to a third party (often conservation NGO) who then redeems the debt by getting the sovereign country to use an equivalent amount in the domestic country for conservation (RSPB, 2006). In Africa, the Malgache and DR Congolese governments have been involved in debt-for-nature swaps. Other innovative approaches to public-sector financing of forestry that have been developed in other parts of the world may also be of interest to West African governments looking to increase their forest budgets. These include “ring fencing” budget allocations and earmarking of government taxes. Two experiences from Latin America are described below.

Box 14 : Innovative approaches to domestic financing of forestry in Latin America

Ring-fencing budget allocations for forestry in Guatemala: PINFOR and PINPEP

PINFOR (Programa de Incentivos Forestales) is an incentive programme started by the Government of Guatemala in 1997. It is financed using 1 per cent of the state operating expenses. Between 1998 and 2009, it provided about US\$134 million to the forestry sector. Annual disbursements grew from US\$5.6 million in 2000 to US\$16.9 million in 2006. To date, the programme has contributed to the establishment of about 100 000 ha of plantations. Municipalities, communities, landowners and other organizations can apply for incentives to fund reforestation, promote natural regeneration and improve natural forest management. Full ownership of the land (registration in the Registro de Propiedad Inmueble) is required to access the programme. Amongst the main challenges of the programme are that many small-scale forest users are excluded from the programme because of the requirement to prove land ownership. To overcome this, the Government of Guatemala, with support from the Netherlands, has created an incentive programme for smallholders (Programa de Incentivos para Pequeños Poseedores or PINPEP). PINPEP sets aside 0.05 to 1.0% of the national budget for forest management incentives and aims to include small holders and inhabitants of community forest lands as participants in forest management.

Earmarking of government taxes for forestry in Brazil

The federal constitution of Brazil requires states to share 25% of their revenue from value added tax (VAT) with municipalities. Another requirement is that 75% of the municipalities’ share is allocated in proportion to their economic output and the rest is allocated according to criteria defined by each state. Several Brazilian states have decided to use environmental criteria in the allocation of these shares to reward municipalities that implement environmental policies to establish conservation areas and indigenous reserves. Some of these “ecological VAT” payments have been used to fund the creation and management of forest conservation areas.

Source: (FAO, 2008)

4.2 International public financing

Official Development Assistance (ODA) has been a major source of financing for many African countries over the last 30 years. At the global level, ODA to the forest sector has increased significantly in value terms (but has declined in terms of its share of total ODA). At

the continental level, Africa's share of total ODA to forestry has declined from 33% during the period 1973-1988 to 13% for the period 1994-1998. Since 2000, two thirds of cumulative forestry ODA has been allocated to Asia, only 20% to Africa and 11% to Latin America. Furthermore, ODA in the forest sector in Africa has generally been uneven and tended to be concentrated in a few countries (Gondo, 2010).

With the growing importance of the climate change and biodiversity agendas, ODA is increasingly being channeled through multilateral agencies. The World Bank group is now the largest multilateral funder of the forestry sector: in Africa, the Bank's largest investments are confined to tropical rainforest countries such as DR Congo, Gabon and Liberia (Gondo, 2010). The AfDB also has an important forestry portfolio, estimated at US\$ 352 million in 2010 and has emerged in recent years as a major player in financing forest projects related to environmental services; a lot of its funding goes to Congo Basin countries through the fund established for that region.

Different international funding sources, including international NGOs, have permitted West African countries to implement various projects and initiatives in the forest sector. Two funding sources that may be of particular relevance for smallholders and forest communities are the National Forest Programme (NFP) Facility hosted at the FAO and the Global Environmental Facility (GEF) Small Grants Programme.

The NFP Facility was created in 2002 to assist countries in developing and implementing national forest programmes that effectively address local needs and national priorities. The NFP Facility stimulates broad stakeholders' participation in national forest programme processes by providing grants directly to civil society to implement activities planned by the NFPs. The Facility thus promotes active participation of smallholders and forest communities in forest policy processes. Since 2005, the NFP Facility has also been supporting the development of national forest financing strategies in various countries, primarily in Latin America for now, but with plans to provide support to West African countries too. Nigeria was the first country to become an NFP Facility partner in 2002 and since then all 15 ECOWAS countries have become partners.

The GEF is a multi-convention financing facility that is the major source of funding supporting the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change. GEF funding is generally accorded to national governments, but it has set up a GEF Small Grants Programme, hosted at the UNDP, to support community-level projects to achieve more sustainable livelihoods. GEF Small Grants generally range between \$10,000 and \$50,000 and can be accessed by local NGOs and community-based organizations from countries participating in the small grants programme. All ECOWAS countries, except for Sierra Leone, are participating countries.

Appendix 1 presents some additional information on ECOWAS countries' participation in these two facilities.

5 Prospects for Forest Financing in West Africa

Following the review of experiences with different types of forest financing mechanisms in ECOWAS countries and the opportunities or constraints they present, it is necessary to undertake a comparative assessment of the mechanisms to try to identify those that offer the best prospects for smallholder and community forestry. This concluding section undertakes such an assessment, discusses some key issues for creating an enabling environment for selected financing mechanisms and makes some recommendations concerning areas for further work to help ECOWAS countries advance in the development of forest finance strategies in favour of smallholder and community forestry.

5.1 *Most promising financing mechanisms*

A regional initiative on successful forest financing mechanisms for smallholders and community forestry in Latin America, has adopted three criteria against which to assess mechanisms³¹:

- Practicality: the mechanism is useful, realistic and with immediate benefit and skill development to smallholders and forest communities
- Applicability : the mechanism is relevant to situations and conditions of community forestry and community organizations
- Sustainability: the mechanism is (financially) self-sustaining in the long run without external dependencies. (In the context of increasingly limited access to public funds in the ECOWAS region, “without external dependencies” should be read as without recourse to government or donor funding.)

Nine private and PES financing mechanisms reviewed in sections 2 and 3 are assessed on these criteria in the table below. In terms of private financing mechanisms, **out-grower schemes** and **microfinance** probably hold the greatest potential for financing smallholder and community forestry in West Africa. The mechanism of out-grower schemes has some key advantages over microfinance. Firstly, it is an integrated value chain approach in which a range of services (often including capacity-building) are provided by the buyer and producers have a guaranteed market, and are thus not constrained by weak marketing skills often characteristic of rural producers. Secondly, the financing provided through out-grower schemes takes into account the long-gestation periods for plantation activities, which is a key constraint for accessing funds from the financial sector. Microfinance also holds considerable potential, despite some key constraints. It should not be forgotten, however, that it is not a stand-alone instrument, but a financing tool to be used in the framework of enterprise development. Smallholders and forest communities completely lacking in business skills should not be pushed towards this mechanism. It should be noted that none of the private financing mechanisms integrate environmental sustainability and some additional oversight or actions may be necessary to ensure such sustainability when these mechanisms are used.

³¹ <http://www.nfp-facility.org/23007-05f6e481e38ff37539507d06e64a0e48d.pdf>

Table 6 : Practicality, Applicability and Sustainability of financing mechanisms for smallholders and forest communities

Mechanism	Practicality	Applicability	Sustainability (financial)	Key strengths	Key constraints
Microfinance	High - Can be very useful source of financing for forest entrepreneurship	Medium – High - Several MFIs have experiences with loaning to rural populations, including group lending - Conditions may not be adapted to certain forest activities	Medium - Access to loans at interest rates below market rate, needed for some forest activities, probably dependent to on govt/ donor funding - Non financial support will likely need to be provided by govt/ donors for SHs that have no enterprise skills	- Tried and tested tool with lots of lessons and innovations that can be adapted from agricultural sector - Relatively good existing network in a lot of ECOWAS countries	- High interest rates, short loan maturity periods, need for collateral (see §2.1 for some solutions to these constraints) - Finance mechanism that does not integrate environmental sustainability
Out-grower schemes	High - As well as providing finance may provide capacity building in technical skills	High - Out-grower schemes are developed to make use of SH resources	High - Generally private company covers entire cost of scheme	- An integrated value chain approach that provides financing that addresses problem of long gestation periods, and guarantees market	- May need some external oversight to ensure SHs get a fair deal and schemes adopt sustainable forestry practices
Foreign Direct Investment	Low – Medium - Need strong policies and regulatory mechanisms in place to ensure that some benefits accrue to SHs and FCs	Low – medium - SHs and FCs are often not key concern in FDI strategies	High - As long as foreign company is investing no need for govt/ donor funds	- Major source of financing in forest sector in some parts of the world	- Harmful environmental practices often linked to FDI - Low forest cover countries likely to be left out
Remittances	Medium - Remittances from personal sources may be used primarily to fund consumption rather than for investment in forest activities	Medium - No data on how important of a phenomenon remittances are for SHs and FCs	Medium - Remittance flows tend to be highly fluctuating	- Development of “Diaspora Funds” and other remittance mechanisms have potential to increase the development impact of remittances	- Largely informal mechanism for now; difficult to channel specifically to forest sector

Mechanism	Practicality	Applicability	Sustainability (financial)	Key strengths	Key constraints
(Forest) Carbon finance	Medium - Can be very useful source of financing for FCs whose key concern in preserving/ restoring their forest	Medium - Conditions too complicated for SH and FCs to follow without support from intermediary	Medium - A lot of carbon finance is currently dependent on donor funds - Intermediaries needed to support SHs and FCs	- Finance that rewards SHs and FCs for preserving forests - Growing market	- Complexity of rules and high transaction costs - Difficult for SHs and FCs to benefit without reform of land tenure
Community-based ecotourism	Medium - Depends on location of FCs: location needs to be of interest and accessible to tourists	Medium - Need entrepreneurial skills	Medium - Most community-based experiences dependent to some extent on donor funding, at least for start-up	- Finance that rewards FCs for preserving forests (at least the aesthetic value)	- Skills needed (business skills, understanding of tourist market, etc) may be beyond capacity of FCs
Conservation concessions	Low - Difficult for FCs to initiate themselves	Medium - If an interested party is available, and depending on how forestry is organized locally, FCs can be good participants	Low - Medium - Concessions generally funded by donor funds, though mechanisms such as trust funds could make them more sustainable	- Finance that rewards FCs for preserving forests	- Donor-driven mechanism
Bio-prospecting	Low - Difficult for FCs to initiate themselves - Process tends to be very slow	Low - Depending on intellectual property, rights of access laws, etc., FCs may not be beneficiaries	Low - Generally one-off payments	- Rewards intellectual property of forest indigenous communities	- Driven by interests of research company; not reliable source of revenue
Watershed services	Low - Difficult for FCs to initiate themselves	Low - Mechanism that needs to be coordinated by municipal or district authorities, if not national authorities	Low - Most watershed service payments involve government or donor funds	- Finance that rewards FCs for preserving forest hydrological services	- Some kind of intermediary needed (municipal authorities, etc.) for FCs to benefit

The different PES mechanisms have the great advantage of integrating environmental sustainability, essentially rewarding forest communities for preserving and/or restoring forests. Most however, have low financial sustainability, as they are still dependent to a large extent on government or donor funding. Of the five PES mechanisms, **carbon finance** and **community-based ecotourism** probably hold the most potential for smallholder and community forestry. Both however, have important caveats. Carbon financing involves notoriously complex rules and monitoring procedures and without significant support from intermediaries (NGOs, government extension workers, or perhaps even private service providers) forest communities will not be able to participate in the carbon market. Ecotourism may not involve complex rules, but it is, first of all, only useful to forest communities who are located in sites that have real potential to attract tourists; secondly, it calls for some real business and marketing skills and an ability to understand the international tourist market which often represents another culture and standard of living.

5.2 Key lessons for enabling environment

Forest financing mechanisms need to operate in an enabling environment in order to be able to function well and generate benefits. Forest finance literature increasingly highlights the fact that stand-alone instruments are ineffective and need to be embedded in a broad institutional and policy framework (see for example Gondo, 2010 and Savenije and van Dijk, 2008). In order to properly take advantage of various opportunities, the challenge is to develop national forest financing strategies (see Box 15), determine their objectives, principles and components and determine how they can best be implemented. Savenije and van Dijk (2008) warn that money is not always the biggest problem. The main constraints to investment in and adequate payments for sustainable forestry are the conditions that prevail in the forest sector, the country and internationally. Investing in the enabling environment may be more effective and sustainable than the financing mechanisms themselves.

Box 15 : National Forest Financing Strategies

A national forest financing strategy (NFFS) is understood as the combination of measures and arrangements for the creation of an institutional, political, legal, socio-economic and financial framework (the enabling environment) agreed upon by stakeholders within and outside the forest sector. It establishes the criteria and guidelines for obtaining and channeling financial resources to the forest sector. Financing mechanisms (composed of sources, instruments and operators) are identified, coordinated and implemented with a view to promoting investments and payments for forest goods and services. The strategy encompasses the public and private sectors and the sub-national, national and international levels, pursuing the objectives of the national forest programme and the general forest management of the various target groups in a sustainable manner.

NFFS are needed particularly to ensure sustainable forest management; a holistic strategy is needed to halt deforestation and degradation processes, to promote rehabilitation and replanting and to expand the areas of forest already under sound management. Individual financing mechanisms also work better when they are set within an enabling environment of political, institutional and socio-economic conditions, which can be provided by an NFFS.

Source: Dijk and Savenije (2009)

Table 7 shows some prerequisites for viable smallholder and community forestry as suggested by Simula (2008). One key problem for several financing mechanisms is lack of tenure security and clarity on land and forest resources. Most natural forests in Africa are communally owned or owned by the state. This does not provide adequate guarantees that raw materials or environmental services derived from them will continue to be accessible to users, discouraging individual investment, encouraging over-exploitation and creating confusion for the distribution of certain benefits. Unclear tenure may be a constraint for microfinance and out-grower schemes; and it is a major constraint for carbon financing.

As far as the private financing mechanisms are concerned, in particular out-grower schemes and microfinance, Simula (2008) notes that market-based mechanisms – certification schemes such as the Forest Stewardship Council or the Roundtable on Sustainable Palm Oil – can support the sharing of risks and benefits and ensure that smallholders receive a fair share of the end-product price. Some observers (see Gondo, 2010 and SAMFU, 2010) further suggest that legislation in some countries may need to be adjusted to ensure that it enables rather than constrains investment in forestry, particularly in plantations. This may be a key issue for out-grower schemes, which as we have seen in section 2 have been integrated into several government strategies and for whose success governments will have to ensure that they are able to attract companies to operate the schemes.

Table 7 : Prerequisites for financially viable smallholder/community forestry

Law and policy prerequisites	<ul style="list-style-type: none"> - Long-term security of land tenure or user rights is in place and land can be used as collateral - The environmental sustainability principle is enforced (i.e. destruction of forests is prohibited, felled areas have to be regenerated and no premature cutting of stands with a high value growth is permitted)
Prerequisites for building social capital, governance, technical skills and infrastructure	<ul style="list-style-type: none"> - Smallholders have the right to establish lobby organizations, associations, co-operatives and other networks to participate in decision-making and use bargaining power in negotiations with partners. - Technical assistance and training in forestry and other income generating business are provided to smallholders. - Social and physical infrastructure, such as education/literacy training and roads, are available
Economic prerequisites	<ul style="list-style-type: none"> - Forest products (timber, NTFPs, others) and ecosystem services have markets and information on demand and prices is available. - The value of forest products and services are close to competitive market prices. - Smallholders get a fair share of the end product price, i.e. the benefit and risk sharing in the value chain. - Smallholders’ labour and other inputs for silvicultural operations – firefighting, patrolling, etc. – are compensated at reasonable rates. - Transaction costs are kept at competitive levels by increasing productivity and acquiring the latest feasible technology - Grants or credits are available to make long-term forestry investments attractive, particularly for the reforestation of degraded lands. - Taxation encourages investments in sustainable forest management

Source: (Simula, 2008)

Concerning carbon finance, a study undertaken in Liberia on this theme (Lawrence *et al*, 2009) highlights some of the practical issues raised by lack of clarity on tenure. The authors ask, “In a village inside a forestry concession, who is the claimant to any carbon revenues achieved? Is it the user of the land, the village government, the forester, or the national government? Such questions need to be clarified, in a manner that ensures the most ethical, equitable, and efficient distribution of carbon rights.” (Lawrence *et al*: 46). They further observe that for carbon pricing to generate economically “efficient” outcomes, landholders must act in such a way that they clear forest if they can make more money from an economic activity than from carbon preservation, and they maintain forest or actively plant new forest if that activity is more profitable than any other. One way to achieve this is to offer direct compensation to landholders commensurate with the quantity of forest on their land. Of course, for this to occur, the distributing agent - whether the government or a development partner - must know whom to contract with. Massive uncertainty over land ownership makes it difficult to offer direct incentives to individual landowners. In fact, land claimants often face perverse incentives from a carbon standpoint: wanting to maintain a claim on a piece of land, they will seek to “improve” the land, which often means deforesting it and planting food or tree crops, so that no one else can lay claim to the land.

The Community Rights Law recently adopted in Liberia (and which may be an example for other countries in the region), whilst not designed explicitly for carbon finance, may prove useful for creating a better enabling environment. The authors conclude that small investments in adapting existing land tenure to work with carbon, and larger investments in resolving land tenure uncertainty, may very well pay high dividends by enabling REDD finance to reach local actors.

In order to function effectively, carbon finance also requires robust governance and monitoring structures. Revenues from carbon credits are performance-based; countries and communities participating in carbon finance need to effectively ensure that they decrease deforestation rates and/or increase regeneration rates. The technical capacity to adequately assess carbon market proposals must also be in place, in order to avoid situations like the alleged carbon scam in Liberia in which a private carbon finance company tried to convince the government to sign up to unrealistic levels of emission reduction.

Noordwijk *et al* (2008) highlight that experience from Asia shows that to effectively contribute to sustainable forest management, PES schemes, including carbon schemes, must be pro-poor. Excluding socially marginalized people from such initiatives undermines the effectiveness and sustainability. Finally considering that most carbon sequestration projects have long gestation periods (often over 20 years), any investment is liable to be risky unless backed by long-term economic and political stability (Gondo, 2010); unfortunately several West African countries perform poorly on international indicators measuring governance and stability.

5.3 Areas for further work

The FAO, the NFP Facility and Growing Forest Partnerships working with ECOWAS countries have the ambition to develop a Collaborative West African Initiative on Forest Financing. Under this framework there is scope to undertake further research or action on some issues brought up in this background paper.

Some areas that may be of particular interest include:

Microfinance	<ul style="list-style-type: none"> - Identifying cases of loan products (including ROSCA schemes) adapted to long-gestation period forest products, and/or, - Field research/survey to assess the willingness of microfinance institutions in the region to adapt products to the forest sector
Out-grower schemes	<ul style="list-style-type: none"> - Further study on the over-sight mechanisms that need to be in place to protect smallholders in out-grower schemes. Given the wealth of experience and documented cases from the agricultural sector but also the forestry sector, a literature review would probably suffice. - Some countries may need to undertake a survey of existing medium and large scale enterprises to determine whether there is a real potential for out-grower schemes.
Remittances	<ul style="list-style-type: none"> - In countries that have developed remittance funds, there is an opportunity for a coordinating structure (forest department, forestry enterprise association, supporting donor/NGO, etc) to take a lead role in “marketing” the forest sector to such funds so as to try to increase the chances of channeling remittances to sustainable forestry.
Carbon finance	<ul style="list-style-type: none"> - Documentation of nascent experiences in West Africa so that lessons can be shared. Experience sharing with Eastern and Southern Africa countries that have more developed carbon finance markets may also be very valuable, and lessons/models may be easier to adapt to West Africa than experiences from Latin America or Asia. - The World Agroforestry Centre (2009) recommends that African governments should promote sub-regional efforts to pool resources, knowledge and skills in technical aspects of carbon offset project development.
Ecotourism	<ul style="list-style-type: none"> - Field research to learn from Ghana’s experiences in ecotourism may provide useful lessons for other countries in the region.

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Appendix 1: GEF Small Grant Fund and NFP Facility small grants to ECOWAS countries

GEF SMALL GRANT FUND PROJECTS IN WEST AFRICA

Country	GEF Small Grant Fund: Number of projects funded - Examples of on-going forestry-related project
Benin	30 projects since 2007 <ul style="list-style-type: none"> - Promoting bee-keeping for the protection of natural resources in Sinende district (\$29,000 to Garani ONG) - Protection and restoration of degraded soils in Savalou district (\$25,000 to ODAS ONG)
Burkina Faso	126 projects since 1994 <ul style="list-style-type: none"> - Preventing soil degradation through the promotion of agro-forestry (\$22,000 to Union Relwendé des Producteurs des Plants de Sabcé) - Sustainable management of shea and dawa dawa in Kéné Dougou province (\$43,000 to Groupement des Transformatrices de produits agricoles et non agricoles Wili Kaa Taama de Orodara)
Cape Verde	19 projects since 2010 <ul style="list-style-type: none"> - Promoting innovative natural resources management, linking economic value and environmental protection in Porto Novo, (\$ 19,000 to Atelier Mar) - Production of Forest Plants (\$14,000 to Associação dos Amigos de Ribeirão/Campo de Cão)
Côte d'Ivoire	193 projects since 1998 No current on-going projects
Gambia	12 projects since 2009 <ul style="list-style-type: none"> - Community afforestation and environmental management project, (\$30,000 to Methodist Mission Agricultural Programme) - Expansion of community participation in the management of forests and protected areas., (\$ 10,000 to Green Trust)
Ghana	170 projects since 1993 <ul style="list-style-type: none"> - Developing Livelihood Enterprises to Support Community Involvement in the conservation of Globally Significant Biodiversity Areas Around Kyabobo National Park (\$ 21,500 to Women And Development Project) - Mainstreaming Climate-Resilient Policies and Measures in the Restoration of Tordzie Watershed In Adaklu Anyigbe Traditional Area (\$21,000 to Actions for the Integral Development of the Deprived Communities)
Guinea	10 projects since 2011 <ul style="list-style-type: none"> - Sustainable protection of the environment through local natural resource management plans and the restoration of the Galy forest - Demarcation and reforestation of sacred forests in Nzerekore and Lola districts
Guinea-Bissau	24 projects since 2010 <ul style="list-style-type: none"> - Soil restoration through reforestation with acacia mangium and eucalyptus in Mbandaka - Restoring the Besenge and Bokala forest ecosystem through the production and marketing of mats
Liberia	18 projects since 2010 <ul style="list-style-type: none"> - Reforestation of Foya Grass Lanad Project, \$20,000.00 to Sustainable Agriculture Services Union) - Biodiversity conservation integrated with sustainable livelihoods promotion around the Wonnegizi proposed protected area, (\$ 20,000 to Volunteers

	To Support International Efforts In Developing Africa)
Mali	313 projects since 2000 <ul style="list-style-type: none"> - Fighting soil degradation through sustainable community management of Arabic gum trees and promotion of the Arabic gum market in the Kareri natural forest (\$26,000 to Organisation pour un développement integer au Sahel) - Rehabilitating degraded soils and marketing of local products in the rural district of Kita-Ouest (\$42,000 to Association Benso des Femmes de Kita)
Niger	117 projects since 2004 <ul style="list-style-type: none"> - Improving agro-forestry practices and the use of improved seedlings in the Maigochi Saboua community (\$62,000 to the Association de Lutte pour l'Autosuffisance et le Développement) - Intensificatin of agroforestry practices for climate change adaptation in four villages in Tamalolo district (\$2,000 to OSE IL ED)
Nigeria	52 projects since 2009 <ul style="list-style-type: none"> - Providing safe alternative methods of propagation for two economically important wild plants in Obinze Forest community, Owerri North LGA, Imo State (\$ 30,000 to Sheda Science and Technology Complex, Abuja) - Community Biogas Demonstration project Oke Aro, Lagos State (\$ 30,500 to International Renewable Energy Centre Africa)
Senegal	217 projects since 2000 <ul style="list-style-type: none"> - Rehabilitation of the protected forest of Thilène (\$25,000 to GIE Khanza de Tilene) - Rehabilitation of the protected forest of Ndiaye (\$25,000 to GIE Borom Daradji de Ndiaye)
Sierra Leone	Not a participating country
Togo	12 projects since 2010 <ul style="list-style-type: none"> - Support to local communities of Kaboli and Goubi for the conservation and restoration and sustainable management of the Camel natural forest in Tchamba district. (\$30,000 for Action pour la Jeunesse d'Afrique) - Intensive reforestation in Namaré and Naki-Ouest (\$20,000 to Songou-Man)

NFP Facility small grants since 2002 in West Africa

CFA Central forest administration - DFA Decentralised forest administration – OGV Other government department - E+R Education & research – NGO NGOs – CBO CBOs & Indigenous people – PSA Private sector association

Country and institution	Purpose	(US\$)	Status	Type
Benin – partner since 2007				
Direction générale des forêts et des ressources naturelles (DGFRN), Ministère de l'Environnement et de la Protection de la Nature	Assurer la planification et coordination des activités du Mécanisme, y compris l'organisation de sessions de travail du Comité Directeur National Pluripartite (CDNP), le lancement d'appels à proposition à l'endroit des organisations de la société civile, le suivi et l'évaluation de la mise en œuvre du partenariat établi entre la République du Bénin et le Mécanisme.	25.000	operational	CFA
Centre d'Etudes, de Recherches et de Formation Forestières	Capitalisation et documentation des acquis et innovations de recherche pour la gestion durable des ressources forestières en République du Bénin.	12.000	operational	E+R
Institut Africain d'Application des Méthodes de Développement	Elaboration de textes d'application de la loi 97-029 du 15 janvier 1999, portant organisation des communes en République du Bénin.	15.000	operational	NGO
AFAEPE-ONG (Alphabétisation, Formation des adultes et Education pour la Protection de l'Environnement)	Renforcer les compétences techniques des structures de cogestion, des Elus locaux et des ONGs pour améliorer l'appui-conseil et l'organisation des communautés à la base en matière de gestion participative des forêts et des ressources naturelles.	11.500	operational	NGO
METAMORPHOSE Sarl	Elaboration et la diffusion d'outils de planification et de suivi évaluation des activités de gestion des ressources naturelles à chaque niveau de déconcentration et des services décentralisés.	15.000	operational	NGO
GROUPE AFRITURIBLE INTERNATIONAL (GAI) Sarl	(i) Déterminer l'importance socio-économique des ressources forestières au plan local au Bénin afin de susciter l'intérêt des politiques et stratégies de développement local pour la gestion durables de leurs ressources naturelles ;(ii) Valoriser les informations de l'Inventaire Forestier National (IFN) à tous les niveaux des services décentralisés de la Direction Générale des Forêts et des Ressources Naturelles (DGFRN).	24.950	operational	NGO
Burkina Faso - partner since 2007				
Direction Générale de la Conservation de la Nature	Faciliter le développement et la mise en oeuvre du Programme forestier national au Burkina Faso	30.000	complete	CFA
Association promotion des femmes et enfants de Zimtanga	Renforcer la responsabilisation des populations locales à la gestion durable des forêts de Bayend-Foulgo, dans le département de Zimtanga, Province du Bam, Burkina Faso	8.600	complete	NGO
Association Tomi Tozi	Renforcer la gestion décentralisée des ressources forestières dans la commune rurale de Pabré, Région du Centre, Province du Kadiogo, Burkina Faso.	8.600	complete	NGO
Commune rurale de Séguénéga	Planter et valoriser le Jardin communal polyvalent de Séguénéga	8.500	operational	CBO
Comité de gestion de la forêt communale de Balavé	Une contribution à l'aménagement et à la gestion participative de la Forêt Communale de Balavé, Province des Banwa, Burkina Faso	8.500	operational	CBO
Groupement SEBALAYE des chasseurs de Yé	La sensibilisation et la formation à la gestion décentralisée des ressources forestières et la	8.000	complete	CBO

	création des espaces de conservation dans la Commune rurale de Yé, Province de Nayala, Burkina Faso			
Association Tii Paalga	Promouvoir la conservation des Eaux et des Sols et la restauration de terres dégradées dans le village de Liki, Commune rurale d'Aribinda, Province de Soum, Région du Sahel, Burkina Faso.	8.000	complete	NGO
Conseil Municipal de la Commune Rurale de Tiébélé	La mise en place de cinq « conventions locales » pour une gestion concertée des ressources naturelles dans cinq villages de la Commune rurale de Tiébélé	8.500	complete	CBO
Centre d'expertise pour le développement durable en Afrique	Renforcer la gestion décentralisée des ressources forestières dans la commune rurale de Tiéfora, Région des Cascades, Province de Camoé	9.900	complete	NGO
Association génération convaincue pour le développement	Promouvoir la gestion décentralisée des ressources forestières dans la commune rurale de Pissila, Région Centrale, Province de Sanmatenga, Burkina Faso.	8.400	complete	NGO
Cape Verde - partner since 2009				
Direcção-Geral da Agricultura, Silvicultura e Pecuária	Coordonner et superviser des activités financées par le Mécanisme au Cap Vert dans le cadre du PAFN et appuyer la gestion durable et participative des espaces forestiers.	25.000	operational	CFA
Côte d'Ivoire - partner since 2009				
Direction Générale des Eaux et Forêts	Le suivi, la coordination et supervision des activités financées par le Mécanisme en Côte d'Ivoire	36.500	operational	CFA
Gambia - partner since 2009				
Department of Forestry	Managing and coordinating the NFP Facility funded national forest programme activities in The Gambia	18.620	operational	CFA
St. Joseph Family Farms Centre	Support rehabilitating of degraded forest land through good governance, capacity building of communities and forest users, information sharing, education and awareness raising in order to improve the living standards of people in the rural communities of Foni Berefet and Kombo East Districts of Western Region.	25.000	operational	NGO
National Consultancy on Rural Extension Services and Training	Support the improvement of communities' livelihood through sustainable income generation based on forest product utilization using the Market Analysis and Development approach	35.000	operational	NGO
Ghana - partner since 2005				
Forestry Commission	Strengthening the local, regional, and national discourse about forests and forestry	30.800	complete	CFA
Tropenbos Ghana Programme	Strengthening the discourse about forests and forestry in the Eastern, Greater Accra, and Volta Regions of Ghana	21.000	complete	NGO
Faculty of Renewable Natural Resources, Kwame Nkrumah University of Science and Technology	Strengthening the discourse about forests and forestry in the Western and Central Regions of Ghana	14.800	complete	E+R
The Bureau of Integrated Rural Development	Strengthening the discourse about forests and forestry in the Ashanti and Brong Ahafo Regions of Ghana	15.500	complete	NGO
Juxtapose Integrated Development Association	Strengthening the discourse about forests and forestry in the Northern, Upper East, and Upper West Regions of Ghana	21.000	complete	NGO

Guinea - partner since 2007				
Direction nationale des eaux et forêts	Assurer la relecture de la politique forestière nationale, développer le site Web de la DNEF, pourvoir la formation des cadres forestiers aux outils informatiques pertinents et coordonner et suivre la mise en œuvre du partenariat établi entre la Guinée et le Mécanisme.	24.700	operational	CFA
Institut National pour l'Appui au Développement Rural	Conduire une étude et une analyse sur la base documentaire et d'enquête de terrain des produits forestiers non ligneux en vue de promouvoir cette filière	13.500	operational	NGO
STRATHEG	Dynamiser le Programme Forestier National à travers le développement de l'esprit de partenariat et la sensibilisation des populations et acteurs forestiers sur des thèmes à intérêt forestier	11.300	operational	NGO
Bureau de Stratégies et de Développement- Consultants Associés	Faire l'état des lieux des groupements forestiers existants en Guinée et formuler des propositions de renforcement de leurs capacités techniques et financières et une stratégie de promotion de la foresterie communautaire et privée dans le pays	13.000	operational	NGO
Guinea-Bissau - partner since 2009. No small grants allocated				
Liberia – partner since 2009				
Forestry Development Authority	Support the establishment of the National Forest Forum (NFF) and coordination of the partnership between Liberia and the Facility.	25.000	operational	CFA
The Initiative for Peace and Development	Support of the preparation and establishment of the County Forest Forum (CFF) of the Grand Gedeh County.	11.000	operational	NGO
The Forest Conservation Committee	Support of the preparation and establishment of the County Forest Forum (CFF) of the Sinoe County.	11.000	operational	NGO
Piso Conservation Forum	Support of the preparation and establishment of the County Forest Forum (CFF) of the Grand Cape Mount County.	11.000	operational	NGO
The Society of Liberia Foresters	Support of the preparation and establishment of the County Forest Forum (CFF) of the Montserrado County.	11.000	operational	NGO
The Creative Children in Arts- Clean up Liberia	Support of the preparation and establishment of the County Forest Forum (CFF) of the Gbarpolu County.	11.000	operational	NGO
The Friends of Franbarnie International	Support of the preparation and establishment of the County Forest Forum (CFF) of the Grand Kru County.	11.000	operational	NGO
The College of Agriculture & Forestry Student Association	Support of the preparation and establishment of the County Forest Forum (CFF) of the Bong County.	11.000	operational	NGO
The South-Eastern Development Initiative	Support of the preparation and establishment of the County Forest Forum (CFF) of the Maryland County.	11.000	operational	NGO
The Skills and Agricultural Development Services	Support of the preparation and establishment of the County Forest Forum (CFF) of the Lofa County.	13.900	operational	NGO
The Environment Foundation	Support of the preparation and establishment of the County Forest Forum (CFF) of the Nimba County.	11.000	operational	NGO
The Farmers Associated to onserve the Environment	Support of the preparation and establishment of the County Forest Forum (CFF) of the Bomi County.	11.000	operational	NGO

Forest Cry Liberia	Support the preparation and establishment of the County Forest Forum (CFF) of the River Gee County.	11.000	operational	NGO
The Conservation Partners for Appropriate technology Forestry Development Authority	Prepare and establish the County Forest Forum of the Margibi County	11.000	operational	NGO
The Chainsaw Timber Dealers Union	Support the establishment of the secretariat of the National Forest Forum (NFF) of Liberia.	25.000	operational	CFA
The Foundation Community Initiatives	Support the preparation and establishment of the County Forest Forum (CFF) in Grand Bassa County.	11.000	operational	NGO
The Foundation Community Initiatives	Support the preparation and establishment of the County Forest Forum (CFF) in River Cess County.	11.000	preliminary	NGO
Forest Cry Liberia	To enhance forest stakeholder knowledge on commercially viable Non-Timber Forest Products (NTFP) taking into account existing FAO and IUCN initiatives.	92.100	operational	NGO
Mali – partner since 2003				
Direction Nationale de la Conservation de la Nature	Discuter les responsabilités des acteurs du secteur forestier dans le cadre de la décentralisation	18.142	complete	CFA
Direction Nationale de la Conservation de la Nature	Faciliter le développement et la mise en oeuvre du programme forestier national au Mali	26.000	complete	CFA
Centre national d'appui et de formation pour le développement des ressources humaines	Elaboration et validation d'un guide explicatif des textes législatifs, réglementaires et normatifs en matière de gestion des ressources forestières, fauniques et halieutiques	5.800	complete	NGO
Association pour la promotion de la santé et la nutrition scolaire au Mali	Elaborer le répertoire des projets et programmes intervenant dans le domaine de la gestion des ressources naturelles au Mali	5.700	complete	NGO
Sahel Eco Bureau National	Soutenir un programme de promotion d'entreprises communautaires de produits forestiers non ligneux au Mali	17.700	complete	NGO
Association Sahel Défis	Réaliser une étude visant à élaborer une proposition concernant la création et/ou la redynamisation des cadres de concertation entre partenaires autour de la gestion des ressources naturelles au Mali	4.200	complete	NGO
Action pour la Promotion Coopérative et Associative au Mali	Concevoir e mettre en œuvre d'un système de suivi et évaluation en matière de gestion durable des ressources forestières et fauniques	15.000	complete	NGO
Association pour le Développement des Collectivités locales	Renforcer les compétences des acteurs locaux à la gestion des ressources naturelles dans les cercles de Kati, Kangaba et Dioila	20.750	complete	NGO
Association de Soutien aux Initiatives Communautaires	Mener à travers la radio une campagne d'information et de sensibilisation des acteurs de la gestion des ressources naturelles en trois langues nationales (Bambara, Peulh et Sonraï) centrée sur la problématique des feux de brousse et la problématique des défrichements.	12.000	complete	NGO
Niger – partner since 2003				
Direction de l'environnement	Faciliter le développement du programme forestier national du Niger	49.000	complete	CFA
Cabinet Maïna	Mener une étude économique et financière du secteur forestier	19.200	complete	NGO
Organisation de Soutien à l'Emergence d'Initiatives Locales en matière d'Environnement et de Développement Durable	Elaborer des documents de référence sur les forêts et les perspectives de développement dans les régions de Maradi et Tahoua	13.850	complete	NGO
Organisation de Soutien à l'Emergence d'Initiatives Locales en matière d'Environnement et de Développement Durable	Elaborer des documents de référence sur les forêts et les perspectives de développement dans les régions de Diffa, Zinder et Agadez	15.200	complete	NGO

Institut National de Recherche Agronomique du Niger	Elaborer des documents de référence sur les forêts et les perspectives de développement dans les régions de Dosso, Tillabéri et Niamey	12.500	complete	E+R
Institut National de Recherche Agronomique du Niger	Mener une analyse des problèmes techniques rencontrés actuellement par le secteur forestier	4.600	complete	E+R
Initiative pour le renforcement des Capacités	Analyser le cadre juridique et institutionnel du secteur forestier nigérien en vue de formuler des propositions d'amélioration	5.700	complete	NGO
Organisation de Soutien à l'Emergence d'Initiatives Locales en matière d'Environnement et de Développement Durable	Elaborer un document de projet de promotion des espèces forestières alimentaires	14.300	operational	NGO
Association Nigérienne de l'Irrigation et du Drainage	Elaborer un guide de gestion décentralisé des ressources forestières et fauniques	30.600	operational	NGO
Direction générale de l'Environnement et des Eaux et Forêts	Finaliser l'élaboration du Programme Forestier National (PFN) du Niger et en faciliter la mise en œuvre.	24.500	operational	CFA
Nigeria - partner since 2002				
Federal Department of Forestry, Federal Ministry of Environment	Supporting meetings on National Forest Policy	99.302	complete	CFA
Federal Department of Forestry, Federal Ministry of Environment	Implementing the National Forestry Development Committee's Forestry Strategic Plan	46.063	complete	CFA
Federal Department of Forestry, Federal Ministry of Environment	Coordinating and following-up on the activities carried out by non-state stakeholders	30.000	complete	CFA
Nigerian Conservation Foundation	Providing baseline information of CBFM experiences in the Guinea Savannah ecological zone of Nigeria	18.000	complete	NGO
Centre for Population and Environmental Development	Providing baseline information of Community-based Forest Management experiences in the lowland rain forest ecological zone of Nigeria	18.000	complete	NGO
University of Ibadan	Provide baseline information through the review of CBFM experiences in the savannah ecological zone of Nigeria, covering the states of Benue, Ebonyi, Enugu, Kogi, Osun and Oyo, with Oyo state as the selected study area.	18.000	complete	E+R
University of Calabar Consultancy Services	Providing baseline information of Community-based Forest Management experiences in the mangrove/fresh water swamps ecological zone of Nigeria	18.000	complete	E+R
The Nigerian Environmental Study/Action Team	Providing baseline information of CBFM experiences in the Sahel/Sudan ecological zone of Nigeria	18.000	complete	NGO
Federal Department of Forestry, Federal Ministry of Environment	Support monitoring and coordinating the Facility-funded activities in Nigeria during the second Facility Partnership Agreement.	25.000	operational	CFA
Agro-Accord Development Society	Support of the testing, dissemination and capacity building related to the newly developed national guidelines on CBFM	17.500	operational	CBO
O DEE EN Consultancy Services	Support the production of the National Guidelines on Community Based Forest Management (CBFM)	18.000	operational	NGO
Forestry Association of Nigeria	Support the establishment of an effective Web-Based National Forestry Information System (NFIS)	25.000	operational	NGO

Senegal – partner since 2003				
Direction des Eaux, Forêts, Chasses et de la Conservation des Sols	Faciliter le développement et la mise en oeuvre du PNF	75.500	complete	CFA
Association pour la promotion de la Décentralisation et de la bonne Gouvernance Locale en Afrique	Améliorer les capacités de planification et de coordination des actions de préservation de l'environnement au Sénégal	11.500	complete	NGO
Sahel 3000	Assurer le développement des connaissances sur les textes légaux relatifs à la gestion des ressources naturelles au Sénégal	11.400	complete	NGO
Union Nationale des Coopératives des Exploitants Forestiers du Sénégal	Appuyer les efforts de transformation et de valorisation des produits forestiers au Sénégal	14.200	complete	PSA
Association La Lumière	Améliorer les capacités de planification et de coordination des actions de préservation de l'environnement au Sénégal	19.870	complete	NGO
Association pour la promotion de la Décentralisation et de la bonne Gouvernance Locale en Afrique	Identifier et capitaliser les bonnes pratiques en matière de gestion des ressources naturelles	10.300	complete	NGO
Association sénégalaise des ingénieurs forestiers	Promouvoir une communication en faveur d'une meilleure protection des écosystèmes dans Saint-Louis, Kaoloack et Dakar	13.400	complete	PSA
GIE Darou Salam Madiyana	Formations sur la valorisation les produits forestiers non ligneux	17.150	complete	NGO
ONG Action Humaine pour le Développement intégré au Sénégal	Etablir un état des lieux de l'implication du secteur privé dans la gestion des ressources naturelles	14.100	complete	NGO
Sahel 3000	Vulgariser les thèmes prioritaires de la politique forestière nationale	16.300	complete	NGO
Centre de Ressources pour l'Emergence Sociale Participative	Revoir et capitaliser les expériences en matière d'élaboration et de mise en œuvre des Plans d'Occupation et d'Affectation des Sols - phase préliminaire sur cinq communes rurales	13.600	complete	NGO
Association La Lumière	Elaborer un guide explicatif et illustratif des principaux textes législatifs et réglementaires sur la gestion des ressources naturelles au Sénégal	20.000	complete	NGO
Better Life Environment Association	Développer de nouveaux mécanismes d'appui conseil au bénéfice des collectivités locales et stimuler leur appropriation des textes de loi de la décentralisation sur la gestion des ressources naturelles et le code forestier, débouchant sur des propositions cohérentes et concrètes susceptibles d'amener les collectivités locales à une prise en charge effective des compétences qui leur ont été transférées en matière de Gestion des Ressources Naturelles et de l'Environnement	11.200	complete	NGO
EGA/Entente des Groupements Associés	Entreprendre une étude visant à analyser les perceptions des acteurs locaux sur les récents programmes de reboisement de la Grande Muraille Verte en vue d'en améliorer les stratégies d'intervention	13.000	complete	NGO
Green Senegal	Entreprendre une étude visant à mettre au point une approche méthodologique pour aborder les études des filières des produits forestiers, afin de contribuer à améliorer la sensibilité de l'Etat et des collectivités locales de la place réelle des forêts dans l'économie nationale pour que le secteur forestier ne soit plus marginalisé dans les allocations budgétaires	17.600	complete	NGO

Association d'appui aux initiatives de développement (AIDE 18 SAFAR)	Entreprendre le renforcement de la protection des formations naturelles contre les différents facteurs de dégradation	17.600	complete	NGO
Association La Lumière	Faciliter l'accès au crédit au bénéfice des petites et moyennes entreprises, d'organisations paysannes, de groupements de producteurs forestiers	16.000	complete	NGO
Pentium Saloum Association d'appui aux activités culturelles, sociales et économiques	Entreprendre une étude visant à contribuer à l'harmonisation des perceptions des parties prenantes sur la nouvelle approche de la lutte contre les feux de forêts	12.000	complete	NGO
Association PromoDev - DSM	Mener une étude sur les biocarburants d'origine forestière	12.000	complete	NGO
Direction des Eaux, Forêts, Chasses et de la Conservation des Sols	Pour soutenir le suivi, la coordination et l'évaluation de l'effet des activités financées par le Mécanisme au Sénégal.	25.000	operational	CFA
Sierra Leone – partner since 2007				
Forestry Division, Ministry of Agriculture, Forestry and Food Security	Support the National Forest Programme process in Sierra Leone, covering the overall coordination and monitoring of the Facility Partnership, and direct implementation of public awareness and sensitization activities on relevant forestry issues.	16.000	operational	CFA
Dynamic Sustainable Environment of Sierra Leone	To support public sensitization, awareness creation and training for communities in wildfire	15.500	operational	NGO
Rural Agricultural Development Project	To support a public awareness campaign on the dangers of deforestation and the repercussions to their livelihoods.	10.500	operational	NGO
Praise Foundation	To support awareness raising on the importance of biodiversity conservation, and sustainable resource management	11.500	operational	NGO
Conservation Society of Sierra Leone	To support of Wild Bushfire Prevention and Control in selected bushfire prone areas.	18.000	operational	NGO
Togo – partner since 2009				
Direction des Eaux et Forêts, Ministère de l'Environnement et des Ressources Forestières	Coordonner et la superviser des activités financées par le Mécanisme au Togo et l'appui à la gestion durable et participative des forêts et aux interventions modèle d'appui au reboisement dans des sites pilotes	32.300	operational	CFA

Appendix 2: Terms of reference of study

Food and Agriculture organization of the United Nations

Terms of Reference for Consultant/PSA

Job Title	National Consultant		
Division/Department	National Forest Programme Facility, FOED		
Programme/Project Number			
Location	Country of residence of the Consultant		
Expected Start Date of Assignment	01 December 2010	Duration:	WAE (When Actually Employed): 30 days .
Reports to	Name: Jerker Thunberg, through Sophie Grouwels	Title: Manager, NFP Facility	

Under the overall supervision of the Manager of the NFP Facility and under the direct supervision of Mrs. Sophie Grouwels, FAO Forestry Officer, the consultant will undertake following tasks:

- Preparation of a background document on the existing and potential forest financing mechanisms in West Africa for small holders and community forestry in West Africa (ECOWAS sub-region). Outline of the document:
 - i) Executive summary,
 - ii) Available existing formal (banks, micro-credit institutions, etc.) financing mechanisms in West Africa for small holders and communities with forestry, agro forestry and other activities related to the natural resources (fisheries, agriculture, etc), which could be use as inspiration for the forestry if they would be adapted,
 - iii) Available existing not-formal (remittances, loans from family members, etc.) financing mechanisms in West Africa for small holders and communities with forestry, agro forestry and other activities related to the natural resources (fisheries, agriculture, etc),
 - iv) Recommendations for the continued analysis of cases to be studied, issues to focus on, etc. (theses recommendations will be discussed in the workshop and will be input for the implementation of the initiative)
- Identify and provide contacts of good cases (2) of forest financing mechanisms in West-Africa that could be presented in the Planning Workshop.
- Presentation of the document in the "Planning workshop on Developing Sustainable Forest Financing Mechanisms for Small Holders and Community Forestry in ECOWAS region to be held on 22 – 23 March, 2011.

Expected Outputs:

- Final version ready to distribute of the background document "Existing and potential forest financing mechanisms in West Africa for small holders and community forestry in West Africa (ECOWAS sub-region).
- 2 innovative cases of forest finance for smallholders/community forestry identified for presentation in Planning Workshop
- Presentation of the main findings of the background document during the workshop to be held on 22 – 23 March, 2011.

Required Completion Date:

28th February, 2011

28th February, 2011

22 – 23 March, 2011

Required Competencies

Academic Qualifications

- University degree in finance, economic, forestry, forest economics or other relevant university degree
- Good knowledge of the West African region
- Oral and written fluency of English and French
- Good presentation skills

Technical Competencies and Experience Requirements

- Professional experience in financing in Africa. Some knowledge of forestry sector is desirable.