

**Advance Unedited Summary on the UNFF Informal Consultations on Finance
Rome, 12 -13 March 2009**

Opening Session

Dr. Boen M. Purnama (Indonesia), Chair of the Bureau of the eighth session of the Forum welcomed participants to the informal consultations. He thanked FAO for its support in hosting this meeting and invited Mr. Jan Heino, Assistant Director-General, FAO Forestry Department to welcome the participants.

Mr. Heino stressed that mobilizing financing for sustainable forest management is a long term process. He highlighted the important role of members of the Collaborative Partnership on Forests in implementing sustainable forest management. He mentioned that as a contribution to the work of the Advisory Group on Finance, FAO had recently updated the CPF Sourcebook on Funding for Sustainable Forest Management which now includes 800 entries in its funding database. Mr. Heino also stressed the important role of national forest programmes in financing sustainable forest management.

Presentations on Forest Finance

Dr. Boen M. Purnama presented an overview of recent developments related to financing sustainable forest management, from the outcome of the seventh session of the Forum in 2007, to the Open-ended Ad Hoc Expert Group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework held in Vienna from 10 to 14 November 2008. Referring the UNFF7 outcome, he stressed that Forum agreed to develop and consider a voluntary global financial mechanism/portfolio approach/forest financing framework and is mandated to take a decision in this regard at UNFF8. Dr. Purnama mentioned that while two key concepts emerged from the AHEG: a distinct dedicated fund and a facilitative mechanism; the expert group recommended further consultations on the issue and written inputs from Member States and Major Groups on proposals for financing approaches. He stressed that this informal consultation provided an important opportunity to further discuss and expand on the understanding by Member States on options for forest financing and the role and actions of the UNFF in this regard, and that it was hoped that the Informal would facilitate and advance consensus at UNFF8.

Ms. Jan L. McAlpine, Director of the UNFF Secretariat presented highlights from the Report of the Secretary-General on Finance and other means of implementation for sustainable forest management. The report provides background information on forest financing, an overview of the current forest financing architecture and provides the building blocks for two options for financing: a dedicated fund and a facilitative mechanism. The report highlights the need to link with emerging financing mechanisms related to climate change such as the Forest Carbon Partnership Facility (FCPF), and Forest Investment Programme (FIP). The report states that while private sector financing is key, a policy framework to increase profitability and reduce risks is also needed. The report also looks at forest financing in the context of the current global financial crisis. Finally, the report stresses that the Forum needs to take concrete and meaningful steps to mobilize financing and catalyze implementation of the forest instrument. She highlighted the recommendations from the Report which proposes a financing mechanism and calls for new and additional funds. Conclusions and recommendations are included for the consideration of Member States at UNFF8.

Mr. Gerhard Dieterle, Forests Adviser, The World Bank presented the study prepared for the Advisory Group on Finance of the Collaborative Partnership on Forests on current financing flows to sustainable forest management, and also provided an overview of the Forest Investment Program (FIP). Mr. Dieterle stressed that no single instrument or external source will be able to fill the financing gaps and that a combination of sources (external and domestic) and instruments (grants, loans, credits, risk guarantees, payments for environmental services, etc.) will be required for sustainable forest management. He noted that links to climate financing would be critical for significant increased

financing, but also pointed out that if forest carbon financing is limited to High Deforestation-High Forest Cover Countries, significant opportunities for climate change mitigation and adaptation would be missed. Finally he noted the need for greater synergies between international initiatives and organizations, to avoid fragmentation and improve coherence and effectiveness in forest financing.

Ms. Elisabetta Casagrande, FAO, presented the CPF Sourcebook on Funding for Sustainable Forest Management <<http://www.fao.org/forestry/cpf-sourcebook/en/>>, an online resource with information on grants, fellowships/scholarships, loans, equity investments and other application-based funding sources. As a contribution to the CPF Advisory Group on Finance, FAO conducted a study examining links between some existing funding sources and national measures of the forest instrument (NLBI), and identified sources of financing that may assist in NLBI implementation. The study found that all national measures of the forest instrument are covered by existing funding sources, and that the areas with the most coverage were activities related to capacity building and conservation, while production and technical activities were least covered. Based on the CPF Sourcebook study, it was also determined that fewer funding sources were available to Africa and Latin America than Asia.

Mr. Christian Mersmann, Managing Director the Global Mechanism of the UNCCD briefed participants on the Global Mechanism, a facilitative mechanism which was created to increase effectiveness and efficiency of existing financial mechanisms related to Sustainable Land Management (SLM). He pointed out that GM specialises in upscaling finance, capacity building and analyzing and disseminating information. The mechanism designs integrated financing strategies which involves locating and developing a mix of financial resources to fund programs and projects and helps uncover potential barriers in resource identification, allocation, and disbursement.

Discussion on forest finance based on the Report of the Secretary-General on Finance and other Means of Implementation for Sustainable Forest Management

In follow-up to the Ad Hoc Expert Group, in December 2008, Members States and major groups were asked to provide written contributions on their views regarding the two proposed options: a dedicated fund for SFM and a facilitative mechanism. The UNFF Secretariat presented participants with the key points raised in the synthesis report of these contributions, which was based on 22 responses (19 Member States, the European Union (on behalf of its 27 member countries) and two major groups (Indigenous peoples and NGOs)). It was noted that these two options are not mutually exclusive, and some pointed out that the two options could be mutually reinforcing.

The majority of discussion at the informal consultations focused on identifying key elements in relation to the three options (dedicated fund; facilitative mechanism; combination of these two). Many participants suggested the need to elaborate on functions and modalities for these options. Any new financing mechanism or fund created would include a portfolio approach it was noted. An analysis of the elements suggested by the participants and those contained in the SGR is contained in the annex to this summary report.

There was unanimous agreement that the implementation of the forest instrument (NLBI) required not just political commitment, but also financing. Several voiced the opinion that there is political momentum generated by the adoption of the forest instrument (NLBI) and UNFF8 has the opportunity to take an ambitious decision on financing sustainable forest management. It was also noted that while action towards mobilizing financing needed to be taken, that expectations should also be realistic.

Participants stressed that financing for sustainable forest management is not adequate; and that many developing countries do not have access to financing. Several participants welcomed the recognition of the existing financial gaps and suggested that new and additional financial resources were needed, preferably through a designated fund or funds. Some argued that the broad range of issues related to sustainable forest management could not be covered by a single fund. Others pointed out that a fund may not be realistic at this point in time for various reasons (financial crisis, lack of LBI, etc).

Some noted that while the current global financial crisis does put pressure on financing available for sustainable forest management, this should not prevent development of the financial architecture needed for medium and long-term implementation of the forest instrument. Many pointed out that a facilitative mechanism could be the first step, in a step-wise approach to develop the financial architecture for implementing the forest instrument. Some cautioned that a facilitative mechanism should not add a layer of bureaucracy.

Many participants pointed out that climate change has led to a renewed interest in and financing for forests at the global policy level. The links between forests and climate change were seen as a window of opportunity to generate financing for forests. At the same time the need to emphasize the role of sustainable forest management as a whole, in the context of climate change mitigation and adaptation, as well as to provide financial incentives was stressed. A facilitative mechanism could assist countries in this regard.

Many stressed the crucial role of NFPs in setting national priorities, creating links with other development agendas and facilitating access to funding for SFM. Some suggested offering NFP as a concept for other sectors.

Some experts from donor countries noted that weak demand for ODA for forests prevented them from allocating resources in their aid programs. While the importance of national needs in determining resource mobilization requirements and balanced participation of countries in decision-making was underscored by others.

It was noted that CPF Advisory Group on Finance study indicated the need for more information on financing. Many stressed the need to evaluate the effectiveness of existing financing arrangements, and to improve coordination, coherence among existing financial mechanisms. Some pointed out that sound scientific information is available on the specific regional and national circumstances, including issues such as scope and drivers of deforestation, forest degradation, which needs to be taken into account when determining resource requirements. The role of facilitative mechanisms in sharing information was noted by many participants. The need for disseminating information at the regional level was widely noted.

Many participants pointed out the need for a strategic approach and a roadmap towards mobilizing financing to implement the forest instrument. Some said that the creation of a specific fund requires more time, and therefore may not be achieved at UNFF8, however they supported taking decisions both on immediate actions and on future steps. Some emphasized the need for a strengthened UNFF Secretariat to carry out some of the functions of the facilitative mechanism. It was also noted that mobilizing the spectrum of potential SFM finance would require the facilitative mechanism to develop cooperative arrangements with CPF members and other institutions that have specific expertise and capabilities related to financing.

In response to a request, the Director outlined the current status and developments regarding resources of the UNFF Secretariat and its capacity to carry out the functions suggested for the facilitative mechanism in the Secretary-General's report. In this regard, she underlined the importance of collaboration with the CPF, which could be further enhanced in this regard.

The participants highlighted the difficulties SIDS, Africa, LFCCs and HFLDCs face in getting necessary resources for SFM due to the complex project cycle of multilateral financial institutions, bilateral donors, by lack of capacity, and competition over scarce resources. Some participants highlighted the need to address thematic gaps in SFM financing. Limited and insufficient participation of these groups of countries in relevant international meetings and financing mechanisms was also identified by these countries as a significant reason that prevents them from accessing sufficient financial resources. Some participants stressed the need to simplify and harmonise the project cycles and funding procedures of SFM financing institutions, and the facilitative mechanism could play a role in this regard.

Some representatives of donor countries mentioned the problems that recipient countries face relate partly to the absence of a platform for cooperation on forestry issues such as national forest programs. Some donor countries also pointed out that the least developed countries currently are the priority for receiving external assistance and the assistance was no longer provided to middle income countries. The difficulty for donors was also in identifying national focal points for forests in attempting to provide financing. Some representatives stressed that the facilitative mechanism could help recipient countries to identify their priorities.

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Annex: Elements to consider in relation to the three options (Dedicated fund; Facilitative mechanism; Combination of these two) and their relation to the report of the Secretary-General on Finance and other means of implementation

Objectives:

- Generate adequate financial flows to ensure SFM (relevant SGR paragraphs: 4, 8, 13,15, 19, 21-22, 33, 36, 40, 41.a, 41.h (ii))
- Financing the implementation of the forest instrument (NLBI) (relevant SGR paragraphs: 15, 22, 27,35, 36, 41a, 41.d, 41.h.(ii), 41.g)
- Achievement of the Global Objectives on Forests (relevant SGR paragraphs: 21, 41.d, 41.f),

Guiding principles:

- Continuity; (not mentioned explicitly but included in 34)
- Efficiency; (relevant SGR paragraphs: 37, 52)
- Balanced access to funds; (relevant SGR paragraphs: 4, 41.h.(v))
- Take into account that funding for forest in the context of climate change mitigation and adaptation do not cover the full array of activities set by the forest instrument and are therefore insufficient for the financing of its implementation (relevant SGR paragraphs: 28, 41.f)
- Equity (relevant SGR paragraphs: 13, 18, 21, 41.h.(vi))

Needs:

- Coordination (relevant SGR paragraphs: 18, 28, 35, 41e, 41.h(i), 41.e., 41.h.(vii))
- Coherence (relevant SGR paragraphs: 41.e, 41.h(i), 41.f)
- Compliance with Paris Declaration on Aid effectiveness (relevant SGR paragraphs:29)
- Avoid fragmentation (relevant SGR paragraphs: 41.e)
- Stronger profile for UNFF (relevant SGR paragraphs: 41. g., 41.h.(viii), 41.l (ii))
- Step-wise approach (relevant SGR paragraphs: 33, 34, 41.i.)
- Due consideration of specificities and circumstances of countries in particular LDCs, SIDS, LFFCs (relevant SGR paragraphs: 13, 41. h.(vi))
- Strategic planning (short-term, mid-term, long-term) 41.h.(iii)
- Strengthen the enabling environment for private sector investments (relevant SGR paragraphs: 13, 18, 29, 30, 41h(v))
- Exploring nationally available resources for SFM (relevant SGR paragraphs: 41.h.(ii))
- Link with national level activities (relevant SGR paragraphs: 38, 41.h.(v))
- Engage actively with other relevant processes in particular climate change forest related negotiations (relevant SGR paragraphs 23-36, 41.f. 41.h.(viii))

Scope and structure:

- Build on existing structures (relevant SGR paragraphs: 18, 26, 33, 41.e))
- Adopting the portfolio approach (relevant SGR paragraphs: 6, 14, 37, 41.h.(ii))
- Continue and expand the work of the CPF Advisory Group on Finance (relevant SGR paragraphs: 5, 41.l.(iii))
- Strengthening the UNFF Trust Fund –
- Consideration of the creation of the global fund for forests at a later stage (e.g. UNFF9) (relevant SGR paragraphs: 33, 34, 41.h.(ii))

Governance and management:

- Benefiting from the experiences of other institutions (relevant SGR paragraphs: 41.e, 41.h.(i))
- Balanced role for donor and recipient countries in decision-making--
- Equitable geographic representation –
- Immediately put in place the mechanism after UNFF8 (relevant SGR paragraphs: 39, 41.g.)

Sources of financial resources:

- Voluntary (relevant SGR paragraphs: 41.l.(i))
- Leverage funds outside of public finance (private, philanthropic, PES) (relevant SGR paragraphs: 29-30, 41.h.-(ii))
- ODA (relevant SGR paragraphs: 11, 13, 18, 19, 29, 32)
- REDD and other possible innovative approaches (relevant SGR paragraphs: 23, 24, 25, 26, 28, 41.f)
- Global Environment Facility (GEF) (relevant SGR paragraphs: 41.f)
- Forest Carbon Partnership Facility (relevant SGR paragraphs: 24, 28, 41.f)

Types of activities covered: implement the forest instrument including inter alia:

- Building capacity to access funds (relevant SGR paragraphs: 38)
- Identifying underlying causes of deforestation and forest degradation (relevant SGR paragraphs: 41.h. (i), (ii))
- Promoting the application of scientific and technological innovations (relevant SGR paragraphs: 41.h. (i)-(ii))
- Fight against desertification, e.g., LFCCs (relevant SGR paragraphs: 41.b, 41.h.(vi))
- Implementation on the ground (relevant SGR paragraphs: 41.h.(i))
- Formulation of NFPs and financing strategies for SFM, dedicated service by CPF members on information and knowledge management with respect to sourcing financing for SFM (relevant SGR paragraphs: 38, 41.e, 41.k, 41.l.(ii))
- Brokerage function to facilitate access of countries, at their request, for financial resources on the basis of their financial strategies--
- Enhance cooperation and coordination with SFM-related financing mechanisms (relevant SGR paragraphs: 23, 24, 25, 26, 28, 41.f)
- Identify and mobilize new and additional resources for implementing the forest instrument (relevant SGR paragraphs: 35, 41.h.(ii))
- Build capacity of developing countries to formulate readiness plans, and to integrate the forest instrument in national policy development strategies (relevant SGR paragraphs: 41.h.(iii), (iv), (v), (vi))
- Explore investment opportunities and build capacity of developing countries to create an enabling environment to attract forest investment (relevant SGR paragraphs: 12, 13, 18, 29, 30)
- Facilitate access of developing countries, including those in Africa, LFCCs and SIDS, HFLDCs by simplifying procedures to access finance --
- Address the thematic gaps in financing SFM to include forest products, protected areas, and conservation and restoration areas. --

Accountability, monitoring and evaluation:

- Evaluation in 2013 (relevant SGR paragraphs: 41.i.)
- Develop indicators for financial sustainability/effectiveness: not covered
- Policy guidance by the UNFF (relevant SGR paragraphs 41.g)
- Accountability to the UNFF (relevant SGR paragraphs 41.g)