COFO/2012/6.3

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July 2012

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

COMMITTEE ON FORESTRY

TWENTY-FIRST SESSION

Rome, Italy, 24-28 September 2012

BROADENING THE FINANCIAL BASIS FOR SUSTAINABLE FOREST MANAGEMENT

I. INTRODUCTION

1. Forests are recognised for the many goods and services that they provide to society and the Rio+20 deliberations have confirmed that forests play a critical role in our journey towards a safer, greener, more equitable and prosperous world. However, financing for sustainable forest management (SFM) continues to be challenging, as the sector struggles to broaden and diversify sources of revenue and to improve the economic viability of forestry.

2. Conceptually, the financial basis for SFM can be broadened in two ways: by supporting or subsidising some of the costs of forest management (e.g. because of the public benefits derived from forests), or by ensuring appropriate and adequate remuneration for forest products and services. Investments in forests come mainly from government budget allocations, private sector finance and international assistance. Private sector finance includes corporate and institutional funds, but is dominated in most countries by small-scale investments by forest owners.

II. OPPORTUNITIES TO STRENGTHEN FINANCING FOR SFM

3. **Sustained public sector support**: With the majority of the world's forests being publicly owned, public-sector finance plays an important role and is often the only source of funding for forestry activities, especially when they are focused on social and environmental benefits. Public sector funding for forestry can be increased when the benefits from such investments are promoted and made clear to policymakers. In the international arena, the amount of money currently flowing into Reducing Emissions from Deforestation and Forest Degradation (REDD) is a clear example of this. However, at a national level, many countries still fail to make an adequate case for higher levels of public investment in the forest sector.

4. The public sector can also help to broaden the financial basis for SFM by simply removing barriers and improving the enabling environment for private sector investment. This can include, for

example, lowering transaction and compliance costs (e.g. by simplifying or removing rules and regulations) and promoting resource rights and tenure security so that returns on investments are more secure. The public sector can also be more proactive and provide targeted incentives such as subsidized credit, import subsidies, tax breaks, insurance support and price and purchase guarantees (e.g. the PINPEP[1] incentives programme for forest small holders in Guatemala). It can also help improve access to financial and market services and information (e.g. organized market services for Shea butter trade in Burkina Faso). Measures such as these are usually directed towards specific areas (e.g. degraded or ecologically sensitive areas) or population groups (e.g. small farmers, marginalized communities).

5. **Proactive private sector involvement:** Despite the predominance of public forest ownership in many countries, there is a strong and continuing trend towards greater private sector participation in forest management. Evidence of this includes, for example, the growth in public-private and private-private partnerships in forestry in recent years (e.g. out-grower schemes). In agriculture, the private sector now plays a big role in extension activities and there are indications that this is starting to occur in forestry (e.g. with the provision of technical and other material inputs by the forest industry to small-scale forest owners). These initiatives can help reduce management costs, assure supply for the industry, provide liquidity and mitigate risk and uncertainty for small forest owners and they should be promoted and supported where appropriate.

6. **Enhanced remuneration for forest products and services**: Efforts to increase incomes or revenues from forest management are often aimed at increasing and diversifying the range of goods and services produced from forests, ensuring that the trade in forest products and services represents their true values and making sure that the forest managers/owners receive appropriate compensation/ reward for their efforts. Examples of some approaches employed by countries on this front include:

- ensuring that the true contribution of forests to national economies is reflected, for example, by modifying traditional accounting systems, appropriately classifying and taking into consideration forests' contribution to the informal sector;
- improving the efficiency of existing forest revenue collection through market based price determination, reducing leakages, improving regulation and institutional capacities, privatizing selected commercial functions and similar measures;
- establishing dedicated "forest funds" to facilitate financing from voluntary or mandatory contributions or markets (e.g. payment systems for forest ecosystem services or PES) retaining tax and forest-based income for re-investment in forestry; and
- promoting value-addition and diversification into new forest products and services such as ecotourism and bio-prospecting or increasing the value-added in wood product manufacturing through the development of new and innovative wood products.

7. **International forest financing mechanisms**: With the growing importance of forests as a vital means of addressing several global challenges, significant resources are also being made available to support SFM through various international conventions and mechanisms (e.g. CBD and UNCCD[2]). International payments to protect watersheds and biodiversity and combating land degradation and desertification are becoming more widespread. Forests are now at the centre of efforts to address climate change due to their capability to deliver relatively cheap reductions in greenhouse gas emissions and to sequester carbon (e.g. UNFCCC[3] and Green Climate Fund).

REDD[4] has particularly gained prominence as a significant source of international funding for forestry. REDD aims at creating financial value for carbon stored in forests by offering incentives to

[1] Programa de Incentivos para Pequeños Poseedores(as) de Tierras de Vocación Forestal o Agroforestal (Incentive Programme for small owners of land for forest and agroforestry uses)

[2] Convention on Biological Diversity; United Nations Convention to Combat Desertification.

[3] United Nations Framework Convention on Climate Change.

[4] REDD+ includes sustainable management, conservation, and enhancement carbon stocks in forests

developing countries to reduce emissions from forested lands. While around USD 4 billion were pledged for the period 2010–2012, it is predicted that this could go up to USD30 billion per annum by 2020. Global institutions such as FAO, UNEP and UNDP (also through the UN-REDD Programme), GEF and the World Bank are actively engaged in REDD and REDD-Readiness activities besides several bilateral agencies and private, non-profit organizations. There is also a strong hope that emerging carbon markets (voluntary and mandatory) could offer new sources of revenue to forest landowners and carbon rights-holders, and additional employment opportunities for those involved in carbon trade. Several major private financial institutions are also evincing keen interest and see this as a major investment opportunity.

III. PERSISTENT CHALLENGES

8. Despite these emerging opportunities, globally, the progress towards enhancing the financial basis for SFM is still fairly small and uneven. The average revenues obtained from forests per hectare are still very low in many tropical countries compared to their potential. Public expenditures continue to show a decline in real terms or relative to investments in other sectors. Often, even the revenues earned from forests are not fully reinvested in forestry. The persistent challenges include both low levels of investment as well as the absence of an enabling environment. Some of the key elements hindering progress include: weak forest governance and institutional enforcement; ineffective forest revenue systems; low levels of processing, value-addition and marketing of forest products; inadequate policy and institutional support for targeted investment portfolio development; and low organizational capacities.

9. Access to international financial mechanisms and payments for forest ecosystem services seems to be constrained by the complexity of rules and the absence of standards, uncertainty over long-term sustainability, price fluctuations and high transaction costs. Discussions on REDD are dominated by developing strategies for institutional settings and by scientific research geared towards carbon accounting and trading. As the market for carbon is still emerging, to what extent these sources ultimately benefit communities involved in forest conservation and restoration remains a major concern. There is also considerable imbalance in the flow of official development assistance (ODA) in terms of ecoregions and types of forestry activities. High forest cover countries and REDD+ currently receive the majority of ODA. Dry forest countries and strategies to promote trees outside forests and agro-forestry on the other hand, receive relatively less funding.

IV. INCREASING FINANCIAL RESOURCES – KEY ENABLING FACTORS

10. FAO and the National Forest Programme Facility, along with other members of the Collaborative Partnership on Forests (CPF), have been helping countries to address some of the above challenges and develop appropriate financing strategies and instruments to augment financial resources for SFM. The CPF has also organized an Organization Led Initiative (OLI) on Forest Finance in support of the UNFF, held at FAO on 19-21 September 2012, which discussed the 2012 Study on Forest Financing by the Advisory Group on Finance (AGF) of the CPF, as well as experiences and innovations in forest finance by countries and organizations. Many of the successful experiences presented in the AGF study underline the need for strong political support, good systems of governance, efficient, robust and flexible implementation capacities, and well-defined involvement of local stakeholders. These examples also demonstrate that public funding for SFM can increase when the benefits of forestry are strongly linked to broader development goals such as poverty alleviation and rural employment. They also highlight the need for aligning forest policies with other sectoral policies and opening them up to consultation with a wider group of stakeholders.

11. Case studies analyzed by FAO also underline the need for improvements in knowledge and skills if financing is to be increased. This includes improving administrative and communication skills so that forestry administrations can win the confidence of investors and make a convincing case for increased investment in the sector. A shared vision among different actors on the roles, functions and modus operandi of forest financing is also needed at the national level to undertake advocacy and communication to mobilize required political will and actions to achieve SFM. There is particular need for:

(a) having timely and reliable data on forest resources and their contributions to society;
(b) development of the skills required to engage other sectors, particularly the finance sector, and other top levels of administrations;
(c) adequate knowledge of financing language, instruments and processes, and a strong inclination to innovate and adapt new financing instruments and mechanisms; and
(d) creation of appropriate multi-stakeholder platforms and institutional structures that allow the forest sector to be mainstreamed in national planning and policy making.

V. POINTS FOR CONSIDERATION

12. The Committee may wish to recommend that countries develop suitable strategies and actions for sustained financing for SFM and strengthen regional and international cooperation in this area.

13. The Committee may wish to note the accomplishments of CPF in support of forest financing[5] and invite CPF members to strengthen their collaboration in this area including by sharing and disseminating best practices.

14. The Committee may wish to request FAO to support national efforts to strengthen the financial basis for SFM, with a specific emphasis on:

- developing policies, institutional capacities and technical expertise that will support an enabling environment for investment in the sector;
- demonstrating the multiple values and benefits from public investment in sustainable forest management;
- integrating the evaluation of ecosystem services provided by forests into national forest assessment and monitoring, forest management planning and GDP accounting;
- creating new revenue streams and other innovative approaches to improve the conditions for investment by all stakeholders; and
- accessing international financial mechanisms for forest and wildlife management through necessary capacity building and knowledge sharing.

[5] For example, the above mentioned Study and the Organizaton Led Initiative on Forest Financing http://www.cpfweb.org/78477/en/.