**Financing Sustainable Forest Management in Uruguay**

Within two decades, Uruguay has managed to develop its forest sector from a marginal business into one of the major pillars of Uruguay's foreign trade. These years have witnessed a forestry boom partly thanks to subsidies from the Forestry Fund. This subsidy increased native woodlands from three to four per cent and has strongly contributed to the 9% forest cover that Uruguay's now enjoys. Much of the forest grown thanks to these strong policies complies with international standards like the FSC and ISO and the key forest players are multinationals.

Uruguay’s forests are responsible for over 70 per cent of the country’s CO2 absorption which makes Uruguay one of the few countries in the world whose forests act as carbon sinks. However there is no recognition from the international community for the above stated results and efforts in the form of financial support. It is valuable to get this recognition to achieve greater budget resources and contributions which can among other activities, create better climate for private investments.

Afforestation activities are directly subsidized and tax exemptions are provided. The Government also set up the “cattle plan” which offers non-refundable resources for farmers willing to diversify their production by incorporating cultivated forests. This policy is, however, not been enthusiastically received by farmers. A change in mindsets of farmers is necessary to thrive in business under competitive scenarios, and in order for them to grow forests at a larger scale, farmers would need to invest more on the long term in which forestry appears as an enriching component. Mixed systems using apiculture and the production of forage and grain often work as a win-win situation beneficial to both livestock farming and forests. Using mixed systems farmers can benefit from different financial instruments and policies. Although public policies to promote diversification of production have not been successful, partnerships among private players have. These have also been warmly received by traditional farmers.

A major opportunity lies in Uruguay’s energy sector. Uruguay depends for a large part on imported oil that accounts for 20 per cent of national imports. It has been suggested that forestry can provide alternative and more environmentally friendly energy opportunities to fossil fuels. By using forestry by-products (crop residues left in the forests that can be used to generate energy) such as saw mill waste of products obtained from forest management, biomass energy could be used to supplement the country’s energy needs.

To finance the above activities several improvements are necessary, however. In particular, the budget for the evaluation and monitoring of SFM is lacking. This could increase the quality of forests and is essential in obtaining the official criteria with respect to the conditions required of Clean Development Mechanism (CDM) projects in the framework of the Kyoto Protocol. Uruguay started their first sustainable forestry projects eligible for issuance of carbon credits in CDM.

The majority of the funding for SFM comes from the private sector. However the private sector has not used the opportunity to sell the environmental services for the preservation and expansion of native forests or the management of refilling of fresh
water reservoirs. Forests are known to assist in the replenishment of underground water tables by assisting in percolation through the soil, thereby representing a major opportunity to establish a payment for ecosystem service (PES) scheme.

In addition, the potential of Reducing Emissions from Deforestation and Forest Degradation (REDD+) in Uruguay has not been considered as natural forest has actually increased in the past years. Depending on the REDD+ mechanism established and the level of remuneration for increasing forest cover, Uruguay could stand to benefit substantively.