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COMMITTEE ON FORESTRY

TWENTIETH SESSION

Rome, Italy, 4-8 October 2010

EMERGING OPPORTUNITIES AND CHALLENGES IN FOREST FINANCE AND FOREST GOVERNANCE

Strengthening public-sector financial support for sustainable forest management

INTRODUCTION

1. Sustainable financing for forests has emerged as a key global challenge. With increased recognition of the linkages between forests and sustainable development, sustained financial commitment is central to the successful implementation of national forest programmes and other similar policy frameworks in member countries.

2. Financing for forest management and protection comes mainly from government budget allocations, revenue from the sale of forest-related goods and services, private sector investments, and international assistance. However, the public-sector contribution plays an important role as it is often the only source of funding for forestry activities focused on social and environmental benefits. Most importantly, the public sector is responsible for providing the necessary policy and institutional environment for augmenting additional investments from a variety of sources, including private-sector organizations and individuals and public sector agencies outside forestry. Thus strengthened and sustained public-sector financial commitment is fundamental to sustainable forest management.

CHALLENGES TO PUBLIC-SECTOR FINANCING

3. With growing recognition of the multiple goods and services forests provide to society, the demands on forests have increased significantly. There is also increased awareness of the contribution of forests to economic development, including poverty alleviation and rural employment. However, small budgets and low levels of investment continue to plague the forest

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sector in many countries, making progress towards sustainable forest management a persistent challenge. Although close to 80 percent of the world's forests are publicly owned, the revenue earned from forests is often not fully reinvested in the sector.

4. One task often faced by most heads of forestry is convincing central government finance and planning authorities of the need to provide adequate funds to protect, enhance, and sustainably manage forests in their countries. Forests and forestry are often assigned as low priority by policy makers in the face of competing demands for limited budgets. Even in countries with substantial financial resources, only modest funding is channelled by governments towards the sector. In addition, forestry is often seen as a conservative sector with outdated strategies and approaches that fail to attract either the attention of public policy makers or major sources of funding.

5. Forestry agencies are also undergoing considerable restructuring and downsizing in several countries, in some cases merging completely with other agencies. As a result, they are experiencing reduced visibility, influence and funding.

AUGMENTING PUBLIC SECTOR FINANCIAL RESOURCES: EMERGING OPPORTUNITIES

6. There has been some progress recently in identifying and making use of opportunities to enhance the role and significance of forests and forestry and in successfully broadening and diversifying their financial base. New and innovative ways of augmenting financial sources, particularly by adopting strategies that make forestry more relevant to people and socio-economic progress, are emerging.

Improved cross-sectoral coordination and networking

7. Some countries have successfully articulated how sustainable forest management could contribute to a wide array of broader development objectives and priorities: from poverty eradication and provision of safe drinking water to climate change mitigation and adaptation. Important policy changes have enabled greater involvement of diverse stakeholders and helped the forest sector to attract funds to address issues such as energy development, ecotourism, health, and rural employment. Significant efforts have also been made in some countries to promote forest cooperatives, tree-grower federations, and self-help groups (e.g., community forestry in Nepal) to mobilize additional resources for forestry.

8. Other innovative institutional strategies adopted include the establishment of dedicated "forest funds" (e.g., Amazon Fund in Brazil, Lam Dong Forest Protection and Development Fund in Viet Nam, and Fondo Nacional de Financiamiento Forestal in Costa Rica) and promoting new alliances (community-business, public-private and national and international partnerships) to leverage public opinion and funding in support of forestry.

Turning crises into opportunities

9. There are also instances where crises have been turned into opportunities that benefit forests. Mexico's Payments for Hydrological Services programme, for example, which provides

monetary incentives to landowners to maintain forest cover in critical watersheds, was established primarily in response to severe drought conditions and water scarcity. The initiative has been acclaimed as a successful strategy by all key stakeholders, from the Mexican Congress to local communities. Similarly, in China, a severe drought in 1997 and devastating floods along the Yangtze River spurred the government to initiate the Sloping Land Conversion Program. With a goal of converting 14.67 million hectares of cropland to forests by 2010, involving tens of millions of rural households and a budget of over \$40 billion, it is one of the largest programmes of its kind.

10. The current global financial crisis has also presented unique opportunities for providing a major thrust to forest sector development. A number of countries (e.g., Canada, Chile, China, and the United States) have included job creation in forestry as an integral part of their economic recovery plans. In the context of climate change, investing in forestry has the dual advantage of slowing deforestation and forest degradation and augmenting carbon sequestration through increased tree planting and improved forest management. This is particularly important in view of the current efforts to reduce emissions from deforestation and forest degradation (REDD-plus) to mitigate the effects of forest land use changes and associated deforestation, which contribute significantly to global carbon emissions.

Forestry as an engine of rural economic development

11. Rebuilding the natural resource base in rural areas is also seen by many countries as a major step towards greener, and more equitable and sustainable economies. More than 1.5 billion people worldwide rely on forests for their livelihoods and the poorest of the poor, particularly women, are often the most forest-dependent. Forest products and services are important for these disadvantaged sections of society as means of generating both subsistence and cash income and also to serve as safety nets in critical periods. Forest resources also have an important income-equalizing effect across rural households. Forestry and forest-based enterprises could serve as engines of economic development in rural areas and help countries make sustained progress towards greener economies. Forestry requires less capital and other inputs and adapts to local conditions and capacities. In addition to creating resilient economies, the enhanced natural resource base and increased wealth can lead to new enterprises and infrastructure in villages. Income earned through more jobs will stimulate production and further employment creating a multiplier effect. The revitalization of villages would also alleviate pressure on cities.

12. Despite these emerging opportunities, globally the economic viability of forestry remains a concern, as the sector grapples with the question of how to deepen and diversify its fiscal base. Deforestation and forest degradation continue to threaten progress towards sustainable forest management: in the past decade alone, about 130 million hectares of forest have been lost. Thus there is an urgent need to bring forests to the attention of the general public and to raise the economic and political profile of the sector, particularly by championing its potential contribution to addressing pressing global problems such as climate change, poverty reduction, and food insecurity. New responses and innovative strategies are however needed to achieve this goal.

POINTS FOR CONSIDERATION

13. As noted above, a variety of innovative strategies and approaches exist for augmenting public finances to support forests and forestry; however the documentation on these is scarce. It has been recognized by the international community that progress in forest finance would require good information on the existing resources and has agreed on 'mapping out' the current

architecture and emerging opportunities for forest finance. Most recently, Member States of the United Nations have agreed to establish an open-ended intergovernmental expert group to make proposals on strategies for mobilizing sources for sustainable forest management and launched a Facilitative Process to assist Member States in this regard¹. While the Committee may wish to capitalize on the outcomes of these processes, the heads of forestry dialogue at this session is intended to contribute to sharing experiences and to help the Committee in providing guidance for developing suitable strategies for sustained public financing and related regional and international cooperation.

14. The dialogue among heads of forestry services will focus on:

- specific programmes or strategies where the forestry agency has mobilized external public and/or private sector support and successfully secured additional funding; and
- potential new and innovative approaches for augmenting public sector financing for clear and concrete forestry objectives

15. The Committee may wish to recommend that member countries take full advantage of the lessons learned from existing experience to broaden and diversify their economic base for financing forests and forestry.

16. The Committee may further wish to request FAO to support national efforts to strengthen public-sector financial support for forests with a specific emphasis on:

- promoting necessary institutional capacity and knowledge sharing;
- developing viable national forest financing strategies through mechanisms such as national forest programmes;
- mainstreaming sustainable forest management in national development plans and programmes; and
- assisting in the formulation of innovative mechanisms such as national forest development funds.

17. The Committee may further wish to give guidance to FAO in supporting ongoing initiatives related to forest finance in particular those within member organizations of the Collaborative Partnership on Forests.

¹ E/2009/118-E/CN.18/SS/2009/2: Means of implementation for sustainable forest management