Forest Financing in Africa: Gaps, Needs, and Opportunities

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• Only 22% of Tropical Africa forests remain from previous high of 50%
• Forest cover loss has been estimated at 4-5 million ha annually
• The region also has the fastest population growth
• The main challenge is how to manage the social and environmental risks
• The forests have long been looked at as a place for extraction of fibre.
• The ecological and provisioning services have not received adequate attention.
• **Domestic investment in forest sector has largely been capital deepening in wood processing.**
• This has accounted for depletion of forest assets and ecological functions of forests.
• In Ghana forest assets depletion accounts for 3.5% of GDP.
Forest Financing

- Government appropriations
- Fiscal instruments (taxes, resource extraction fees, user fees, levies)
- National Environmental Funds (Green Funds)
- Green Financial Instruments (e.g., VCF)
- Domestic Private sector Funding
- Foreign Private sector
- ODA
• Generally investment in forestry in Africa has been low due to:
  - weak domestic public investment
  - low private sector investment
  - low ODA inflows (60% of funding)

Only 2% of CDM projects are being implemented in Africa

• Ghana has one CDM project after 15 years
Reasons for Low Investments

- Country and political risk
- Land tenure, tree and property rights issues
- High rates of illegal forest activities
- Contradictory priorities of governments and donors
- Lack of appropriate legal framework to protect investment
- Insufficient capacity to elaborate and manage projects
- Eligibility requirements
Gaps

- Financing gap - investment required exceeds the capacity of public budgets for SFM
- Weak enabling environment for long term investment
- Lack of adequate data to inform decisions on policy and investment
- Lack of forest resources accounting to provide scientific basis for compensation to suppliers of environmental services
Needs

• Need for pilot studies at national level aimed at systematic classification of forest assets, products and ecosystem services and establishment of integrated value system
• Need to streamline tenure, tree and property rights which are crucial for PES
• Need to establish cross sectoral, cross institutional platform to deal with DD and financing mechanisms
• Need to Involve local stakeholders in forest value chain
• Need to market forestry better to politicians
Transformational Actions

• Improvement of coordination between ministries, agencies, stakeholders, on landscape planning, interagency dialogue, and enforcement

• Improved management and benefit sharing arrangements rewarding relevant stakeholders (Government, private sector, communities, and civil society)
Opportunities

• The potential and opportunities for IFM exist in
  - Climate related projects (REDD+, CDM)
  - Water services (Domestic, hydro, irrigation)
  - Bioprospecting (Genetic, biochemical res)
  - Certification (high valued NTFPS)
  - Conservation Concession
  - Debt swaps
Opportunities to unlock investments

• Enabling regulatory and legal framework for investment and business
• Investment protection through bilateral treaties and/or provision of effective judicial remedies through neutral forum
• Strengthen capacity of institutions and local communities and create a platform to promote markets for forest services
Opportunities

• With low wood production cost, high MAI of plantation species and high IRR of well managed plantations tropical Africa could be attractive for plantation investors.

• Africa must learn from countries that have developed financing for ES
  - Costa Rica – bioprospecting & hydroelectricity
  - Ecuador – water services
  - Colombia - Coordinating platform for Green Trade
End Point

• Generally investment in the forest sector is related to the general economic performance

• Economic growth is already significant in many regions in Africa and will likely stay so

• There are realistic opportunities to develop Innovative Financing Mechanisms
THANKS FOR YOUR ATTENTION