



Inter-regional workshop

Financial Mechanisms for Sustainable Forest Management: Sharing Experiences from Latin America and Asia-Pacific

20 - 22 November 2006, Chiang Mai, Thailand

Adequate financing is crucial for implementing sound forest management. The subject of how to and who should finance sustainable forest management continues to dominate the national and international dialogue on forests. With government budgets for forest administration falling in many countries and prices for many products in decline, current financial resources for forest management are considered insufficient in many areas. Under the circumstances, a number of innovative financing mechanisms have emerged in recent years alongside more traditional approaches drawing upon domestic budgetary processes, royalties, and donor support.

To further explore the opportunities and experiences in financing forest management, the *Inter-regional Workshop on Financial Mechanisms for Sustainable Forest Management: Sharing Experiences from Latin America and Asia-Pacific* was organized by FAO, in collaboration with the National Forest Programme Facility, GTZ, ASEAN/ReFOP and Tropenbos International, 20-22 November 2006, Chiang Mai, Thailand.

The workshop brought together 59 participants from a number of countries in both the Asia-Pacific region and in Latin America (Australia, Brazil, Cambodia, China, Colombia, Fiji, India, Indonesia, Lao PDR, Malaysia, Myanmar, Papua New Guinea, Philippines, Republic of Korea, Sri Lanka, Thailand, and Vietnam¹). Representatives from international and regional organizations also participated. The objectives of the workshop were to:

- share knowledge and experiences related to financing mechanisms in Latin America and the Asia-Pacific region and discuss lessons learned;
- discuss strategies to improve existing financial mechanisms and to implement new and innovative approaches;
- fill knowledge gaps and promote future exchange of information within and between regions; and
- discuss the policy, legal, and institutional reforms needed to capture additional financing for sustainable forest management.

Over the three-day workshop, presentations were made on experiences in financing sustainable forest management in Latin America and Asia-Pacific. Panel discussions

¹ An invited participant from Costa Rica was unable to attend.

addressed interchange between Latin America and Asia-Pacific on best practices for financing sustainable forest management. Working groups were organized to examine variously the policy, legal and regulatory, and institutional and procedural impediments to financing sustainable forestry. Finally, a panel was held in which proposals were presented for “the way forward.”

Workshop results and conclusions

The workshop generated intense discussion on key issues relating to financing sustainable forest management and provided an excellent opportunity for sharing experiences among participants. Among the conclusions of the workshop were the following:

- Countries can learn much from each other by sharing experiences, but financing mechanisms need to be tailored to specific conditions and situations; there is no one “magic bullet” to address the problem of forest financing.
- The fundamental issue of financing forest management is simple and straight forward: either forestry has to be commercially viable (that is, it should generate adequate income to support itself) or, if for some reason that this is not possible – especially if the focus is on accomplishing broader social and environmental objectives – then society has to subsidize the management, one way or another.
- Official development assistance – channeled from donor organizations – can serve as a useful catalyst for developing sustainable financing mechanisms, but should not be seen as a long-term solution to financing challenges.
- The private sector should be recognized as the main source of forestry investment in most countries; closer collaboration between governments and the private sector are required to encourage responsible investment and management operations by the private sector.
- Numerous policy, legal, and institutional constraints continue to hinder forest financing. Ironically, while liquidity is currently very high in many areas, financial funds show little interest in investing in forestry, largely due to legal and institutional constraints and long-term risks. Institutional problems largely stem from the dominance of public ownership of forests and the functional and structural rigidities of forestry agencies.
- Much can be done to enhance the environment for forestry investment by ensuring stability and consistency of policies and laws, streamlining bureaucratic processes, revising and eliminating policies and regulations that act as disincentives to investors, and clarifying tenure rights and access to resources.
- More can be done in most countries to secure a larger share of domestic budgets for forestry, but foresters need to learn to be more realistic about the relative importance of the forest sector vis-à-vis other development priorities and to learn the realities of national budgetary allocation processes (need to learn to “speak the language” of finance).
- In many countries, there is considerable scope for enhancing income from logging and wood production by reducing leakages and improving rent capture.

- There is considerable potential to mobilize local resources provided the investments are recognized and appreciated for making tangible impacts in the lives of local people, particularly in densely populated developing countries where forestry agencies are increasingly assuming broader responsibilities for rural development; such efforts can easily tap into micro-credit and in-kind contributions from local communities.
- Much of the forest financing experience, especially in Latin America has been on private sector financing of large-scale plantation forestry and other reforestation initiatives; experiences in financing the management of natural forests is far more limited.
- In recent years, a great deal of attention has focused on “payment for environmental services” (especially related to watershed management and carbon sequestration). While many of the mechanisms are interesting and innovative, the extent to which they have been successfully adopted and applied is very limited. Many of these approaches appear to be little more than public subsidies, and their efficacy and viability have yet to be fully analyzed.

The way forward – a proposal for action

A central intent in organizing the workshop was to generate concrete proposals for developing, strengthening and enhancing funding mechanisms for sustainable forest management. The workshop recommended several follow-up actions intended to generate greater knowledge and awareness of financing issues and share experiences among countries. Reflecting these recommendations and the results of working groups and panel discussions, a proposal was put forward for a knowledge management initiative on financing sustainable forest management in Asia-Pacific. The initiative would serve as a mechanism for systematic collection, analysis and dissemination of information and experiences on financial strategies and mechanisms in the Asia-Pacific region. It would also include knowledge management and sharing components as well as capacity-building activities. FAO agreed to pursue options for operationalizing the proposed program, perhaps through a regional Trust Fund project.