

**Economic and Social Council**

Distr.: General  
26 January 2009

Original: English  
Advanced Unedited Version

**United Nations Forum on Forests****Eighth Session**

New York, 20 April - 1 May 2009

Item 6 of the provisional agenda

**Chair's summary report of open-ended ad hoc expert group to Develop Proposals for the Development of a Voluntary Global Financial Mechanism/Portfolio Approach/Forest Financing Framework***Summary*

The United Nations Forum on Forests open-ended ad hoc expert group to develop proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework met from 10 to 14 November 2008 in Vienna. The meeting was attended by 128 participants from 62 Member States, members of the Collaborative Partnership on Forests and other Intergovernmental Organizations, UNFF-recognized regional organizations/processes, Treaty Body Secretariats and major group organizations. The present report is to be submitted to the eighth session of the Forum for its consideration and appropriate action.

## **I. Background**

1. The Economic and Social Council, in paragraph 6 of its resolution 2007/40, decided to develop and consider, with a view to its adoption at the eighth session of the United Nations Forum on Forests, a voluntary global financial mechanism/portfolio approach/forest financing framework for all types of forests, aiming at mobilizing significantly increased, new and additional resources from all sources, based on existing and emerging innovative approaches, also taking into account assessments and reviews of current financial mechanisms, to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests.

## **II. Organizational and other matters**

### **A. Tasks of the open-ended ad hoc expert group**

2. By its resolution 2007/40, the Economic and Social Council also decided, in paragraph 7, that the Forum should, within existing resources, convene before its eighth session an open-ended ad hoc expert group meeting to develop proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework, and invited the Collaborative Partnership on Forests to assist in the development of these proposals.

### **B. Venue and duration of the meeting**

3. The meeting of the open-ended ad hoc expert group to develop proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework was held in Vienna from 10 to 14 November 2008.

### **C. Attendance and participation**

4. The open-ended ad hoc expert group was composed of experts, designated by the Governments of the member States of the Forum. In addition, representatives of member organisations of the Collaborative Partnership on Forests<sup>1</sup> and major groups were in attendance.

5. A full list of participants can be found in annex I to the present report.

### **D. Documentation**

6. Documentation prepared for the meeting included the provisional agenda, with annotations (E/CN.18/2008/1) and a note by the secretariat on Financing for sustainable forest management: mobilizing financial resources to support the implementation of the non-legally binding instrument on all types of forests and to promote sustainable forest management (E/CN.18/2008/2).

7. The note by the secretariat included an overview of the non-legally binding instrument on all types of forests and major forest and finance issues; considered the role of the private sector; reviewed existing and recent international financial cooperation; described some emerging programmes; discussed the terms “global financial mechanism/portfolio approach/forest financing framework”; and concluded with issues for consideration.

---

<sup>1</sup> CPF members are CIFOR, FAO, ITTO, IUFRO, UNDP, UNEP, ICRAF, the World Bank, IUCN; and the Secretariats of the CBD, GEF, UNFCCC, UNCCD and the UNFF

8. A Background Document, on *Financing Flows and needs to implement the Non-Legally Binding Instrument on all types of forests*, was prepared for the Advisory Group on Finance of the Collaborative Partnership on Forests with the support of the Program on Forests (PROFOR) of the World Bank. The Co-Chairs' *Summary Report of the Country-led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests* was presented as a Background Paper.

9. The complete list of documents submitted to the meeting can be found in annex II to the present report.

#### **E. Welcoming remarks**

10. Mr Thomas Stelzer, Assistant Secretary-General in the Department of Economic and Social Affairs, welcomed participants and explained that the United Nations Forum on Forests was entering a new era, following the adoption, by the General Assembly, of the non-legally binding instrument on all types of forests in December 2007. Referring to the additional uncertainties arising from the recent global financial problems, he stressed the importance of using this meeting of experts to formulate sound recommendations for consideration by the Forum at its eighth session in April 2008, noting also the potential impact of the recent financial crises.

#### **F. Election of officers**

11. The ad hoc expert group elected Dr. Boen M. Purnama (Indonesia), the Chair of the Bureau of the eighth session of the Forum, as Chair of the ad hoc expert group and Mr. Abdellah Benmellouk (Morocco), Dr. Modesto Fernandez Diaz-Silveira (Cuba), Dr. Glen Kile (Australia) and Mr. Arvids Ozols (Latvia), members of the Bureau of the eighth session of the Forum, as vice-chairs. Ms Jan L. McAlpine was congratulated on her recent appointment as Director of the secretariat to the Forum.

#### **G. Conduct of the meeting**

12. In adopting its provisional agenda, participants agreed that the work would be developed in a plenary setting.

#### **H. Country-Led Initiative on Financing for Sustainable Forest Management in Support of the United Nations Forum on Forests**

13. Mr Cornelius Pigot, co-chair of the Country-Led Initiative, made a presentation on the Country-Led Initiative on Financing for Sustainable Forest Management held in Support of the United Nations Forum on Forests in Paramaribo, Suriname, from 8 – 12 September 2008. This was attended by some 227 forest and finance experts and the objective was to identify opportunities to significantly enhance financing for sustainable forest management. The main topics discussed were current and emerging initiatives in financing sustainable forest management, from producer, consumer and community perspectives; financing from forest ecosystem services; and institutional and governance strategies at the national and at the international level. Conclusions and recommendations included the urgent need for financing from all sources, with official development assistance playing a catalytic role; the need to focus on building an enabling policy, legal and institutional environment at national

and sub-national levels; and the need for more coherence and streamlining of mechanisms, procedures and processes. There was a recognition that payments for ecosystem services are still evolving; that the climate change-forest nexus could provide a financing boost for forests, but with many complexities to work out; and that meaningful stakeholder participation, including indigenous and local communities, and communication are all important. The importance of the Forum and the Collaborative Partnership on Forests in mobilizing financing for sustainable forest management was also recognized. Experts agreed that this Country-Led Initiative had provided a valuable basis for discussions by the ad hoc expert group.

**I. Summary of panel discussion on the mapping of the current funding landscape for the non-legally binding instrument on all types of forests**

14. The ad hoc expert group held a panel discussion on “the mapping of the current funding landscape for the non-legally binding instrument on all types of forests” on Monday, 10 November 2008.

15. The panel discussion provided a forum for experts to consider the demand for external financing for sustainable forest management, the supply of financing, and gaps. Dr Markku Simula, Adjunct Professor of Forest Economics at the University of Helsinki, made a presentation based on the Background Paper, on *Financing Flows and needs to implement the Non-Legally Binding Instrument on all types of forests*. Other presentations were made by representatives of member organisations of the Collaborative Partnership on Forests, namely Marco Boscolo (Food and Agricultural Organisation of the United Nations), Patrick Verkooijen (World Bank), Maria Sanz-Sanchez (secretariat of the United Nations Framework Convention on Climate Change) and Amha bin Buang (International Tropical Timber Organisation). Presentations were followed by an extensive question and answer period.

16. Dr Simula explained that the objectives of the Background Paper were to provide an overall picture of forest finance in the context of the non-legally binding instrument, focusing on external sources; to review existing, potential and evolving sources and mechanisms of funding, in particular new developments in the climate change regime relating to forest finance; to review needs and potential of forest financing; and to identify thematic areas and geographic gaps in the existing and emerging financing flows to forests. He explained that explicit country demand for forest official development assistance is relatively weak as expressed in Poverty Reduction Strategies, and that demand is also strongly influenced by the priorities and policies of donors. External financial flows of public money to forests quoted in the Background Paper currently total about US\$ 1910 million per year, of which nearly 60% is bilateral and the balance is multilateral. A 50% increase in external flows of public money since 2002 is very largely attributable to multilateral funding. Although data is not fully comparable, the study shows that about 95% of bilateral funding comes from nine countries. Nearly 75% of multilateral funding comes from the World Bank Group. Funding recipients are also concentrated as ten countries receive about two thirds of official development assistance to forests. There are significant funding gaps in financial flows: these include low forest cover countries, some countries with high or medium forest cover, many small or medium-sized countries with large forests and many small island countries. African countries are lagging behind other regions as ODA

recipients. There are also thematic gaps in forest funding, including forests outside protected areas, the management of natural tropical forests, restoration of degraded forests and lands, and the reforestation and afforestation of drylands.

17. Dr Simula also highlighted the critical importance of upfront investment for sustainable forest management which is not adequately covered by existing financial flows. He referred to an estimate<sup>2</sup> that about US\$20 billion per year would be needed to cover the opportunity costs of preventing deforestation or forest degradation and the investment needed to manage existing forests sustainably; this takes no account of the costs of afforestation or reforestation. Forest measures aimed at climate change mitigation offer significant environmental, social and economic co-benefits to be duly considered in climate change financing schemes. Such schemes should not be focused exclusively on reducing emissions from deforestation in forest-rich countries but should also tap other opportunities for mitigation and adaptation of climate change. Forest financing will require a combination of instruments including grants, loans, credits, payments for ecosystem services. In addition, he concluded that, at the international level, options include strengthening the existing and emerging sources and mechanisms to fill the geographic and thematic gaps in forest financing; harnessing synergies between international initiatives and organizations; and establishing a new financing mechanism targeted at the implementation of the non-legally binding instrument on all types of forests. National measures could include strengthened explicit demand for official development assistance for forests; national forest financing strategies; improved country investment climates; and improved revenue collection.

18. Mr Boscolo provided an outline of the *CPF Sourcebook on Funding for Sustainable Forest Management*, explaining that it had recently been updated and now includes 800 entries in its funding database. He also presented the results of a study investigating links between sources of funding and specific elements of the non-legally binding instrument. While all measures within the instrument are covered to some extent, funding is inadequate and no single fund covers all components. Capacity building and conservation are the focus of most funding sources. The study also identified some positive country experiences on innovative funding mechanisms were, generally speaking, those where the challenges were least severe. Funding has been most successful where there was a supportive policy and institutional environment, and good alignment with long-term national priorities. National forest programmes and national forest finance strategies are necessary and the NFP facility supports their development.

19. Mr Verkooijen outlined the design process for the World Bank's Forest Investment Program (FIP), which is part of the Strategic Climate Fund, developed in response to the Bali Action Plan. The World Bank has a mandate to develop the FIP to mobilize increased funds for reduction of carbon emissions from deforestation and degradation and to promote sustainable management of forests to protect carbon stocks. It is distinct from the Forest Carbon Partnership Fund (FCPF), filling the gap between the funding provided by FCPF's Readiness Fund, and the Carbon Fund. The FIP is likely to be piloted in a number of countries; other key features include the need to recognize the importance of

---

<sup>2</sup> The source of this estimate, quoted in the Background Paper, is *Investment and Financial Flows to Address Climate Change*, UNFCCC, Bonn, 2007.

co-benefits, such as biodiversity, and to consult local and indigenous communities and other stakeholders through the process of design and implementation. The intention is to complete the FIP design process by April 2009.

20. Ms Sanz-Sanchez explained that, following the 13<sup>th</sup> Conference of the Parties of the United Nations Framework Convention on Climate Change, held in Bali in December 2007, work aimed at reducing emissions from deforestation and degradation was being taken forward at two levels. Detailed discussions are continuing on methodological issues, including monitoring and the setting of reference emission baselines. Meantime, in preparatory meetings for the 15<sup>th</sup> Conference of the Parties, to be held in Copenhagen in 2009, it has been recognized that there was sufficient confidence in methodological knowledge to allow policy discussions to progress; the aim was to negotiate a financial mechanism that would be fair and cost effective, flexible, sustainable and predictable. Demonstration activities were seen as important and website had been established to share information.

21. Mr Amha outlined the role and functioning of existing ITTO funding mechanisms, namely the Special Account and the Bali Partnership Fund. To facilitate increased and more predictable funding, the Special Account would be revamped under the International Tropical Timber Agreement (ITTA), 2006, which provided for the establishment of the Thematic Programmes Sub-Account for unearmarked contributions and the Project sub-Account for earmarked contributions for the financing of ITTO pre-projects, projects and activities. In preparation for the entry into force of ITTA, 2006, the International Tropical Timber Council had decided, at its 44<sup>th</sup> session held from 3 to 8 November 2008, *inter alia* on the establishment of the Thematic Programmes Sub-Account, the approval of five thematic programme profiles and the implementation of the five thematic programmes on a pilot basis. The integration of the programmatic approach to ITTO's work would enhance the ability of the Organisation to respond more effectively to the needs of tropical forests and timber for achieving sustainable management and development.

#### **J. Statement by Chair of Collaborative Partnership on Forests**

22. Mr Jan Heino, Chair of Collaborative Partnership on Forests, made a statement to the meeting on Wednesday 12 November referring to the background work that had been undertaken by the Advisory Group on Finance and confirming that the Partnership would welcome further opportunities to assist the work of the Forum.

#### **K. Proposal for a Major Group Initiative**

23. On behalf of major groups, Dr Jeannette Gurung, Director, Women Organizing for Change in Agriculture and Natural Resource Management made a proposal for a Major Group Initiative. She explained that major group representatives have very actively engaged with the Forum for many years, and focused on the engagement of local communities, forest owners, NGOs, Indigenous Peoples and women in the decision making and implementation of sustainable forest management. She added that at this time of discussing financing mechanisms and frameworks, it is critical that members of the Forum not forget the statements within the instrument that promote and support this effective engagement. Thus, financing for sustainable forest management cannot be limited to

governments if Global Objective 2 is to be met. Paragraph 6(h) of the instrument states *inter alia* that the creation of an enabling environment is necessary to encourage “local and indigenous communities, other forest uses and forest owners and other relevant stakeholders in sustainable forest management through a framework of policies, incentives and regulations”. She further explained that how this is to be done requires further consultation and elaboration within a multi-stakeholder forum in order to gather ideas and learn of best practices on how to most effectively achieve this. For this purpose, she announced that the major groups would like to organize an intersessional meeting (Major Groups Initiative) in late 2009 to provide knowledge to be fed into ninth session of the Forum on the roles of civil society actors and the means of their engagement in the Forum and the instrument. In addition, this would provide ways forward for the sessions of the Commission for Sustainable Development related to forests in 2012/2013, the International Year of Forests in 2011, and for coordination with the UNFCCC, UNCBD and UNCCD.

### **III. Matters for the consideration of the United Nations Forum on Forests**

24. This section contains a summary of discussions on developing proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework that were developed by the ad hoc expert group.

#### **A. Introduction**

##### ***Commitment to sustainable forest management***

25. Experts stressed the urgent need for effective action to implement sustainable management of all types of forests, and to achieve the shared global objectives on forests reaffirmed in the non-legally binding instrument on all types of forests. These global objectives are:

##### Global objective 1

Reverse the loss of forest cover worldwide through sustainable forest management, including protection, restoration, afforestation and reforestation, and increase efforts to prevent forest degradation;

##### Global objective 2

Enhance forest-based economic, social and environmental benefits, including by improving the livelihoods of forest-dependent people;

##### Global objective 3

Increase significantly the area of protected forests worldwide and other areas of sustainably managed forests, as well as the proportion of forest products from sustainably managed forests;

##### Global objective 4

Reverse the decline in official development assistance for sustainable forest management and mobilize significantly increased, new and additional financial resources from all sources for the implementation of sustainable forest management.

26. Experts noted that the term “forest” is a broader term than “forestry” and that action should include *inter alia* forest conservation. Actions to achieve the shared global objectives on forests will extend beyond the traditional “forestry” sector. Sustainable forest management, as a dynamic and evolving concept, aims to maintain and enhance the economic, social and environmental values of all types of forests, for the benefit of present and future generations.

***Discussion at meeting of ad hoc expert group***

27. There was a rich discussion during the meeting. There were many areas where views of experts overlapped, although some issues still require further consideration. A number of experts suggested that the purpose and content of a voluntary global financial mechanism/portfolio approach/forest financing framework should be agreed before considering detailed modalities.

***Rationale for funding sustainable forest management***

28. In many situations, sustainable forest management requires external financing. This is because, in general, sustainable management requires higher investment and/or operational costs and because there may be opportunity costs through loss of revenue from forest products. Sustainable forest management can be self-financing, but in general this is only when those who benefit from goods or services pay the appropriate price (or compensation) for the benefits they receive. Such benefits may be national or local (such as watershed management, prevention of desertification or recreation provision). Other benefits may include public goods or services (such as conservation of biodiversity or reduction in carbon dioxide emissions). In addition, forests can contribute to poverty eradication, which may also require financial support.

***Information on existing and emerging sources of funding***

29. Existing and emerging sources of finance for sustainable forest management include private sector investment, domestic public sector, bilateral and multilateral official development assistance (ODA), payments for ecosystem services and non-profit and philanthropic contributions. The *CPF Sourcebook on Funding for Sustainable Forest Management* now includes 800 entries in its funding database. Although there is no comprehensive information on the aggregate value of the flow of private funds, in the last few years there has been about US\$500 million per year of foreign direct investment in forest industries. A recent estimate is that the external financial flow of public money to forests is about US\$ 1.9 billion per year. At present, ten countries receive about two thirds of ODA to forests. There has been a 50% increase in external flows of public money since 2002; this is very largely attributable to multilateral funding, nearly 75% of which comes from the World Bank Group. Although data is not fully comparable, about 95% of bilateral funding comes from nine countries.

30. ODA can play a catalytic role in mobilizing a broader spectrum of financing for sustainable forest management. Many experts highlighted the role of ODA in capacity building and helping to create an enabling environment for attracting finance for sustainable forest management. There is also a wide range of existing and emerging mechanisms and sources which provide funding to forests, often with specific targets related to, for example, biodiversity conservation and climate change.

Sources of finance include GEF, CDM (which has potential although only one project has been approved to date), the private sector and philanthropic donors.

31. Several of the environmental services that forests provide can generate income for sustainable forest management and the number of payment schemes is increasing. However, there is no comprehensive information on the value of these payments. Nor is there comprehensive information on the financial contribution of philanthropic contributions to the cost of sustainable forest management.

## **B. Financing sustainable forest management: challenges and opportunities**

### ***Drivers of deforestation and degradation***

32. Continuing high rates of deforestation and forest degradation are a cause for serious concern and challenge in the global effort to make progress towards sustainable forest management. Total deforestation during 2000-2005 was 13 million hectares per year. Taking into account increases in planted forests and natural expansion of forests, the net loss of forest area is presently about 7.3 million hectares per year. Virtually all deforestation occurs in tropical forests in developing countries. This has a serious adverse impact on economies, the environment, including biological diversity, and the livelihoods of at least a billion people. In addition, in 2004 total annual global anthropogenic greenhouse gas emissions reached 49 billion tonnes of carbon dioxide equivalents, with the forest sector contributing 17.4 per cent, or 8.5 billion tonnes of this, mostly due to deforestation and degradation<sup>3</sup> Underlying causes of deforestation and forest degradation are complex and varied, and many of them are cross-sectoral, determined by pressures that arise from outside the forest sector. In addition to unsustainable exploitation of forest products, these drivers include the conversion of forest land for agriculture, for mining and for development of human settlements and infrastructure.

### ***Funding gaps***

33. Experts noted that there are significant funding gaps in financial flows in support of sustainable forest management. Experts also recognised the additional challenges presented by the recent downturn in the world economy. Upfront investment for sustainable forest management is not adequately covered by existing financial flows and is of critical importance. According to one estimate, the opportunity costs of preventing deforestation or forest degradation, together with the investment needed to manage existing forests sustainably, will be about US\$20 billion per year. The investment costs of afforestation and reforestation are not included in this estimate.

34. In geographical terms, the funding gaps include low forest cover countries, some countries with high or medium forest cover, many small or medium-sized countries with large forests and Small Island Developing States (SIDS). Africa is lagging behind other regions. Other major gaps in forest funding include forests outside protected areas (and especially the management of natural tropical forests), restoration of degraded forests and lands, and the reforestation and afforestation of drylands. This means, for example, that large areas of natural tropical forest receive little or no funding. Experts

---

<sup>3</sup> This is quoted in the Note by the Secretariat prepared for the meeting. The source is Intergovernmental Panel on Climate Change, Climate Change 2007; synthesis report of the Intergovernmental Panel on Climate Change fourth assessment report (<http://www.ipcc.ch/ipccreports/ar4-syr.htm>).

also noted that Small Island Developing States (SIDS) require careful consideration because of their size, vulnerability, fragility and the role of their forest ecosystems.

35. Experts noted that another factor affecting forest ODA is the failure to make effective links between national development priorities (such as poverty reduction) and forests, or to recognise the role of sustainable forest management in maintaining and enhancing global and national public goods. For example, explicit country demand for forest ODA, as expressed in Poverty Reduction Strategies, is relatively weak.

#### ***Payments for ecosystem services***

36. Experts noted that some of the environmental and social services that forests provide, such as biodiversity conservation, carbon sequestration, water regulation and recreation and tourism, can generate income for sustainable forest management. There are good examples of schemes to compensate forest environmental services operating successfully in some countries; schemes related to climate change mitigation have potential to mobilize additional funding to forests. However, there is uncertainty about how, where, and the extent to which such schemes represent a real and significant opportunity for mobilizing additional financing for sustainable forest management. It is also necessary to give careful consideration to the distribution of revenue derived from such payments so that local communities and indigenous peoples can benefit.

37. There was considerable discussion about the potential funding of sustainable forest management through mechanisms that are being established, and are currently under consideration, with regard to reducing emissions from deforestation and forest degradation in developing countries (REDD). For example, the World Bank has established the Forest Carbon Partnership Facility, which will test incentive payments in 25 pilot developing countries, and is also in the process of establishing a “forest investment programme”, aimed at addressing the identified gaps in sustainable forest management financing in the context of REDD. Experts highlighted the importance of ensuring that these mechanisms, while achieving their primary aim of mitigating climate change, are also effective in delivering co-benefits through recognition of the holistic concept of sustainable forest management which incorporates maintenance and enhancement of climate benefits from forests. Some experts also said that considerable uncertainties remain with regard to REDD, both in terms of technical aspects and in terms of the development of a market that generates revenue for sustainable forest management.

#### ***Role of governments and non-governmental actors***

38. External funding to recipient countries is being channeled through governments and non-governmental actors. Some experts said that non-governmental actors should be engaged in the design as well as the implementation of funding instruments and programmes. A number of experts noted the increasing use of non-governmental actors as a funding channel. This can be effective, but can also present a challenge in terms of ensuring effective coordination of actions within a country.

#### ***Fragmentation and synergies***

39. Many experts highlighted the challenges posed by the fragmentation of funding sources, in particular where this gave rise to duplication, and unproductive competition between funding sources increased reporting burdens. On the other hand, it was recognised that a multiplicity of funding sources could bring advantages by providing complementary options for fund applicants, especially as many financing sources have specific, targeted objectives. Experts suggested that improved coordination would help overcome problems of fragmentation.

40. It is important to develop stronger synergies between different sources of funding, to avoid duplication and to bridge gaps. At the same time, there is a need to ensure flexibility and inclusiveness, recognising that “one size does not fit all”; due to diversity of national and sub-national situations, a tailored approach may necessary in such cases as, for example, Small Island Developing States (SIDS), low forest cover countries and countries with high forest cover with low rates of deforestation.

#### ***Improving effectiveness of ODA***

41. Experts referred to the Paris Declaration on Aid Effectiveness and noted that its principles of harmonization and coordination are yet to be fully implemented in ODA to forests, although national forest programmes and associated financial strategies are a positive example of harmonisation and alignment. In recent years there has been a significant shift of emphasis, with recipient countries increasingly making decisions about the allocation of ODA among sectors and programmes. As a result, forest budgets need to be justified through country-level domestic planning processes in recipient countries, in competition with other national priorities. If countries do not treat sustainable forest management as a mainstream priority in their development plans and ODA strategies, sustainable forest management will continue to receive lower priority.

42. Many measures required for sustainable forest management need long-term implementation programmes and so predictability of funding is necessary to help ensure continuity of action. The need to assess performance and delivery of outcomes was also highlighted.

43. Experts stressed the importance of transparency, so that all stakeholders have equal access to information.

#### ***Improving efficiency of ODA***

44. Many experts highlighted the fact that transaction costs associated with ODA programmes can be disproportionately high. In addition, recipient countries often have to devote significant effort to meeting the different reporting requirements of financing organisations and donor countries; this reduces the capacity available for implementation. Increasingly, ODA and other funding is performance or results-based and so monitoring of results is a key tool for decision making.

#### ***Conditionality of ODA***

45. Conditionality requirements can be a significant barrier to access to funding. On the other hand, funding providers are expected to set conditions to ensure that the funds are used in accordance

with the objectives of the supported programmes. This was recognised as an issue that must be treated sensitively.

### **C. National level requirements and measures**

#### ***Diversity of national situations***

46. Many experts highlighted the diversity of national situations and variation within countries. Experts noted that the non-legally binding instrument on all types of forests provides a comprehensive approach to address financing of sustainable forest management. Funding for sustainable forest management should address the national measures set out in paragraph 6 of the instrument, recognising that the instrument applies to all types of forests. Differences include the level of forest cover, the types of forests, and the benefits generated through sustainable forest management. Furthermore, experts highlighted the particular challenges facing Small Island Developing States (SIDS), and the need to ensure that countries with high forest cover with low rates of deforestation benefit from REDD schemes.

#### ***National Financing strategies***

47. Experts stressed the importance of national financing strategies, based on national forest programmes or other similar frameworks, as a tool for identifying funding requirements and gaps in order to mobilize financing from existing and potential sources, both domestic and external, public and private. Where appropriate, financial strategies should also consider opportunities for increased revenue collection, taxation and payments for environment services, as well as ODA and philanthropic sources of funding. Financial sustainability is an important goal, although countries may need to move through phases, including up-front capacity building, to achieve this.

#### ***Coordination and coherence with other policies***

48. Availability of public funding, in particular, is generally dependent upon demonstrating that sustainable forest management can bring benefits that will help address national priorities, such as poverty reduction, sustainable development, conservation of biodiversity and watershed management. Demonstrating such linkages requires a coordinated approach to policy development. There also needs to be cross-sectoral policy coherence, so that, for example, agricultural policies do not have an adverse impact on sustainable forest management.

#### ***Stakeholder participation and engagement***

49. Active stakeholder participation and engagement in all stages of the development and implementation of national financing strategies is a critical requirement. Financing of sustainable forest management should take into account the needs, rights and contributions of all stakeholders, including indigenous and other forest-dependent peoples. Effective participation and engagement, particularly at the local level, can also help stakeholders understand the challenges and threats facing forests.

#### ***Capacity building***

50. Many experts highlighted the importance of capacity building as a pre-requisite for effective action and sustainability. The needs include capacity to understand and make use of the various

existing and emerging international instruments and initiatives; to develop sound projects; to coordinate activities based on different funding programmes; and to ensure effectiveness in the use of funds. Capacity building should also be required to support effective stakeholder engagement, including indigenous and other forest-dependent peoples.

51. A number of experts highlighted the value of the NFP facility in this respect, and the potential to strengthen it.

#### ***Enabling conditions***

52. Development of an appropriate policy and legal framework (including secure land tenure as a precondition for investment in sustainable forest management), together with effective governance, institutions and law enforcement were identified as crucial enabling conditions for successfully attracting investment in sustainable forest management (including potential markets in relation to carbon sequestration). It is also important to clarify and respect the rights of local communities, indigenous peoples and women.

#### ***Resource monitoring and assessment***

53. Resource assessment and monitoring are required as a basis for developing national policies, programmes and strategies and in order to provide verifiable assessments of the effectiveness of implementation. This will also be important in relation to REDD schemes.

#### **D. International level requirements and measures**

54. Experts stressed the diversity of national and sub-national situations. These include, for example, the particular challenges facing Small Island Developing States (SIDS), low forest cover countries, countries with high or medium forest cover, small or medium-sized countries with large forests, countries with high forest cover with low rates of deforestation and middle income countries. Examples of such challenges include natural disasters, disease, protection of watersheds, conservation of biodiversity, and the provision of sustainable livelihoods for local communities to enhance the rural economy and reduce poverty. It is important to recognize that the non-legally binding instrument applies to all types of forests.

55. Experts also highlighted the important differences between developing and developed countries and, in particular, the need for developing countries to have access to external funding if they are to respond to the challenges of sustainable forest management. In addition, it was suggested that consideration be also given to the situation of middle income countries.

56. Stronger coordination and better complementarity between funding mechanisms would help to provide greater clarity and reduce the potential for duplication and gaps. In order to help achieve this in relation to multilateral funding, countries should ideally agree on their own priorities so that they can deliver consistent messages to different governing bodies. It was suggested that the Forum should send a strong message UNFCCC on the need to ensure that REDD schemes take full account of the holistic nature of sustainable forest management.

57. Examples were given of effective coordination at the regional level, for example through the establishment of regional and sub-regional funds. In addition, it was noted that national forest funds can be an effective mechanism.

58. Funding priorities should be determined at country level. Some experts from recipient countries said that donors have too strong an influence in this process. On the other hand, experts from donor countries said that they needed to follow the agreed priorities and criteria of particular funding programmes, such as combating climate change (including through carbon sequestration), poverty reduction or conservation. In this context, experts highlighted the importance of the principles set out in the Paris Declaration on Aid Effectiveness.

59. It is also important to ensure that the availability of sources of finance, including the private sector and market opportunities, is visible and accessible. Many experts referred to the importance of good communication in this respect.

#### **E. Proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework**

60.. Experts considered proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework. Many experts expressed the view that these three phrases or terms were not mutually exclusive, and that, in fact, they described different aspects of what might be a desirable future arrangement for financing sustainable forest management and the achievement of the shared global objectives on forests. It was generally accepted that the portfolio approach (described as the large variety of financing needs for sustainable forest management being met from a variety of sources) already existed, provided many benefits, and should continue in the future. Many experts recognized that this also meant that a well articulated framework should exist to provide maximum synergy and coherence to the many existing programmes. Such a framework should be able to coordinate existing portfolios and coordinate any new funds that might be created.

61. Experts accepted that the current state of affairs regarding finance for forest programmes in developing countries was not satisfactory and that improvements were essential. There were different views about how to achieve this and what title should be used. However the requirements and measures identified in sections C and D above should provide a basis for designing steps for improvement.

62. Many experts reiterated their support for a distinct fund dedicated or earmarked for sustainable forest management and the global objectives. These experts stressed that this was necessary to meet the challenge of implementing the non-legally binding instrument on all types of forests. Such a fund could be based on voluntary contributions with governance arrangements open to all geographical regions. It was pointed out that other international agreements on biodiversity, climate change, and desertification all had individual dedicated funding programmes, and that these have long remained difficult to access for certain aspects of sustainable forest management and for some countries, taking many months and involving complex procedures that could be simplified or stream-lined. It was also noted that such a fund might be able to help solve the problem arising from the strong competition on

the national level among priorities requiring additional funding. This built on earlier discussions of national level conditions and gaps in funding. However a number of experts questioned whether this would be the most effective way to mobilize increased resources, and whether this would exacerbate problems of fragmentation and lack of coordination. It was also noted that a more detailed description on some basic criteria for such a fund would be needed to elaborate the proposal for further consideration.

63. Several experts suggested measures to improve the efficiency and effectiveness of existing sources and mechanisms through a new financing framework or mechanism. Other cautioned that the existing gaps in forest finance could not be bridged through these measures alone; promising and innovative financing mechanisms and opportunities may be explored respecting national situations and priorities.

64. The fourth global objective on forests included the need for new and additional financial resources for the implementation of sustainable forest management. It was widely accepted that, in developing countries, external funding is needed to supplement domestic sources. However, experts noted that, while new sources of financing are emerging, significant gaps remain. A number of experts expressed support for a facilitative mechanism that would help mobilize existing and emerging funds, facilitate access to other sources of finance such as venture capital funds, loans, credit and risk guarantee funding in order to help achieve national and sub-national priorities. It could also draw on the potential of the Forum and the Collaborative Partnership of Forests to help facilitate action. Some experts also highlighted the importance of giving priority to helping governments to access these sources of finance. The aim would be to facilitate expedited access to funding for developing countries and focus on implementation of the instrument. This facilitative mechanism would work with all the present and future agreements and funding sources that are involved with forests. Such a mechanism could have comprehensive coverage, recognising stakeholder needs and potentially applying to all types of forests, a full range of country situations and different forest uses.

65. This facilitative mechanism might also use effective communication about the benefits of sustainable forest management and the non-legally binding instrument on all types of forests to help further increase the availability of financial resources from all sources. In addition, the mechanism would address the need to improve the coordination and coherence of existing and emerging schemes, and improve availability on information on those schemes. A matrix tool could be useful in identifying gaps and priorities.

66. Some experts argued strongly that a facilitative mechanism which these types of actions would be an inadequate response to the challenges facing forests and that a specific fund is required

67. A number of experts suggested that it would be worthwhile to facilitate clearer and easier access to the various funds available for different aspects of sustainable forest management. Many experts expressed the view that the informational service provided by the *CPF Sourcebook on Funding for Sustainable Forest Management* was very useful and should be regularly updated. It was also suggested that additional resources could be provided so that it could be more proactive, contracting expertise to provide assistance to those enquiring about different types of finance, and

how each works, including market mechanisms. Some experts also suggested that a “brokerage” service could actively seek to introduce potential sources of finance to recipients. Other complementary measures could include strengthening the work of the the NFP Facility on national forest financing strategies, including through increased funding.

68. Experts discussed the level of financing that was required. This would include initial upfront investment (for example in planning and initial capacity building), mainstreamed upfront investment (for example in creating the enabling conditions for investment) and sustained financing (which would include revenue from forest goods and services and payments for ecosystem services). Reference was made to the estimate of US\$20 billion per year quoted in paragraph 17 above. Some experts said that ODA funding should be focussed on the element of upfront investment and a number of experts referred to studies that had estimated the costs of capacity building. One study had found that capacity building in 40 countries would cost over US\$4 billion during the next five years<sup>4</sup>. Experts also recalled the work by ITTO and by the Advisory Group on Finance, which had suggested that the costs of upfront investment could be about US\$2-4 billion per year. However, some experts noted that further information on the costs of achieving sustainable forest management, current availability of types of financing, where the major gaps are, and the economic and data assumptions underlying this would be useful.

69. Experts also discussed how to take matters forward. Some suggested that a gradual, or step-wise approach was required, with the possibility of pilot projects. Other experts expressed concern about this approach because it could lead to delay in taking the urgent action that is needed. It was recommended that CPF members, in particular of the AGF, should continue the development of these proposals.

70. Experts recognised that more work is needed to allow the development of proposals for a voluntary global financial mechanism/portfolio approach/forest financing framework in accordance with ECOSOC resolution 2007/40. It was recommended that Collaborative Partnership on Forests members, in particular members of the Advisory Group on Finance should continue supporting the development of the proposals. There was a suggestion that there should be an expert working group meeting.

71. It was recommended that members States would provide written contributions to support further elaboration of the proposals. The secretariat will prepare a short questionnaire/template to help structure these contributions and make it available in all UN official languages. Countries and major groups will have one month in which to respond, after which a synthesis report will be prepared. In addition, a compilation of all contributions in their original form will be made available.

72. It was also recommended that further opportunities should be sought in order to conduct additional meeting(s) on the sidelines of other events. In particular the 2<sup>nd</sup> design meeting of the “Forest Investment Programme” in February 2009 and the 19<sup>th</sup> session of the FAO Committee on

---

<sup>4</sup> The source of this figure is Climate Change: Financing Global Forests: The Eliasch Review, [http://www.occ.gov.uk/activities/eliasch/Full\\_report\\_eliasch\\_review\(1\).pdf](http://www.occ.gov.uk/activities/eliasch/Full_report_eliasch_review(1).pdf)

Forestry on 16-20 March 2009 were identified in this context. The synthesis paper will be discussed at these informal meetings.

73. The meeting was informed about a coordination meeting for Africa in order to support the preparations for UNFF8. It was emphasized that there are largely different conditions in the continent and needs and priorities of the different sub-regions should also be recognized including those of the low forest cover countries.

Advanced Unedited Version

**Annex I**  
**List of Participants**

**Member States**

**Argentina**

Jose Luis Sutera

**Australia**

Andrew Wilson

Glen Kile

**Austria**

Ingwald Gschwandtl

Georg Rappold

Ewald Rametsteiner

Peter Aurenhammer

**Bangladesh**

Bashir Uddin Ahmed

**Brazil**

Julio Cezar Zelner Goncalves

Eduardo da Costa Farias

Fernando de Mello Vidal

Marcio Reboucas

Luis Alexandre Iansen de Sant'Ana

Daniela Popius Brichta

**Cambodia**

Omaliss Keo

**Canada**

Jaye Shuttleworth

Shawn Morton

**Chile**

Irene Acevedo

**China**

De Lu

**Comoros**

Abdallah Ahmed Soilihi

**Costa Rica**

Ana Teresa Dengo  
Carol Viviana Arce

**Côte d'Ivoire**

Marc Aubin Banny  
Yamani Soro  
Hyppolite Yeboue

**Cuba**

Modesto Fernandez Diaz-Silveira

**Czech Republic**

Tomas Krejzar  
Martin Nikl  
Martin Rybecky

**Democratic Republic of the Congo**

Sebastien Malele Mbala

**El Salvador**

Josue Mario Guardado Rodriguez

**Finland**

Taina Veltheim

**France**

Alain Chaudron  
Corentin Mercier

**Gabon**

Andre Jules Madingou

**Gambia**

Kebba N. Soniko

**Germany**

Matthias Schwoerer  
Stephanie von Scheliha

**Ghana**

Fredua Agyeman

**Grenada**

Aden Michael Forteau

**Guatemala**

Salvador Lopez

**Haiti**

Nicolas Janvier

**India**

Ranjana Gupta

A.K. Malhotra

**Indonesia**

Boen M. Purnama

Yetti Rusli

Laksmi Banowati

Teguh Rahardja

Mohamad Siradj Parwito

Elsa Miranda

Kartika Handaruningrum

**Iran (Islamic Republic of)**

Babaei Mahmoud

**Jamaica**

Marilyn Headley

**Japan**

Hiroki Miyazono

**Latvia**

Arvids Ozols

**Lebanon**

Chadi Mohanna

**Mexico**

Mayra Jannet de la Torre Navarro

**Morocco**

Abdellah Benmellouk

**Myanmar**

Soe Win Hlaing

**Netherlands**

Herman Savenije

Kim Seeters

**Niger**

Adamou Ibro

**Pakistan**

Shahzad Jehangir

**Palau**

Tarita Holm

**Panama**

Erick Rodriguez

Jorge Garcia

**Philippines**

Neria A. Andin

**Republic of Moldova**

Ghenadie Grubil

**Russian Federation**

A.I. Pisarenko

O.A. Shamanov

Maria Linicheva

**Saint Lucia**

Michel Gaspard Andrew

**Samoa**

Aokuso Leavasa

**Senegal**

Ndiawar Dieng

Matar Cisse

**Slovakia**

Boris Greguska  
Hana Kovacova

**Slovenia**

Robert Rezonja

**Suriname**

Niermala Hindori-Badrising  
Henry L. MacDonald  
Cornelis Pigot  
Rene Somopawiro

**Swaziland**

Solomon Thandiqiniso Gamedze

**Sweden**

Ingeborg Bromeé  
Bjorn Merzell

**Switzerland**

Jurgen Blaser

**Thailand**

Worawit Chausuwan  
Kowit Punyatrong  
Anawat Sukhotanang

**Togo**

Sama Bondjouw

**Ukraine**

Liubov Poliakova  
Yuriy Marchuk

**United Kingdom of Great Britain and Northern Ireland**

John Hudson  
Penny Davies  
Libby Jones

**United States of America**

Catherine Karr-Colque  
Charles Barber

Jerilyn Levi

**Uruguay**

Gustavo Alvarez

**Uzbekistan**

Alisher Shukurov

**Venezuela (Bolivarian Republic of)**

Isabel Di Carlo

Ileana Villalobos

Rodrigo Yanez

**Yemen**

Alaeldin Mohammed Abdullah Al-Sharjabi

**European Commission**

John Bazill

**Intergovernmental organizations and UNFF Secretariat -Recognized Regional Organizations/Processes**

**African Forest Forum**

Linda Mossop-Rousseau

Anna Chileshe-Masinja

**African Forest Research Network**

Iba Kone

**Amazon Cooperation Treaty Organization**

Carlos Aragon

**Asia-Pacific Network for Sustainable Forests Management and Rehabilitation**

Xiao Jun

**International Tropical Timber Organization (ITTO) \***

Amha bin Buang

**Ministerial Conference on the Protection of Forests in Europe (MCPFE)**

Malgorzata Buszko-Briggs

**Treaty Body Secretariats**

**Secretariat of the United Nations Convention to Combat Desertification (UNCCD) \***

Jones Kamugisha-Ruhombe

**Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) \***  
Maria Sanz-Sanchez

**United Nations Food and Agriculture Organization of the United Nations (FAO) \***  
Jan Heino  
Marco Boscolo

**World Bank\***  
Patrick Verkooijen

**Major Groups**  
**Confederation of European Forest Owners (CEPF)**  
Bjorn Jorgen Nilsson

**Global Forest Coalition**  
Andrey Laletin

**International Alliance of Tribal and Indigenous Peoples of the Tropics**  
Hubertus Samangun

**International Union of Forest Research Organizations (IUFRO) \***  
Alexander Buck  
Peter Mayer

**Union de Silvicultores del Sur de Europa (Union of Foresters of South Europe)**  
Lilina Fernandez

**Women Organizing for Change in Agriculture and Natural Resource Management**  
Jeannette Gurung

---

\* Members of the Collaborative Partnership on Forests

## **Annex II**

### **List of documents**

1. Provisional agenda and annotation (E/CN.18/2008/1)
2. Note by the Secretariat: Financing for sustainable forest management: mobilizing financial resources to support the implementation of the non-legally binding instrument on all types of forests and to promote sustainable forest management (E/CN.18/2008/2)
3. Background Document "Financing Flows and Needs to Implement the Non-Legally Binding Instrument On All Types of Forests". A study prepared for the Advisory Group on Finance of the Collaborative Partnership on Forests with the support of the Program on Forests (PROFOR) of the World Bank.
4. Background Paper: The Paramaribo Dialogue Co-Chairs' Summary Report of the Country-led Initiative on Financing for Sustainable Forest Management in Support of UN Forum on Forests, Paramaribo, Suriname, 8-12 September 2008.

Advanced Unedited Version