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Towards Feasible Financing Strategies for Sustainable Forest Management

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Objectives of the Presentation

- Identify aspects on which consensus exists
- Identify requirements for SFM financing arrangements
- Provide a view on options for strengthening SFM financing from international sources
- Suggest ideas for possible ways forward

Current consensus

1. Financing SFM is a **shared responsibility** between countries and the international community but each country has the primary responsibility for achieving SFM within its own territory
2. Adequate **financial resources** for SFM do not exist
3. **All sources** (public and private, national and international) need to be considered as well as from the forest sector itself
4. Constraints in **access** to financing need to be overcome
5. Decline in **forest ODA** needs to be reversed (GOF 4)
6. **Enabling conditions** are critical for SFM financing for the involvement of, and investment by, local communities, other forest users and the private sector.
7. Addressing identified **gaps** in the international financial flows needs a special effort
8. **Innovative financing mechanisms**, including PES, should be implemented with a due consideration of the holistic approach to SFM

Pending issues

1. **How to mobilize** new and additional financing from all sources for SFM
2. Through **which strategies and mechanisms** should such financing be arranged
 - a) Strengthening of the **existing and emerging mechanisms** on international, regional and national levels
 - b) Establishment of **new facilities** such as global or regional forest funds

These options are not mutually exclusive

General requirements for international financing for SFM

- Mobilization of financing in a **timely** manner on a required **scale** addressing identified strategic **gaps**
- Accomodate **diversity** of national and subnational situations
- **Access** by potential beneficiaries
- **Effectiveness** towards achieving the GOFs
- **Efficiency** (transaction costs) and agility
- Engagement of **new sources** (including non-forest sectors)
- **Leveraging** domestic sources and the private sector
- Improved **complementarity** and coordination between sources (synergies)
- Driven by **demand**

Sources: Identified in IPF, IFF, UNFF deliberations

Key weaknesses in current arrangements

- Proliferation of eligibility and investment criteria
- Proliferation and slowness of administrative procedures
- Centralized management of many funds
- Complexity has led to exclusion of many countries and beneficiaries which are most in need

National-level requirements for SFM financing

- Country-level **priorization of SFM**, political commitment and ownership, integration of nfps in national development strategies
- **Enabling conditions** for public and private sector financing (incl. legal and policy framework, institutions, governance, human resources, etc.)
- **Land tenure** and land-use issues to be addressed/solved
- **Participation** of indigenous peoples, women and forest dependent groups
- **Access** to sources by households, communities and other forest users
- Leveraging **domestic financing** from all sources
- **National capacity** to make effective use of available funds including
 - Effective intermediaries to reach potential beneficiaries (national banks, specialized funds, CSOs, etc.)
 - Intersectoral cooperation
 - Effective in-country coordination; nfp as a framework

Sources: IPF, IFF, UNFF deliberations

Option 1. Strengthening of existing and emerging financing mechanisms

- Enhancement of a **common vision** on SFM (as outlined in the Forest Instrument) as a framework for international financing
 - Promote integration of SFM into the **financing criteria** of relevant funding sources
 - Mobilization of **new and additional resources** (grants, credit) from all sources (public, private, not-for-profit)
 - Development of **new instruments** for long-term financing for SFM within existing mechanisms
 - Provision of **risk mitigation tools** (guarantees, insurance, etc.)
 - Simplification and harmonization of **project cycles**
 - Strengthening of **information sharing** for improved coherence
 - Strengthening of **national platforms/focal points**; direct access to financing would require national implementation entities
 - **Other means** to improve coordination/coherence between international and national sources
- **Need to clarify how these options could be implemented in practice**

Option 2. Global forest fund: elements to be considered

- Rationale
- Objectives (incl. strategic direction, targeted funding volume)
- Functions (financing, related support functions)
- Eligibility of beneficiaries
- Investment criteria
- Modalities (funding delivery mechanisms, disbursement principles)
- Governance (governance structure, stakeholder participation, management oversight, monitoring and evaluation, hosting organization, etc.)
- Funding sources and fundraising
- Cooperative arrangements and partnerships

Global forest fund: arguments in favor

- **"New and additional " resources** to meet the needs for SFM (implementation of the political commitment)
- Facilitated **access** to forestry funding (one-stop-shop)
- Could address strategic and geographic **gaps** (R&D, training, etc.)
- Possible **integration** with nfps and their investment strategies
- Improved **focus** on and **transparency** of SFM financing
- Could be linked with **governance** reforms
- Possibility to address **equity** issues
- Possibility for **catalytic action** and **innovation**
- Potential to improve **coordination** and **coherence** in forestry funding depending on cooperative arrangements
- Could reduce **fragmentation** if replaces some existing mechanisms
- Could help **leverage** funding from other sources and increase coordination
- Could include **facilitation** functions

Global forest fund: arguments against

- Already a myriad of existing underfunded mechanisms (no rationalisation); risk for **non-sustained** funding flows
- Depressing past experiences from specific funds for resource **mobilization** if based on voluntary contributions (e.g. ITTO Bali Partnership Fund); scaling up has proved to be impossible in similar funds
- In view of estimated vast requirements a new facility may only have **marginal role**
- Unclear **added value** in view of REDD+ mechanisms for SFM financing
- Recent new initiatives need to be tested first; risk for **duplication** and overlapping
- Many countries have limited **absorptive capacity** for effective utilisation of forest funding from a new source
- Risk for **reduction** of forest funding from other sources
- New **bureaucracy** and transaction costs
- Necessary **agility** and **leveraging** funding from other (particularly private) sources may be difficult to achieve
- Carving out **ODA** from other donor priorities; fear of poor use of funds (mitigation through heavy technical and administrative procedures, political tensions, etc.)
- More **practical** to reform existing financial mechanisms to address the identified weaknesses than trying to solve them through a new fund

Opportunities for innovation

- **Specific instruments** (green/forest bonds, guarantees, insurance, securitization, etc.)
- Public-private-community **partnerships**
- Payment schemes for **environmental services** (REDD+, biodiversity offsets, soil and water conservation)
- Linking with **other (non-forest) financing mechanisms** (e.g. energy) and addressing extra-sectoral drivers of deforestation and forest degradation
- Enhancing the role of **markets** for SFM products and services, and SFM assets
- Emerging **new funding models** involving multi-stakeholder participation, transparent monitoring and national leadership (e.g. the results-based Amazon Fund)
- Increasing commonalities in approaches in **best practices and safeguards** in the public and private sectors

Issues to be clarified:

- Potential of these measures to contribute to fund mobilization and improved effectiveness
- Measures needed for mainstreaming

Conclusions (1)

- **No single (new) instrument** will be sufficient for meeting the financing needs; centralization of financing flows is unrealistic
- Any new facility – if established - should be based on confirmed **adequate funding** on a long term basis; there is no clarity about the feasibility of gff as yet
- Adequate country level **enabling conditions** and strategies as well as domestic delivery mechanisms (e.g. national forest funds) are needed for new and additional financing to ensure access by beneficiaries and effectiveness
- Involvement of the **private sector and other stakeholders** is essential; public funding is slow, politically complex and insufficient in scale; it should be used to leverage private investment in SFM
- Future funding is likely to be increasingly **performance-based** and transparent in terms of effectiveness, efficiency and with risk management arrangements

Conclusions (2)

- While REDD+ is expected to mobilize large-scale funding for combating deforestation and forest degradation (particularly forest conservation), the main **strategic gaps** will be
 - Upfront investment required to achieve SFM (policy implementation, land tenure and land use, infrastructure, resource expansion, etc.)
 - Transformation of the forest production-market system into SFM
 - Poverty reduction in forest areas through productive activities and non-carbon PES schemes
 - Capacity building
- Filling the gaps is the main challenge of future forest financing from all sources; the **private sector** financing will be the key
- An element of **competition** is necessary but avoidance of **duplication** is also needed; this calls for coordination particularly at country level

Ideas for a way forward

- Clarification of **financing strategies** (incl. step-by-step approaches)
- Updated consolidated **information on the financing flows** to forests (GOF4) and establishment of information sharing mechanisms
- Examination of **effectiveness and efficiency** of existing mechanisms (based on evaluations carried out)
- Assessment of **REDD+** initiatives in meeting the SFM financing requirements
- Feasibility study on a **global forest fund**
- Expansion of the **facilitative process** to address geographic and thematic gaps with a focus on identification and promotion of concrete action
- Development of appropriate **coordination mechanisms** at all levels

Thank You for the attention !

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