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Towards Feasible and Realistic Financing Strategies for Sustainable Forest Management

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Outline

- Level of consensus
- Current outlook for financing
- Why finance SFM
- Personal views on options for strengthening financing from international sources
- Final thoughts

Level of consensus

Considerable progress has already been achieved:

- Shared responsibility
- Inadequate financial resources (availability, access, terms)
- No single solution, all sources needed, all types of instrument
- Effectiveness and efficiency of existing mechanisms
- Necessity of enabling conditions (policy and legal framework, national prioritization)
- Stakeholder capacity
- Gaps to be addressed (geopgraphic, thematic, communities/ smallholders)
- Full valuation of forest goods and services, new mechanisms
- Information on financial flows
- Coherence and coordination

But more is needed

Financing outlook for forests

- **Climate**-based financing for forests still unclear but likely to become a major source for protection, conservation and restoration with various sources and mechanisms
- **Biodiversity**-related financing will continue significant for protected areas and conservation, less support to sustainable utilization (GEF, bilateral, philanthropic)
- **Private** financing will expand in the plantation sector and forest carbon in regulated and voluntary markets
- **Poverty reduction**-oriented financing in other forests is likely to reduce if cannot be boosted through new action

Why to finance SFM beyond carbon and biodiversity

- For **poverty alleviation**, funding for forests needs to generate revenue/other benefits; such financing can also contribute to enhancement of public goods (climate, biodiversity, water, soil, food security, etc.)
- **Private sector** should finance profitable projects for which credit should be made available as financing is frequently perceived as the most important constraint (not always true)
- The role of **grant funding** for productive activities is to make "non-profitable" activities acceptable to forest owners and managers (and creditworthy for lending institutions)
- **Communities and smallholders** need facilitated access to financing
- The **rationale for international financing** is (i) maintenance/ enhancement of public environmental and social goods (e.g. restoration of degraded areas, habitat conservation, infrastructure, governance, etc.) outside "carbon forests" and set aside areas and (ii) poverty alleviation
- Sensitivities related to **trade distortions** need to be observed

Pending strategic issues

1. **How to mobilize** new and additional financing from all sources for SFM

 2. Through **which strategies and mechanisms** should such financing be arranged
 - a) Strengthening of the **existing and emerging mechanisms** on international, regional and national levels
 - b) Establishment of **new facilities** such as global or regional forest funds
- a) and b) are not mutually exclusive

There is a common understanding on a) but lack of clarity on how to do it. Views on b) are divergent.

Option 1. Strengthening of existing and emerging financing mechanisms

- Mobilization of **new and additional resources** for forests
- Enhancement of a **common vision** on SFM
- Integration of SFM in the **financing criteria** of relevant funding sources
- Improvement of **effectiveness and efficiency**
- Development of **new instruments** within existing mechanisms
- Provision of **risk mitigation tools** (guarantees, insurance, etc.)
- Simplification and harmonization of **project cycles**
- Strengthening of **information sharing** for improved coherence
- Strengthening of **national platforms/focal points**; direct access to financing would require national implementation entities
- **Other means** (e.g. through broker institutions)

Some observations on existing mechanisms

- The present financing mechanisms are **underutilized** (e.g. ITTO)
- **Low-hanging fruits** exist (Global Climate Fund, GEF replenishment, support to governance, the private sector, REDD+ and other PES schemes, etc.)
- Emerging **new mechanisms** are completing the menu but increasing fragmentation
- **Effectiveness and efficiency** are already under improvement
- **Harmonisation** of project cycles is an elusive target; best achieved through co-financing of country level programmes
- **Coordination** can be effective if done by host country government; donor coordination best through an in-country programmatic approach
- Sharing of improved **information** is crucial for effective coordination but further work is needed (by whom?)

Facilitative Process

- Only a few of the ambitious objectives have been partially achieved
- Significant expectations among some parties prevail
- Possible need for mid-term evaluation, eventual revision of the objectives and approach linking it closely with country level efforts

Option 2.

Global forest fund: elements to be considered

- Rationale
- Objectives (incl. strategic direction, targeted funding volume)
- Functions (financing, related support functions)
- Eligibility of beneficiaries
- Investment criteria
- Modalities (funding delivery mechanisms, disbursement principles)
- Governance (governance structure, stakeholder participation, management oversight, monitoring and evaluation, hosting organization, etc.)
- Funding sources and fundraising
- Cooperative arrangements and partnerships

Summary of Global fund proposal*

- **Objective:** mobilize new and additional resources with better direct access to funds
- **Eligibility:** open for all countries, geographic gaps taken into account
- **Funding criteria:** nfp implementation and NLBI's national actions (institutional strengthening, capacity building and EST transfer)
- **Modality:** grant funding for projects submitted by countries
- **Procedures:** simple and transparent, low transaction costs, quick disbursement
- **Governance:** under UNFF, 3+x countries, hosted in existing institution
- **Additional aspects:** no conditionalities, communication strategy

* Based on the submission of the Group of 77 and China

Global fund proposal – preliminary views

- Current ODA flows are already largely targeted at supporting governments in implementing NLBI national actions*; risk for **overlaps and duplication**
- High probability for **carving out** possible funding from current sources
- Based on experience, **structured procedures** are necessary for project financing (submissions, appraisal, monitoring and evaluation) for accountability
- Uncertainty about **financing resources** due to priority given to climate and biodiversity
- **Fund size** may not justify a new unit to be established

*See the 2008 AGF study Annex 2.1 for analysis of the action areas

It is obvious that the current financing mechanisms would be capable for supporting NLBI's country actions if additional funding can be raised.

However, if a "gff" is a political necessity, new avenues could be explored to

- attract "new and additional" funding and improve accessibility of beneficiaries
- avoid duplication
- achieve acceptable transaction costs

Possible *modus operandi* for "gff" (1/3)

Gff could be a fund of funds

- Provide **complementary support to national forest funds** (or alike) based on their funding programmes
- Actions supported could be derived from **national forest programmes** or similar policy frameworks
- National funds could involve **multi-stakeholder participation**, transparent monitoring and national leadership
- **Priorities** could be given e.g. for development of payment schemes for environmental services and other innovative approaches to complementary funding of SFM

Possible *modus operandi* for "gff" (2/3)

This approach could

- be directly linked with the NLBI national actions
- promote establishment and expansion of national forest funds on which several positive country experiences
- contribute to poverty reduction and strategies on low-carbon sustainable development and green economy
- ensure effective national leadership and coordination
- accommodate diversity of country situations
- enable low transaction costs, simplify procedures and avoid bureaucracy of project funding
- leverage other sources of financing
- promote innovation

Possible *modus operandi* for "gff" (3/3)

Likely constraints

- Difficult **balancing of funding** among beneficiaries between countries and stakeholder groups; risk of politization in fund allocation
- **Unequal access**: not all countries have
 - adequate national forest programmes and strategies
 - accountable institutions to manage funds
- **Sensitivities** related to monitoring, evaluation and reporting
- **Performance** assessment for effectiveness and accountability
- **Financial resources**

Final thoughts

- **Existing mechanisms** are grossly underutilized and new major instruments are emerging; the way forward is through their governing bodies
- Any new facility – if established - should be based on confirmed **adequate funding** on a long term basis; there is no clarity about the feasibility of gff
- Any future funding is likely to be increasingly **performance-based** and transparent
- **Enabling country conditions** (incl. political priority for forests) are more important than availability or accessibility to international funding
- Leveraging of **the private sector and other stakeholders** is essential as public funding is always slow, complex and insufficient
- **Competition** is necessary in the fragmented financing architecture but **duplication** should be avoided

Thank You for the attention !

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