Analysis of Forest Financing in Guatemala

Prepared for UNFF Secretariat, Sept 2010

by Paulo de León and Ariel Pereira

Analysis of policy frameworks and institutional structures for SFM and its financing in Guatemala
The National Strategy for Forestry Funding (ENFF)

Implementation of the UIFF
- Financial and economical information
- Design and consolidation of major support lines
- Use of the existing credit lines.
- Pre-Investment connected with financial intermediaries
- Development of new financial instruments.

Forestry Financial Intelligence Unit

Intermediation of information
Increasing of economic and financial capacities
Designing of new financial products
Promotion of opportunities in the forestry sector
Diagnostics of local and rural forest communities

- The National Alliance of Forestry Community Organizations of Guatemala (ANOFCG),
- 11 second-level community organizations,
- Representatives of 427 organizations,
- 77,000 members,
- 388,000 indirect beneficiaries
- represents over 750,000 ha.
- 15% of the forestry coverage
- half of the communal forests.

Their substantive areas are:
- Governance,
- Financial mechanisms,
- Competitiveness,
- Organizational strengthening.

PINFOR (Program of Forestry Incentives)

- 1993-2009, 5,400 permanent annual employments Q11,000 for the generation of an employment per year.
- New rural employments, which are also multiplied inside the local economies.
- Investment value is estimated at 2009 prices, it shall be of Q893 mm, with a sale price at about Q1,900 mm, without the transformation process price.
- More than 90,000 ha reforested
PINPEP – Program of Incentives to small land owners with forest or agro forest vocation

The project covers 79 municipalities who are affected by the hunger and the poverty; The total commitment of the PINPEP for the period 2006-2012 is Q90 mm, which Q63 mm were granted by The Netherlands, and the rest by the INAB.

Specific objectives
➢ To extend the participation of small owners of lands of forestry vocation.
➢ Gender equality in the managing of natural forests, and the establishment and maintenance of agro-forestry systems.
➢ Generate employment in the rural area.
➢ Strengthen the processes of participation of the local power.

Other programs and minor mechanisms

**PPAFD - Direct Forestry Support Program:**
Objective: the conservation of the natural forests located in strategic areas of the central and western high plane of the country. Managed by the MAGA.
- More than 3,000 sources of water have been protected, with the commitment of local authorities,
- 221 beneficiaries (67 municipalities, 72 communities and 82 individuals).
- Protects about 34,000 ha;
- Promotes the forests SFM production,
- Support to greenhouses and seeds for the plantations of trees.

**MARN, Mechanisms, Programs and Funds:**
Leader in the fight against the desertification and the drought of the UNCC. In fact, the financial strategy of 2009 is the searching of funds and its mobilization to this action. The MARN has funds for the REDD, among them are:
- FOGUAMA - Guatemalan Fund of the Environment
- FONACOM – National Fund for the Conservation of Nature
Financial needs and gaps in the Sustainable Forests Management (SFM) in Guatemala

Gaps and Shortfalls in the Forestry Sector

<table>
<thead>
<tr>
<th>Financial needs and gaps in the Sustainable Forests Management (SFM) in Guatemala</th>
<th>Gaps in the Government Level</th>
<th>Gaps in the Financial Sector</th>
<th>Gaps in the Forestry Sector</th>
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<tbody>
<tr>
<td>Financial</td>
<td>Legal and politics</td>
<td>Size</td>
<td>Instruments and institutions</td>
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<tbody>
<tr>
<td>Forest Sector % of GDP</td>
<td>2.50</td>
<td>2.77</td>
<td>3.10</td>
<td>2.75</td>
<td>2.69</td>
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<td>Employment in forest and related areas</td>
<td>83,789</td>
<td>504,644</td>
<td>515,942</td>
<td>530,538</td>
<td>536,229</td>
<td>538,225</td>
<td>572,409</td>
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Source: MINA-UAM
• Guatemalan Financial Sector/Public Financing and their capabilities to fund forest

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<tr>
<td>Total</td>
<td>8,097.4</td>
<td>15,517.4</td>
<td>18,205.8</td>
<td>22,514.1</td>
<td>26,103.3</td>
<td>25,542.2</td>
<td>26,550.3</td>
<td>33,721.4</td>
<td>37,382.1</td>
<td>40,855.4</td>
<td>21,700.8</td>
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<td>Administrative</td>
<td>1,167.3</td>
<td>2,573.2</td>
<td>3,142.6</td>
<td>3,052.3</td>
<td>3,062.5</td>
<td>3,063.5</td>
<td>3,143.8</td>
<td>3,065.8</td>
<td>3,106.2</td>
<td>3,575.8</td>
<td>5,080.9</td>
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<td>Defense</td>
<td>1,073.5</td>
<td>1,419.5</td>
<td>2,577.8</td>
<td>3,064.1</td>
<td>2,708.7</td>
<td>2,109.2</td>
<td>2,395.2</td>
<td>2,525.1</td>
<td>2,755.8</td>
<td>5,080.9</td>
<td>3,470.4</td>
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<td>Social Service</td>
<td>3,772.5</td>
<td>7,123.8</td>
<td>8,784.5</td>
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<td>13,033.4</td>
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<td>Environment</td>
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<td>58.5</td>
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<td>Economic Service</td>
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<td>Agriculture</td>
<td>327.5</td>
<td>386.9</td>
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<td>193.0</td>
<td>50.3</td>
<td>87.3</td>
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The world financial crisis: its effects in the Guatemalan wood markets and long-term
A calculation of the financing needs in Guatemala for SFM

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<tr>
<th>Year</th>
<th>Plantations Fiscal Incentives</th>
<th>Plantations Fiscal Incentives</th>
<th>Plantations Other</th>
<th>Natural Forest management</th>
<th>Knowledge &amp; Scientific Promotion</th>
<th>Industrial Development</th>
<th>PES</th>
<th>IFADB Budget</th>
<th>Annual Needs</th>
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<td>0</td>
<td>60</td>
<td>15</td>
<td>20</td>
<td>79</td>
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<tr>
<td>2011</td>
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<td>15</td>
<td>10</td>
<td>62</td>
<td>10</td>
<td>22</td>
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<td>2012</td>
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<td>39</td>
<td>20</td>
<td>23</td>
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<tr>
<td>2013</td>
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<td>56</td>
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<td>2014</td>
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<td>2015</td>
<td>87</td>
<td>35</td>
<td>103</td>
<td>79</td>
<td>24</td>
<td>33</td>
<td>79</td>
<td>81</td>
<td>632</td>
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<td>2016</td>
<td>89</td>
<td>40</td>
<td>104</td>
<td>95</td>
<td>25</td>
<td>38</td>
<td>79</td>
<td>86</td>
<td>690</td>
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<tr>
<td>TOTAL</td>
<td>550</td>
<td>175</td>
<td>606</td>
<td>453</td>
<td>147</td>
<td>388</td>
<td>558</td>
<td>474</td>
<td>3,227</td>
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</table>

The implementation of the Non Legally Binding Instrument on all types of forests (NLBI) in Guatemala: Current Status and challenges
Recommendations: Areas, Issues and actions that Guatemala considers crucial for forest financing strategies
Improving Access to Forest

i. Identification and contact of external funds.
ii. Identification and contact of local funds.
iii. Economic and Entrepreneurship Education to the Forestry Players.
iv. Newsletter for the forestry and financial sector.
v. Designing and implementing Credit and Financing Pilot programs.
   1. Pilot program to the micro and small scale forestry sector.
   2. Pilot program in nontraditional institutions: leasing, factoring.
   3. For the major projects, syndicated loans, carbon emission and trading, etc.
vi. Long term financing is key, resolve and promote new mechanisms
   1. Eco Securitization
   2. Private forest funds
   3. Risk Mitigation Techniques

Some trends that should be considered to act on behalf

1. Increasing importance and use of certifications of forest products and origins.
2. Increasing use of carbon emission bonds and trading.
3. Increasing importance of the concept of SFM
Mobilization of resources

1. Promote a new PINFOR and the creation of the PINPEP as a national policy initiative with the commitment of funds.
2. Enable the INAB’s Guarantee Fund. Elaborate the study and strategy to start using these funds.
3. Create an inventory of the funds of the International Cooperation to better focus.
   • Acknowledge the objectives of the key international organizations and adapt them into the environmental and forestry needs in Guatemala.
4. Press for changes in the discussion of public budget, specially to increase the forestry allocation. This is a lobby initiative, which needs to consider allies to this movement.
5. To evaluated or assess using the 25 actions that the NLBI recommend. The proposal is that the UIFF consider these actions as objectives to monitor them with clear indicators.
6. Propose green taxes.
7. Encourage private public alliances
8. Promote fiscal incentives.
9. Create funds and special mechanism or strengthen the existing for the PES.

Improve coordination and enable environment

- Strengthen political commitment and action to SFM
- Enhance contribution of forests to achieve MDG among others
- Provide framework for national and international cooperation
- Reverse the loss of forest cover through SFM
- Enhance forest-based economic, social and environmental benefits
- Increase the area of protected forests worldwide
- Reverse the decline in official development assistance on SFM
Thank you