



**United Nations Forum on Forests
Ad Hoc Expert Group on Financing for Sustainable Forest Management**

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**Financing Flows and Needs to Implement
the Non-Legally Binding Instrument on All
Types of Forests**

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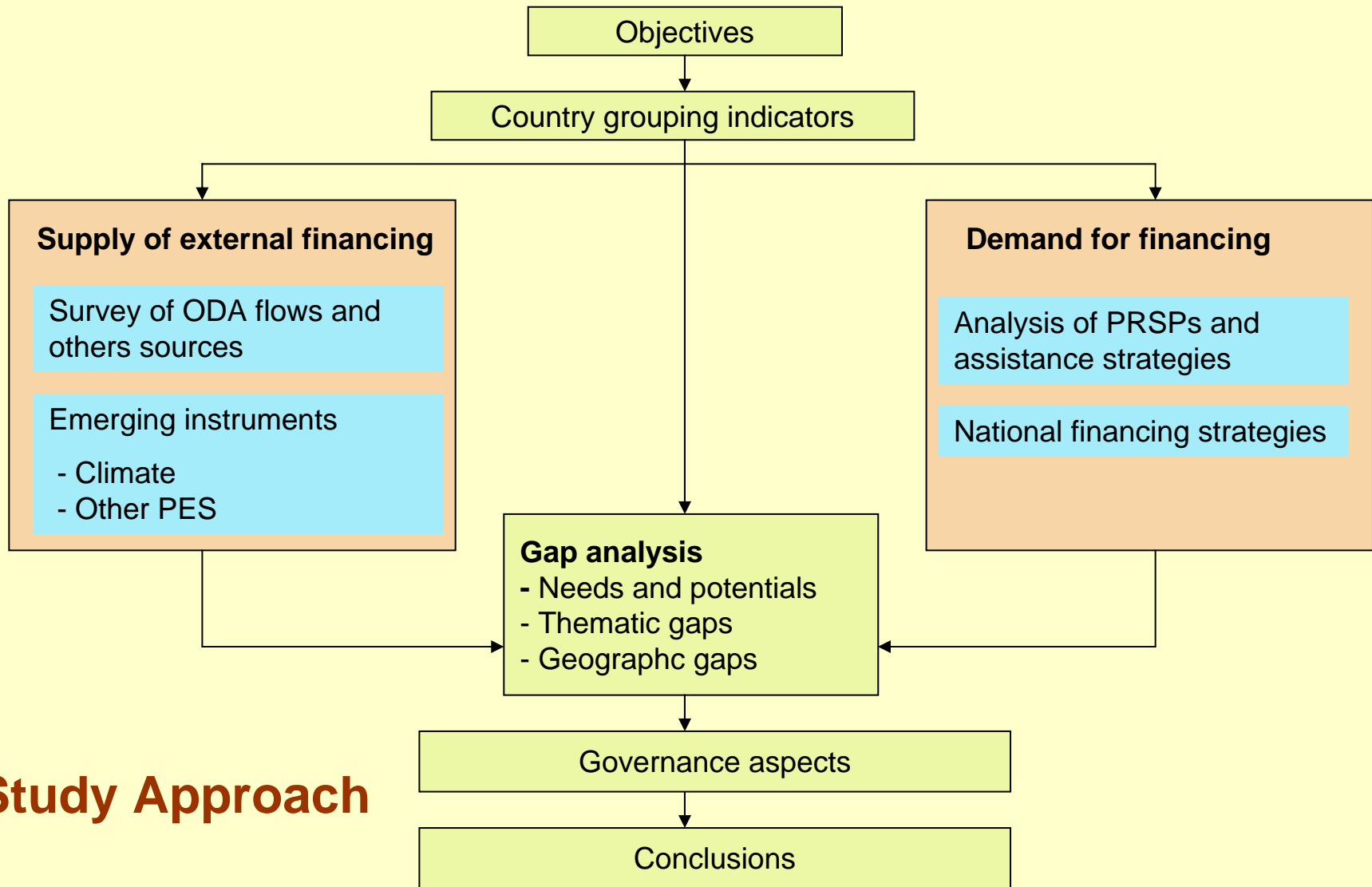




Objectives

- ◆ to provide an overall picture of forest finance in the context of the NLBI focusing on external sources
- ◆ to review existing, potential and evolving sources/mechanisms of funding, in particular new developments in the climate change regime relating to forest finance
- ◆ to review needs and potentials of forest financing
- ◆ to identify thematic areas and geographic gaps in the existing and emerging financing flows to forests





Study Approach





Demand for Forest ODA

- ◆ Explicit country demand for forest ODA is relatively **weak** as expressed in Poverty Reduction Strategies; only a quarter include a coherent strategy on forests
- ◆ Demand is strongly **influenced by supply**, i.e., donor priorities and policies
- ◆ In national forest financing strategies ODA is a **complementary** element, the main focus is in revenue generation from the sector and creation of enabling conditions for private investment
- ◆ ODA's role is mainly **catalytic**





External Financial Flows to Forests

Source	2000-02	2005-07	Change
	USD mill. at 2006 exchange rates and prices		%
Public sector			
- Bilateral	959.3	1103.4	+15.0
- Multilateral	335.0	806.7	+140.8
Total	1294.3	1910.1	+47.6
Private sector			
- Foreign direct investment	400.0	516.0	+29.0
- Other private financing	Increase
NGO, philanthropic and others	Probable increase

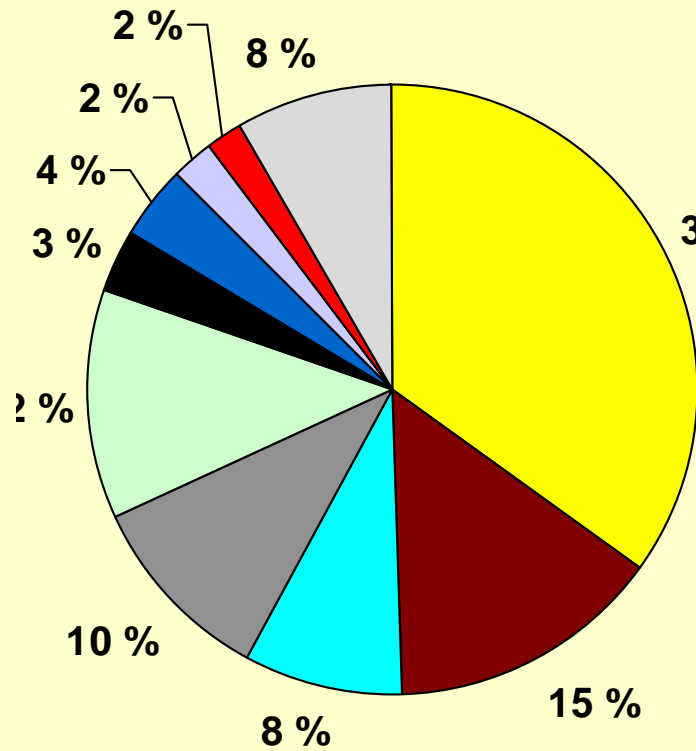
Note: FDI refers to forest industries only (later period is average 2003-2005).
The asset value of foreign owned capital stock was USD 17.8 bill.



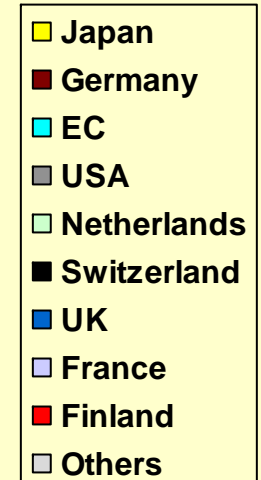
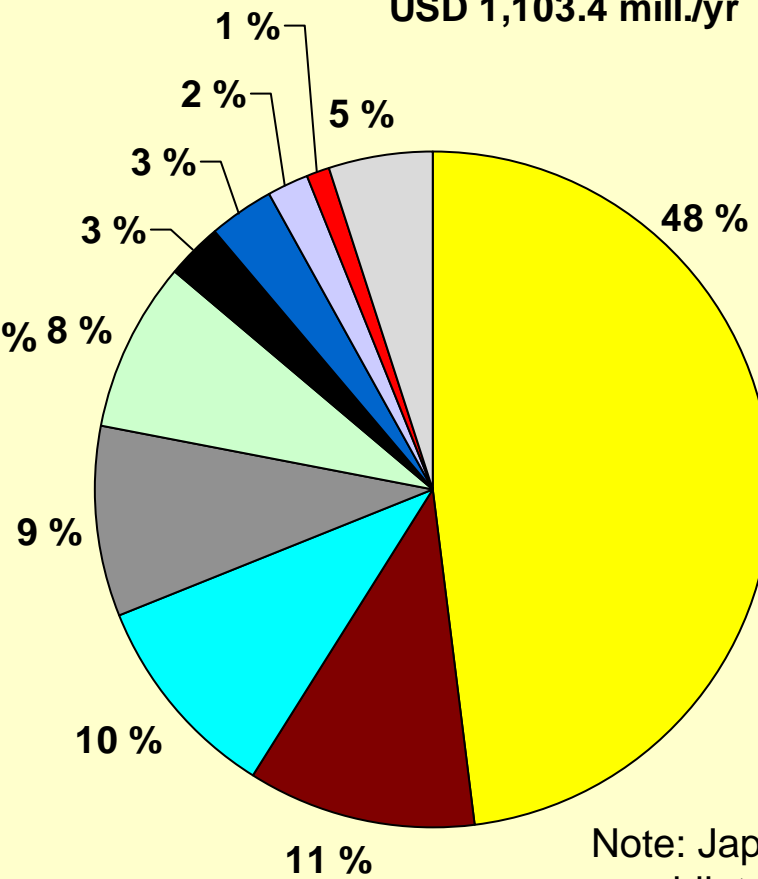


Main Sources of Bilateral ODA 2000-2007

2000-02
USD 959.3 mill./yr



2005-07
USD 1,103.4 mill./yr



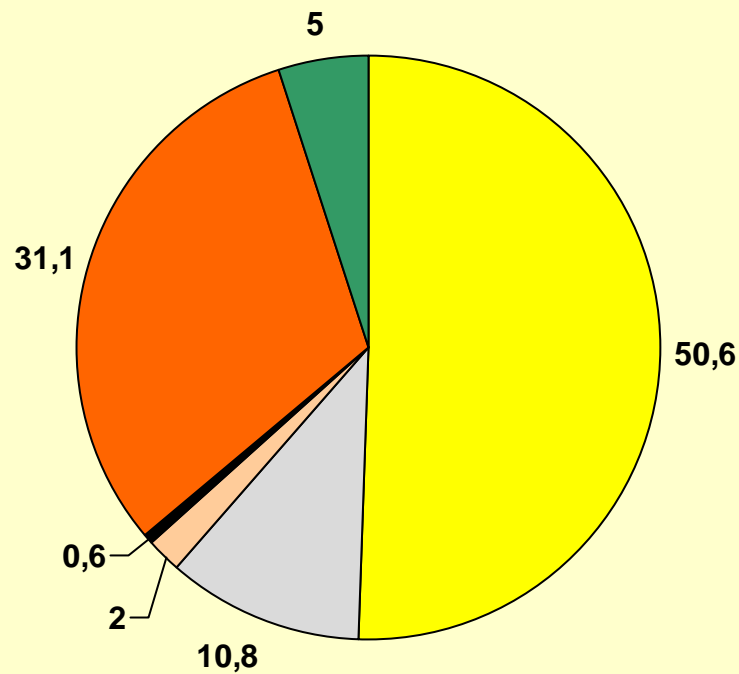
Note: Japanese ODA includes bilateral loans and credits



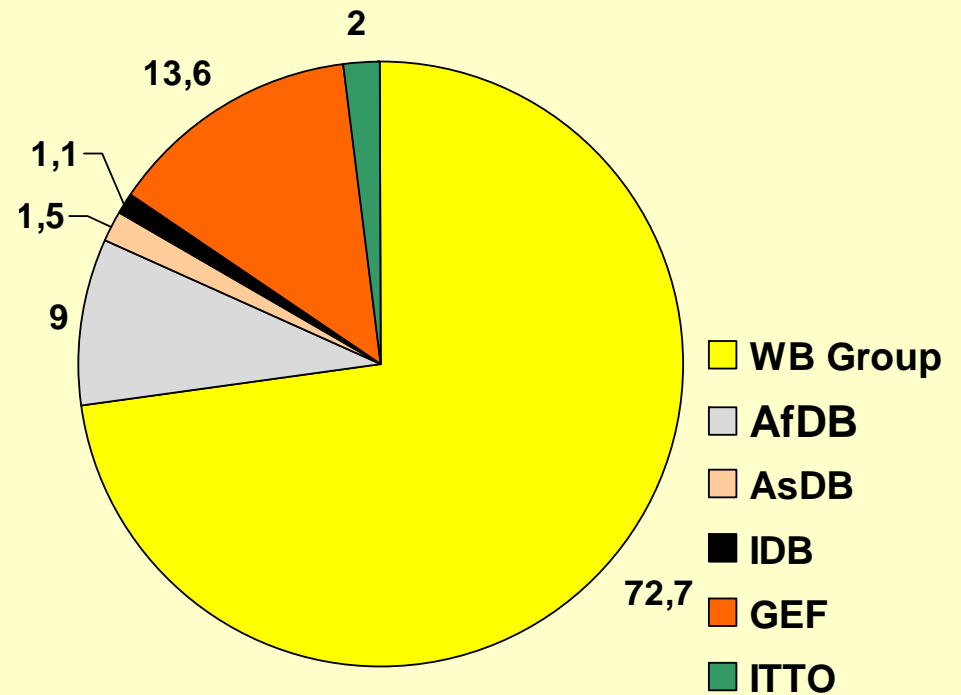


Main Sources of Multilateral Financing to Forests 2000-07

2000-2002
USD 335.0 mill./yr



2005-2007
USD 806.7 mill./yr

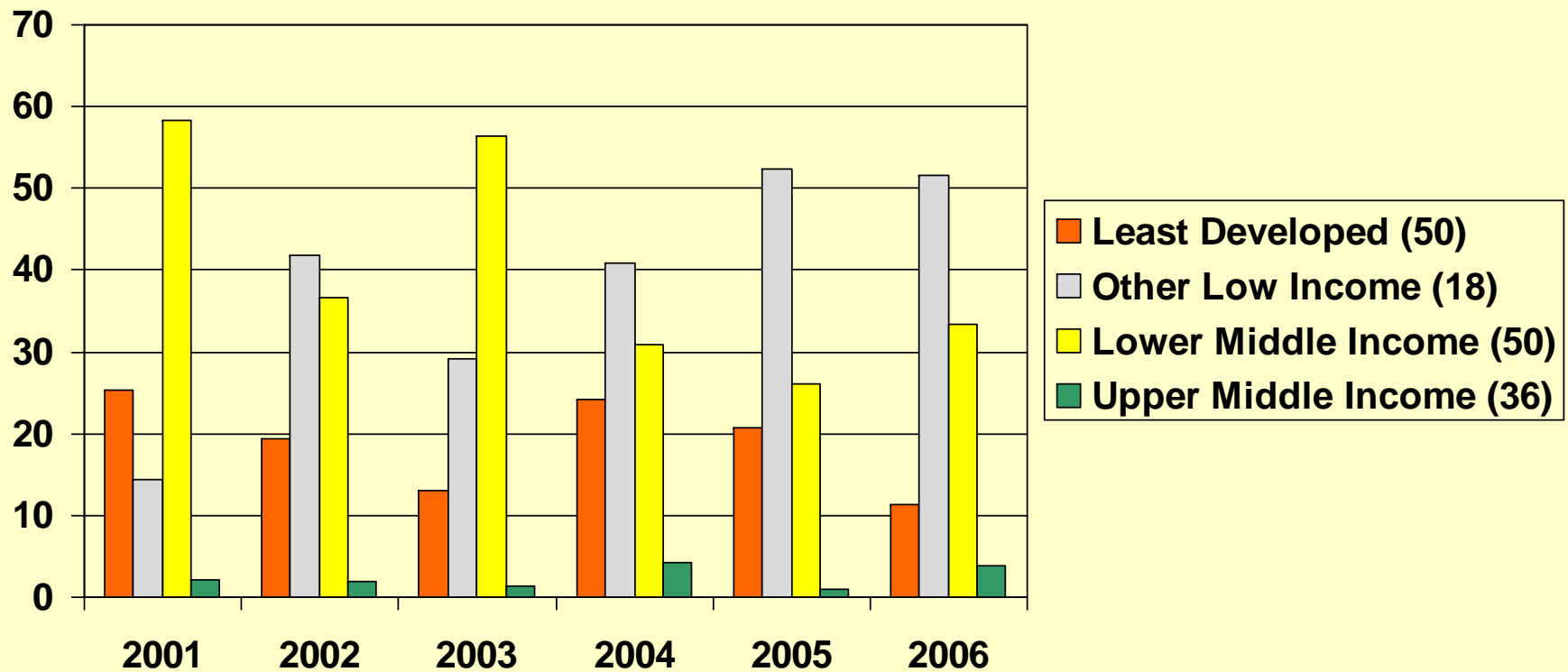


Note: IFC accounts for 55% of the WBG total





Forestry ODA 2001-06 by Income Group (commitments, %)





Main Geographic Gaps in Forest Financing

- ◆ Many low forest cover countries
- ◆ Many countries with high or medium forest cover
- ◆ Many small or medium-sized countries with still large forests

- ◆ Africa is lagging behind other regions
- ◆ Most small island countries

- ◆ Many least developed countries and low income countries





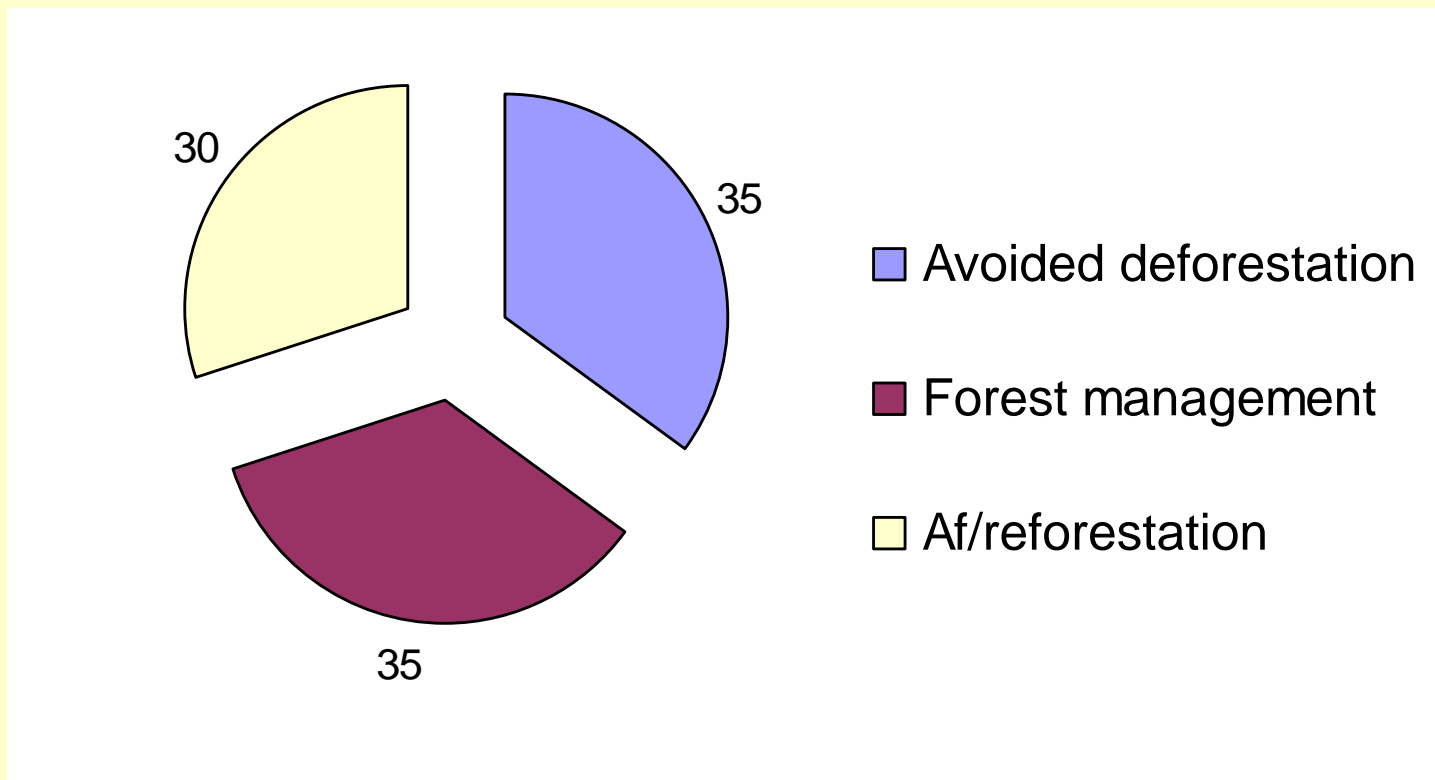
Main Thematic Gaps in Forest Financing

- ◆ Forests outside protected areas
 - Management of natural tropical forests
 - ◆ Restoration of degraded forests and lands
 - ◆ Reforestation and afforestation of drylands
- **Upfront investment for sustainable forest management**





Climate Change Mitigation Potential through Forestry Measures in Non-Annex I Countries



Total forest mitigation potential will be 11 GtCO₂/year in 2030

Source: IPCC 2007





Financing Needs for Climate Change Mitigation through REDD and Forest Management

- ◆ REDD estimated based on opportunity costs of preventing deforestation or forest degradation
- ◆ Forest management estimated based on investment needs to manage existing forests sustainably

Non-Annex I Countries

Item	USD billion/year
opportunity costs for REDD	12.2
sustainable forest management costs	8.2
Total	20.4

Source: UNFCCC 2007

Note: Excludes investment for afforestation, reforestation and restoration and upstream investment in capacity building, information systems, research, technology transfer, infrastructure and other development costs





Forest Investment Potential for Climate Change Mitigation

Deforestation rate\relative forest cover	Low forest cover countries	High forest cover countries
Countries with high deforestation rate	REDD: high/medium potential SFM: low/no potential Restoration: high potential A/R: high potential	REDD: high potential SFM: high potential Restoration: high potential A/R: high potential
Countries with low deforestation rate	REDD: low/no potential SFM: low/no potential Restoration: medium potential A/R: high potential	REDD: medium potential SFM: high potential Restoration: low potential A/R: low/medium potential
Countries with zero deforestation/ increasing forest area	REDD: no potential SFM: low potential Restoration: low/medium potential A/R: medium potential	REDD: no potential SFM: high potential Restoration: low/no potential A/R: low potential





Key Strategic Gap: Upfront Investment for SFM

Initial upfront investment	Mainstreamed upfront investment	Sustained financing
<ol style="list-style-type: none"> 1. Analytical work (DD drivers, barriers to SFM, PES market potential, etc.) 2. Stakeholder participation and engagement 3. Planning (nfp, specific national strategies, e.g. REDD, bioenergy, forest biodiversity) 4. Information base (resource assessment, baselines, reference scenarios) 5. Monitoring and verification system design 6. Safeguards and SFM guidelines development 7. Initial capacity building 8. Programme and project design 	<ol style="list-style-type: none"> 1. Implementation of policy reform (incl. cross-sectoral impacts on forests) 2. Strengthening of institutions 3. Land use zoning and planning 4. Strengthening of land tenure (demarcation, titling) 5. Strengthening of law enforcement 6. Restoration of degraded lands and forests 7. Strengthening of stakeholder constituencies (smallholders, forest communities, civil society, private sector) 8. Infrastructure development 9. Scaled-up capacity building 10. Education, training and extension - smallholders, communities, SMEs - forest managers 11. Research and innovation (silviculture, harvesting, utilization) 12. Market-based and other voluntary instruments (certification, C&I implementation) 13. Company-community/smallholder partnerships 14. Implementation of monitoring and verification systems 	<p><u>PES schemes</u></p> <ol style="list-style-type: none"> 1. REDD payments (sink protection) 2. Sink creation payments (afforestation, reforestation, forest management) 3. Biodiversity offsets 4. Landscape offsets 5. Watershed conservation offsets 6. Bundled services <p><u>Forest products and services</u></p> <ol style="list-style-type: none"> 1. Timber 2. Non-timber forest products 3. Ecotourism and other 4. Other services



Existing and Emerging Sources and Their Gaps

Source	USD million	Main focus areas (Forestry)	Gaps
Bilateral donors	1,100	Capacity building, catalytic investments.	Mainstream investment,
World Bank Group	587	Poverty, sustainable development, global environmental services	Mainstream investment.
Other MDBs	94	Sustainable economic development, environmental conservation	Mainstream investment.
GEF	109	Biodiversity, land degradation and climate change.	Investment in SFM in production forests.
UNFCCC/CDM	::	Afforestation/reforestation offsets	1 project approved.
BioCarbon Fund	10	Afforestation and reforestation	Mainstreaming A/R
FCPF	[25]	REDD readiness building and offsets	Upstream investment for emission reductions.
UN-REDD Program	[12]	Specific REDD capacity building	Capacity for implementing SFM for REDD.
Strategic Climate Fund	[80]	Climate resilience and maintenance of carbon-rich ecosystems.	Forest Investment Program under planning.
FAO and NFP Facility	48	Technical assistance, national forest programs	Mainstream investment.
ITTO	16	Capacity building for SFM.	Mainstream investment.
Conservation funds ¹	..	Biodiversity hotspots and other protected and conservation.	Poverty, forests outside protected areas.

¹E.g., Critical Ecosystem Partnership Fund, Amazon Fund, Congo Basin Forest Fund, etc.



Key Conclusions (1/2)

- ◆ The financing gap for SFM continues; only few bilateral donors and multilateral sources have increased their support
- ◆ Explicit demand for ODA for SFM continues weak
- ◆ Strong participation of the private sector, forest owners and communities, smallholders, indigenous groups and other stakeholders is necessary for achieving SFM
- ◆ Market-based mechanisms have significant potential for advancing towards self-financing of SFM but require strong legal framework and government support
- ◆ Linking with climate financing will be critical for significant increased financing to forests
- ◆ Forest measures in climate mitigation and adaptation offer environmental, social and economic global and local co-benefits which are highly significant and unique





Key Conclusions (2/2)

- ◆ Climate change mitigation needs to consider all forest measures (REDD, forest management, af/reforestation, restoration) to tap the full potential for emission reduction and carbon sink enhancement
- ◆ Focusing REDD only on high deforestation forest-rich countries and maintenance of forest cover would miss huge opportunities for climate change mitigation and sustainable development
- ◆ Developing countries cannot be expected to only borrow for global public goods generated by forests; forest financing will require a combination of instruments including grants, loans, credits, payments for environmental services
- ◆ Present and emerging instruments do not adequately address the upfront investment needs of SFM and climate change mitigation through forest measures.





Options for Mobilizing Additional Financing for SFM

International cooperation

1. **Strengthen the existing and emerging sources and mechanisms** to fill the geographic and thematic gaps in forest financing vis-à-vis NLBI and SFM
2. Continue **support sectoral programmes** for SFM
3. **Harness synergies** between international initiatives and organizations for improved coherence and effectiveness within the the absorptive capacity of the beneficiary countries
4. Establish a **new NLBI/SFM-targeted financing mechanism**

National measures

1. Strengthen explicit **ODA demand** for forests, link with PRSs
2. Improve **nfp processes** and national financing strategies
3. Improve country **investment climates** for private sector financing and other external funding flows to forests; focus on leveraging
4. Improve **revenue collection** from the sector



Thank You

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