



**UNFCCC COP 14 Parallel Event
Shaping the Global Agenda for Forests and Climate Change
Forest Day 2
UNFF/World Bank Side Event**

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**Financing Flows and Needs for Achieving
Sustainable Forest Management and Forest-
Based Mitigation of Climate Change**

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Outline of the Presentation

1. Current financing flows to sustainable forest management
2. Gap analysis
3. Needs and opportunities for funding to forests
4. Emerging financial architecture of SFM and forest carbon
5. Conclusions





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

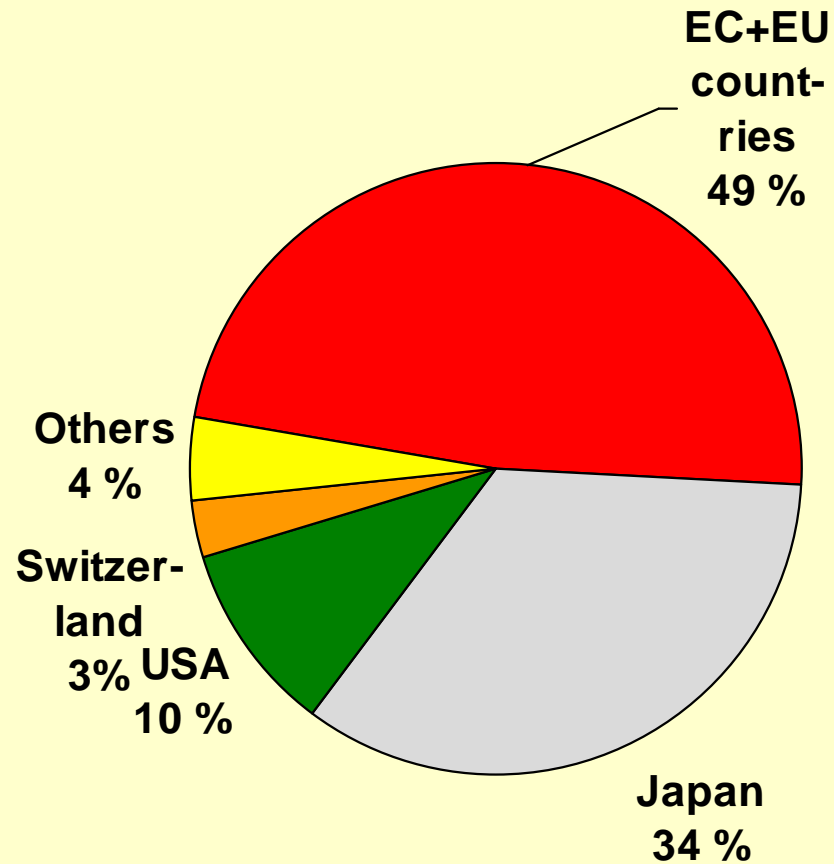
Note: FDI refers to forest industries only (later period is average 2003-2005).
The asset value of foreign owned capital stock was USD 17.8 bill.



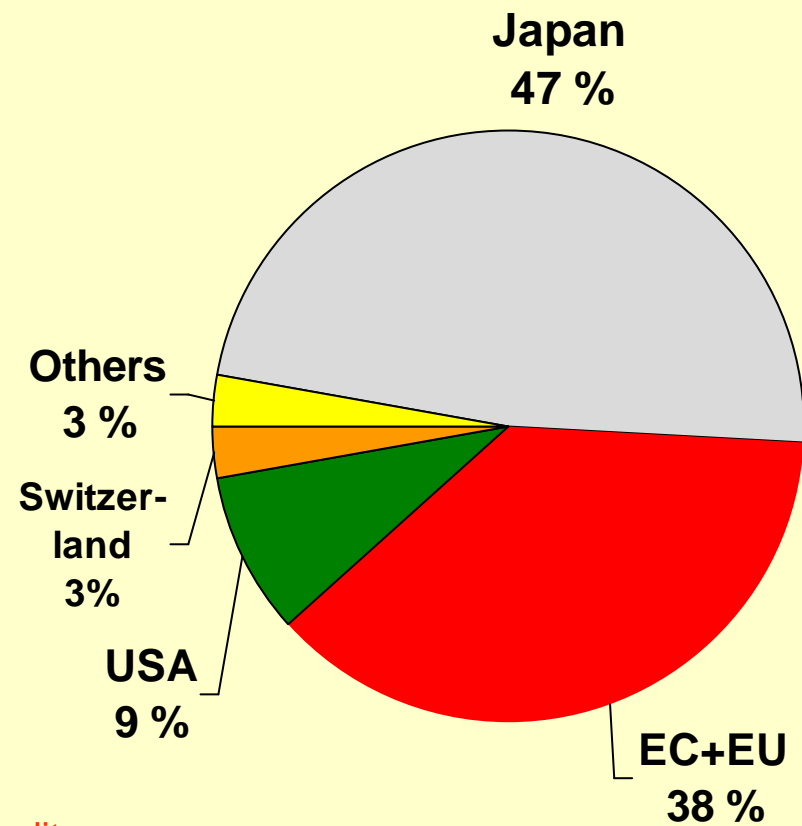


Main Sources of Bilateral ODA 2000-2007

2000-02 USD 959.3 mill./yr



2000-07 USD 1103.4 mill./yr



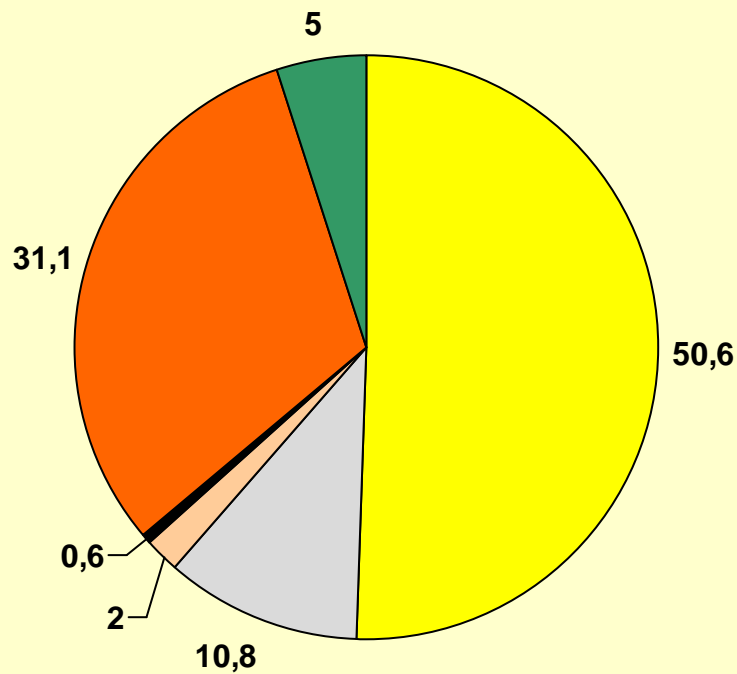
Note: Japanese ODA includes bilateral loans and credits



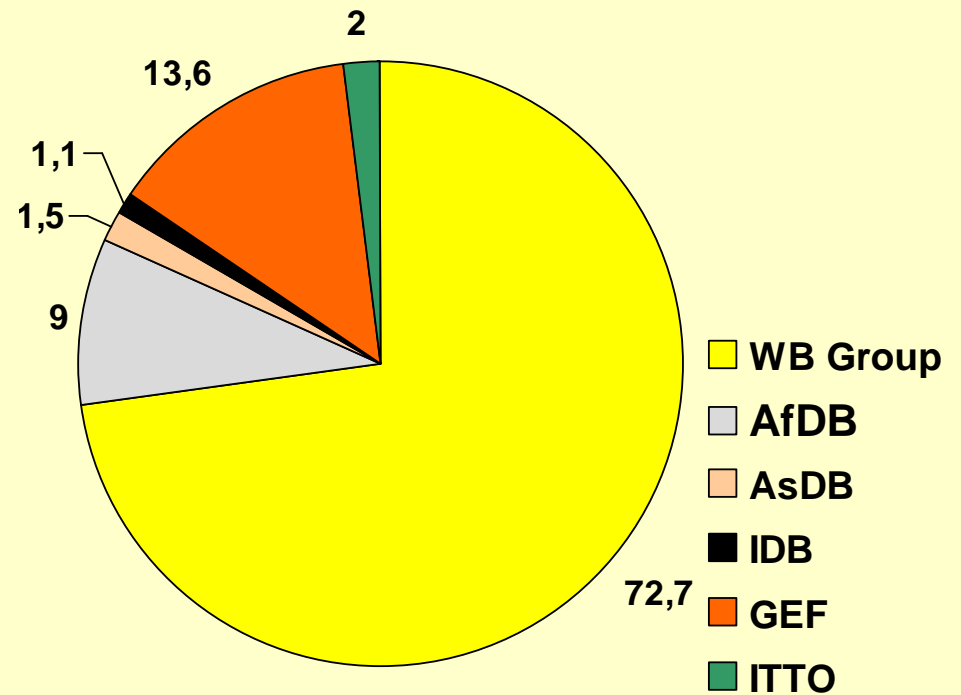


Main Sources of Multilateral Financing to Forests 2000-07

2000-2002
USD 335.0 mill./yr



2005-2007
USD 806.7 mill./yr

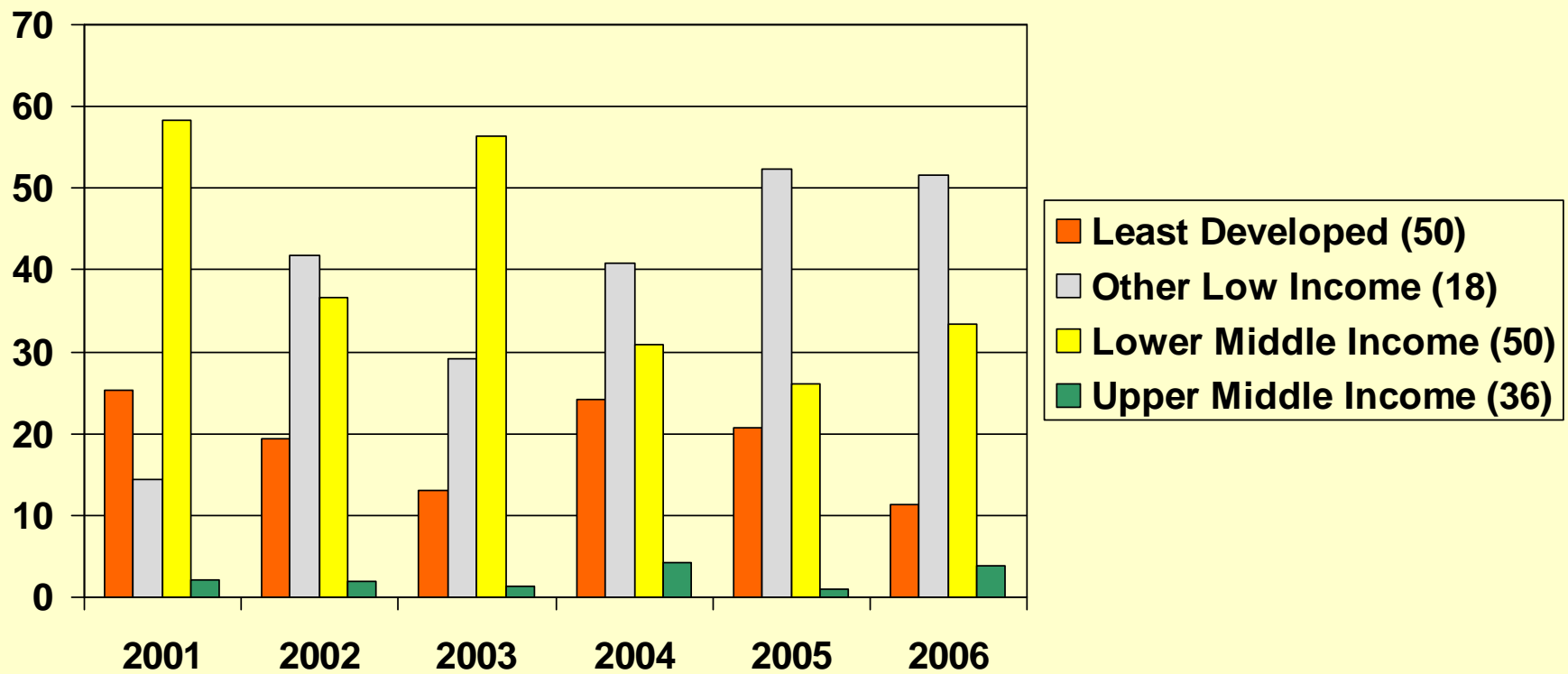


Note: IFC accounts for 55% of the WBG total





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
- **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

UNFCCC 2007 estimates for Non-Annex I countries by 2030

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

Eliash Review 2008 estimates by 2030

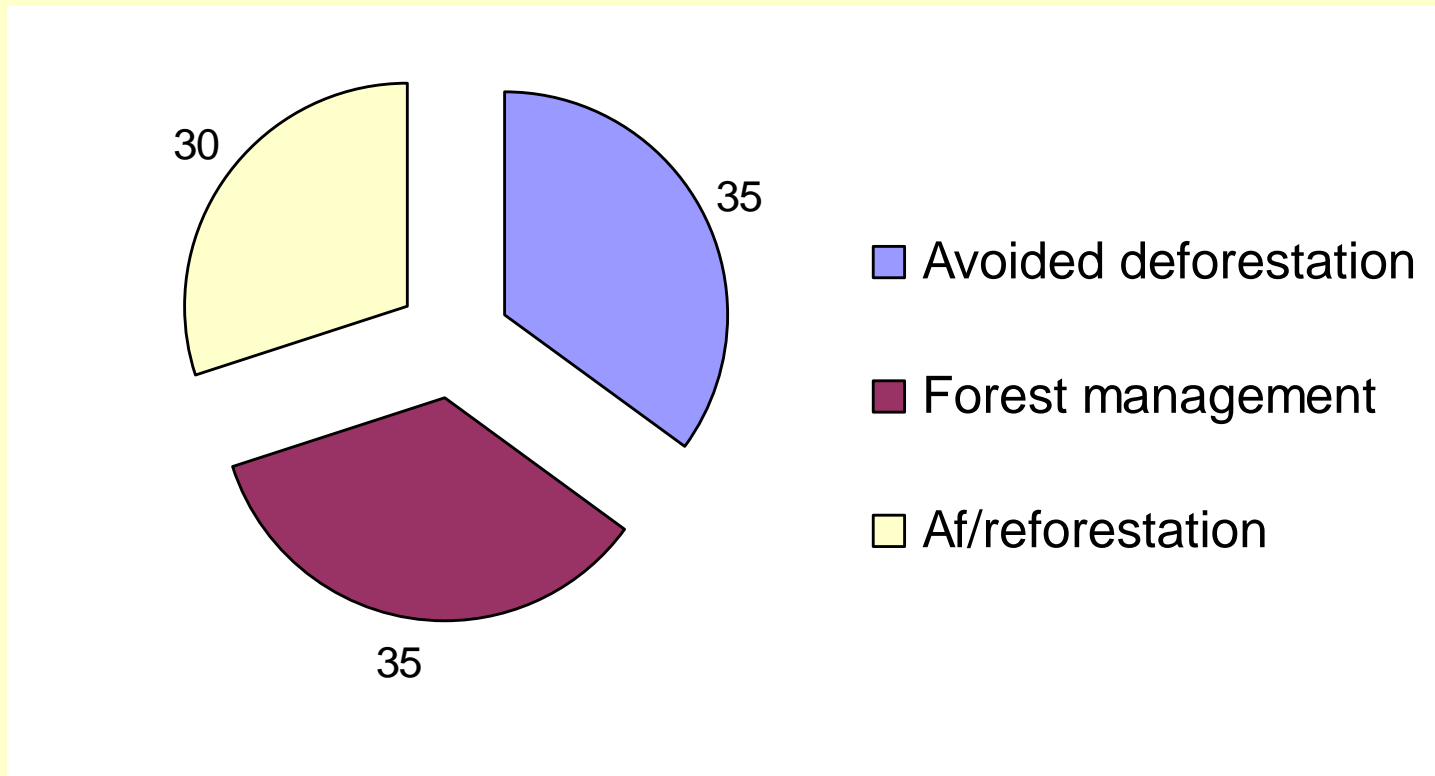
Total	USD 17-33 bill./year
which could be covered by	
REDD offsets	USD 7 bill./year
Other sources	USD 10-26 bill./year

Note: The UNFCCC estimate excludes investment for afforestation, reforestation and restoration (ARR) and upstream investment in capacity building, information systems, research, technology transfer, infrastructure and other development costs. The Eliash Review does not include costs of SFM and ARR.





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 (113 countries)	High forest cover countries (49 countries)
Countries with high deforestation rate (58 countries)	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 (22 countries)	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 (82 countries)	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





International Forest Financing Architecture

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.



AHEG's Views on Options for Additional Elements

1. **Distinct SFM fund**

- ◆ Instrument for the NLBI implementation (cf. other conventions)
- ◆ Gap filling
- ◆ Could address competition among priorities on national level
- ◆ Could increase fragmentation
- ◆ Risk for ineffectiveness

2. **Facilitative mechanism**

- ◆ Comprehensive approach: possibility to raise funds to fill the gaps incl. from private sources and using different instruments
- ◆ Supporting role of UNFF/CPF
- ◆ Could address needs of all recipients (governments, private, NGOs, etc.) and cover all types of forest
- ◆ Focus on effectiveness through enhanced coordination
- ◆ May be an inadequate response





Conclusions

- ◆ No single instrument (REDD, other PES, etc.) or external source (FIP, global SFM fund, etc.) will be able to fill the financing gap of mainstream upfront investment of SFM. Hence, combination of sources (external and domestic) and instruments (grants, loans, credits, risk guarantees, payments for environmental services, etc.) will be required
- ◆ Linking with climate financing will be critical for significant increased financing to SFM
- ◆ If forest carbon financing is limited to High Deforestation-High Forest Cover Countries significant opportunities for climate change mitigation and adaptation are missed with major equity concerns
- ◆ SFM offers an integrating comprehensive approach to manage forest carbon, its co-benefits and associated trade-offs
- ◆ Fragmentation: need for harnessing synergies between international initiatives and organizations for improved coherence and effectiveness within the the absorptive capacity of the beneficiary countries (a suitable mechanism to be worked out)





Thank You

The full study is available in English at
http://www.un.org/esa/forests/pdf/aheg/finance/AGF_Financing_Study.pdf

The Executive Summary is also available in
Arabic/Chinese/French/Russian/Spanish

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