



**First Design Meeting of the Forest Investment Program  
The World Bank**

**October 16-17, 2008, Washington D.C.**

**Mapping of Existing and Emerging  
Sources of Forest Financing**

**Markku Simula  
Consultant**



## Objectives of the Mapping Study

1. Analysis of existing and emerging sources for forest financing
2. Identification of needs and potentials for financing, with emphasis on climate change mitigation through forest measures
3. Identification of thematic and geographic gaps in the forest financing flows
4. Exploration of impacts of options for future forest carbon financing schemes





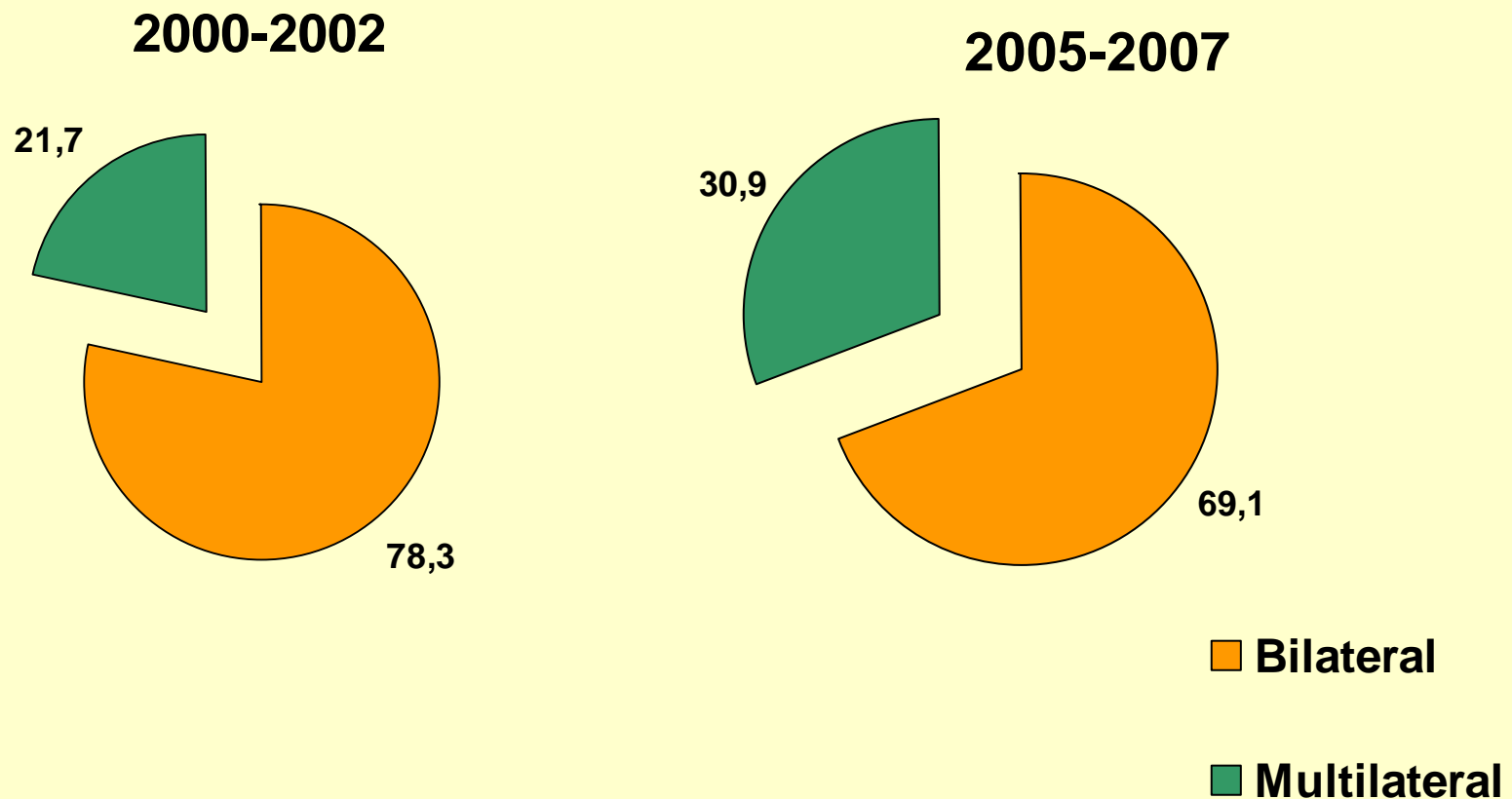
## External Financial Flows to Forests

Source	2000-02	2005-07	Change
	USD mill. at 2006 exchange rates and prices		%
<b>ODA</b>			
- Bilateral	929.1	1078.7	+16.1
- Multilateral	335.0	806.7	+140.8
Total	<b>1264.1</b>	<b>1885.3</b>	<b>+49.1</b>
<b>Private sector</b>			
- Foreign direct investment	400.0	516.0	+29.0
- Other private financing	..	..	Increase
<b>NGO, philanthropic and others</b>	...	...	





## Shares of Bilateral and Multilateral Sources in External Public Financing for Forests, %



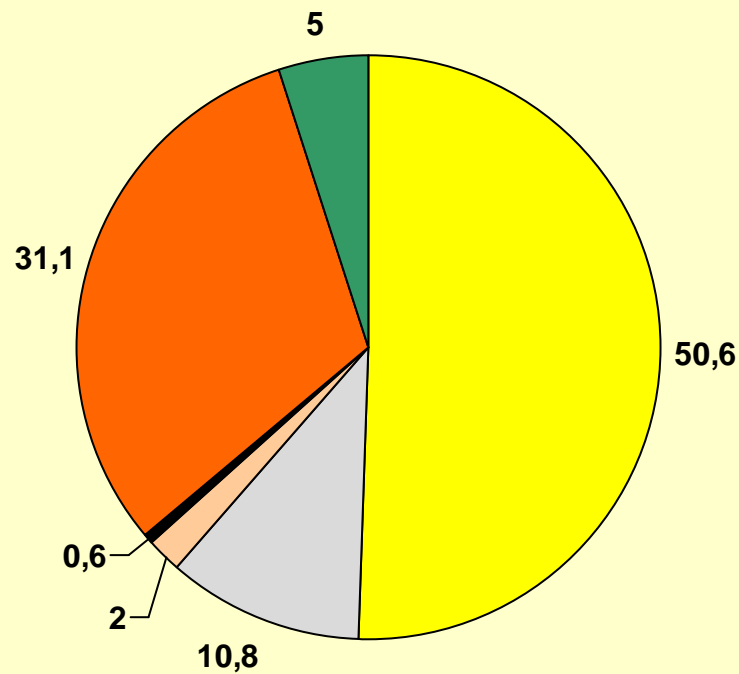
Source: Survey data



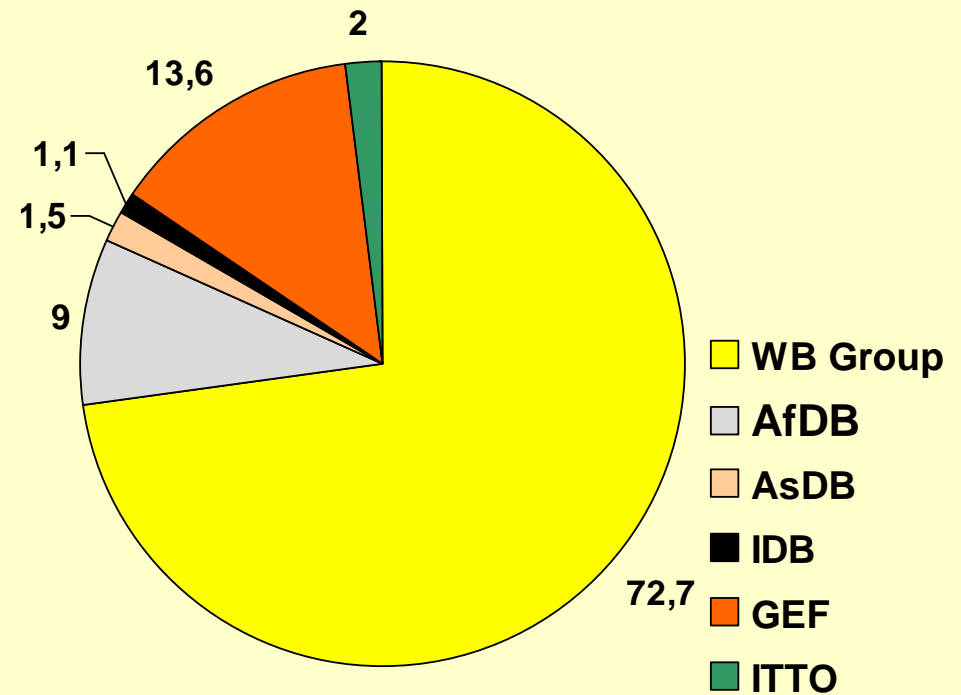


## Main Sources of Multilateral Financing to Forests 2000-07

**2000-2002**  
USD 335.0 mill./yr

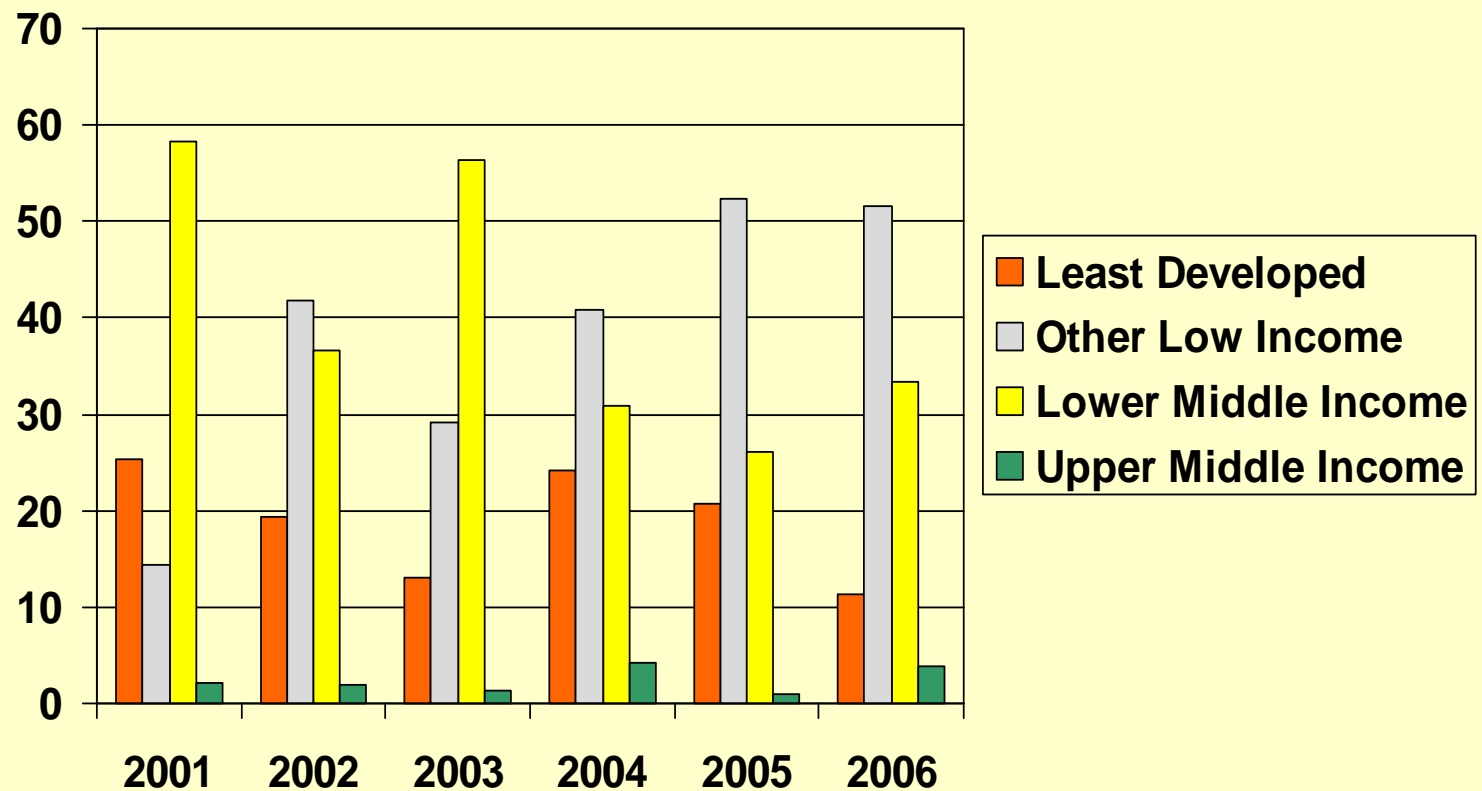


**2005-2007**  
USD 806.7 mill./yr





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

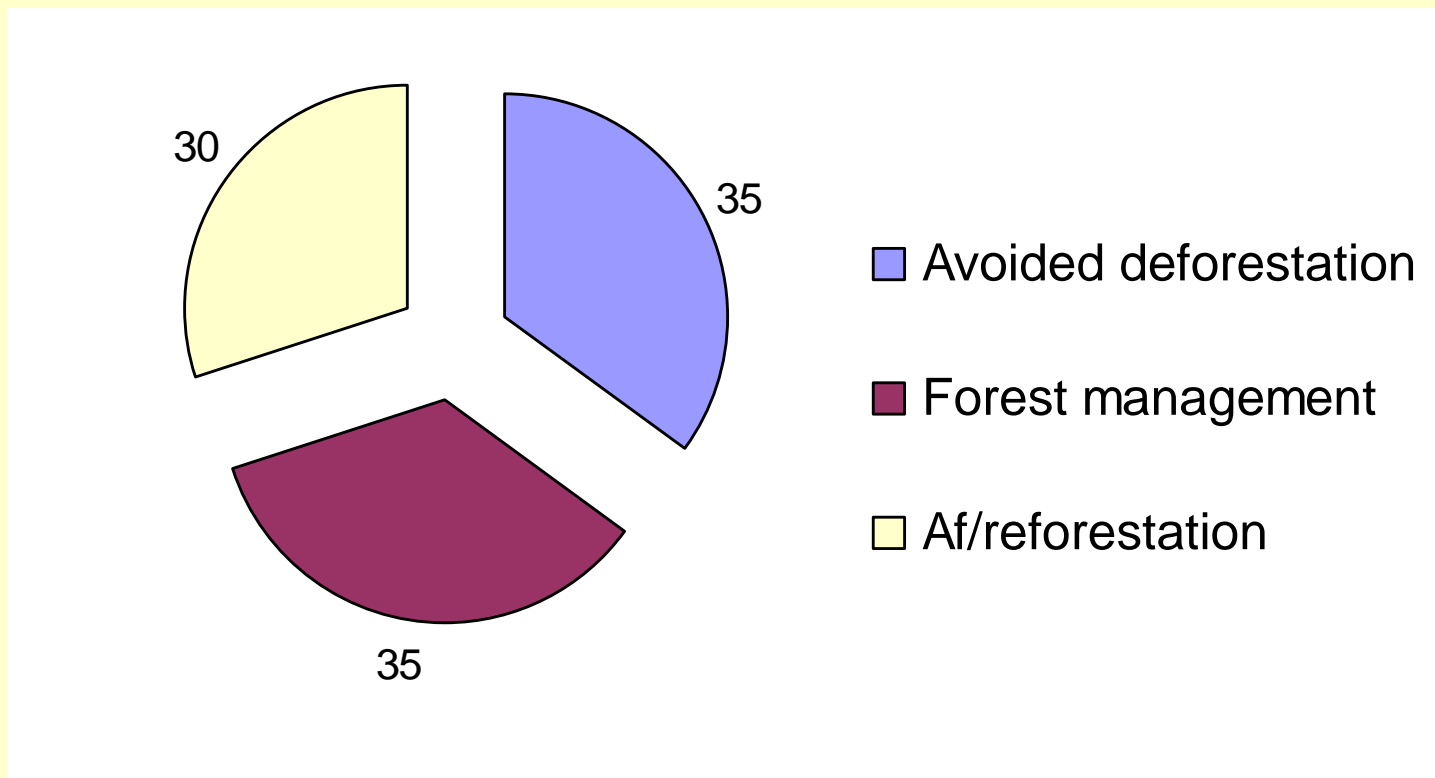


Ten countries absorb 66% of the total forestry ODA





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



Source: IPCC 2007





## 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
<b>Total</b>	<b>20.4</b>

Source: UNFCCC 2007

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





## 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
- ◆ Most small island countries
  
- ◆ Africa is lagging behind other regions
  
- ◆ Many least developed countries and low income countries





## **Focusing future forest carbon financing schemes to high forest cover-high deforestation rate countries**

would leave out a huge potential for

- ◆ **Increasing and protecting the existing carbon stock in the forests of the other Non-Annex I countries**
  - with 60% of the total forest area and the existing carbon stock of all the 156 countries combined
  - One third of the total global deforestation area would remain unattended
  - Huge areas of degraded forests and drylands could not be supported
- ◆ **More than 90% of the total rural population of these countries (3.0 billion people) would be mostly excluded from the forest carbon financing**





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



## 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 achieving emission reductions.
UN-REDD Program	[12]	Specific REDD capacity building	Capacity for implementing SFM for REDD.
Strategic Climate Fund - PPCR	[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 <sup>1</sup>	..	Biodiversity hotspots and other protected and conservation.	Poverty, forests outside protected areas.

<sup>1</sup>E.g., Critical Ecosystem Partnership Fund, Amazon Fund, Congo Basin Forest Fund, etc.





## Key Conclusions (1/2)

- ◆ Climate change mitigation needs to consider all forest measures (REDD, forest management, af/reforestation, restoration) to tap the full potential for emission reduction and carbon sink enhancement
- ◆ These forest measures offer environmental, social and economic co-benefits which are highly significant and unique
- ◆ Additional financing is needed to fill geographic and thematic gaps in the existing flows; developing countries cannot be expected to only borrow for global public goods generated by forests
- ◆ Forest financing will require a combination of instruments including grants, loans, credits, payments for environmental services as well as strong participation of the private sector, forest owners and communities, smallholders, indigenous groups and other stakeholders





## Key Conclusions (2/2)

- ◆ Present and emerging instruments do not adequately address the upfront investment needs of climate change mitigation through forest measures
- ◆ The Forest Investment Program is urgently needed for ensuring this upfront investment to make performance-based mechanisms (REDD, CDM, etc.) work in practice on a required scale
- ◆ Focusing REDD only on high deforestation forest-rich countries and maintenance of forest cover would miss huge opportunities for climate change mitigation and sustainable development
- ◆ Harnessing of synergies between international and bilateral initiatives related to forest financing is necessary to ensure coherence, effectiveness of investments and low transaction costs within the absorptive capacity of the beneficiary countries

