

## **European Union Response to the UNFF Secretariat's request for inputs on proposals for financing sustainable forest management**

*Drawing from the AHEG's formulation, does your Member State or major group have a preference for either a dedicated global forest fund or a facilitative mechanism for sustainable forest management (sfm) funding? Is the preferred option (select one):*

1. *Dedicated global forest fund*
2. *Facilitative mechanism*
3. *Both*
4. *Other mechanism (please specify)*

1. **The European Union (EU) is of the opinion that the title of the arrangement for sustainable forest financing should be decided after the content has been agreed upon. That said, the title "forest financing framework based on a portfolio approach" describes most clearly the arrangement for financing sfm which the EU prefers.**
2. **Finance is needed by different interest groups for a variety of purposes. It should come from a range of complementary sources: public and private and domestic and foreign. International forest financing should be voluntary and based on national needs and priorities and not driven by opportunities presented by access to international sources of finance. A dedicated global forest fund which aims to serve all interest groups, financed entirely or primarily from international sources of finance, contradicts these principles and would be unlikely to be efficient in serving such a wide range of interests and needs.**
3. **As the AHEG Chair's Summary and other documents have made clear, there are gaps in the current forest finance architecture, some elements are not well developed and others have emerged recently and are not yet well established. In addition, information about sources of finance is not always easy to access or understand. The EU considers that a forest financing framework should:**
  - a) **involve a range of actors;**
  - b) **Increase the capacity of different interest groups to identify and assess financing needs;**
  - c) **Improve access to sources of finance through a dedicated service that provides better information and advice about sources of finance;**
  - d) **Improve coordination and cooperation relating to international financing of sfm;**
  - e) **Facilitate upon request improving finance available for sfm by:**
    - **enhancing forest revenue generation and collection by the public sector and re-investing into sfm. Even when increased revenue is not retained by the forest authority it helps make the case for investment in sfm;**
    - **developing more attractive and secure investment conditions for the private sector, including local communities;**

- increasing oda through integrating sfm into national development strategies including poverty reduction strategy papers (PRSPs) and by applying the principles of aid effectiveness of the Paris Declaration;
- developing and implementing new and emerging financing instruments that make payments for ecosystem services, including climate change mitigation and adaptation.

*What do you consider to be the essential elements for the preferred option? (select as many as relevant):*

- Scope and structure*
- Governance and management*
- Sources of financial resources*
- Types of activities covered*
- Accountability, monitoring and evaluation mechanisms*
- Any other elements?*

4. As described above, the EU does not consider that a ‘forest financing framework based on a portfolio approach’ is a particular or new institution. It is therefore not possible to describe the “governance and management” arrangements. Before identifying the essential elements of a ‘forest financing framework based on a portfolio approach’ the EU wishes to describe what it considers to be key principles of effective financing for sfm.

#### **Key principles of financing for sfm**

5. Sustainable forest management should be self-sustaining and, in the long-term, it should be self-financing. The finance which is needed to manage and conserve forests and their capacity to deliver the multiple goods and services which forests provide can come from a range of sources and instruments, public and private, domestic and foreign. This finance can be used for a range of purposes and by a range of people and organisations.
6. National forest programmes offer a conceptual and operational framework for the development of national financing strategies for sfm and for linking international instruments to national needs and priorities. These national financing strategies can assess the needs for finance, the availability and sufficiency of sources of finance and help create a reliable framework for forest investment and payment for forest goods and services.

7. The EU considers that the greatest potential for mobilising new and additional financing for sfm lies in the private sector. The efficient functioning of markets for forest products and services is dependent on stable and effective regulatory frameworks. Legal and governance frameworks protect the interests of investors, including small forest owners and communities. Public funds are required to develop and maintain such frameworks. Such funding can be directly supportive of efforts to reduce poverty.
8. Strengthening forest governance and law enforcement improves the enabling environment for investment. It requires actions that are carried out by a broad array of actors, including governments of producer and consumer countries, the private sector – including local communities and non-governmental organisations.
9. New and emerging financial instruments, such as those being developed for climate change mitigation and adaptation, should complement other sources of finance so that together, within the framework provided by national financing strategies for sfm, they deliver the financial basis for the range of forest goods and services which people need and promote the sustainable management of forests
10. In general, official development assistance (oda) should be catalytic - enabling and facilitating. It should be directed at addressing market and governance failures and lack of institutional capacity and information. It can also help in the development of instruments for allocating private capital in ways that are more supportive of wider social and environmental objectives.
11. Oda is most effective when it is in support of a government's own objectives as expressed in PRSPs and other national development strategies which are accompanied by a national budget planning that mirrors priorities set in these strategies. In this context, the integration of sfm into national development strategies and national sustainable land use plans should be a priority. Providers and recipients of oda should apply the principles of the Paris Declaration of Aid Effectiveness.

#### **Key elements of a 'forest financing framework based on a portfolio approach'**

12. Increasing the capacity of different interest groups to assess financing needs:
  - Strengthened support to development and implementation of nfps, through the NFP Facility and by other means.
  - Strengthened support to the development of national forest financing strategies, in association with the NFP Facility and by other means, including through the provision of specialised expertise and involvement of financial sector experts.

**13. Facilitate an increase in the amount of finance available for sfm by:**

- **Support to fiscal reforms and the capacity of the public sector to generate and collect revenue, including through multi-donor programmes such as Profor and the NFP Facility, as well as bilateral and multilateral assistance programmes.**
- **Support to improvements in forest law enforcement and governance and to institutional, policy and tenure reforms that give the private sector – including small forest owners and communities, the confidence to invest their labour and their capital in sfm, including through programmes of support such as EU FLEGT and that provided by the World Bank, FAO and ITTO, bilateral agencies and NGOs such as IUCN, the Rights and Resources Initiative and WWF.**
- **Taking advantage of the possibilities of regional approaches, initiatives and existing programmes related to sub-regional and regional bodies like COMIFAC, ASEAN, OTCA, ECOWAS, CCAD and others.**
- **Integrating sfm into PRSPs and other forms of national development strategies and making the case for investment in sfm in particular by demonstrating the economic value of forests to local and indigenous communities.**
- **Adherence to the Paris Declaration on Aid Effectiveness.**
- **Ensuring that member countries transmit consistent messages about the importance of financing for sfm to the governing councils of the member organizations of the Collaborative Partnership on Forests (CPF).**
- **Promotion of and investment in financing instruments that make payments for ecosystem services, including climate change mitigation and adaptation, such as the GEF, FCPF, and other new and emerging instruments financed by public and private capital.**

**14. Improving access to sources of finance by a dedicated service that provides better information and advice about sources of finance by, for example, expanding and developing the service provided by the CPF in the form of the Sourcebook on Financing SFM beyond the passive provision of information to provision of advice and follow-up support on what sources of finance are available and which are most suited for particular purposes. Without prejudice to continued exchange of views, the EU thinks that the CPF collaborative work on sfm finance could be built upon to develop such a dedicated service.**

*How would your preferred option be linked to other forest funding sources and mechanisms e.g. the Collaborative Partnership on Forests (CPF)?*

**15. The member organizations of the CPF would have a crucial role in all the elements of a ‘forest financing framework based on a portfolio approach’. It will be up to the member states of the governing councils of each member of the CPF to ensure that consistent calls are made for financing for sfm.**

*What challenges would be resolved with the creation of either of the preferred option?*

**16. The 'forest financing framework based on a portfolio approach' would seek to resolve:**

- **Lack of capacity to formulate and implement forest financing strategies that are based on national needs;**
- **Insufficient and sometimes incoherent financing for sfm;**
- **Difficulties in accessing some sources of finance and insufficient awareness about existing and new sources of finance.**

*What other existing and emerging sources of financing and mechanisms could be utilized to implement sustainable forest management, the four Global Objectives on Forests and the Non-Legally Binding Instrument on All Types of Forests (NLBI)?*

**17. The EU considers that existing and emerging sources of finance are well documented in the papers prepared for the AHEG and the Suriname CLI.**

*Any other views and suggestions?*

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