FAO-Facility Work on Forest Finance

Supporting the development of National Forest Financing Strategies

Nairobi, 13 September 2010

Outline

• Background
• Building capacity at the national level
• Experiences
• Lessons learned
Background: NFPs & National forest financing strategies (NFFS)

• Collaborative knowledge sharing initiative in Latin America on financing mechanisms

• Objectives:
  – (a) produce a broad assessment of the status, perspectives, and experiences with financing mechanisms
  – (b) increase the capacity of National Forest Programs (NFPs) in the development of national strategies and instruments for forest financing

Background: Initial observations

• **Wide range of financing mechanisms exists**, but ad-hoc approaches predominate (subsidies, credit, ODA)

• **Variability** in forest functions, values and actors requires a diversified set of financing sources and mechanisms

• **The biggest problem with financing SFM is often not the lack of money** (but problems of availability and access exists for some activities and actors)
  – Framework conditions (e.g., macro, governance, tenure) often major constraint and risk factor
  – Narrow views of forests’ contribution to sustainable development
  – Limited dialogue financing-forest sectors

• Potential of **integrated approach** (investments, payments, enabling environment); Public and private financing
The capacity development process

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Experiences

- Namibia (October 2007)
- Guatemala (November 2007)
- Suriname (June 2008)*
- El Salvador (September 2008)
- Peru (December 2008)*
- Paraguay (February 2009)
- Costa Rica (May 2009)
- Philippines (August 2009)
- Ecuador (September 2009)

* Module implemented by partners
Forestry

Initial achievements

National forest financing strategies publicly endorsed
Financing instruments selected for development
(financial and legal assessments, involvement of rating agencies, others)
- Trust funds attractive to private and institutional investors (GT, PY, ES, CR)
- Capital market instruments (with Stock and Commodity Exchange: Forwards, Repurchase agreements, Securitization)
- Incentives programs (CR, ES)

Forest Finance Intelligence Unit (or equivalent) created
Sector governance improved
Trust fund created

Key lessons

Adopt a strategy with a comprehensive approach to finance that is country specific

Much interest in forestry by banks, social security schemes, commodity exchange (not only for productive purposes) – Have a communication strategy

Significant funding is available at the national level - Engage more actively other sectors, in particular the financing sector

Playing a catalytic role can be very effective
Opportunities for Support

Support partnership building and communication (address “isolation”)

- Strengthen linkages with other sectors and key stakeholders (nfps, networks, units, dialogues)
- Forming of associations among small forest SH

Build capacity (address “weak capacity”)

- Financing language, instruments, processes (South-South learning)
- Enterprise development

Opportunities for Support

Promote financial innovation (address excessive “dependence” on ODA and gov’t budget)

- Reinvest forest revenues into sector
- Promote access to capital markets
- Enable payments for environmental services
- Operationalize risk mitigation and credit guarantee instruments

Encourage a strategic approach to finance through National Forest Financing Strategies
Thank you!

For more information