

17 April 2007

**United Nations Forum on Forests: Bureau of the 7<sup>th</sup> session**

**GLOBAL FOREST PARTNERSHIP TRUST**

**1. Introduction**

Since UNCED the international community has made significant progress in the development of international forestry policy focused on sustainable forest management (SFM). But progress towards SFM has been slow. At its sixth session in 2006 the UNFF took a radical new approach to address the problem by adopting measurable and time-bound four global objectives to achieve SFM as part of the proposed non-legally binding instrument on forests (NLBI).

The fourth objective, which relates to means of implementation, seeks to reverse the decline in official development assistance for SFM and mobilize significantly increased new and additional financial resources from all sources for this purpose. The NLBI also requires the Forum and its members to make progress in achieving the four global objectives by 2015. These two factors – the need for measurable progress, and within a limited time span - underscore the urgency for new and additional financial resources even more. While a long term solution to the problem of generating additional resources for SFM is still necessary there is an overwhelming need for action forthwith to ensure the implementation of the NLBI.

The purpose of this paper is to help develop a consensus on the establishment of a forest financing mechanism for the implementation of the NLBI. It proposes a Global Forest Partnership Trust, as a funding mechanism, based on multiple sources of funding. It can be used to meet the immediate need relating to the NLBI as well as for the longer term, alone, or in conjunction with any other measures, to support ongoing efforts towards sustainable forest management. Other key features of the proposal include orientation to results with minimum bureaucracy and administrative costs. It is intended to complement and increase the effectiveness of existing programmes by creating new incentives for operational field project partnerships. As such, it is designed with an ability for leveraging incremental funding needed to shift unsustainable practices to SFM. Under existing finance mechanisms many such efforts are likely to go unfunded.

**2. Principles**

A way forward to mobilizing new and additional resources for SFM from all sources could be a step by step approach. First more effective use needs to be

made of public resources, including official development assistance, which play a catalytic role to broaden and attract financiers for sustainable forest management. This broadening could be encapsulated in a portfolio approach to forest financing. Such a multi-dimensional strategy would build upon emerging financing opportunities from a variety of potential financiers and could consist of a number of financial products and services, including monetary resources, capacity development, and knowledge resources for effective action on the ground. The basic premise of the proposed Trust is that it would be broad-based, multi-sourced funding mechanism to support efforts by countries and other actors to achieve SFM via the Global Objectives. The principles that govern the proposed fund include the following:

- Portfolio of multiple funding sources generating additional funds from public and private sources.
- Building up a sustained funding base using a stepwise approach.
- Results driven disbursement, using funding in a catalytic role to address key constraints to SFM and to effectively leverage other public and private resources.
- Countries and other actors to determine priorities for funding within the framework of SFM and the Global Objectives.
- Maintain close coordination with other similar existing facilities supporting SFM, not to replicate or compete
- Strengthen close involvement of the private sector and civil society organisations.
- Minimum new structures and transaction costs, with high standards of performance and accountability.

### **3. Elements of the proposed mechanism<sup>1</sup>**

#### **3.1 Objective**

To support programmes or activities of countries and other stakeholders which can make measurable progress in achieving the four Global Objectives of the NLBI by 2015 and thereafter.

#### **3.2 Resources**

The basis of the proposed partnership trust/fund is voluntary contributions from sources both public and private, and domestic and international. Initially, public funding could serve as seed money to start the Trust. In order to maintain it as a self-sustaining funding mechanism over the longer-term, it could be managed in two parts:

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<sup>1</sup> A table comparing different international funding mechanisms is attached for reference.

- (i) a non-depleting endowment (of \$100 million-500 million) proceeds from which will be used for specific tasks similar to the trust established by the Global Crop Diversity Trust, and
- (ii) a replenishable fund to meet core expenditure including other programme/project funding and operational costs.

There is a range of possibilities for seeking such contributions. The following are some of the possible sources.

- Initially, international public funding to be used as seed money to start off the Trust.
- Contributions from the products and services from forests including international trade is another possible source to explore. The annual global roundwood production is over three billion cubic metres. The value of imports of industrial wood and timber alone in 2005 amounted to \$193 billion (FAOSTAT). SFM will deliver major benefits for these industries needing long term forest utilisation.
- From private forest-based companies and industries for whom SFM is the basis for their long term competitiveness.
- Other companies and industries which want to compensate their emissions with biocarbon elsewhere.
- From philanthropic foundations, who contributed around \$4 billion in 2005 to a wide range of international purposes, including environment and forests. Other similar private donors may also be approached.

It is important to commence with an adequate level of funding of, say, minimum \$50 million initially from public sources while increasingly seeking contributions from other sources. Under the current proposal of the Trust the increase would not be merely new and additional funding, but also enhanced effectiveness of existing channels of funding through the catalytic role it would play.

### **3.3 Funding criteria**

Projects/programmes that directly contribute to achieving one or more of the Global Objectives within the specified time frame will be eligible for funding. Given the diversity of contexts that need to be effectively addressed by a funding mechanism, a number of optional and possibly complementary arrangements need to be considered in detail. The following are some of the key considerations:

- Governments, and intergovernmental, private sector, community and non-profit organizations could all be eligible to receive grants on the basis of an agreed programme of actions.
- Priority to be given to proposals that are developed by an operational partnership of at least two of the following: private sector, government, intergovernmental, community and non-profit actors including cross-sectoral issues from large to micro-scale.

- Focus for funding could include areas where a modest amount of grant funding can play a catalytic role in achieving concrete progress in the Global Objective and SFM, and where such grants are able to leverage a considerable amount of co-financing.
- Leverage impact needs to be considered. There are many situations where large allocations of funding are occurring, but for want of a modest amount of grant funding, achievement of SFM is seriously curtailed. This is where grants from the Trust could have a substantial impact.
- Take into consideration the entire portfolio of funds available and activities already being supported through other sources, private and public, as well as domestic and overseas, when assessing individual country needs.
- Also in assessing individual country needs for the Trust to work in coordination with other multilateral funds (e.g. ITTO, FAO, World Bank, GEF) as well as bilateral donors to enhance synergies and avoid duplication.

### **3.4 Operational aspects**

The UNFF would give policy guidance to the Trust and periodically review its performance to ensure the effective implementation of the NLBI and the achievement of SFM and GOFs. It will appoint an appropriate existing international organization to administer the Trust thus avoid creating any new institution.

The Trust will be governed by an Executive Board, appointed by the United Nations Forum on Forests, reflecting the diversity of stakeholders and consisting of representatives of the private sector and civil society as well as other key players. The Executive Board, subject to the overall policy guidance of UNFF, will take the funding decisions and oversee the operations and activities of the Trust. The Board will operate in an efficient and cost-effective manner.

An advisory body may be established to advise the Executive Board on the allocation of funds and other relevant matters.

A management team will run the day-to-day operations of the Trust. The team will be responsible for managing funds including disbursements as well as providing comprehensive reports on all its operations (including audited financial reports).

Following agreement at UNFF7, detailed terms and conditions for the operation of the Trust, the composition of the Executive Board and advisory body and the management team, as well as the rules of procedure will be adopted at UNFF-8.

### **3.5 Monitoring/evaluation**

Monitoring and evaluation needs to be an integral part of operating the Trust for a number of reasons. They include:

- To ensure efficient and effective use of resources.
- To learn lessons from the experience of those utilising fund so that others could benefit from them, and
- To understand the most effective ways to achieve the global objectives.

There is a range of actions that can be taken to achieve these including project completion reports, audits and ex-post evaluations.

## **4. Graphical presentation of the model (See page 6)**

## **5. Way forward**

### **5.1 At UNFF7**

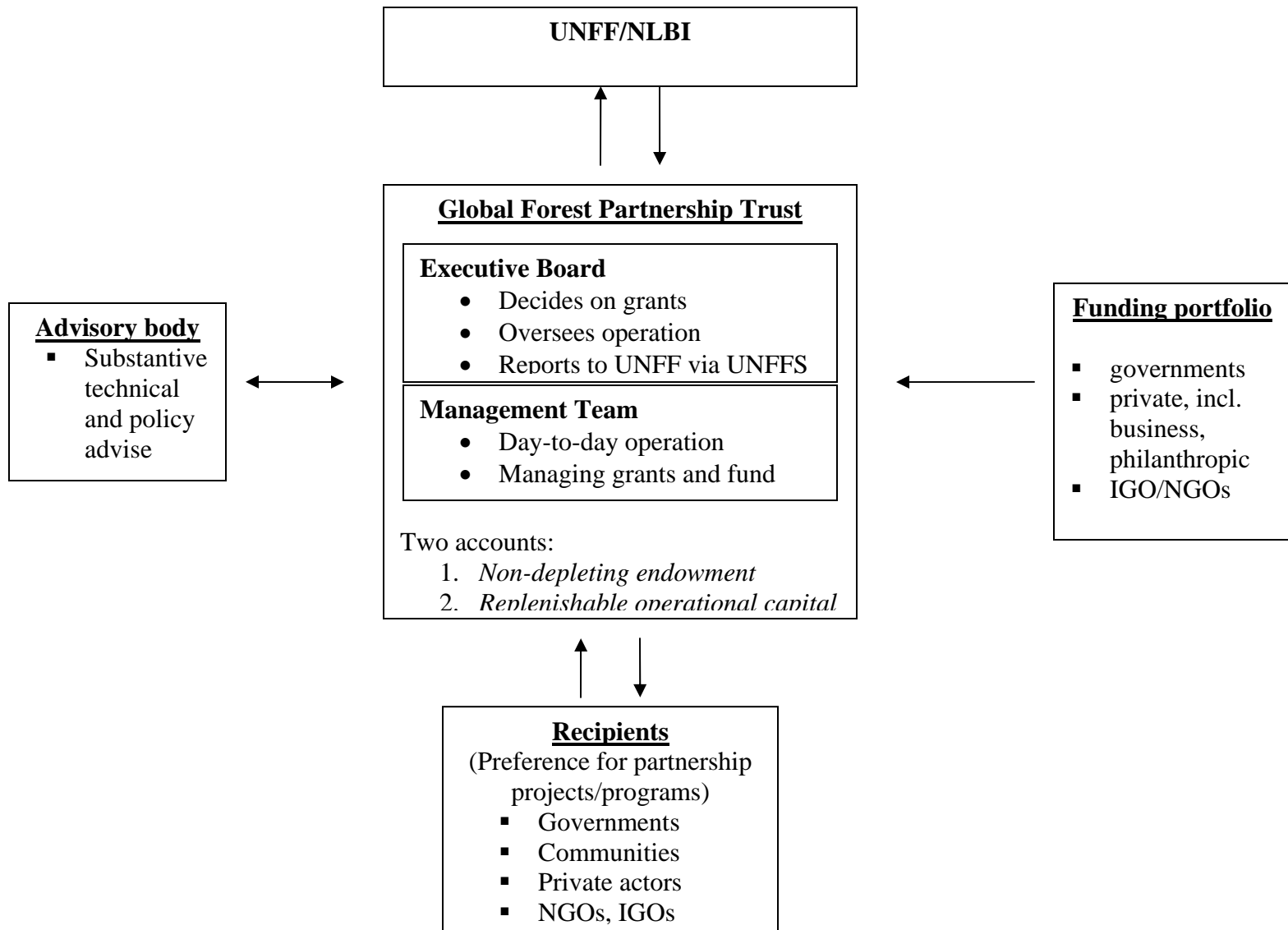
- A decision to establish a funding mechanism with general architecture specified in the NLBI , including a process to establish the Trust:
  - A taskforce of professional finance experts, to develop detailed business plan
  - Establish a working group with a mandate to review the business plan and prepare a decision text on the Trust, including rules of procedure and other operational and organizational details.
- Announcement of donor pledges will be desirable.

### **5.2 In 2008**

- Taskforce and working group would complete their tasks.

### **5.3 UNFF8 2009**

- Adopt rules of procedure for the operation of the Trust, the composition of the Executive Board and advisory body, as an annex to the NLBI.
- Decides to make the Trust operational.



## EXAMPLES OF CURRENT FUNDING MECHANISMS

|  | Funding sources, fund levels, trends  | Funding objectives, funding criteria  | Fund management characteristics  | Commitment compliance  | Specific features, baseline; sources  |
|--|---|---|--|--|---|
| <b>PREDOMINANTLY GOVERNMENTAL; single issue mechanism</b>      |   |   |  |  |   |
| <b>FOREST FOCUS</b>  |   |   |  |  |   |
| <b>ITTO Bali Partnership Fund (1994)</b>                       | Total of \$17m <sup>2</sup> over first decade.<br>- Contributions from members (total <\$3m.);<br>- 50% of income earned related to the Special Account (appr. \$1m./yr);<br>Total to Special Account and BPF is appr. \$15-16m./yr | To assist producer members towards SFM of tropical timber producing forests (article 1 (d) of ITTA). Thematic Programme sub-accounts allow earmarking                     | Council decisions;<br>Funding pre-projects, projects and activities;<br>- assistance in exports of tropical timber from SFM ;<br>- establish / manage conservation in timber producing forests;<br>- implement SFM Pre-project and project approval procedure; | Implement, monitor, review and evaluate projects, pre-projects and activities according to the procedures established for the Special Account under Chapter VII of ITTA, 1994. | Tropical forestry focus; project-based approach, decision by (high level) Council.<br>#: basing financing on voluntary contribution alone is not sustainable<br><br>(various sources) |
| <b>World Bank PROFOR (establ. 1997, to World Bank in 2002)</b> | Total income 2002-2006: \$6.4 m., mainly by EU, UK, Finland, Japan, Switzerland, amongst others. Funding fluctuated, but raised from \$566,000 (in 2002) to \$2.8m (in 2005).   | implementing World Bank Forest Strategy: Projects financed concern the following areas: Forest Livelihoods, Forest Governance, Financing SFM, Cross-Sectoral Cooperation. | Management Board (1 formal meeting / yr). Managed by World Bank ESSD Forests Team (2 ½ persons financed through PROFOR). Initially established in 1997 at UNDP, 2002 to World Bank   |  | Thematic areas focus;<br>#: voluntary contributions fluctuate, making longer-term strategies difficult;   |

<sup>2</sup> \$ = US\$ throughout the document

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|   | Total budget 2006: \$1.6m.   | To date appr. 34 activities were funded.  |   |  | (www.profor.info)  |
| <b>FAO nfp facility (2002)</b>                | The Facility is financed through a multi-donor trust fund supported by the EC, FIN, FRA, NL, NOR, SWE, UK, USA, Ireland, in kind by GER and Japan.<br>Total 2002-mid 06: \$15.5m.<br>Planned 2007-2012: \$33.7m. | assist nfp processes:<br>-integrate SFM into PRSPs or other cross-sector processes;<br>-develop national forest consensus;<br>- translate internatl. commitments to natl.;<br>Funding grants to natl. stakeholders (fora, workshops, studies,..)<br>average of \$300,000 /3 yrs, 200 grants (2002-mid 06) | Steering Committee. Managed by team at FAO with support of FAO's Forestry Dept. Partnership agreements over 3 yr nfp process, based on Concept Note prepared by partner country (2002-2007: 42 countries, 4 sub-regional orgs.). Grant disbursement through national nfp focal point "call for proposals" | Monitoring & Evaluation based on procedural and performance criteria | Thematic focus on key component / instrument of international forest policy processes; national fund distribution mgmt. #: voluntary contributions, donor driven<br><br>(www.nfp-facility.org) |
| <b>MULTILATERAL AGREEMENT FOCUS, examples</b> |  |   |   |  |  |

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| <b>UNFCCC Adaptation Fund (estab. 2001, not yet operational)</b> | to be financed with a share of proceeds from CDM projects (2% of CERs) and other sources. WB (2006) estimates for 2012 of between \$270 to \$600m. | <ul style="list-style-type: none"> <li>- country-driven</li> <li>- Separate from other funding sources</li> <li>- learning-by-doing approach;</li> <li>- funding of projects and programmes on full adaptation cost basis</li> <li>- national, regional and community level</li> <li>- Facilitative procedures for accessing funds</li> </ul> | To operate under the authority and guidance of and be accountable to the COP/KP. Management not yet decided, developed countries prefer GEF/World Bank. Admin costs estimated at 5% for stand alone AF (WB). WB role as trustee, implementing agency or technical assistance (proposed); | Not yet decided | Currently emerging fund, hard negotiations over fund management models; facilitative process as component<br><br>#: mandatory funding based on fixed formula<br><br>(unfccc.int) |
| <b>The Global Mechanism (UNCCD) (1997)</b>                       | Core budget for 2006-07 \$5.4 m. Operational budget \$11.6m. Donors: 8 countries, EC, IFAD, World Bank, OPEC                                       | To facilitate CCD implementation, mobilize resources, Catalytic funding to create conditions for more donor funding.  | Managed by IFAD under a MOU with UNCCD. 12-member Facilitation Committee, includes IFAD, UNDP, World Bank, GEF, FAO and others.  |                 | Perceived as a demand driven mechanism to provide seed funding.<br>#: voluntary contributions, (www.global-mechanism.org)  |

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| <b>UNEP Montreal Protocol Multilateral Fund (MPMF) (1990)</b> | Total income of over \$2.1bn (1990-2006 Nov. 2006). Party contributions based on consumption of controlled substances above threshold per capita. Initially at \$240m, at \$470m (2006-2008)               | Dev. countries eligible if emission below specified substance consumption level. “Subsidy” type assistance to developing countries to cover agreed incremental costs to comply (mainly phasing out) | operates under the authority of the parties to the Protocol. Governing body: 14-member Executive Committee. Voting structure designed to ensure that neither donors nor recipients could dominate. Fund secretariat working with implementing agencies. UNEP as trustee, paid on fee basis. Implementing agencies: WB, UNDP, UNEP, UNIDO; | Monitoring & Evaluation Unit. (UNFCCC Art4, para7). No clear non-compliance mechs or guidance. | Widely considered as “successful” model, despite multi-organisation / UN bureaucracy; commitment reciprocity rule: funding–compliance; #: clear rule mandatory fixed formula funding (“polluter pays”) (www.multilateralfund.org) |
| <b>OTHER SINGLE ISSUE FUNDING MECHANISMS, examples</b>        |  |   |   |  |   |
| <b>Global Crop Diversity Trust (not yet operational)</b>      | Sourcing for: a) a non-wasting endowment with an initial target of \$260m, using the proceeds b) short-term funding for capacity-building and upgrading; c) Operating costs of the Trust. Plan: 70% govts; | crop diversity for food security worldwide (Ex-situ conservation, collection etc). Eligibility include: crops as in Treaty, long-term commitment, collaboration to global conservation system       | Executive Board of 11–13 members, Donor Council   |  | non-wasting endowment concept   |

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|  | 20% foundations<br>5% corporations;<br>5% philanthropy.  |  |  |  |   |
| <b>UNDP<br/>Capital<br/>Development<br/>Fund<br/>(1966)</b>                      | Total invested portfolio \$125m. Core funding appr. \$25-30m, declining. Large majority from 4 countries. Minor programme country contributions (non-core). Strategy to diversify sourcing, incl. private sector, for non-core contributions. UNDP covers admin costs. | Lending to LDCs (45 countries); piloting & upscaling rural local development & microfinance; Project, not program-based. Expenditures around \$25-30m/yr. Locl dev programme: appr. 2700 projects with 500 local authorities, \$8m investment in 2005 (average = app 3000\$) Performance-linked block grant. | Close partnership with UNDP, total staff: 109, of which 22 in Headquarters.  |  | Despite good concept & country support. Rural area seed funding and micro-finance expertise & infrastructure<br><br>#: depending on yearly pledges and vol. contributions = no long-term predictability;<br><br>(www.unCDF.org) |
| <b>FAO - IFAD<br/>Intl. Fund for<br/>Agricultural<br/>Development<br/>(1977)</b> | Funds from governments, OECD, OPEC, developing.<br><br>Replenishment sessions in 3-yr cycles, appr. \$500 m/period, growing. Specific (bi-lateral) extra-budget  | Lending to LDCs<br>Loans as well as Grant programme. Loans; appr. 400 mil\$ /yr in 30 loans<br>Grant programme: appr. 30 mil\$/in in 66 grants in two Windows (global /regional or country) & 2 sizes  | Governing Council & Executive board. Grants allocation committee; Country Strategic Opportunities Programme document-based where possible. Local offices in 115 countries, appr. 150 professional staff. | “performance-based allocation system”. Evolved form of “Results & Impact Management System”; “Oversight Committee” | Originally small hybrid innovation focused, customized flexible Fund-country model, emerging into more formal body. Active fund; Flexible lending mechanism incl. conditionality;   |

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|  | supplementary funds (e.g. \$11m in 2005). New private sector sourcing strategy since 2005.  | (big, small); Focus: rural poor innovation & pro-poor capacity building. Co-financing leverage for appr. 50% of projects, mainly by int. fin. Institutions (IBRD, OPEC).   | Loan administration partly through partnerships. Active fund (IFAD designs and initiates projects) UNCCD used IFAD as funding mechanism  |  | Rural expertise & infrastructure.<br><br>(www.ifad.org)   |
| <b>PREDOMINANTLY GOVERNMENTAL; multi-purpose mechanisms</b>  |   |  |  |  |   |
| <b>GEF (1991)</b><br><b>6 Focal Areas</b><br><br>e.g.<br><b>Special Climate Change Fund, SCCF</b><br><br><b>Least Developed Countries Fund, LDCF</b> | \$1bn pilot, \$2bn 1994-98, \$2.75bn 1998-2001) \$3bn (2002-2006).<br><br>Replenishment mechanism<br><br>Sources 1991-2005: 28% multilaterals 25% governments, 19% private sector | Members, below official poverty lines. 6 Focal Areas, incl. biodiversity and land degradation; Grant support. appr. 1800 projects (90% are >1 mil\$), 6000 small grants; total \$6.2 bn direct grants, leveraging \$20 bn. co-financing from partners. In 1996-2005 GEF financed 236 projects related to SFM with \$1.2bn (50% on protected areas) | Governing body: 32 member Council; GEF Trust Fund (Trustee: World Bank) manages LCDF, SCCF & var. Trust Funds Fin mech of CDB, UNFCCC, CCD and POPs Convention; Implementing agencies: World Bank (trustee of GEF Trust Fund), UNDP, UNEP. GEF Focal Points in countries. LCDF: 5.3% admin fee of total allocations; | GEF Office of Evaluation                     | The largest single source of funding for global environment. Factor 3 leveraging of investment; replenishment negotiation mechanism<br><br>(www.gefweb.org) |
| <b>UNEP Trust Funds (single issue and</b>  | UNEP's Programme of Work is funded through 48 trust   |  |  | Standard UNEP procedures via UNEP Evaluation | UNEP is mainly funded through Trust Funds (Total Trust  |

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| <b>multi-purpose)</b>   | funds; 26 trust funds are managed by independent governing bodies. Environment Fund is principal source of UNEP activities; Multilateral Fund as largest Trust Fund |   |  | and Oversight Unit  | Funds managed by UNEP: 74 in 2004)<br><br>(www.unep.org)   |
| <b>UNDP Trust Funds e.g. Thematic Trust Fund Energy &amp; Environment (TFEE)</b>      | TFEE: 8 countries as donors (7 EU, US), World Bank. Contributors earmark; \$25m/year target, up from \$20m/yr in 2000-2003  | TFEE: Operative on national, regional, global level; 6 service lines. Flexible co-financing initiative to support programme countries, low income focus. Rapid disbursement | UNDP manages trust funds, country funds & is implementing Agency for global Trust Funds. TTFEE Mgmt by Bureau for Development Policy UNDP, liaising with UNDP country offices. Fee basis for Trust Fund management 2-9% (TTFEE: 5% for general mgmt) | UNDP standard procedures;<br><br>Offices in appr. 166 countries | UNDP is largest UN source for technical assistance for global environment mgmt., rated highest in development programme efficiency (DIFID 2004).<br><br>(www.undp.org) |
| <b>PUBLIC – PRIVATE FUNDS; single issue funding mechanism examples</b>                |   |   |  |   |  |
| <b>World Bank Prototype Carbon Fund (PCF, 2000) Community Development Carbon Fund</b> | PCF: \$180m capital, 63% private (23 participants)<br><br>CDCF: \$130m capital, 45% private, (25  | PCF: pioneer market for project-based greenhouse gas emission reductions,<br><br>CDCF: carbon finance to smaller poorer   | BCF: public/private initiative; trust fund administered by the World Bank (Fund Manager, Fund Management Unit) around 20 leading   | World Bank standard procedures                                  | World Bank manages around 800 Trust Funds; expertise & infrastructure (incl. expertise in fund sourcing);  |

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| <p><b>(CDCF, 2003)<br/>BioCarbon Fund (BCF, 2004)<br/>Umbrella Carbon Facility (UCF, 2006)<br/><br/>(amongst others)</b></p> | <p>participants).<br/><br/>BCF: \$53.8m., 55.8% private, (14 participants)<br/><br/>UCF: \$1bn, 75% private capital, (17 participants)</p>       | <p>countries<br/><br/>BCF: finance projects sequester/conserving GHG in forests and agro-ecosystems.<br/><br/>UCF: aggregating facility pooling funds from some of the 8 WB carbon funds and other participants</p> | <p>project candidates from 150 submissions so far,</p>                |  | <p>Carbon Funds have a large private finance channeling component<br/><br/><br/><br/><br/><br/><br/><br/><br/><br/>(www.carbonfinance.org)</p> |
| <p><b>World Bank/ Conservation International CEPF (Critical Ecosystem Partnership Fund) (2000)</b></p>                       | <p>Yr 2006: \$16m raised Partnership of CI, GEF, WB, Japan, McArthur Foundation<br/>- Committed grants: \$88m<br/>- Leveraged funds: \$100m+</p> | <p>Funding of 15.2 mil in grants in 2006; focus on critical ecosystem conservation, grants to private entities (NGOs), communities, other partners (in total 600 grants by 06/2006)</p>                             | <p>Donor Council Regional implement teams of civil society groups</p> |  | <p>Joint Govt-NGO funding &amp; mgmt model<br/><br/><br/><br/><br/><br/><br/><br/><br/><br/>(www.cepf.net)</p>                                 |
| <p><b>PRIVATE FUNDS; Foundation examples</b></p>   |  |   |   |  |  |
| <p><b>Bill Gates Foundation</b></p>  | <p>By 2005: \$29bn assets, \$1.9bn annual revenue (1.4 from investments).</p>  | <p>Grants in 5 program areas; in 2005: \$1.5bn, appr. 2/3 on health; Project based, leveraging sources, catalyzing momentum;</p>  | <p>Issues “Requests for proposals” (no passive fund)</p>              |  | <p>Private Foundation example<br/><br/><br/><br/><br/><br/><br/><br/><br/><br/>(www.gatesfoundation.org)</p>                                   |

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| <b>Ford Foundation</b>                          | Net asset base of \$12 bn; Total income of \$1.3bn in 2006, mainly realized appreciation of investment, dividends, interest                                     | Approval of \$530m in 2006 for grants in projects  | charitable foundation making grants  |  | Private Foundation example<br><br>(www.fordfound.org)         |
| <b>McArthur Foundation</b>                      | Asset base 2006: \$6.1bn;   | 4 program areas; Focus areas, geographic & topical; annual investment 2006: \$235 mil. in 465 grants           | charitable foundation making grants  |  | Private Foundation example<br><br>(www.macfound.org)          |
| <b>PRIVATE FUNDS; Investment Funds examples</b> |   |  |  |  |   |
| <b>Hancock Timber Resources Group (1995)</b>    | In 2006, assets under management totaled \$6.6bn; Sources: Pension funds, insurance companies, taxable corporations, foundations and endowments, family offices | acquires large tracts of timberland in the major timber-growing regions of the world;                          | world's largest timberland investment manager for institutional investors; holds individually managed accounts and pooled (commingled) funds |  | Private investment organization example<br><br>(www.htrg.com) |
| <b>Global Forest Partners (2003)</b>            | Manages \$1.5bn in assets through 10 closed-end commingled timber funds and separate accounts on behalf   | invested in 600,000 hectares globally since 1987; investment-grade plantation forestry; currently invested for |  |  | Private investment organization example                       |

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|                          | of institutional and other qualified investors. | over 80 institutional and other qualified investors  |  |  | (www.gfplp.com)  |
| <b>GMO Forestry Fund</b> | Assets 2006: \$1.08bn                           | open to institutions with at least \$25m of investments or individuals with at least \$5m of investments. typical investment minimum \$1-5 m | privately held global investment management firm managing \$141bn in client assets; Forestry is one Fund |  | Private investment organization example<br><br>(www.gmo.com) |