FINANCING OF SUSTAINABLE FOREST MANAGEMENT IN AFRICA:

AN OVERVIEW OF THE CURRENT SITUATION AND EXPERIENCES

By

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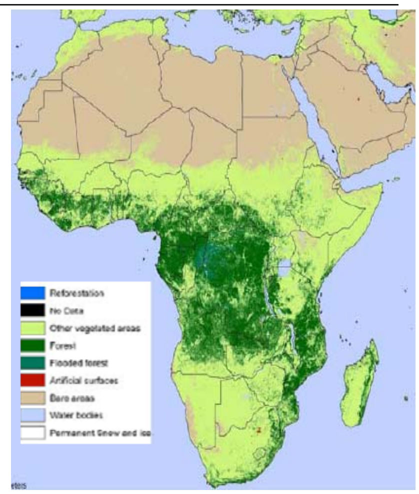
Objectives

- Review and analyse current funding sources/mechanisms on forests
- Review forest financing needs and gaps in Africa for SFM
- Identify areas, issues and actions crucial for developing forest financing strategies

Background

- Africa's forest cover:
  - 635 million ha
  - 21.4% of Africa's land area
  - 16.8% of global forests
  - annual deforestation - 0.62% (4million ha per year (2000-2005)
  - < 6% under management



BACKGROUND

- Central to socio-economic development and environmental protection
  - >90% people rely on fuelwood and charcoal for energy
  - Up to 6% of GDP
  - 10% of trade

SFM financing requirements

- SFM requires substantial financial resources
  - Global estimates
    - UNCED (1992): $70 billion per year
    - UNFF (Pretoria-1996)- $33billion per year
    - UNFF (Tomaselli-2006)-$69.3 billion
    - UNFCCC 2007 : US$21 billion per year (excluding costs of capacity building and other upfront costs)
      - Africa accounts for $2.7 billion
- Current funding falls far short of any of these estimates

Sources of finance

- Financing mechanisms for SFM have tended to focus on:
  - Domestic Public
    - National governments budget allocations
    - Forest revenues
  - Official development assistance
    - Bilateral Donors
    - Multilateral agencies
  - Private sector investment
    - Domestic
    - FDI
    - Small-scale enterprises
    - Individuals (e.g. subsistence farmers)

Sources of finance

- Payment for environmental services
    - Carbon sequestration
    - Biodiversity conservation
    - Watershed protection services
- Philanthropists
    - Foundations
    - Individuals
- NGOs
    - International conservation
    - Other NGOs and CSO

Domestic public financing

- Government budgetary allocations
- Forest revenues from state owned forests
- VAT, Licenses, concession fees
- Low prioritisation of forests
- Inadequate
    - Barely covers administrative costs of PFIs
- Low revenue collection from informal sector
    - Charcoal and NTFPs

Official development assistance (ODA) to Forestry

- Global- $1.9 billion/year
  - Multilateral: $0.8 billion; Bilateral:$1.1billion/yr
- Africa's share: 20%
    - Declined from 33% (1973-1988)
    - Uneven, Concentrated in 10 countries
    - 5 countries not supported,
    - 95% from 9 Donor countries
  - Dominant source in more than 12 countries
  - Major catalytic and leveraging role in most recipient countries

Major multilateral sources

- **AfDB**:
  - Now major player in Africa: 21countries
  - $352 million forestry portfolio;$72.7 Million/year (2000-2005)
  - $0.8 billion earmarked for 13 projects in 2010
  - Hosts Congo Basin Forest Fund
- **GEF**
  - ($1. 192illion since 1991):28 countries (2009)
  - SFM prgramme(2007)
    - Tropical Forest Account ($50mil.Congo Basin)
  - GEF-5 (2010-2014), separate funding envelope for SFM/REDD+ : estimated at $1billion
    - ***Reallocation from Biodiversity, Climate Change and Land Degradation***
  - Key challenges:
    - Complicated procedures and long project cycle
    - Lack of capacity to prepare proposals and co-finance
    - Very few Low forest over countries have benefited

Major multilateral sources

- World Bank group
  - main source of multilateral financing to forestry at Global level (72.7%)
  - Supported 20 countries in Africa (2007-2009)
    - IFC supported 14 countries
      - Largest investments in tropical forests (DRC, Gabon and Liberia
- ITTO
  - 10 African members 6 financed (2005-2007)
  - Main recipient countries are Cameroon, Congo, Cote d'Ivoire, DRC, Gabon and Ghana

Other multilateral sources

- FAO-NFP Facility
  - 35 African countries
- Global Mechanism (GM
- International Fund for Agriculture Development (IFAD)
- UNEP, UNDP, World Food Programme (WFP)

Private Financing

- Africa's industrial forestry level is low.
  - 19% of global roundwood (658million cubic metres), 90% of which is fuelwood.
  - Trade in wood products $4 billion compared to $200 billion Global (2006).
- Poor infrastructure, small domestic markets, insecure tenure, political instability

FDI

- FDI
  - Plantations
    - 467000ha 2000-2009
    - E.g. Green Resources
  - Wood processing and natural forests concessions
    - Limited to tropical forests
    - Both northern and southern countries (S. Africa, Kenya Zimbabwe)
- Africa's share of the $0.5 billion low
- Many low forest cover countries in dry regions have not been able to attract FDI
- Bans in export of logs have not resulted in significant increases in FDI fows

Domestic Private finance

- Most forestry activities (over 70%) in informal, smallholder sector
- Plantation out-grower schemes
- NTFPs
- Major sources of financing
  - Corporate financing and financial institutions
- Informal sector
  - own savings,
  - reinvestment of profits,
  - own labour and remittances.
  - Microfinance
  - Need for improved linkages with formal finance sector

Payment for environmental services

- Watershed Services
  - Still very few in Africa
    - Working-for-Water Programme in S. Africa
    - Low income levels,
    - Low demand, small markets and weak institutional capacity
- Conservation and Ecotourism
  - Conservation concessions –DRC pilot
  - Ecotourism based on forest reserves, wildlife and national parks
  - Community based ecotourism
    - CAMPFIRE
    - ADMADE
  - Ecotourism incomes growing
    - Up to 15-20% GDP

Payment for environmental services

- Debt-for-nature swaps
  - Just 2 examples in Africa at initial stages (Botswana, DRC)
- Bio-prospecting
  - *systematic search for sustainable commercial uses of the genetic and biochemical elements of biodiversity*
  - No documented examples in Africa
  - Opportunities of raising significant funds low
- Challenges
    - policy,
    - sovereignty,
    - rights of access,
    - intellectual) property, and
    - equity

Carbon Finance

- Global concern about climate change has resulted in forests attracting great attention
  - Carbon market total value for 2008 estimated at US$125 billion

  CDM:
    - By end of 2007 only 1 forest carbon project, Guangxi Watershed Project in China
    - 2 out of 13 A/R projects in pipe line are from Africa
    - Uganda-Nile Basin Reforestation Project (1/7 projects approved and registered this year
    - Challenges:
      - complex application procedures and
      - lack of capacity

Voluntary carbon markets

- Value of market 2007: $331mil. 3x 2006 level
  - Africa's share low
    - Distribution of projects uneven, E. Africa dominating
      - Humbo, Ethiopia
      - Nhambita, Moz.
      - Acacia community plantations-Niger
  - higher proportion of forestry-based credits (36%)
  - favourable for smaller off-set projects

Reduced Emissions from Deforestation and Forest Degradation (REDD)

- Deforestation and forest degradation contribute 17% GHG emissions
- UN-REDD pilot countries in Africa
  - Tanzania, Zambia, DRC
  - WB Forest Carbon Partnership Facility (FCPF).
    - Readiness fund and Carbon Fund
  - Few **Biocarbon fund** projects in Africa
    - Ibi Bateke carbon sink project in the DRC
    - Acacia Senegal plantations in Niger and Mali
    - The Greenbelt Movement, in Kenya
    - The Biodiversity corridor in Madagascar,
    - The Humbo assisted regeneration project in Ethiopia
    - Nile Basin Reforestation project in Uganda (

REDD issues

- How trade-offs between various objectives (climate change mitigation, biodiversity, poverty, etc.) can be addressed in specific situations.
- How payments for REDD credits can be distributed to the rural people
- Co-financing of activities required to ensure that REDD benefits are created in practice,
- Risk of limiting access to REDD financing to only forest-rich countries

Other Emerging Instruments for Forest Financing

- Eco-securitisation and forest-backed bonds
- Endowment funds
  - Bwindi
- Regional initiatives
  - East Africa Commission, COMIFAC, ECOWAS and SADC
    - Congo basin forest fund
    - SADC Fire management programme

Thematic Financing Gaps

- Upfront financing
  - Analytical work
  - Planning, projects design
  - Capacity building
  - Implementation of policy reforms,
  - Strengthening of governance,
  - Market creation for environmental services,
- Management of forests outside protected areas
- Trees outside forests/ Agroforestry
- Land-use planning and zoning
- Research and Development

Conclusions

- Financial resources from all sources insufficient
- Public domestic financing
  - Inefficient revenue collection systems and low prioritisation in budgetary allocations
- Private sector funding
  - limited to forest rich; potential for plantation development
  - Level of investment limited by
    - Poor infrastructure; political and macro-economic instability
  - Limited access to micro-finance for smallholder
    - Poorly developed microfinance products for forestry sector
    - Poor linkages between forestry and finance sectors

Conclusions

- ODA plays critical catalytic and complemetary role
  - Skewed distribution
  - Low technical capacity to take advantage of multilateral sources
- PES instruments/mechanisms have potential
  - Raise significant resources for SFM;Increase forest values; Economic benefits to forest owners

Conclusions

- Slow uptake of PES due to
  - Weak institutions and fragmented responsibilities
  - Lack of financial and technical capacity
  - High transaction costs especially upfront financing
  - Poverty which limits markets and in-country resource mobilization.
  - High transaction costs due to proliferation of sources and complicated administrative procedures

Recommendations

- Develop comprehensive national financing strategies as part of nfps
- A combination of financing instruments required to mobilise adequate
- Better integration of the forest sector within national development frameworks
- Create an enabling environment for investment in SFM
- Strengthen microfinance to improve access to resources for smallholders
- Establish an SFM/NLBI- specific fund to mobilise funds for thematic areas not covered by existing funding mechanisms
  - Especially upfront financing for
  - planning,
  - analytical work
  - Research and development and
  - National capacity building

Thank you