



European Tropical Forestry Advisory Group (ETFAP)

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International Financing Architecture for Forests

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Outline of the Presentation

1. Demand for ODA
2. Supply and recipients of ODA
3. Gap analysis
4. Needs and opportunities for funding to forests
5. Emerging financial architecture
6. Paramaribo and AHEG outcomes
7. Conclusions





Demand for ODA and Other Forest Financing

- ◆ Explicit country demand for forest ODA is relatively **weak** as expressed in Poverty Reduction Strategies; only a quarter include a coherent strategy on forests
- ◆ Demand is strongly **influenced by supply**, i.e., donor priorities and policies; priorities do not appear to match each other
- ◆ In national forest financing strategies ODA is a **complementary, catalytic** element, the main focus is in revenue generation from the sector and creation of enabling conditions for private investment
- ◆ Demand for other financing sources does not reach the sources of supply





External Financial Flows to Forests

Source	2000-02	2005-07	Change
	USD mill. at 2006 exchange rates and prices		%
Public sector			
- Bilateral	959.3	1103.4	+15.0
- Multilateral	335.0	806.7	+140.8
Total	1294.3	1910.1	+47.6
Private sector			
- Foreign direct investment	400.0	516.0	+29.0
- Other private financing	Increase
NGO, philanthropic and others	Probable increase

Note: FDI refers to forest industries only (later period is average 2003-2005).
The asset value of foreign owned capital stock was USD 17.8 bill.

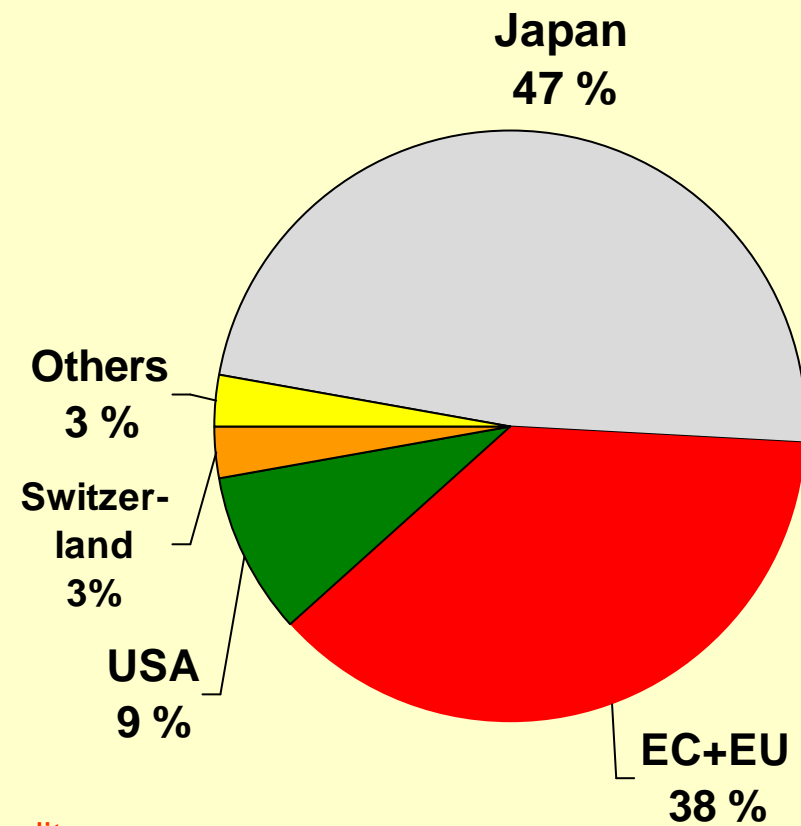
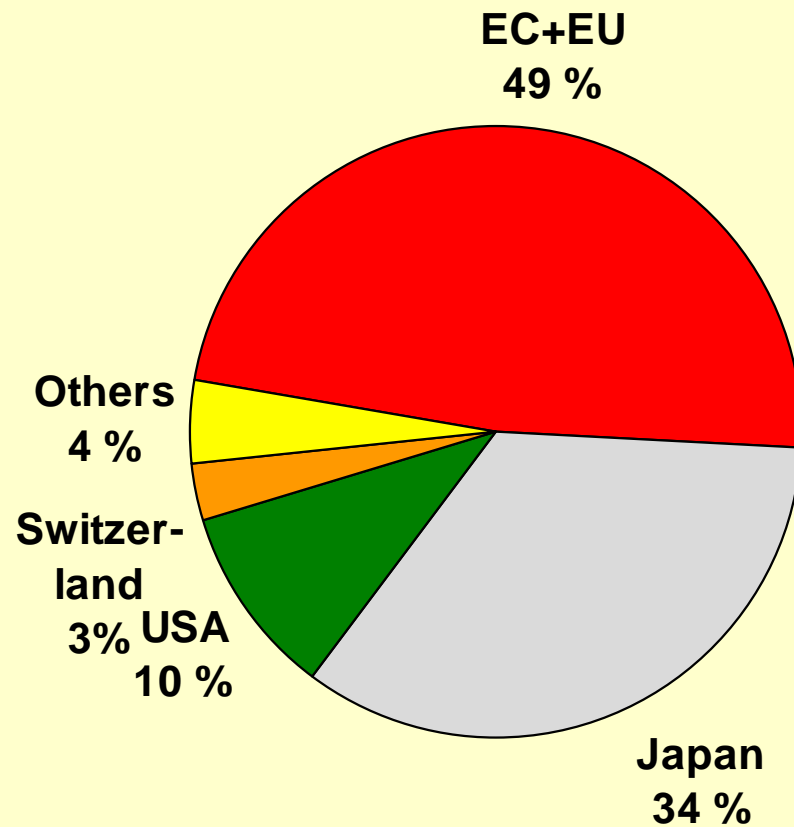




Main Sources of Bilateral ODA 2000-2007

2000-02 USD 959.3 mill./yr

2000-07 USD 1103.4 mill./yr



Note: Japanese ODA includes bilateral loans and credits

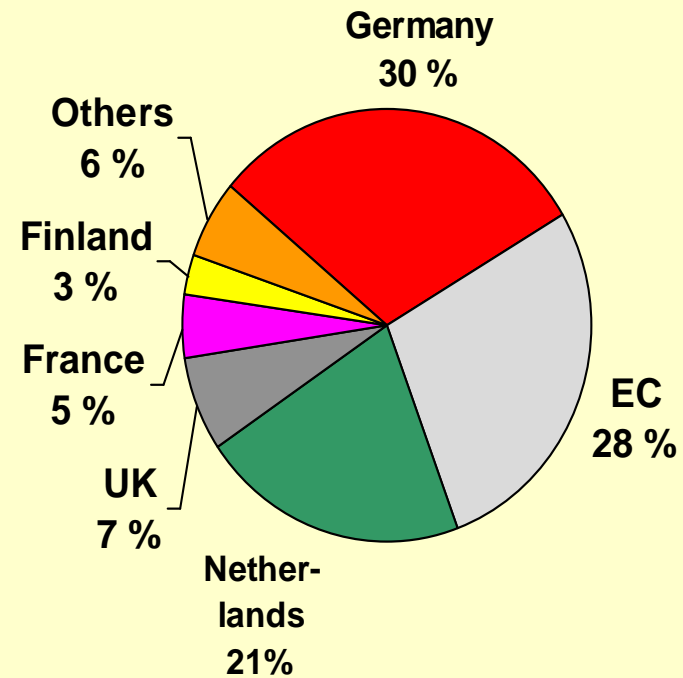
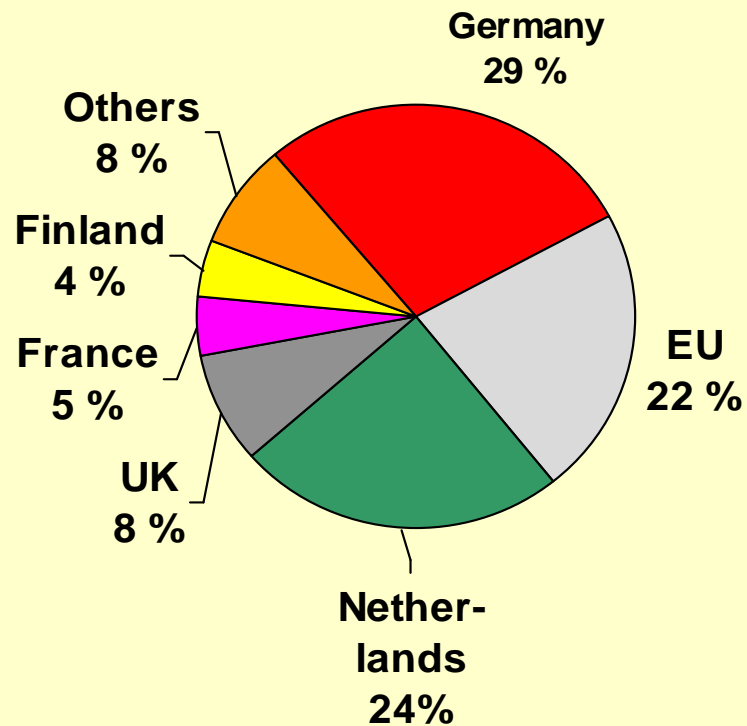




Forest ODA in the EU 2000-2007

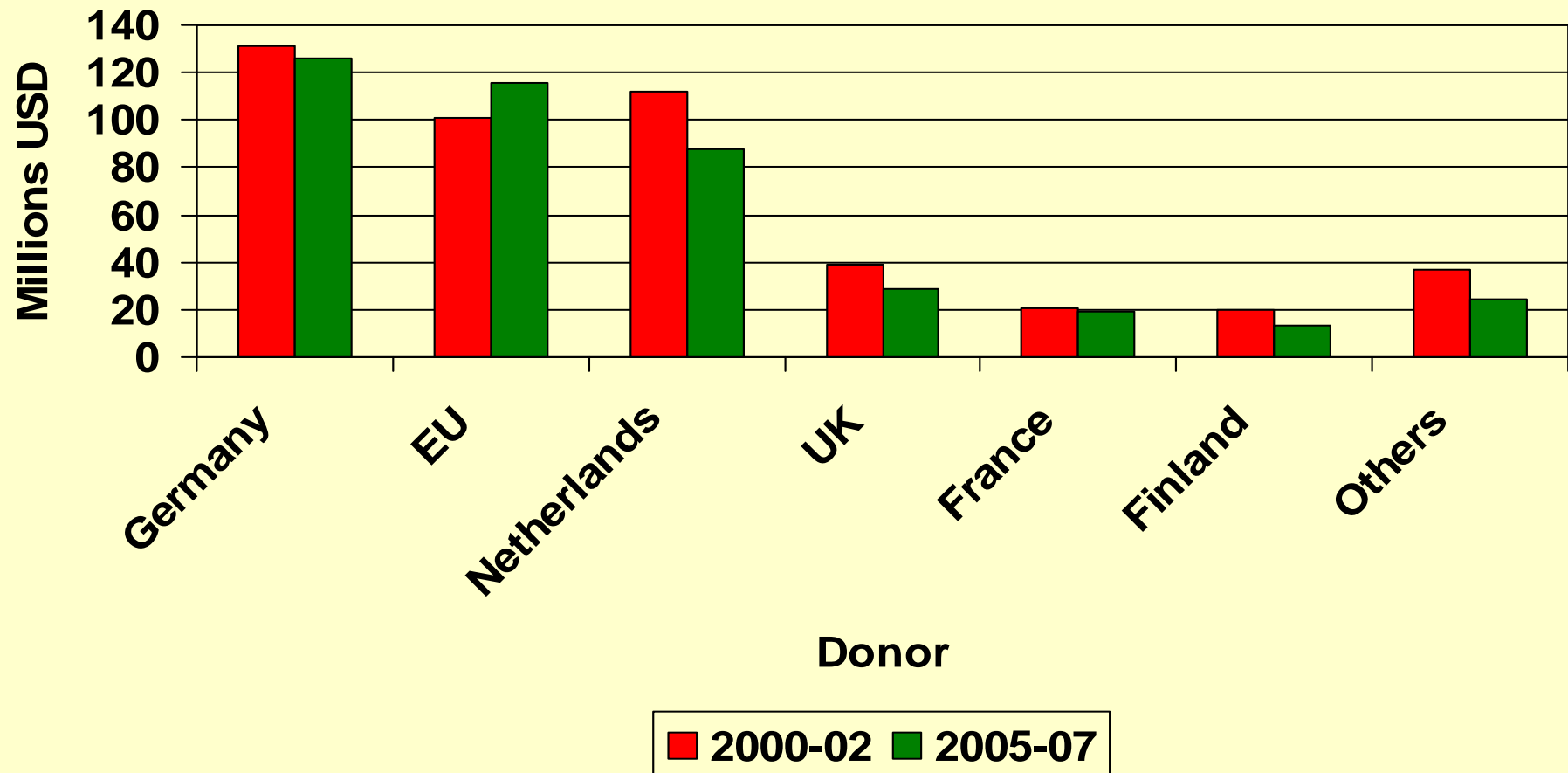
2000-02 USD 461.9 mill./yr

2005-07 USD 415.0 mill./yr





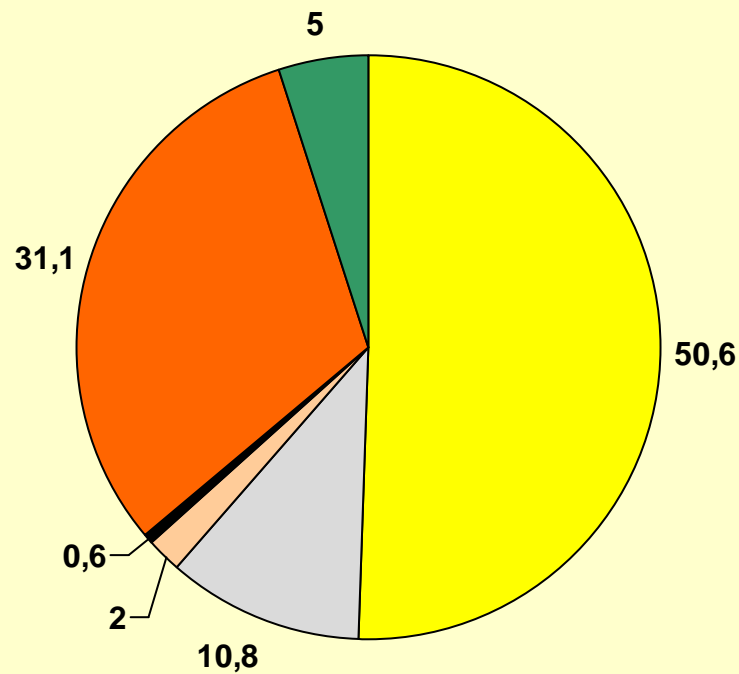
Forest ODA in the EU 2000-2007



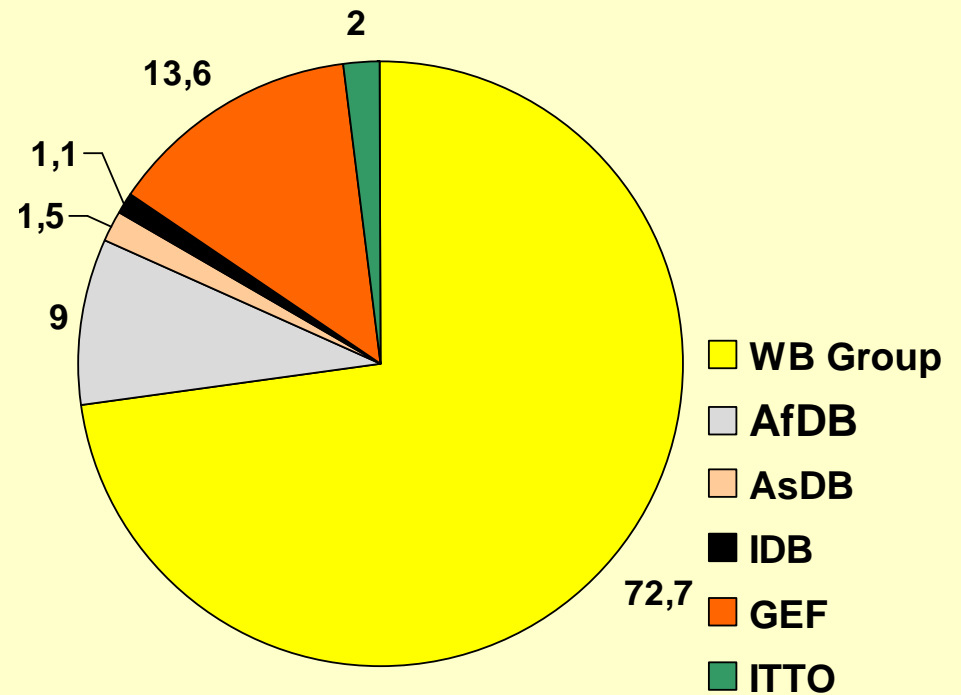


Main Sources of Multilateral Financing to Forests 2000-07

2000-2002
USD 335.0 mill./yr



2005-2007
USD 806.7 mill./yr



Note: IFC accounts for 55% of the WBG total





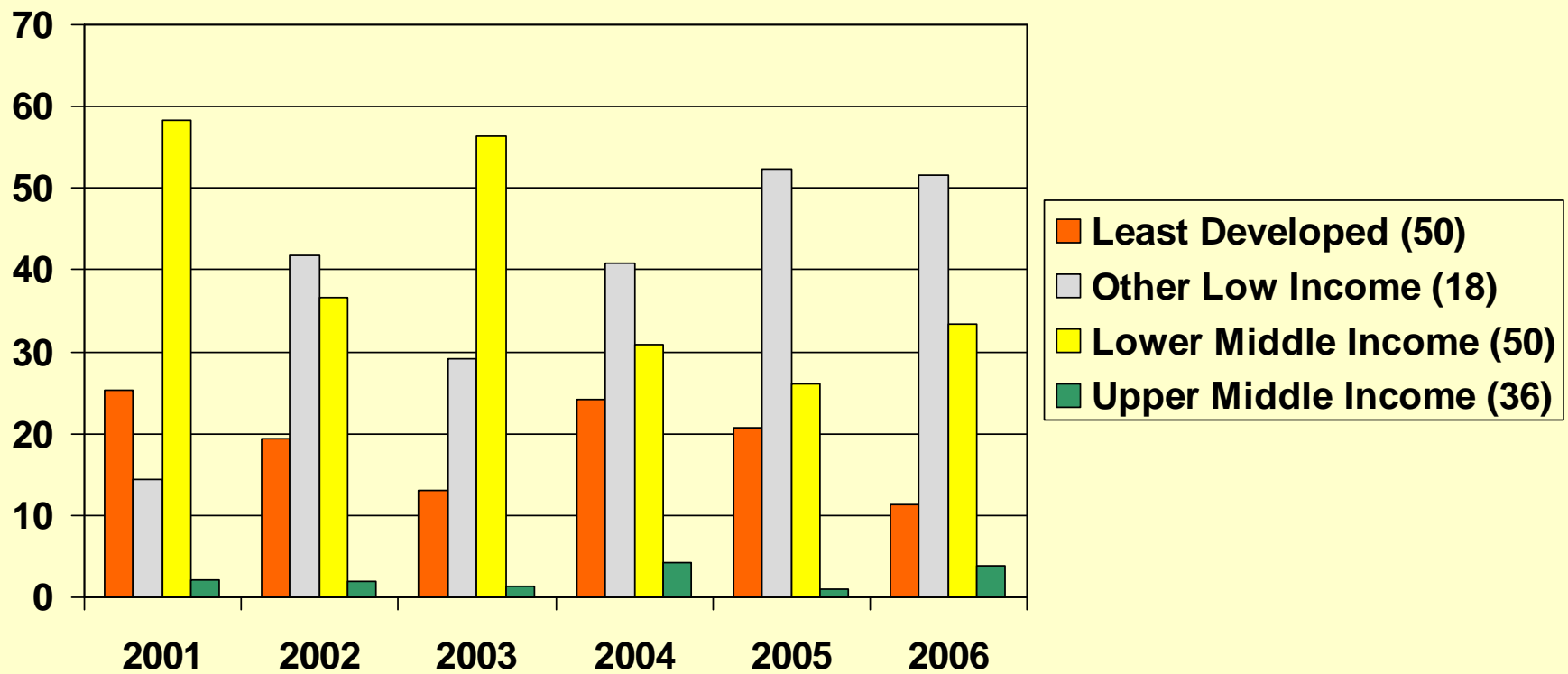
Problems of OECD/DAC Data

- ◆ Data coverage (survey data: significantly higher figures ~2x DAC)
- ◆ In/exclusion of bilateral loans and credits (explains Japan's overwhelming role)
- ◆ Forestry (OECD/DAC) vs. Forests (NLBI includes conservation)
- ◆ Subgroups of forestry in DAC data (forest policy and administrative management, forestry development, fuelwood/charcoal, forestry education/training, forestry research, forestry services)
- ◆ Reporting needs to MEAs (treatment of overlapping activities, double counting)





Forestry ODA 2001-06 by Income Group (commitments, %)





Main Geographic Gaps in Forest Financing

- ◆ Many low forest cover countries
- ◆ Many countries with high or medium forest cover
- ◆ Many small or medium-sized countries with still large forests

- ◆ Africa is lagging behind other regions
- ◆ Most small island countries

- ◆ Many least developed countries and low income countries





Main Thematic Gaps in Forest Financing

- ◆ Forests outside protected areas
 - Management of natural tropical forests
- ◆ Restoration of degraded forests and lands
- ◆ Reforestation and afforestation of drylands

- ◆ Forest is not the GAP

- ➔ **Upfront investment for sustainable forest management**





Key Strategic Gap: Upfront Investment for SFM

Initial upfront investment	Mainstreamed upfront investment	Sustained financing
<ol style="list-style-type: none"> 1. Analytical work (DD drivers, barriers to SFM, PES market potential, etc.) 2. Stakeholder participation and engagement 3. Planning (nfp, specific national strategies, e.g. REDD, bioenergy, forest biodiversity) 4. Information base (resource assessment, baselines, reference scenarios) 5. Monitoring and verification system design 6. Safeguards and SFM guidelines development 7. Initial capacity building 8. Programme and project design 	<ol style="list-style-type: none"> 1. Implementation of policy reform (incl. cross-sectoral impacts on forests) 2. Strengthening of institutions 3. Land use zoning and planning 4. Strengthening of land tenure (demarcation, titling) 5. Strengthening of law enforcement 6. Restoration of degraded lands and forests 7. Strengthening of stakeholder constituencies (smallholders, forest communities, civil society, private sector) 8. Infrastructure development 9. Scaled-up capacity building 10. Education, training and extension - smallholders, communities, SMEs - forest managers 11. Research and innovation (silviculture, harvesting, utilization) 12. Market-based and other voluntary instruments (certification, C&I implementation) 13. Company-community/smallholder partnerships 14. Implementation of monitoring and verification systems 	<p><u>PES schemes</u></p> <ol style="list-style-type: none"> 1. REDD payments (sink protection) 2. Sink creation payments (afforestation, reforestation, forest management) 3. Biodiversity offsets 4. Landscape offsets 5. Watershed conservation offsets 6. Bundled services <p><u>Forest products and services</u></p> <ol style="list-style-type: none"> 1. Timber 2. Non-timber forest products 3. Ecotourism and other 4. Other services



Financing Needs for Climate Change Mitigation through REDD and Forest Management

- ◆ REDD estimated based on opportunity costs of preventing deforestation or forest degradation
- ◆ Forest management estimated based on investment needs to manage existing forests sustainably

Non-Annex I Countries

Item	USD billion/year
opportunity costs for REDD	12.2
sustainable forest management costs	8.2
Total	20.4

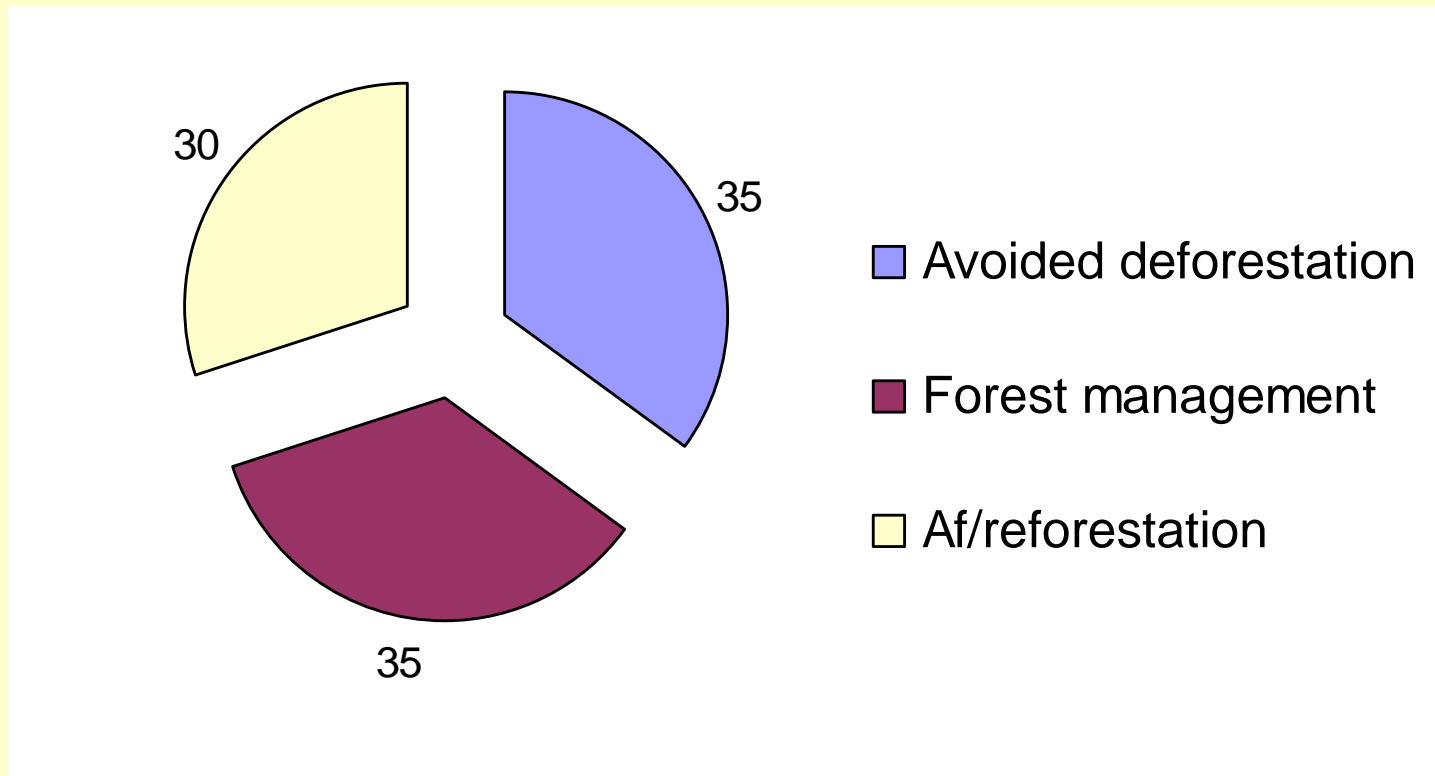
Source: UNFCCC 2007

Note: Excludes investment for afforestation, reforestation and restoration and upstream investment in capacity building, information systems, research, technology transfer, infrastructure and other development costs





Climate Change Mitigation Potential through Forestry Measures in Non-Annex I Countries



Total forest mitigation potential will be 11 GtCO₂/year in 2030

Source: IPCC 2007





Forest Investment Potential for Climate Change Mitigation

Deforestation rate\relative forest cover	Low forest cover countries	High forest cover countries
Countries with high deforestation rate	REDD: high/medium potential SFM: low/no potential Restoration: high potential A/R: high potential	REDD: high potential SFM: high potential Restoration: high potential A/R: high potential
Countries with low deforestation rate	REDD: low/no potential SFM: low/no potential Restoration: medium potential A/R: high potential	REDD: medium potential SFM: high potential Restoration: low potential A/R: low/medium potential
Countries with zero deforestation/ increasing forest area	REDD: no potential SFM: low potential Restoration: low/medium potential A/R: medium potential	REDD: no potential SFM: high potential Restoration: low/no potential A/R: low potential





Existing and Emerging Sources and Their Gaps

Source	USD million	Main focus areas (Forestry)	Gaps
Bilateral donors	1,100	Capacity building, catalytic investments.	Mainstream investment,
World Bank Group	587	Poverty, sustainable development, global environmental services	Mainstream investment.
Other MDBs	94	Sustainable economic development, environmental conservation	Mainstream investment.
GEF	109	Biodiversity, land degradation and climate change.	Investment in SFM in production forests.
UNFCCC/CDM	::	Afforestation/reforestation offsets	1 project approved.
BioCarbon Fund	10	Afforestation and reforestation	Mainstreaming A/R
FCPF	[25]	REDD readiness building and offsets	Upstream investment for emission reductions.
UN-REDD Program	[12]	Specific REDD capacity building	Capacity for implementing SFM for REDD.
Strategic Climate Fund	[80]	Climate resilience and maintenance of carbon-rich ecosystems.	Forest Investment Program under planning.
FAO and NFP Facility	48	Technical assistance, national forest programs	Mainstream investment.
ITTO	16	Capacity building for SFM.	Mainstream investment.
Conservation funds ¹	..	Biodiversity hotspots and other protected and conservation.	Poverty, forests outside protected areas.

¹E.g., Critical Ecosystem Partnership Fund, Amazon Fund, Congo Basin Forest Fund, etc.



Recent Innovation: ITTO's Thematic Programmes

- ◆ Piloting by the EC-funded CITES project
- ◆ ITTA 2006: TPs as a response to facilitate unearmarked financing and to adopt a programmatic approach
- ◆ Procedures: agility, shortened project cycle, stronger ED role and powers, no donor micromanagement
- ◆ Five Thematic Programmes approved in ITTC XLIV November 2008
 - Reducing Deforestation and Forest Degradation Enhancing Environmental Services in Tropical Forests (REDDES) (interest by Japan, Norway, Switzerland, USA)
 - Forest Law Enforcement, Governance and Trade (expansion of TFLET currently funded by Japan, Switzerland, USA, Australia, New Zealand, Finland, Norway, Korea)
 - Community Forest Management and Enterprises
 - Industry Development and Efficiency
 - Trade and Market Transparency





Main Outcomes of the Paramaribo Dialogue

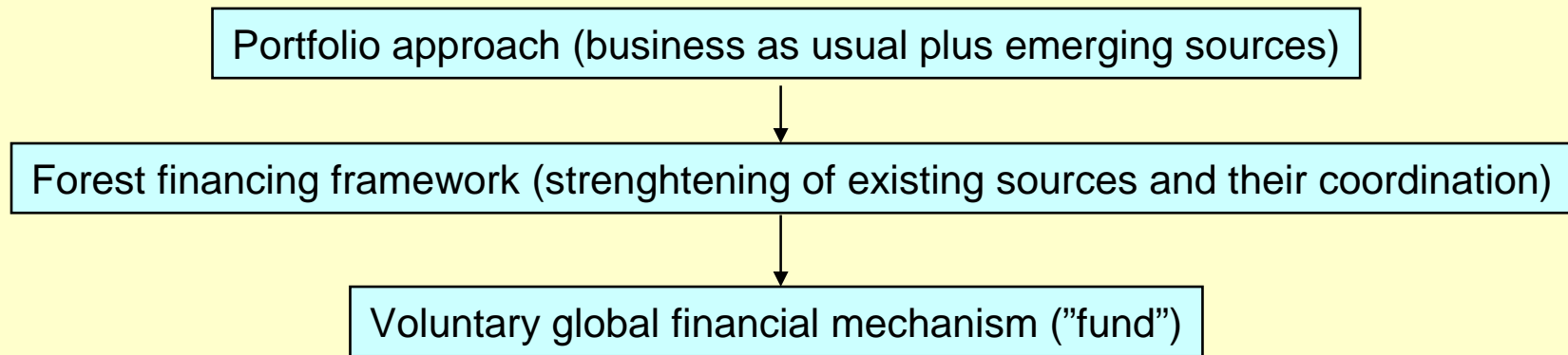
- ◆ **Urgent need for financing** from all sources, with official development assistance playing a catalytic role
- ◆ Need to focus on building an **enabling policy, legal and institutional environment** at national and sub-national levels
- ◆ Need for more **coherence and streamlining** of mechanisms, procedures and processes
- ◆ Recognition of evolving **payments for ecosystem services**
- ◆ The **climate change-forest nexus** could provide a financing boost for forests, but with many complexities to work out
- ◆ Meaningful **stakeholder participation**, including indigenous and local communities, and communication are all important
- ◆ **Institutional and governance strategies** at the national and at the international level





Preliminary Interpretation of AHEG Outcome

Possible hierarchy of non-exclusive options (ECOSOC Resolution):



Possible additional elements of the financial architecture

- Facilitative mechanism: ensure SFM compatibility of climate and conservation financing, brokerage, function
- Coordination mechanism between key current funding sources for enhanced synergies
- Specialized instruments for mainstream investment (CIF Forest Investment Program)
- National level coordination mechanisms



AHEG Assessment of Options

1. Distinct SFM fund

- ◆ Pros: (i) needs of the NLBI implementation (cf. other conventions), (ii) gap filling – access to funding sources, (iii) address competition among priorities on national level
- ◆ Cons: (i) increased fragmentation, (ii) lack of coordination, (iii) risk for ineffectiveness, [(iv) inadequate for the needs, (v) likely limited to developing countries]

2. Facilitative mechanism

- ◆ Pros: (i) comprehensive approach: possibility to raise funds to fill the gaps incl. from private sources and using different instruments, (ii) supporting role of UNFF/CPF, (iii) could address needs of all recipients (governments, private, NGOs, etc.), (iii) cover all types of forest, (iv) communication, (v) focus on effectiveness through enhanced coordination
- ◆ Cons: (i) inadequate response, [(ii) Sourcebook and NFP Facility could do this and provide necessary assistance]





AHEG Follow-up Work

- ◆ Development of proposals for the fund (incl. investment criteria) [further development of the facilitative mechanism]
- ◆ Member contributions to support elaboration of the proposals (UNFFS questionnaire) – synthesis report
- ◆ Additional meeting(s) of experts (FIP February 2009, COFO March 2009)
- ◆ Coordination meeting for Africa to prepare UNFF8





Conclusions

- ◆ The financing gap for SFM continues; no single instrument (REDD, other PES, etc.) or source (FIP, global SFM fund, etc.) will be able to fill the gap of mainstream upfront investment of SFM
- ◆ Combination of instruments required, including grants, loans, credits, risk guarantees, payments for environmental services
- ◆ Market-based mechanisms have significant potential for advancing towards self-financing of SFM but require strong legal framework, government support; external support is needed as payments upon performance
- ◆ Linking with climate financing will be critical for significant increased financing to forests but need to adopt a comprehensive (SFM) framework
- ◆ Capacity and mechanisms for national level coordination to tap external sources, manage different initiatives, and monitor and evaluate effectiveness and efficiency
- ◆ Delivery channels: pros and cons of government /NGO
- ◆ Fragmentation: need for harnessing synergies between international initiatives and organizations for improved coherence and effectiveness within the the absorptive capacity of the beneficiary countries (mechanism to be worked out)





Thank You

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