



ADVANCE UN-EDITED TEXT

Report of the Ad hoc expert group on finance and transfer of environmentally sound technologies

United Nations Forum on Forests
Geneva, 15 -19 December 2003

I. Background

1. The United Nations Forum on Forests (UNFF), at its third session, held in Geneva from 26 May to 6 June 2003, agreed to recommend to the Economic and Social Council the establishment of an ad-hoc expert group on finance and transfer of environmentally sound technologies (TESTs). Through decision 2003/299, the Economic and Social Council decided to establish the ad hoc expert group on finance and transfer of environmentally sound technologies. The terms of reference of the ad hoc expert group, as contained in Annex B to that decision, requests the group to undertake the following specific tasks:

Finance

- a. Consider previous initiatives on finance, including recommendations from the Croydon, Oslo and Pretoria workshops, as well as the relevant IPF/IFF proposals for action, background papers and strategy documents of Collaborative Partnership on Forests members;
- b. Assess the role and status of official development assistance (ODA) directed towards sustainable forest management and consider ways for enhancing its availability and effectiveness. In this regard, identify possible means to enhance developed countries efforts to fulfil their commitments on ODA;
- c. Review the effectiveness of existing international financing for sustainable forest management, including methods and mechanisms, analyze opportunities, country-

- level gaps, limitations and donor and recipient priorities, as well as the contribution of the Collaborative Partnership on Forests towards financing sustainable forest management. Propose measures to improve the effectiveness of that financing to enhancing the enabling environment at both the national and international levels and to attract increased financing from all sources;
- d. Explore the potential of new and innovative approaches to attract increased financing for sustainable forest management. Discuss and make suggestions for expanded use of those approaches to address the need for financial resources for financing sustainable forest management, including through national forest programmes or equivalent processes;
 - e. Assess country experiences towards mobilization of financial resources to support sustainable forest management. In this regard, identify gaps, potentials and limitations of current financing sources and financial mechanisms to implement sustainable forest management. Further, propose approaches to enhance and more effectively use and mobilize national and international financial resources;
 - f. Assess and consider the role of the private sector in financing sustainable forest management. In this regard, recommend measures to improve the enabling environment for private investment in sustainable forest management, at both the national and international levels, and encourage increased private resource flows to the forest sector, in particular in developing countries and countries with economies in transition;

Transfer of environmentally sound technologies

- g. Review and assess existing initiatives on the transfer of environmentally sound technologies and knowledge diffusion for the promotion of sustainable forest management among countries and sectors and stakeholders, including through North-South, North-North and South-South cooperation and programmes of Collaborative Partnership on Forests members. This should include an analysis of incentives that promote and obstacles that inhibit the transfer of forest-related environmentally sound technologies between and/or within countries, in particular to developing countries and countries with economies in transition, in both the private and public sectors;
- h. Recommend approaches to improve transfer of forest-related environmentally sound technologies. The recommendation may include the role of various policy instruments, such as concessional and preferential terms, public private partnerships and research cooperation, as well as capacity-building in the use and application of current and emerging environmentally sound technologies, including remote sensing.

II. Organizational Matters

A. Venue and duration of meeting

2. The meeting of the group took place in Geneva, Switzerland from 15 to 19 December 2003.

B. Attendance and participation

3. UNFF agreed that the ad hoc expert group would be made up of 30 experts, with six from each of the five UN regional groups and including representatives of developed and developing countries and countries with economies in transition. In accordance with decision 2003/299, the first two days of the meeting were open to participation by representatives of the United Nations Forum on Forests Member States, who remained as observers for the last three days of the meeting. Members of the Collaborative Partnership on Forests (CPF) participated in a resource capacity, and were invited to make scientific and technical contributions.

4. Other intergovernmental organizations and representatives of major groups with relevant expertise participated in the meeting in accordance with the rules and procedures of the functional commissions of the Economic and Social Council, as well as practices established by the Commission on Sustainable Development, IPF and IFF. They were invited to make scientific and technical contributions.

5. A full list of participants can be found in Annex 1.

C. Election of officers

6. The experts elected Mr. Knut Oistad as the chairman of the ad hoc expert group.

7. To assist him in the finalization of the report, the Chair established a drafting group consisting of one representative from each regional group. The Chair invited Mr. Benedicto Fonseca Filho and Ms. Jan McAlpine to act as co-facilitators of the drafting group. The members of the drafting group included Mr. Modesto Fernandez, Mr. Joseph Hailwa, Mr. Christian Mersmann, Mr. Anatoli Petrov and Mr. W. R. Wickramasinghe.

D. Documentation

8. In carrying out its deliberations, the group considered three official documents: (a) the provisional agenda, (b) the Note by the Secretariat on financing for sustainable forest management: current challenges in the changed financial environment and (c) the Note by the Secretariat on transfer of environmentally sound technologies (TESTs) for sustainable forest management: an overview. It also considered the technical background documentation listed in Annex 2.

1. Conduct of the meeting

Opening of the meeting

9. Mr. Pekka Patosaari, Coordinator and Head of the Secretariat of the United Nations Forum on Forests, opened the meeting on the morning of 15 December by welcoming all experts and observers from Member States, members of the CPF and major groups. In his opening remarks, he provided an overview of the UNFF process and the establishment of the UNFF ad hoc experts groups. He stressed the importance of finance and transfer of environmentally sound technologies in the work of the UNFF and in promoting sustainable forest management. He also highlighted the expectations of the international community that this expert group would effectively and efficiently tackle its tasks and provide concrete and practical recommendations to the UNFF.

Expert group discussions

10. The participants had a general exchange of views during the first two days of the meeting. During the third and fourth days, the ad hoc expert group addressed in greater detail the mandated tasks of the group, based on the outcome of their initial discussions during the first two days. This enabled the drafting group to put forward a draft report on the morning of the fifth day of the meeting, which reflected the productive discussions of the ad hoc expert group. The report was adopted by the ad hoc expert group at the end of the meeting.

Closure of the meeting

11. In his closing statement, Mr. Patosaari congratulated the ad hoc expert group for its successful deliberations and emphasized the importance of its work for the UNFF. Mr. Knut Oistad closed the meeting, thanking the experts for their excellent work and spirit of cooperation over the course of the meeting.

III. Matters for the Consideration the United Nations Forum on Forests: Summary of Challenges and Proposals and Recommendations

General comments

12. The ad hoc expert group welcomed the Note of the Secretariat on transfer of environmentally sound technologies for sustainable forest management: an overview, and the Note of the Secretary on Financing for sustainable forest management: current challenges in the changed financial environment. It also welcomed the technical background papers that were prepared for the meeting that are listed in Annex 2.

13. In its deliberations, the ad hoc expert group agreed to the following:

International level

14. The definition for environmentally sound technologies in chapter 34 of Agenda 21 and the IPCC definition of technology transfer provided the context for determining the scope of the work of the ad hoc expert group on transfer of environmentally sound technologies.
15. The contribution of sustainable forest management for achieving sustainable development goals, including poverty eradication, should be greatly enhanced through improved transfer of relevant environmentally sound technologies, increased efficiency in financial resources allocation and increased financial flows.
16. Finance and transfer of environmentally sound technologies are closely linked and transfer of environmentally sound technologies has often been constrained by inadequate financing.
17. With regard to the barriers hindering the financing and transfer of environmentally sound technologies for sustainable forest management, it was concluded that these issues have to be addressed within the context of factors that take place outside the forest sector, inside the forest sector and those that have direct impacts on finance and transfer of environmentally sound technologies.
18. The essential role played by international organizations in promoting the transfer of environmentally sound technologies and in increased financing remains of strategic importance. The collaboration of the Collaborative Partnership on Forests is particularly important in this regard at the national and international levels.
19. Cooperative networks of research and educational institutions and among those in developing countries and countries with economies in transition should be strengthened. Particular attention should be paid to enhancing the developing countries capacity to take advantage of existing and emerging opportunities.
20. The primary importance of North-South cooperation in the transfer of environmentally sound technologies and financing for sustainable forest management was underlined. At the same time the group noted the significance of South-South, South-North and North-North cooperation.

National level

21. Countries have the sovereign responsibility for their resources and in that context should assess the needs and support required for technology and knowledge diffusion, particularly at the local level.
22. An enabling environment is needed for the finance, transfer of environmentally sound technologies and capacity building for sustainable forest management,

including good governance, transparency, effective environmental policies, regulations and their application, and the appropriate management frameworks at the national level, giving full consideration to country situations.

23. The transfer of environmentally sound technologies and finance for sustainable forest management need to be closely linked to the priorities and needs established in national forest programmes, or their equivalent. These can provide a policy and institutional framework for promoting the transfer of environmentally sound technologies and financing for sustainable forest management. Moreover, the transfer of environmentally sound technologies for sustainable forest management need to be incorporated as a priority into national development plans.

24. Capacity building, including extension services, for improved transfer and application of environmentally sound technologies and their financing are essential, particularly for developing countries and countries with economies in transition.

25. There is an extremely important relationship between financing and the use of appropriate environmentally sound technologies and the need for training and education of not only those using the technologies, but also to increase the broader understanding and support of the public, as the implementers of sustainable forest management.

26. While the role of governments remains essential, there is a new atmosphere of support for the full engagement and participation of stakeholders, including local communities, the private sector, indigenous groups, youth and women as primary managers and users of forests and forest products, in the exchange of knowledge, information, research, experiences and innovative practices related to sustainable forest management.

27. A number of areas were identified where industry and technology institutions play an important role. These include socially and environmentally sound management systems, remote sensing and geographic information system (GIS) technologies, pulp and paper technology, bioenergy production technology and biotechnology development for a wide range of forest products, including non-wood products. Industry can provide assistance in addressing the competitiveness of environmentally sound technologies utilized in industrial applications.

28. A number of ongoing initiatives at the local and national levels in promoting increased financing and transfer of environmentally sound technologies provide a rich contribution to facilitating more effectively both financing and transfer of environmentally sound technologies at the international level.

29. The UNFF needs to find more effective ways to tap into country experiences on financing and TEST in its intersessionals and at its sessions. It can also provide a facilitation and coordination role to advance the effective transfer and use of environmentally sound technologies (including knowledge diffusion) and the

leveraging of financing to support the implementation of the Intergovernmental Panel on Forests (IPF)/Intergovernmental Forum on Forests (IFF) proposals for action.

A. Existing initiatives on the transfer of environmentally sound technologies and knowledge diffusion for the promotion of sustainable forest management among countries, sectors and stakeholders; and approaches for improving the transfer of environmentally sound technologies for sustainable forest management

1. Good practices and lessons learned from existing initiatives

30. The ad hoc expert group pointed to the wide range of processes, initiatives and organizational experiences that could be drawn upon with respect to the transfer of environmentally sound technologies. A number of these are described in the Note by the Secretariat and in the technical background documents. In addition to the initiatives outlined in the background papers, the group also discussed many others as experienced by the experts. Drawing upon these papers and their own experiences, the ad hoc expert group highlighted the following experiences and lessons learned: :

31. Bringing together principal stakeholders, including Governments, international organizations, local communities, the private sector, major groups and NGOs, partnerships can provide an effective vehicle for applying integrated approaches for sustainable forest management and the transfer and application of relevant environmentally sound technologies like the Congo Basin Forest Partnership. The innovation of this initiative is in bringing together 29 partners, including governments, industry, non-governmental organizations, international and research organizations to focus on priority actions in a regional area for sustainable forest management. The heart of the initiative is focused on commitments made by governments in the region through an intergovernmental process called Ministerial Conference on Forests of Central Africa (COMIFAC) and focusing on the Convergence Plan. However, each partner was given the flexibility to use its own financial mechanisms and ascertain its own financial commitments – though new resources were a requirement. The Partnership exists in a virtual sense – it is not an institution, it is established to complement and not compete with existing national, regional and international bodies that exist to address similar issues. The Partnership is committed to facilitating cooperation, enhancing technology transfer (including knowledge diffusion) and financing for the significant forests of Central Africa – the second largest tropical forest in the world.

32. Another example of the use of partnerships as a catalyst for increasing synergies and reducing duplication among existing initiatives is the Asia Forest Partnership, which is providing a framework for the exchange of information and experiences to be followed by concrete actions. It is focussed on combating illegal logging, preventing forest fires, rehabilitation and reforestation of degraded lands. Partners are synthesizing, reviewing, deriving and disseminating lessons from current and past

projects. In one example of the benefits of such partnership work by compiling information, gaps and duplications in training, resources can be identified which would further lead to collaborative development of training.

33. Model forests provide a vehicle for the successful transfer of environmentally sound technologies for sustainable forest management. The International Model Forest Network (IMFN) is an initiative that aims to develop refined practices for sustainable forest management. The Network is made up of more than 30 Model Forests in 13 countries and continues to grow. Model forests are defined by specific attributes. They operate under similar principles as national forest programmes but at a landscape rather than at a national level. The transfer of environmentally sound technologies for sustainable forest management happens within individual Model Forests among partners, as well as among Model Forests within the Global Network. Model Forests and their Network also attract funding. Synergies that flow from collaboration among partners and the coherence of the MF governance structure serve as a positive influence in increasing financial support both internally and externally for sustainable forest management.

34. Demand for information and knowledge management services provided by the National Forest Programme Facility (NFPF) hosted by the FAO has been quickly increasing since 2002, when the NFPF was initiated. As a partnership between a number of developing countries, donors, NGOs and the business community, the NFPF specializes in the provision of information and knowledge on national forest programme processes and lessons learned from field experience. These are enhanced through catalytic support inputs based on the expressed demand of partner countries, civil society stakeholders and other key players in NFP processes. Currently, some 30 countries have made partnership agreements with the NFPF. At a more general level, some 100 countries will be serviced by mid 2004 with NFP process related knowledge dissemination, including making country-specific information available in the public domain to support global learning.

35. Lessons will be learned increasingly from country experiences in formulating policies and strategies for resource mobilization and accessing both appropriate technologies and financing for investments for projects and programmes aiming towards sustainable forest management. In these efforts, expert approaches are required that embrace governance issues, financing criteria, and a focus on forest dependent people and community livelihoods in the rural development framework. The PROFOR Programme hosted by the World Bank specializes on these areas of expertise. The work carried out by PROFOR in cooperation with some 15-partner countries is envisaged to improve the implementation of forest policies and programmes. The lessons learned from field experiences will be synthesized and placed for wide use and eventual replication in the information and knowledge management systems administered by both PROFOR and the NFPF. The two initiatives share a common strategy and are instructed by their owners to collaborate fully in the overall context of the Collaborative Partnership on Forests.

36. Examples of the dissemination of knowledge and environmentally sound technologies can be found in international organizations that bring together producers and users. One example of this is the International Network for Bamboo and Rattan (INBAR), a recently established international organization, which currently has 27 member countries and focussing on S-S cooperation. Resource improvement and management, processing and product technology, national and international policy development, and human resources development, with a focus on technology transfer among developing countries, work to improve the well-being of producers and users of bamboo and rattan within the context of a sustainable bamboo and rattan resources base by consolidating, coordinating and supporting strategic and adaptive research and development: Financing for these kind of activities remain an impediment to achieving these objectives.

37. Strong cooperation and collaboration between neighbouring countries sharing similar environmental conditions can lead to positive exchange of experiences, lessons learned and scientific, technical and technological knowledge for sustainable forest management. A good example of this kind of South-South cooperation exists between Argentina and Chile. Both countries share the Andean/Patagonia region, in which the countries have cooperated informally over several years. Capacity building is being strengthened with the participation of research centres, institutions, and universities; research projects have been promoted; knowledge on ecosystems has been obtained; silviculture and forest management has improved; investments in tourism have been facilitated; criteria for concessions of all types have been exchanged; protected areas have been strengthened; and, in general, there has been an improvement of discussions at the local level leading to higher quality decisions regarding forests. This informal cooperation between the two countries has a high commitment from both the governments and donors.

38. The effective engagement of indigenous communities in sustainable development initiatives can contribute greatly to the development and long-term application of environmentally sound technologies based on traditional knowledge. The Project for the Integrated Management of Andean Ecosystems brings together provincial and local authorities, the indigenous community and the local university in an initiative to sustainably manage the natural resource base of communal lands in the Cajamarca Valley in northern Peru for the social and economic benefit of the region's indigenous people. An integrated system of environmentally sound technologies based on traditional knowledge was developed for land rehabilitation, management of hydrological resources, agriculture and reforestation. At the core of the project was the use of native trees species, particularly those which served multi-purposes. Model farms providing extension services were established on farms operated by indigenous farmers. Over 200 publications were generated by the project, most being in comic book form directed at the indigenous community. Today the project has been integrated into the provincial and local development plans. During the past decade, the project has provided the basis for reforestation projects with native tree species involving local communities throughout Peru.

2. Constraints inhibiting the transfer of environmentally sound technologies for sustainable forest management

39. There are a number of constraints affecting TESTs, which include limited financial resources, institutional and policy constraints, human resources problems, and limited access to information on environmentally sound technologies and knowledge for sustainable forest management. There are also multiple reasons why interest groups do not always want to see ESTs applied. Inadequate support for research and development, and insufficient outreach programmes involving the private sector and local communities are other constraints. Inappropriate regulations favoring short-term profits over long term sustainability and unfavorable land tenure regimes can also become constraints affecting the transfer of environmentally sound technologies. Constraints affecting TESTs include, in some cases, inter alia:

Financial constraints

- Shortage of local financial resources for transferring EST to SFM, precisely in those countries where forests are under threat.
- High cost of and limited financial resources to acquire, use and maintain technologies, including the promotion of the transfer of environmentally sound technologies and capacity building for the development of know-how
- Other priorities than forests, including urgent human demands, such as shortages of food and human health.
- High opportunity costs, particularly in agriculture, for alternative land uses
- Absence of enabling market conditions and proper valuation and prices reflecting these values of wood and non-wood forest products.

Institutional, policy and regulatory constraints

- Slow responses in addressing issues such as decentralization, the growing role of local communities in forest management and shifts in financial sources, which impact on SFM.
- Absence of, as well as inadequate and inappropriate policies and laws at the national level for promoting the transfer of environmentally sound technologies, including inadequate integration of sustainable forest management issues and concerns into national, sectoral, regional and local development plans, and lack of inclusion in national poverty alleviation strategies.
- Ineffective management at various levels and inefficient institutions at the national level addressing EST

Capacity building constraints

- Lack of capacity and strategies to assess, select, import and adapt environmentally sound technologies
- Limited R&D facilities in developing countries and countries with economies in transition, as well as insufficient support for research and development of environmentally sound technologies for sustainable forest management in many countries.
- Inadequate information management systems and limited access to information systems at the international level
- Limited human capacity
- Monitoring the application and effectiveness of environmentally sound technologies

Enabling environment constraints

- Absence of, or inadequate , enabling environment, founded on good governance, for sustainable forest management, including one that enables the transfer of technologies and proprietary aspects of these technologies, provide clarity concerning land tenure and property rights, tax incentives, as well as policies and regulations in support of environmental approaches.
- Lack of transparency and facilitatory processes at all levels of society, including with industry, NGOs, forest dependent communities and others, in the identification of needs and priorities for environmentally sound technologies.
- Political instability and conflict
- Absence of political will and commitment to sustainable forest management or even to the forest sector.
- Interest groups outside the sector limiting transfers of environmentally sound technologies
- Lack of markets and R&D for promotion of sustainable use of non-timber forest products and lesser used timber species
- Shortcomings in promoting demand for environmentally sound technologies and of client identification

3. Recommendations to the United Nations Forum on Forests for improving the transfer of environmentally sound technologies for sustainable forest management

40. In order to support the transfer of environmentally sound technologies to and within countries, the expert group strongly advises the UNFF to recommend to Member States and CPF members to consider the adoption of the following actions:
- a. Provide assistance to institutional and human capacity building in developing countries and countries with economies in transition in order to advance research and the development of environmentally sound technologies and to transfer and adapt these technologies to local conditions.
 - b. Facilitate the flow of information on environmentally sound technologies to forest-related educational establishments by developing links to information networks, and by strengthening cooperation with enterprises and public institutions using environmentally sound technologies.
 - c. Encourage dissemination of forest-related environmentally sound technologies in the public domain.
 - d. Strengthen collaboration with regional processes (Montreal Process, the Ministerial Conference for the Protection of Forests in Europe and the New Partnership for African Development, among others) that provide opportunities for the transfer of environmentally sound technologies
 - e. Facilitate technical assistance to domestic enterprises embarking on certification of industrial activities for sustainable forest management.
 - f. Develop national policies on land and product tenures with a view to promoting participation of local communities.
 - g. Insert a specific chapter on natural resources including forests into National Poverty Reduction Strategy documents. This process could rely on the on-going National Forest Programme Facility in FAO, with the support of CPF members.
 - h. Consider the role of financial incentives as a measure for promoting the transfer of environmentally sound technologies, such as financial incentives for companies importing sustainable timber, financial incentives for adopting sustainable forest management practices (e.g., reduced impact logging), tax rebates and financial incentives for companies promoting the recycling of wood, and financial incentives for companies importing equipment and products that contribute to sustainable forest management, among others.
 - i. Enhance the access of small and medium enterprises to investment financing with priority on environmentally sound technologies;
 - j. Explore the opportunities to introduce fiscal and financial incentives for private enterprises to adopt environmentally sound technologies;

- k. Consider developing an enabling environment, giving full consideration to country situations, for the transfer of proprietary technologies and technologies in the public domain and that also provides appropriate protection of technologies arising from genetic resources.
- l. Incorporate financing, technology transfer and capacity building for sustainable forest management into national sectoral development plans and regional and local development plans.
- m. Promote public awareness among decision-makers, local authorities, local communities, civic society and the public in general about the importance of utilizing environmentally sound technologies for sustainable forest management and the socio-economic benefits that they can generate.
- n. Raise awareness among decision-makers on the capacity building methods related to the transfer of environmentally sound technologies, as well as the potential of new transfer mechanisms to overcome capacity constraints (e.g., build-operate-transfer).
- o. Make use of existing methodologies for analyzing the cost implications of replacing unsustainable technologies with environmentally sound technologies for sustainable forest management, with the assistance of CPF members.
- p. Explore how joint ventures and other public-private partnerships could promote the adoption of environmentally sound technologies. Urges Member States to explore and tap funding opportunities for the development of environmentally sound technologies arising under international conventions.
- q. Increase funding for the transfer of environmentally sound technologies in multilateral and bilateral agencies, as well as international organizations, and development of financial mechanisms for supporting the transfer of environmentally sound technologies.
- r. Strengthen environmental curricula in educational institutions for forestry and forest industries highlighting applications of environmentally sound technologies, as well as management of environmental and social impacts and risks of forestry operations
- s. Undertake monitoring of the application of environmentally sound technologies for sustainable forest management, using a system of baselines measures, in order to assess their suitability and effectiveness in achieving sustainable forest management.
- t. Remove perverse incentives reducing the profitability of sustainable forest management and undermining the demand for investments in environmentally sound technologies.

41. It is recommended that UNFF supported by CPF members support the improvement of transfer of environmentally sound technologies as part of their implementation of the IPF/IFF proposals for action and, to this end:

- a. Invites the Member States to consider hosting a country led initiative (CLI) on governance and a legal and regulatory framework which provide an optimal context for the transfer of environmentally sound technologies.

- b. Encourages support to public sector organizations in developing countries and countries with economies in transition to design appropriate transfer programmes on environmentally sound technologies
- c. Invites the Member States and CPF members, in particular the World Bank, GEF and ITTO, to facilitate and develop an assessment and exploration on how to expand support for micro-credit linked to enabling the transfer of environmentally sound technologies, especially for local communities.
- d. Invites collaboration with the private sector to ensure that the full potential of instruments, such as the clean development mechanism, when the Kyoto Protocol enters in to force, to support the transfer of environmentally sound technologies in the forest sector will be effectively used;
- e. To invite inputs from industry and technological institutions in evaluating the current status and future prospects for the transfer and development of environmentally sound technologies and formulate recommendations.
- f. Invites Member States to increase funding for the transfer of environmentally sound technologies in multilateral and bilateral agencies, as well as international organizations, and development of financial mechanisms for supporting the transfer of environmentally sound technologies.
- g. Invites the Member States and the members of the Collaborative Partnership on Forests to continue its work related to information management and access to environmentally sound technologies, and to this end consider promotional events such as exhibits and fairs at relevant international fora.
- h. Invites governments to provide domestic, bilateral and multilateral funding for research projects to develop environmentally sound technologies for the forest sector reflecting conditions in developing countries and countries with economies in transition; the projects should preferably involve partners from developing and developed countries as well as from public and private sectors; opportunities to encourage South-South transfer should be seized; special attention should be paid to transfer of research capacity to developing countries and countries with economies in transition and to the development of environmentally sound technologies for increasing the competitiveness of sustainable forest management outside high-yielding commercially attractive forests.
- i. Invites FAO, CIFOR and other research organizations, particularly those in developing countries and countries with economies in transition, to develop a field based research programme on the adaptation of environmentally sound technologies for sustainable forest management to local conditions, supported by countries willing

to participate in this research, with a view to energizing the transfer and effective use of environmentally sound technologies.

j. Invites Member States and CPF members to provide support to research programmes targeted at identifying, refining and extending indigenous environmentally sound technologies that can be used to incorporate and preserve traditional forest-related knowledge. Where necessary, redesign training and research programmes to focus on development of environmentally sound technologies suitable for the poor, disadvantaged groups, and commercially less attractive forests, taking into account traditional forest-related knowledge.

k. Invites Member States to provide support to producers of environmentally sound technologies in developing countries and countries with economies in transition to enable them to survive and benefit from opportunities provided by easier market access.

l. Encourages support for more effective South-South exchange on the effective use of environmentally sound technologies through, inter alia, a CLI and a forum sponsored by one of the CPF agencies.

C. Consider previous initiatives on finance.

42. Those IPF and IFF proposals for action and UNFF resolutions based on previous inter-sessional meetings in Pretoria, Croydon and Oslo are still valid. The International Conference on Financing Development and its follow-up provides an important intergovernmental consensus as a basic framework for discussion on ODA for financing of SFM. Valuable lessons learned are being accumulated from recent initiatives to mobilize financing for SFM including through innovative approaches, such as the new GEF Operational Programme on Sustainable Land Management, the Congo Basin Forest Partnership, the Asia Forest Partnership and others.

43. The concepts of an institutional investment promotion entity drawing its resources from the private and public sectors and of a global forest fund, among others, were discussed at the meeting but did not result in any particular recommendation.

D. The role and status of official development assistance directed at sustainable forest management.

44. While commitments were made at the Monterrey Conference on Financing for Development followed by significant pledges pointing to an increase of overall ODA, this has not led to an increased flow of ODA to the forest sector. The inadequacy of current levels of ODA and the limited impact it has on SFM, were underlined by the experts.

45. The group emphasized the continuing importance of ODA to developing countries and countries with economies in transition. The group felt that increased ODA to SFM is essential. At the same time the group recognized that there are only limited ODA funds likely to be targeted to SFM. Among the obstacles to channeling ODA and attracting additional resources for SFM, is that SFM is not identified and drawn on in Poverty Reduction Strategy (PRS) processes, nor in other similar macro-level assistance strategies. The inappropriateness of short-term commitments and the project nature of current financing were identified as another set of particularly difficult hurdles because of the long-term nature of SFM.

46. On the other hand, the channelling of ODA to SFM requires mainstreaming SFM into broader ODA strategies, drawing from beyond the environmental budgets of the donors. There is a need to raise awareness of the overall benefits of SFM among donor countries to justify additional funding.

47. SFM contributions to poverty alleviation, food supply, water, energy and sustainable consumption should be recognized and effectively communicated to development financing institutions. Furthermore, there is an urgent need to recognize the social objectives of forest management and the importance of various forest values which merit a high priority in allocation of resources. These could have the benefit of increasing financing for forests from ODA and other sources.

E. The effectiveness of existing international financing for sustainable forest management.

48. The existing international financing flows to SFM include bilateral and multilateral ODA, foreign direct investment by the private sector and funding channelled through various innovative mechanisms.

49. Many countries are currently going through vital reform processes on land use and ownership addressing the issue of insecure tenure. Innovations such as tailored incentive schemes and financing instruments that serve the defined needs of rural people and local communities can attract more financing for SFM at all levels. These reforms have a fundamental impact on forest land and their sustainable management.

50. Harmonized practices and procedures of donor organizations through sector-wide approaches can improve aid disbursement and delivery and economize on high transaction costs for recipient countries to improve SFM.

51. The National Forest Programme Facility hosted by FAO and the PROFOR Programme hosted by the World Bank developed to provide an opportunity for catalytic support to developing countries and countries with economies in transition in the design and implementation of national forest programme processes and for supporting learning on financing strategies, governance aspects of SFM, as well as offers new approaches for international cooperation in financing and technology transfer.

52. International funding for SFM should be facilitated in the medium and long term beyond traditional project cycles due to the nature of capacity building needs and long periods needed for benefit generation. There are situations where long-term external financing will be necessary to manage forests with global ecological values which should be duly recognized by the development cooperation partners.

53. Numerous constraints for the effectiveness and efficiency of the current financing for SFM exist, including weaknesses in the institutional environment. These constraints are found both outside and within the forest sector, as well as at the country and the international levels, thus calling for integrated and inter-sectoral approaches to address them. These include, in some cases, inter alia:

- inadequate infrastructure and human resource capacity
- volatility in world trade in forest products
- lack of good governance, including corruption
- lack of adequate law enforcement
- insufficient levels of political will to achieve SFM
- weak capacity in marketing of forest products.
- high transaction costs
- delays and conditionalities in accessing funding from donor agencies
- low priority for forests and SFM vis-à-vis other ODA priorities
- lack of security in many forest areas and conflicts
- lack of inter-sectoral coordinated approaches to address constraints of financing

F. Country experiences in the mobilization of financial resources for sustainable forest management.

54. Many country experiences were brought to the attention of the expert group. Many participants referred to the significant dependence of SFM on the decisions and actions taken outside the sector. This demands inter-sectoral coordination and cooperation.

55. Efforts have been made to integrate the forest sector into national planning and linking it to the agriculture, water, energy and environment sectors. The potential contribution of SFM to sustainable development of rural areas should be recognized and measures taken to revitalize deprived areas through integrated programs (forest production, small and medium-size enterprise (SME) development, biomass energy, ecotourism, etc.).

56. National forest programmes and equivalent processes offer opportunities for domestic financial strategies and procedures that are needed to increase financing from a long-term perspective for SFM, including from ODA. This will continue to require new approaches, new skills as well as coordination between international and national sources of financing.

57. It was noted that SFM can and should preferably be self-financing. However, self-financing in conservation areas, social forestry, community forests and forests providing sustainable livelihood for local people is problematic and often impossible. The need to address all the various aspects of SFM, ranging from commercial forestry to management of conservation and protection was highlighted. It was also recognized that there are conflicts between economic and ecological functions of forests due to shortage of financial resources to cover the costs of environmental conservation. Improvements of market access as well as the development of new markets for forest products and services were recognized as tools to move SFM towards self financing.

58. Funding for protected areas continues to be a significant challenge, as there appears to be limited possibilities for their effective management from national SFM budgets without external support. This problem seriously affects rural communities that rely on protected areas as a source of livelihoods. Innovative financing, including private investment, for management of protected areas and conservation of various values of forests could provide further resources.

59. International funding for SFM should be facilitated for the medium and long term beyond the traditional project cycles due to the nature of capacity building needs and long periods needed for benefit generation and for achieving SFM. There are situations where long-term external financing will be necessary and which should be supported by development cooperation partners.

60. Forest benefits are often regional and sometimes truly global, including carbon sequestration, climate change mitigation and biodiversity conservation. Financial responsibility therefore should be shared.

61. The countries that are planning reform of forest sector to SFM are in particular need of increased international funding.

G. The role of the private sector in financing sustainable forest management.

62. The role of private sector in financing of SFM is a vital complement to national and international public sector efforts. The group recognized that in order to attract and enhance private inflows, countries need to continue their efforts to pursue sound economic policies that achieve a predictable investment climate. The role of government remains essential regarding investments in SFM and will also be fundamental in creating an enabling environment, with full consideration of country situations, which provides adequate measures for risk mitigation and risk sharing. These elements are equally important for ODA decisions, which also take into account the economic, social and environmental implications of the planned investments.

63. The group also stressed the need for the private sector to take into account not only their profit motive but also the developmental, social, and environmental implications of their investments. Countries should give priority to investors who have

internalized both economic costs and social and environmental aspects in their business strategies.

64. The expert group noted the ongoing work by the WB and FAO to engage the forest products industry, NGOs and other stakeholders in dialogue to develop and implement, sustainable forest management practices, including forest certification systems as tools to verify achievements.

65. Currently, private investors tend to invest in only a few countries and direct their investments into plantations rather than natural forest management. These trends are not likely to change if the financial profitability in natural forests cannot be improved.

H. New and innovative approaches to attract increased financing for sustainable forest management.

66. The group discussed a large number of either currently used or proposed innovative approaches which have been targeted at attracting increased financing for SFM. Payment mechanisms for environmental services offer a particular opportunity which is under active development in many countries.

67. The following examples of innovative approaches were identified, inter alia:

- national forest and other funds
- payment mechanisms for environmental services, including carbon sequestration
- conservation concessions and easements
- tax incentives
- debt-for-nature swaps (often in connection with national trust funds)
- tourist tax
- model forests
- partnership arrangements and other similar strategies
- bio carbon fund
- water taxation for forests

68. The value of the information contained in the CPF Sourcebook for funding sources was noted.

69. Financing strategies for SFM should be considered at all levels (global, international, regional/sub-regional, national, sub-national and local), taking into account lessons learned.

70. Urban areas are the main consumers of water produced in forested rural (watershed) areas. Taxation in the water bills of urban municipalities can be an additional instrument to obtain financial resources. Mexico's National Forest Fund (NFS) has developed this instrument through its General Law on Sustainable Forest

Management, which is directed towards promoting SFM projects. It has implemented taxation of water used by society, and the payment is provided to “ejidatarios”, indigenous communities and similar owners as a way of internalizing the costs of forest conservation for those communities through the valuation of the environmental services.

I. Recommendations

71. The expert group advises the UNFF to consider taking the following actions:

Specific to SFM financing

UNFF, supported by the CPF members urges:

- a) Allocation of more financial resources to the forest sector either through national budget or through the establishment of national forest funds as part of national forest programmes, or their equivalent. Such funds could be used for payment for the environmental services of forests.
- b) Inclusion of the promotion of private investment in national SFM financing strategies and include all types of forests and forest activities.
- c) Promotion of public-private partnerships, including with the involvement of local communities and NGOs, as a key instrument for financing SFM offering an effective instrument both for managing risks and raising funds for different activities needed to achieve SFM.
- d) Where decentralization policies are in place, to gear them towards making local communities responsible for forest and wild life management.

National level

Within forest sector

UNFF, supported by the CPF members urges:

- e) Countries to use national forest programs, or equivalent processes, as basic instruments for enhancing public and private sector financing in SFM. National forest programmes should be accompanied by specific financing strategies identifying the role of various sources of funds and their allocation. Broad participation of stakeholders should be ensured in the preparation, implementation and follow-up.
- f) Countries to include SFM in their development and poverty reduction strategies or any equivalent mechanisms when appropriate.

- g) Countries to create enabling conditions for SFM through an improved policy and market mechanism. Regulation should consider financing aspects as it, if appropriately designed, can promote private investment in SFM.
- h) Countries to make policy development and investment decisions by the private and public sectors more transparent to facilitate the sharing of costs and benefits of SFM.
- i) Countries to take measures to improve rent capture from forest management. These could include raising the fees collected when unduly low, and regularly adjusting their level over time, when appropriate, considering transaction costs. These measures should be developed in consultation with civil society.
- j) Countries to develop capacity building programmes targeted at decision-makers in forestry financing.
- k) Countries to explore ways to use available ODA for the forest sector more effectively in promoting SFM and building up respective national capacities. Capacity building of decision makers in forestry financing to be the priority in financial resource allocation at the national level.

Outside forest sector

UNFF, supported by CPF members urges:

- l) Countries to mainstream SFM in their national development strategies including PRSPs, where they exist. Countries should highlight the contribution of forests to poverty alleviation, the quality and well-being of the environment and all economic and social development issues, taking fully into account the sector's contribution to sustainable development.
- m) Countries to improve the legal and regulatory framework for environmental management to internalize externalities.
- n) Governments to put in place an enabling investment climate, with an effective institutional framework. This would involve removing broader institutional barriers to financing, taking into account their own country situation.
- o) Countries to put in place, with assistance of stakeholders adequate mechanisms for inter-sectoral cooperation in order to mobilize increased financial and human resources.

International level

UNFF, supported by CPF members should:

- p) Urge multilateral and bilateral financial and development institutions working on SFM in their actions to harmonize their operational procedures so as to reduce transaction costs and make disbursements and delivery of ODA more flexible.
- q) Develop an initiative to work with donor countries to mainstream SFM as one of the important sectors for ODA allocation.
- r) Urge donor countries to fulfill their commitments on ODA, adopted at UNCED and Monterey Consensus of ICFFD, and reinforced in the Johannesburg Plan of Implementation of the WSSD, and to increase the share of ODA to SFM in developing countries.
- s) Prepare reliable data at the country level on the volume of ODA and other external sources of financial support for SFM
- t) Update and expand the source book on financing for SFM, including accessing MEAs in support to SFM.
- u) Develop operational policies and conditionalities as risk management measures by international financing institutions and duly consider the implications for eligibility of different types of forest management and the diversity of country situations.
- v) Foster existing regional and sub-regional public-private partnerships for forests as useful mechanisms to mobilize financing for SFM in the participating countries
- w) Facilitate the ongoing communication among the private sector, NGOs and governments around the use of market based instruments such as certification of sustainably managed forests, including further discussions of ways increase cooperation and minimize conflict.
- x) Invite the WB to engage the International Financial Corporation (IFC) in a process with other CPF members to promote SFM as a way to both attract private sector investment to forests, facilitate the transfer of effective technologies and advance the implementation of IPF /IFF proposals for action, including through analysing the linkages between key macro economic policies and forest-specific programmes.
- y) Invite the GEF to facilitate CPF member's contributions in advising on the development of the implementation aspects of the SFM component of the Sustainable Land Management focal area and in addition to coordinate a capacity building initiative with countries qualifying for GEF grants for SFM with a view to increasing their financial support.
- z) Convene one or more regional meetings of representatives from concerned governments and international organizations, NGOs and the donor community to carry out a preliminary assessment that identifies the existing sources and funding levels for protected areas and to develop approaches to increase funding for protected areas , including non –timber forest products and biodiversity values as essential components for funding.

- aa) Explore ways to help national lending institutions and regional development banks internalize SFM into their lending and grant programmes.
- bb) Invite the World Bank, as a member of the CPF, taking into account the disruptions caused by structural adjustment loans, to internalize the key principles and objectives of SFM in the revision of the Operational Policy for Structural Adjustment Lending, so as not to undermine SFM at a country level.
- cc) Invite CPF members, donors and the international community to continue working on country, regional and international initiatives to support countries to address issues relevant to forest law enforcement and governance, upon request.
- dd) Invite the World Bank to effectively incorporate SFM concerns into its Country Assistance Strategy (CAS) documents, where appropriate.

Annex 1

Participants List

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Ms. Anniina Kostilainen, International Forestry Students' Association
Mr. Robert Sagun, National Federation of Youth Organizations in Bangladesh / Young Volunteers for Sustainable Development

Annex 2

Documentation

Working documents

- | | |
|---------------------|---|
| E/CN.18/AC.2/2003/1 | Provisional agenda and annotations |
| E/CN.18/AC.2/2003/2 | Note by the Secretariat: Financing for sustainable forest management: current challenges in the changed financial environment |
| E/CN.18/AC.2/2003/3 | Note by the Secretariat: Transfer of Environmentally Sound Technologies (TESTs) for Sustainable Forest Management Management: An Overview |

Background documents

- | | |
|----------|---|
| A/58/216 | Implementation of and follow-up to commitments and agreements made at the International Conference on Financing for Development |
| | Transfer of Environmentally Sound Technologies for the Sustainable Management of Mangrove Forests: An Overview |
| | Transfer of Environmentally Sound Technologies from Developed to Developing Countries |
| | Transfer of Environmentally Sound Technologies for the Sustainable Management of Tropical Forests |
| | <i>CPF Sourcebook on Funding for Sustainable Forest Management</i> (www.fao.org/forestry/cpf-sourcebook) |