Report of the first meeting of the Open-ended Intergovernmental Ad Hoc Expert Group on Forest Financing
13-17 September 2010-Nairobi, Kenya

Summary

Pursuant to paragraph 2 of the resolution on means of implementation for sustainable forest management, adopted at the special session of ninth session of the Forum (see E/2009/118-E/CN.18/SS/2009/2, para. 3), the Open-ended Intergovernmental Ad Hoc Expert Group (AHEG) will hold two meetings, one before the ninth session and one before the tenth session of the United Nations Forum on Forests. The first meeting of the Open-ended Intergovernmental Ad Hoc Expert Group on Forest Financing (AHEG1) was held from 13-17 September 2010 in Nairobi, Kenya. The present document is the report of the AHEG1 which will be submitted to the ninth session of the United Nations Forum on Forests for its consideration.

I. Background

1. Through paragraph 1 of the resolution adopted at the special session of its ninth session, the United Nations Forum on Forests decided to establish an Open-ended Intergovernmental Ad Hoc Expert Group with a view to making proposals on strategies to mobilize resources from all sources 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, including, *inter alia*, strengthening and improving access to funds and establishing a voluntary global forest fund, taking into account, *inter alia*, the results of the Forum's review of the performance of the facilitative process, views of Member States, and review of sustainable forest management-related financing instruments and processes.

II. Organizational and other matters

A. Venue and duration of the meeting

2. The first meeting of the Open-ended Intergovernmental Ad Hoc Expert Group was held in Nairobi, Kenya from 13 to 17 September 2010.

B. Opening of the meeting

3. The meeting was opened by Mr Arvids Ozols, Chair of the Bureau for the ninth session of the United Nations Forum on Forests. Mr Ozols welcomed experts and emphasised the global importance of the issue of forest financing. He added that the Forum, as an intergovernmental policy forum with universal membership, is able to take a comprehensive 360 degree view of sustainable forest management, covering the full range of forest-related issues for all types of forests. The forest financing decision of the special session of the ninth session of the Forum had been taken at a critical time when the pivotal role of forests in advancing sustainable development agenda and the global efforts to fight climate change were being recognized more than ever before. This resolution constituted a road map with clear and identifiable actions and measures on the highly controversial but important issue of forest financing. It also carries important political messages for the international community, as it recognizes the comprehensive and cross-cutting nature of forests with their numerous and multiple socio-economic and environmental benefits for other aspects of human life and the global environment. The resolution also

recognizes the importance of the Forum and the contribution that it can provide to other related processes in diminishing the political differences on sensitive financing issues. Mr Ozols said that the Bureau for the ninth session of the Forum welcomed the comprehensive work programme facing the Open-ended Intergovernmental Ad Hoc Expert Group. The Bureau strongly believed that the impacts of the Forum's work on forest financing could also make a positive contribution to other relevant processes. Accordingly, he invited experts to contribute productively to the work of the Group.

C. Election of Co-Chairs

4. Mr. Ozols invited the participants to formally elect the nominated candidates, Mr. Jan Heino (Finland) and Ambassador Macharia Kamau (Kenya), as the Co-Chair of the first meeting of the ad hoc expert group. The ad hoc expert group elected the nominated Co-Chairs by acclamation.

D. Adoption of agenda and other organisational matters

5. The agenda (E/CN.18/2010/1) and the programme of work were adopted. It was noted there would be no negotiated outcome, and the Co-Chairs would prepare a summary of discussions, which would be annexed to the report of the meeting. This summary is attached at Annex I to the present report.

E. Tasks of the Open-ended Ad Hoc Expert Group

6. The Open-ended Intergovernmental Ad Hoc Expert Group noted that, through paragraph 2 of the resolution adopted at the special session of its ninth session, the Forum had decided that the Group would meet before the ninth and tenth sessions, submitting a preliminary report to the Forum during its ninth session and final recommendations to the Forum's tenth session, for its consideration and decision. The Group also noted that its tasks are set out in paragraph 1 of that resolution, and are also set out in paragraph 1 of the present report.

F. Opening remarks

7. The Co-Chairs thanked governments for their confidence in them. The Co-Chairs welcomed the participants and made brief opening remarks. Following that, there was a presentation by Mr. John D. Liu. The Chair of the CPF and the Director of the UNFF Secretariat also made opening remarks.

G. Introduction of the Secretariat Note

8. The Secretariat introduced its Note (E/CN.18/2010/2) on "strategies to mobilize resources from all sources 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, including, *inter alia*, strengthening and improving access to funds and establishing a voluntary global forest fund'. The Secretariat pointed out that the Note was prepared to facilitate discussions during the meeting.

H. Other introductory statements

9. The experts from Yemen on behalf of experts from the Group of 77 and China, Indonesia, Belgium on behalf of experts from the European Union, and the expert from the United States of America, made statements at the opening session.

I. Attendance and participation

10. The Open-ended Intergovernmental Ad Hoc Expert Group was composed of about 200 experts, from 68 countries and 23 regional and international organizations and major groups. In addition, experts designated by member organizations of the Collaborative Partnership on Forests[1], other international and regional organizations, regional processes and major groups were in attendance.

11. A full list of participants can be found at Annex II to the present report.

J. Documentation

12. Documentation prepared for the meeting included the provisional agenda, with annotations (E/CN.18/2010/1) and the note by the secretariat (E/CN.18/2010/2). See Annex III to the present report.

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

13. The Co-Chairs' summary of discussions that took place at the first meeting of the Open Ended Intergovernmental Ad Hoc Expert Group on Forest Financing including the Co-Chairs proposals for intersessional activities is attached as Annex I to the present report for consideration of the United Nations Forum on Forests at its ninth session. The present report was adopted by the AHEG1. The AHEG1 also took note of the Co-Chairs summary and their proposals for intersessional activities, as contained in Annex I to the present report.

IV. CLOSING OF AHEG1

14. During the closing session, the Co-Chairs thanked all participants for their active involvement in the discussions during the AHEG1, and their suggestions on section VII of the Co-Chairs summary namely on proposals on intersessional activities. The Co-Chairs also expressed satisfaction on the results of the meeting, considered the AHEG1 as a unique experience, and thanked the Bureau of the UNFF9 and the Secretariat for planning the AHEG1 in such a dynamic and interactive manner. The Co-Chairs urged continued engagement and cooperation of all countries, organizations and major groups, in particular at the UNFF9 where a decision should be taken on the intersessional activities, based on the Co-Chairs proposals. The Co-Chairs then announced the closure of the AHEG1.

[1] The Collaborative Partnership on Forests (CPF) is a voluntary arrangement among 14 international organizations and secretariats with substantial programmes on forests which is set to support the work of the United Nations Forum on Forests. The CPF members are CIFOR FAO ITTO IUFRO CBD GEF UNCCD UNFF UNFCCC UNDP UNEP ICRAF WB IUCN.

Annex I

Co-Chairs' summary of the discussions during the first meeting of the Open-Ended Intergovernmental Ad Hoc Expert Group on Forest Financing

I. Opening session

1. In their opening remarks, the Co-Chairs welcomed experts and highlighted the importance of the meeting in developing a mutual understanding on strategies to mobilize resources from all sources 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. The Co-Chairs noted that the programme of work for the meeting paved the way for serious, open and focused discussions on the key issues related to forest financing. It provided an opportunity, for the first time, to engage key and influential non forest sectors such as planning and finance ministries in the discussion of forest financing. Different panels and break out groups were planned to allow experts to share knowledge and concrete examples of forest financing policies, programmes and strategies. The Expert Group would be also informed of the initial input by the Facilitative Process which was also established by the resolution. In addition, in preparing for the meeting, the secretariat had commissioned a number of country and regional case studies. There would also be specific key note speeches on forest financing options.

A. Presentation by Special Guest, Mr. John D. Liu

2. Mr. John Liu gave a presentation which highlighted the importance of the role of forests as fully functional systems. He emphasized the strong links between degradation of fragile ecosystems at the landscape scale and poverty, food insecurity and biodiversity loss. He attributed this to a failure to assign proper values to the ecosystems that supply products, and the associated creation of perverse incentives to degrade these ecosystems. He give an example of a major project in the Loess Plateau in China, where an econometric assessment of the full value of a degraded ecosystem had driven action to restore the forest through terracing and planting on a very large scale – an area larger than the country of France.

B. Statement by the CPF Chair

3. Mr. Eduardo Rojas-Briales, Chair of CPF and ADG-FAO, gave a pre-recorded statement welcoming experts and emphasizing the support that CPF members would continue to give to the work of the Open-ended Intergovernmental Ad Hoc Expert Group on Forest Financing. He highlighted the importance of recognizing all values of forests, including in relation to livelihoods, biodiversity, soils, watersheds and climate as well as their productive functions. In addition, he said that the Group would need to consider financing from all sources, recognizing that there was not one single solution to the challenge of securing adequate financing for SFM. He also reminded experts that their work would be of relevance to a number of forthcoming international meetings, including COFO, the CBD COP, and the UNFCCC COP as well as for UNFF9.

C. Statement by the Director of the UNFF Secretariat

4. Ms. Jan McAlpine, Director, United Nations Forum on Forests secretariat, made a statement reminding experts that there had been 17 years of intense debate about forest financing,

culminating in the decision at the special session of the ninth session of the Forum. This had established two significant mechanisms – this Group and the Facilitative Process. Noting that funding for forests is low when compared to funds now being committed to REDD+, she emphasized that forests have many functions and values in addition to carbon sequestration. A 360-degree perspective on forest financing is needed to recognize all the values of forests and that, she emphasized, was the scope of the non legally binding instrument on all types of forests (forest instrument). Cross sectoral and cross institutional approaches beyond the forestry sector are required to effectively implement the forest instrument and the global objectives on forests, given that the causes of inadequate financing for SFM often lie outside of the forest sector. But also, she pointed out, forest financing can contribute significantly to the national economy and reducing poverty. She noted that the Forum is in a position to take action with this 360 degree perspective on forest financing, adding that the secretariat had signed partnership agreements with the UNCBD and UNCCD Secretariats, and has under development further agreements with GEF and ITTO. She explained that the work programme for this first meeting of the Group was very much based on the resolution's approach to forest financing. She also reminded experts of the International Year of Forests 2011, which would be a year-long celebration, showcasing "Forests for People" success stories and innovative solutions.

D. General Statement

5. A number of experts made introductory statements during the opening session, extending full support to take on the tasks of AHEG1. They commended the preparations for this meeting and emphasized their gratitude for convening this meeting at the United Nations Offices at Nairobi, Kenya. Experts welcomed the opportunity to share experiences and ideas to improve the understanding of the challenges of forest-related finance. The importance of examining existing financing mechanisms, as well as other options, was also highlighted. They expressed a need to use this meeting to explore feasible and realistic solutions. Many noted that sufficient and adequate financing of SFM is essential for the achievement of the four global objectives on forests (GOFs) and the effective implementation of the NLBI. Concern was expressed at the alarmingly high rate of deforestation and the lack of adequate resources, particularly in developing countries. Experts also recalled proposals that had been made for the establishment of a global forest fund aimed at providing new and additional financial resources to developing countries for promoting SFM. They also expressed appreciation for the cooperation that led to the agreement at the UNFF9 Special Session on the Facilitative Process and this dialogue under the AHEG. It was also stressed that forests are essential to many aspects of human life, meeting a wide array of needs, especially for the world's 1.6 billion forest-dependent people. The significant contribution of forests to the Millennium Development Goals was also emphasized.

II. Workshop One

Topic One: Financing SFM: A strategic cross-sectoral requirement for achieving internationally agreed development goals

Summary of presentations

6. Mr. Tony Simons of ICRAF emphasized the need for a cross-sectoral perspective in the implementation of SFM and stressed that international financing in other sectors can have positive and/or negative impacts on forests. There is a need to consider a landscape approach where forestry and agroforestry are developed together; likewise, rural development and forests can only be financed hand in hand. At country level, forest issues fall under a long list of different

ministries. There is often a lack of recognition and coherence in their decisions on policies, programmes and financing.

7. In their joint presentation, Mr. Melchiade Bukuru from UNCCD and Mr. Jones Ruhombe Kamugisha from the UNCCD Global Mechanism emphasized the importance of the recently signed Memorandum of Understanding between the UNCCD and UNFF secretariats that focuses on identifying gaps, obstacles and opportunities in financing sustainable land management and sustainable forest management. There is a need to expand the implementation of SFM beyond tropical rainforests to include dry forests and trees outside forests. REDD-plus brings new challenges to dry forests, especially as areas of sufficient carbon storage need to be identified to justify capturing REDD funds. Drylands must be taken into account in forest financing debates, especially as they occupy 42% of the global forest area. Forests must be positioned in the overall development planning at the national level and their financing goes beyond forestry/environment ministries and ODA.

8. Ms. Maria Sanz-Sanchez of the UNFCCC Secretariat provided an overview of the REDD process and its current status. Parties to the Convention have recognized the need for scaled-up financing, fast start funding, capacity building and national strategies and action plans to address the drivers of deforestation. However, financing options remain one of the key issues to be addressed. Recommendations were made, notably on the need to promote and enhance regional cooperation, and to fully utilize technical capacities that already exist. The role of the UNFCCC Secretariat is to enhance coordination of capacity building and develop an interactive discussion forum as well as to share information on the REDD+ Web Platform. REDD+ readiness activities have already been started in many developing countries through different means, most of them multilateral (REDD+ Partnership, UN-REDD, FCPF, FIP, GEF-5 and other international organizations) with funding commitments amounting to about USD 5.6 billion.

Summary of interactive discussions

9. There was a common view that cross-sectoral issues in forest financing need to be considered both at national and international levels, although, as pointed out by a CPF member, forests should not be lost from sight when attempting to look beyond sectors. A key constraint is lack of information on the contribution to GDP and poverty reduction of the forest sector to justify its financing in national budgets. In one specific example of this phenomina, it was noted that LFCCs generally tend to give a low priority to forests and to trees outside forests due to their marginal role in economic accounts. This is due to an absence of proper accounting of the benefits generated by forests as well as a lack of accounting of the costs of forest degradation. An accounting of physical volumes of various forest outputs and their valuation in monetary terms would be required as the first step towards the internalization of forest externalities. It was also noted that many communities critically depend on forests for their livelihoods, which is not necessarily reflected in national level statistics.

10. One suggestion was a global synthesis of already existing data and studies on forest financing.

11. Addressing cross-sectoral aspects in financing requires information on trade-offs between alternative land uses, but this information is significantly lacking. There is a close cross-sectoral linkage in financing sustainable land management and SFM. Integrated approaches can therefore be highly useful, for example in LFCCs. In both cases further work is needed to scale up successful experiences.

12. It was also pointed out that safeguards are common in forest and forestry investments but often not required in other sectors such as mining or agriculture.

13. Participants recognized that the cross-sectoral aspects in forest financing are not adequately understood and this is an area in which further research is needed. There is also a need to change the mindset of policy makers and the general public as they do not understand the critical contributions of forests to livelihoods and sustainable development. This is a challenge for communications as well.

14. Participants noted that national macro-level planning also typically includes a sectoral approach and in many countries this would be necessary for an acceptable level of financing for forests. A sectoral approach would help take into account the revenues generated by forest activities and to design appropriate budget allocations. In addition, efforts would be needed to account for the damage by other sectors on forests so that, for example, appropriate compensation mechanisms could be developed.

15. It was recognized that government expenditures form only a small part of domestic financing of SFM as the bulk comes from the private sector, forest communities and smallholders. Governments do not often recognize their forest financing as an investment which can bring significant economic, social and environmental benefits.

16. As only part of the forest outputs are fully remunerated by the market, other mechanisms are needed for valuation of other ecosystem services which are not presently captured in economic assessments. This is the reason why the maintenance or enhancement of forest ecosystem services is usually only accounted as a cost. Information on costs of environmental degradation has not often had an adequate impact on decisions on resource allocation which tend to focus on expected short-term benefits.

17. There are about one billion hectares of degraded lands which offer opportunities for restoration through afforestation and reforestation. Restoration of these lands would improve soil fertility, biodiversity, biomass and rural income and also contribute to the global welfare. Investments in restoration can therefore be justified and successful experiences can be replicated (e.g. the Loess Plateau in China).

18. One proposal was for a new analytical approach to identify the needs and opportunities for financing for forests based on forest functions and outcomes as they are defined in the Millennium Ecosystem Assessment (supporting, provisioning, regulating and cultural and social functions). This could provide a common framework to take account of various forest products and services instead of the current partial approach.

19. Participants noted that REDD-plus can provide a major new opportunity for financing of sustainable forest management but there are also a number of concerns related to the international rules which may be adopted. As an example, a major weakness in the planned REDD arrangements is that it will not provide adequate support to LFCCs for example, in spite of the potential contribution of their forests to both mitigation and adaptation to climate change. There is a need to engage forest specialists as they have not effectively participated in the preparations and negotiations on REDD.

20. Participants noted that there is proliferation of initiatives to improve resource mobilization for forests but these are not coordinated. A common framework could avoid conflicting outcomes and unnecessary transaction costs. A detailed assessment of existing initiatives would help in

enhancing their effectiveness to promote financing for SFM. There is also a need to mainstream the proliferation of discussions on SFM both on international and national levels. There was also a common view that it is the responsibility of countries to ensure coherence of outcomes in different international fora concerning forest financing but this is far from being achieved at present.

Topic 2: SFM financing and the role of finance and planning ministries and organizations; the need for integrated financial policies, the potential of private sector and major groups

Summary of presentations

21. Mr. Chen Jiawen, Director of Division for Forestry Planning in the Department of Planning and Finance Management from the Chinese State Forest Administration, explained that forest financing in his country consists of public sector funding, private sector financing, foreign direct investment and a special mechanism. Private sector financing comes from the banking sector as loans, forest industry enterprises and social voluntary sources. Foreign investment comes from international organizations, bilateral sources and foreign direct investment. The special mechanism is a compulsory tree-planting mechanism. He added that elements for global forest financing should recognize the important role of forests in sustainable development. Clear objectives and action plans would be needed for global forest development which should be the basis for the respective financing programmes. At country level, an assessment is needed on the status of SFM and financing needs and the assistance should include financing, technology transfer and knowledge. Both the donors and recipient countries should make firm commitments on their actions. A global level mechanism could include a global forest ecological fund, forest investment and trade facilitation, forest carbon markets, compulsory tree-planting action and forest cross-cultural foundation to increase awareness of the importance of forests. A special institution would be needed to manage different elements of the mechanism, including monitoring and assessment. UNFF should set up a special institution to manage and operate the different parts of a forest financing mechanism and report to member countries on its operation.

22. Ms. Stefanie von Scheliha, Project Officer on the GTZ team on International Forest Policy (Germany), emphasized that the various international processes and national programmes have two common goals, sustainable management and use of forests and forest protected areas, these could be the basis for aligning various national and international initiatives targeted at addressing deforestation and forest degradation. As many sectors are involved, there is a genuine need for cross-sectoral coordination, and action needs should be jointly identified to ensure their proper implementation by relevant parties. Only thereafter can financing needs be identified and resources mobilized from available sources. Support is often needed from the private sector and major groups which can provide information and ideas and need to participate in decision making. Alignment of different interests and coordination are also needed. Integrated financial planning needs to be transparent and have a broader than sector view to tap potential funding sources. The greater the number of stakeholders promoting the issue of forest financing, the more powerful the lobbying is likely to be.

23. Mr. Tatsuya Watanabe, Deputy Director of the International Forestry Cooperation Office of the Japanese Ministry of Agriculture, Forestry and Fisheries, explained their experiences on resource mobilization for promoting SFM in his country where forests are divided into small, privately owned properties. The current challenge is to bring these forests under improved management, to improve their environmental services at a time when the economic profitability has been declining due to a strong yen. Resource mobilization through budgetary allocation has relied on broad public concern about the need to improve management of planted forests and

make use of forests in carbon sequestration. Public awareness and support are fundamental for resource mobilization which can be created through transparency and accountability, effective and timely MRV, and public participation. Good governance is a prerequisite, including an adequate policy framework and institutional capacity as well as continuous innovative measures. The Japanese experience on financial and technical bilateral cooperation in forests accounts for about USD 250 million per year. There are several constraints, however, as the overall funding available for Japanese ODA is declining. REDD offers new opportunities. Pressures on forests from other uses can be addressed through recognition of the need for cross-sectoral approaches. There are increased demands for strategic assistance and positive incentives. Challenges for international cooperation include ensuring ownership of recipient countries, creating the enabling condition for SFM financing and provision of results-oriented assistance and enhanced accountability at all levels.

24. Mr. Ivar Jørgensen, Counselor for Environment and Climate Change at the Royal Norwegian Embassy in Dar es Salaam, explained that the Norwegian International Forest Climate Initiative (NIFCI) consists of support to several multilateral and bilateral programmes currently being the largest source of global funding for REDD-plus. As one of the pilot countries, the experience on the Tanzania REDD programme consisting of research and capacity building, policy process, MRV, NGO-operated field projects, engagement of the private sector and preparations of a REDD fund was reviewed. He added that REDD is one of the tools for achieving SFM and they have common aspects in field activities, governance, monitoring etc. A broad range of ministries and government agencies as well as stakeholders have to be involved and capacity building has to address all their needs. REDD revenue has the potential to improve returns on SFM investment which would not be implemented otherwise. At present, REDD appears to offer opportunities for many, but not necessarily all, developing countries. Only 20 African countries, for instance, stand to benefit significantly from REDD, according to the speaker.

25. Mr. Gary Dunning, Executive Director of The Forest Dialogue (TFD), briefed the Group on the objectives and activities of the TFD and its processes on Financing REDD-plus and Investing in Locally Controlled Forests. TFD has concluded that REDD financing should depend on a reliable, robust and predictable mechanism that is transparent and above all equitable, which enjoys the support of key stakeholder groups. Payments should be based on performance and they require optimal and coordinated use of markets, public and private funds, multi/bilateral grants and other sources. The lessons learned suggest that safeguards should address social, environmental and financial aspects at different levels; there should be effective and equitable distribution mechanisms and good governance. He further added that investing in locally controlled forests offers huge opportunities in small-scale and community based forestry projects that achieve a decent return on investment whilst advancing environmental development goals. About one billion people own or manage a quarter of the world's forests which generate a broad range of economic, environmental, social, cultural and spiritual benefits. To make use of this opportunity, local rights to forests should be secure, 'soft' and 'hard' investment is needed, and support would be needed in the form of business services, capacity building, partnerships and alliances. There are, however, a range of obstacles to be addressed through a partnership approach, support of governments and other 'soft' investors, various innovative mechanisms and networking.

26. Mr. Ibrahim Thiaw, Director of the Division of Environmental Policy Implementation of UNEP emphasized that evidence-based policy advocacy can shift policy and investments in forests and that it is critically important to identify the areas where the evidence is likely to be found and deliver change. Practical experience in the protection of the Mau forest in Kenya has demonstrated that in complex situations, the engagement of the highest political level of a country

can be mobilized for effective results in the field. The outcome of the Mau Forest initiative has resulted in effective protection as Nairobi's water source, for instance. The on-going work on the Economics of Environmental Services and Biodiversity (TEEB) has shown that restoration of degraded lands, conservation of biodiversity in protected areas, as examples, can generate very high returns. The lessons have shown that valuation of environmental services has to be explicit and speaks to decision-makers directly and in concrete terms, especially as markets generally undervalue them. Biodiversity is important for all but essential for the rural poor who depend on it. Initial experience in REDD implementation is accumulating, indicating that it is a unique opportunity to transform the forest sector and landscapes. It will be important to include dry and sub-humid forests in such schemes to ensure that their role in mitigation and adaptation in climate change is enhanced. It is important that REDD also delivers benefits from all forest environmental services, leveraging opportunities for additional financing to secure these multiple benefits.

Summary of interactive discussions

27. The presentations under this topic included presentations by China as well as by Germany and Japan. These presentations represented two distinct but equally effective models for addressing the issue of forest financing – one in a centralized system, and the other in a decentralized system with multiple stakeholders. Presentations by TFD, Norway and UNEP represented three examples of REDD+ related forest financing initiatives at the local level national and international levels, respectively.

28. Countries share a common situation in seeking adequate budgetary allocations for financing SFM. Several reasons explain this situation, including the limited recognition of GDP contributions of the forestry sector, lack of information on the link between forests and national development goals, the low priority of forests and forestry (often being only a subset of agriculture, environment or natural resources), lack of recognition of the link between revenues and costs of forestry activities in accounting, etc. Among other omissions, current GDP estimates often disregard the downstream industrial processing of wood and activities of the informal sector.

29. Planning and financing ministries have to deal with competing requirements and it has proven difficult to attract the right level of attention and priority to financing for forests. NFPs and other sectoral plans have not been closely linked with national development planning, which is another constraint in some countries.

30. The traditional national development planning approach emphasizes economic development and this is a constraint for the forestry sector due to a lack of national accounting of many forest benefits and the importance of the informal sector on which data is lacking. The on-going shift towards adopting sustainable development as the overall framework for national development planning opens up new entry points for budgetary allocations for forests. This means that several sectoral windows can be accessed but in order to make them work it is necessary that related sectoral ministries share a common goal which is built on the recognition of the multiple benefits of forests, including economic, ecological, social and cultural values. This calls for a truly cross-sectoral approach in mobilizing domestic public financing for SFM at different levels of government. There is a great potential to make more efficient use of the available financial resources if synergies between forests, land restoration, biodiversity and climate change can be harnessed at the national level instead of working in silos, without the necessary integration of financing programmes.

31. Successful national experiences also show that political awareness of forests in sustainable development at the highest political levels can ensure that budget allocations for forests are not constrained by competing demands from other sectors. In addition, mobilization of stakeholder support can be very helpful to raise awareness among policy makers on the importance of forest financing. Supporters are needed to lobby decision makers for forest financing. Forest issues have a great potential to bring different actors together to promote their common interests.

32. Countries have different situations in their administrative and institutional arrangements regarding forests but the experience shows that cooperation between the involved agencies is necessary. Each country needs to seek its own ways to establish effective coordination and cooperation arrangements within the framework of the common goal of SFM. The importance of good quality of planning was also considered an important factor in getting forestry plans well integrated into national development plans.

33. There was a common view that accountability in the use of funds and achieving the adopted goals and targets is necessary. The forest sector has not always been successful in this respect as achievements are not easy to measure. Country experience shows that improvement in this respect is critical. Monitoring and assessment of performance are important but new indicators may be needed to measure improvements in forest environmental services.

34. Several instruments can be used for mobilizing funds for forests. Many countries apply subsidies. Some countries use earmarked taxes but in the majority of cases earmarking is not possible but could offer an opportunity if applied. There are different experiences in using national forest funds in raising and disbursing financing to beneficiaries. Such funds can be very useful in assisting private forest owners or communities but there have also been difficulties in accessing them if the funds are managed under finance ministries. Another approach with good experience is retaining part of the timber sales revenue which can later be used on preferential terms for reforestation and other SFM activities. It is possible to group small-scale private forest ownership when making investments in infrastructure.

35. In financial planning at the national level the role of all sources needs to be considered, including the private sector, foreign direct investors, and voluntary funding from the civil society through various mechanisms. Each has its own role in financing different aspects of SFM.

36. REDD-plus offers a major opportunity for raising financing for other aspects of SFM. However, REDD is not a major short-term opportunity for all. Resources cannot be shared among participating countries (now about 40 in process) without reducing significant impacts on the ground. Therefore, priority setting and engagement of the private sector as a major potential source of funding is necessary.

37. Countries with high forest cover and low deforestation rates are concerned that their efforts to maintain the carbon stock in the existing forests may not qualify for future REDD financing. It was noted that forest conversion is sometimes necessary or preferable to achieve national development goals - forests should not be seen as a barrier for economic development.

38. Another concern is the issue of indigenous peoples, as there is a risk that their land rights will be negatively impacted by REDD. There is a need for clear policies for benefit sharing, including for indigenous peoples, local communities and other forest-dependent people. The private sector can play a pivotal role in involving surrounding communities in REDD schemes, as they have the capacity to organize monitoring and verification as well as capacity building.

39. Participants recognized that work under REDD readiness development is very useful also in view of developing payment mechanisms for other forest environmental services than carbon, as the same issues of legal and institutional framework, tenure rights, capacity building, benefit sharing, etc. are largely common to all mechanisms. At the same time, willingness to pay for environmental services can be promoted, which may lead to a new paradigm in financing SFM.

40. Governance was recognized as a common issue both for SFM and REDD. "Free Prior and Informed Consent" (FPIC) has been adopted by UN-REDD as a safeguard to ensure that land rights of indigenous peoples and local communities are not adversely impacted by REDD. The on-going work under The Forest Dialogue has proved to be useful in applying FPIC in helping communities and companies to work together. There is some hesitation among some countries in embarking on REDD work because many earlier similar planning initiatives have not resulted in concrete results. For instance, the view was expressed that the cost of certification has proved to be an additional burden for producers in the Congo Basin as it has not resulted in higher product prices in export markets.

41. Evidence-based information on forest environmental services can be a powerful tool to influence policy decisions, but a lack of common methods to value biodiversity and other environmental benefits often makes it impossible to take these into account in financing decisions. In addition, national level resource assessments would be needed to quantify the different aspects of forest benefits.

42. The discussion included comments such as the need for countries to assume a greater responsibility themselves for financing of SFM. Other sources can only be complementary but not the main solution to the problem of funding and there is clear evidence that ODA alone cannot develop a country. Each country should plan its development based on its own resources. It was also observed that many of the resource-rich countries are among the poorest, which is a paradox. Another dilemma is that revenue collection in the forestry sector is notoriously low (e.g. 4% in Tanzania), and with improvement of governance the revenue generation for this can be significantly increased.

III. Workshop Two

Topic 1: Specific national and regional experiences/strategies on mobilizing financing for SFM

Summary of presentations

43. Ms. Penny Davies, Senior Forestry Adviser, Policy Department, for the UK Department for International Development, gave an overview of the income and expenditures of domestic forest financing, as well as examples of the international experience in financing for forests and building strategic partnerships. At the domestic level, government finance grants, timber receipts and other non-timber products and services, such as recreation, were the main sources of finance. National expenditures described included public forest estates - which rated the highest, followed by private forestry, forest research and policy, regulation and administration. She highlighted a wide range of opportunities and partners. Opportunities have increased in recent years with new sources of funding, including the private sector. The Red Rose Forest and the Big Tree Country were highlighted as examples of public-private partnerships. The first was significant in catalyzing partnerships with cities, communities and businesses, while the second exemplified active woodlands and partnerships with schools and forestry agencies. She emphasized that the UK attaches importance to financing international forestry. She added that there was concern

about illegal laundering of income from forests that has helped finance conflict. She explained that support is targeted where there is credible governance, tenure and market reforms; EU FLEGT partnerships; well linked policy and practice; business that favours sustainably sourced commodities and reduced deforestation; verifiable results and progress; and sustained momentum for change. Support was also given for communication and advocacy. Support is multilateral, bilateral and plurilateral. There are partnerships with multilateral organizations, as well as community groups and enterprises. In 2008/09 the forestry aid budget of £22 million represented 0.3% of the UK aid budget, but, with REDD fast start finance, this is set to rise to an estimated £100 million annually by 2011/12-13/14, based on progress and performance.

44. Mr. Samuella Lagataki, Deputy Conservator of Forests, Forestry Department of Suva, Fiji Islands said Fiji is one of the Small Island Developing State (SIDS) examined in the UNFF Facilitative Process project on financing gaps and challenges in Sustainable Forest Management (SFM) for SIDS and Low Forest Cover Countries (LFCC). He explained the methodology and approach for data collection, and the key policies, institutions, and inter-sectoral linkages that are embedded in the 2007 Forest Policy and other major policies and legislation. Fiji's financing strategy includes the Forest Sector's Development Revenue, the Sector's Development Fund, Trade and Commercialization measures; Financing Conservation and protection Measures and Financing through international and regional cooperation. Among the project outcomes, Mr. Lagataki highlighted issues for private investments, financing gaps and opportunities to create an enabling environment for SFM financing. He mentioned attractive incentive packages for various markets, and stages of wood production, including plantation establishment, as well as the need for an institutional infrastructure and specialized capacity to meet the evolving needs of investors for developing relevant packages targeting various resource sectors (agriculture, fisheries, forests). Linking tax deductions with a degree of compliance to SFM standards, such as the National Standard for Forest Certification was also noted, as was building a strong link between regional organizations as conduits for accessing funds. The main implementation challenges focused on procedures, modalities, priorities and the role of stakeholders. The lack of incentives for the private sector to improve sustainable forest practices, and little support from financial institutions were also noted. The opportunities included potential for private and corporate investors to invest in forest-related activities, emphasizing incentives for afforestation and reforestation, as well as potential for enhancing conservation resource needs. Other recommendations for increasing financial flows for SFM included forest–based ecotourism, corporate social and environmental responsibility, public private partnerships, a review of forest license and service fees, development of non-wood forest products; a green fee on foreign visitors, agroforestry practices, a levy system on sales of logs sourced from native forests as well as the Fiji REDD+ policy.

45. Mr. Paulo de Leon, consultant for National Forest Institution of Guatemala, presented an analysis of Forest Financing in Guatemala, describing the National Strategy for Forestry Funding (ENFF), building on various elements and components. Among these, he highlighted the importance of financial and economic information, the design and consolidation of major support lines, the use of existing credit lines, pre-investment connected with financial intermediaries, the development of new financial instruments and implementation of the Forestry Financial Intelligence Unit (UIFF). A diagnosis of local and rural forest communities under the National Alliance of Forestry Community Organizations of Guatemala (ANOFCG), consisting of representatives of 427 organizations and 11 second-level community organizations was presented. The substantive areas of the ANOFCG focus on governance, financial mechanisms, competitiveness and organizational strengthening. Forest employment generation was highlighted as part of the outcomes of the Program of Forestry Incentives (PINFOR). Also described was the Programme of Incentives to small land owners with forest or agro-forestry vocation (PINPEP).

The programme, which covers 79 municipalities affected by hunger and poverty, aims to extend and strengthen small forest owners' participation, promote gender equality in the management of natural forests, and establish and maintain agro-forestry systems. He then highlighted financial needs and gaps in SFM. These included gaps at government level (including lack of awareness of the forest sector), gaps in the financial sector (which is relatively small and not familiar with the forest sector) and gaps of knowledge and information in the forest sector. In 2006, forestry contributed 2.58% of GDP but employed some 10% of the labour force. Factors affecting the forestry sector have included the world financial crisis, the rise of new players (such as China), new laws and certification requirements, and climate change. Recommendations included improving access to forest funds, with promotion of new mechanisms (such as eco securitization, private forest funds and risk mitigation techniques). Important trends included increasing use carbon emission bonds and trading. Mr. de Leon also stressed the importance of improving coordination and the enabling environment.

46. Mr. Sebastian Malele Mbala, National Consultant, DRC presented an analysis of the financing of SFM in the Democratic Republic of the Congo. He explained that DRC has the second largest tropical forest of any country, with 145 million hectares (62% of the total land area). These forests represent nearly 60% of the forests in the Congo Basin, which includes a total of six countries. They are important for the livelihoods of 40 million people and play an important environmental role – including global significance for biodiversity. Axes of national policy include comprehensive action to recognize the social, economic and environmental value of the forests, a participative approach to stakeholder engagement, equitable partnerships and the distribution of a proportion of revenues to local communities. In addition, protected areas in DRC have been increased to 38 million hectares (15% of the total land area). Action was being taken to seek payments for environmental services, for example through bioprospecting, conservation concessions and carbon sequestration. In addition, the DRC is creating a favourable environment for private investment and is establishing a transparent system for allocating concessions. He added that DRC was expecting to sign a voluntary partnership agreement with the EU under the FLEGT process in the near future. Mr. Mbala said that the financial needs for SFM in the DRC were valued at $250 million between 2009 and 2016. However, following the reform process, DRC had had pledges of $360 million, with $280 million already engaged or in the course of execution; of this the domestic contribution is about 0.1%. Particular difficulties faced by DRC include the challenges of a post-conflict situation and debt reduction. Recommendations for financing strategies included improving access to funding, mobilization of resources through REDD+, efficient and effective use of available resources, improved coordination of actions, availability of external assistance, mobilization of sustainable new sources of finance, technology transfer and capacity building. Accordingly, he proposed that there should be a global forest fund to bridge the gaps and address the weakness in current financing mechanisms.

47. Mr. Marco Boscolo, from FAO, gave a presentation on the work of FAO in supporting the development of National Forest Financing Strategies. Current work is based on lessons from a collaborative knowledge sharing initiative in Latin America on financing mechanisms. The objectives of the initiative were to produce a broad assessment of the status, perspectives, and experiences with financing mechanisms; and to increase the capacity of National Forest Programs (NFPs) in the development of national strategies and instruments for forest financing. He identified the potential of an integrated approach to forest finance that includes public and private investments, payment schemes, improvement of the enabling environment and alignment with other national policies such as trade, credit, and investment policies. National forest financing strategies are developed through a capacity development process that includes, for example, trade credit policies. The capacity development process was important and included stocktaking, sharing of perspectives by stakeholders, identifying market development opportunities, improving

the enabling environment and developing a concrete action plan. Current lessons had been based mainly on experiences in Latin America, but further support is now underway in Africa and Asia. He mentioned that initial achievements included public endorsement of national forest financing strategies, selection of financing instruments for development through financial and legal assessments, involvement of rating agencies, etc. Key lessons included the availability of significant funding at the national level; the interest in forestry by banks, social security schemes, commodity exchange (not only for productive purposes), the high potential of playing a catalytic role; and that it takes time to address misconceptions and develop products that meet the need of both sectors. Significant funding is available at the national level, but there is a need to engage more actively with other sectors, in particular the financing sector. Playing a catalytic role can be very effective. Opportunities for support include help in partnership building and communication to address "isolation"; strengthening linkages with other sectors and key stakeholders; forming of associations among small forest owners; building capacity; enterprise development; promoting financial innovation (to address excessive "dependence" on ODA and government budgets); reinvesting forest revenues into the sector; promoting access to capital markets; enabling payments for environmental services; operationalizing risk mitigation and credit guarantee instruments; and encouraging a strategic approach to finance through National Forest Financing Strategies. He also mentioned two new initiatives to support financing for small scale forestry in Central America and West Africa.

48. Ms Yetti Rusli, Senior Adviser to the Minister of Forests, Republic of Indonesia, gave a presentation on SFM Financing Facts and Challenges. Forests cover 133 million hectares, or 71.2%, of Indonesia and contribute 0.8% of GDP. Ms Rusli explained that Indonesia was set to reduce emissions, compared with business as usual, on a voluntary basis by 26%, and that this would rise to 41% by 2020. She added that 14% of the 26% reduction would be forest based, with the remaining 12% non-forest based. She also highlighted the linkages between forests and the Millennium Development Goals. Ms Rusli outlined key features of the National Strategic Plan (2010-14) and explained that the financing strategy, which is based on achieving the global objectives on forests and implementing the NLBI, would require huge investment. There was a need for a broad approach, with support through cross-sector investment and mobilization of public and private finance from national, regional and international institutions. To achieve this, it is important to have effective, efficient and transparent financial management. Sources of finance include the public budget (comprising national tax-based revenue, forest non-tax revenue and provincial and district budgets) and overseas development partnerships (bilateral and multilateral). At around $0.4-0.6 billion per year, the domestic forestry budget represents about 1% of total public expenditure – and compares with estimated needs of at least $3.6 billion per year. Constraints on international funding include the diverse requirements of various funds, gaps between programme design and actual needs, duplication, time consuming negotiation and design processes, and complex budgetary regulation. Public investments have focused on SFM capacity development, afforestation and reforestation, rehabilitation of critical lands, forest protection and conservation, and readiness for REDD+ and voluntary carbon markets. Private investment in 2009 amounted to over $14 billion in industrial forest plantations and around $6.5 in forest concessions. In addition there are private investments in small scale forest plantations, community-based forests, wood processing industries, non wood forest products, ecotourism and environmental services and ecosystem restoration. Ms Rusli noted that financing REDD+ readiness represented only part of the needs of financing SFM. She said that a future challenge was recognizing the non market values of forests, as well as the market value of both conventional commodities and new green products such as renewable energy. She suggested that there should be an additional new scheme on forest financing (bilateral, regional, multilateral) within a common platform under the Forum. This could be started by linking current available

finance with new forest funding, an investment fund and other investment opportunities, combining market and non market approaches.

49. Ms Dai Guangcui, of the China National Forestry Economics and Development Research Center, State Forestry Administration, gave a presentation on China's Strategy and Financing for Forestry Sustainable Development. Since 1998, China had initiated a series of National Key Forestry Programs, which have been all taken into the National Economic and Social Development Plan. Policies and mechanisms for SFM include a compensation system for forest environmental services, subsidies to support SFM, subsidies for loans and forest insurance, micro credit for forestry development used by farmer households, improvements to livelihoods in forest regions through improved infrastructure, a national compulsory tree-planting campaign, forest tenure reform, and preferential taxation and fees for forest and product processing. Between 1998 and 2009, total financing had increased from 13.53 billion yuan to 137.79 billion yuan, an annual average increase of about 23.5%. Sources of financing include public sector (central and local public fiscal sectors), private sector (banks, enterprises, individuals), foreign funds (international financial organizations, foreign governments, foreign direct investment, grant-in-aid) and others, including NGOs. Central forestry investment accounts for about 2% of central government expenditure. The share of the central public financing in total forestry investment was around 70% in 2002-2006, falling to 60.84% in 2009. Impacts included annual average planting of 5.44 million ha over the period from 1998 to 2009. Ms Dai explained that challenges included the poor basic condition of forest resources, high demand for wood, issues of tenure reform, difficulties in planting marginal land and the needs of poverty alleviation, with 70% of 250 million poor people's livelihoods relying on forests. Her recommendations included improving forest financing mechanisms for SFM, extending financing sources, improving the investment environment, and enhancing foreign investment and cooperation.

50. Mr. Peter Gondo, Africa Forest Forum (AFF), gave an overview of financing SFM in Africa. He explained that forests in Africa cover 635 million ha, or over 21% of Africa's land area, but less than 6% is under management. SFM requires substantial financial resources and one estimate from UNFCCC puts this at $2.7 billion per year (excluding costs of capacity building and other upfront costs). Africa's share of ODA to forestry is 20% (down from 33% in 1973-88) and is uneven, concentrated in 10 countries. Major multilateral sources include African Development Bank (AfDB), which operates in 21 countries with a $352 million forestry portfolio provided $72.7 Million/year between 2000 and 2005; $0.8 billion is earmarked for 13 projects in 2010. GEF operates in 28 countries and the World Bank Group operates in 20 African countries. However, there are key challenges in securing ODA, such as complicated procedures and long project cycles, lack of capacity to prepare proposals and co-finance. The largest investments are in tropical forests and very few Low Forest Cover Countries have benefited. ITTO has 10 African members, of which six receive financing. Other multilateral sources include the FAO-NFP Facility (in 35 African countries), the Global Mechanism, the International Fund for Agriculture Development, UNEP, UNDP and the World Food Programme. Mr. Gondo explained that Africa's industrial forestry level is low, with trade in wood products of $4 billion compared to a global figure of $200 billion Global. Foreign direct investment is in plantations (467,000 ha between 2000 and 2009), and in wood processing and natural forests concessions in tropical forests. Most domestic private finance is in the informal sector. Mr. Gondo recognized the importance of microfinance and the need for improved linkages with the formal finance sector. He noted that that were very few examples of payment for watershed services and only two examples of debt for nature swaps; but ecotourism generated revenue in some areas and is growing, with ecotourism incomes up to 15-20% of GDP. Global concern about climate change has resulted in forests attracting great attention, but there are only two A/R CDM projects proposed for Africa. While the value of voluntary carbon markets was $331 million in 2006, Africa's share was low

and the distribution of projects uneven. There are three UN-REDD pilot countries in Africa and also projects under the Forest Carbon Partnership Facility (FCPF). A number of REDD issues remain unresolved, such as trade-offs between various objectives (e.g., climate change mitigation, biodiversity and poverty alleviation), the distribution of payments for REDD credits to rural people, co-financing of activities required to ensure that REDD benefits are created, and the risk of limiting access to REDD financing only to forest-rich countries. Mr. Gondo also referred to other emerging instruments for forest financing, such as eco-securitization and forest-backed bonds, and endowment funds. Mr. Gondo concluded that financial resources from all sources are insufficient; there are inefficient revenue collection systems and low prioritization in budgetary allocations; private sector funding is limited to forest rich countries or those with potential for plantation development; the level of investment is limited by poor infrastructure; political and macro-economic instability, limited access to micro-finance for smallholders and poorly developed microfinance products for forestry sector; and poor linkages between forestry and finance sectors. His recommendations included the development of comprehensive national financing strategies as part of NFPs; better integration of the forest sector within national development frameworks; creating an enabling environment for investment in SFM; strengthening microfinance to improve access to resources for smallholders; establishing an SFM/NLBI-specific fund to mobilize funds for thematic areas not covered by existing funding mechanisms, including especially upfront financing for planning, analytical work and research, and development and national capacity building.

51. Mr. Charles V. Barber, Forest Division Chief, U.S. Department of State, gave a presentation on the US experience. He explained that the USA has the 4th largest forest estate in the world. Forests occupy about one third of the land area, or 304 million ha. About 56% is privately owned, and the private forest area accounts for over 90% of production. He outlined the history of US forestry, noting that forest lands had been cleared for agriculture, but as agricultural production had intensified on better land the poorer land had been recolonizsed by forest. Mr. Barber said that in 2010 the budget for the US Forest Service was $6.2 billion. Spending is prioritized for national forests, research (especially pests, diseases and fire), cooperation with state and private forestry, capital improvement and maintenance, land acquisition, wild land fire management and suppression. He also emphasized the importance of having an enabling environment that includes stable and well-defined institutional frameworks for land tenure and land rights, strong and relatively consistent markets for forest products, tax and regulatory systems that recognize the long-term nature of forestry investments and strong agricultural and forestry institutions that support information delivery. He noted that increases in per capita income encourage investment in the forest sector and citizens that value their forests. He explained that corporate forest landowners focus on plantations and specialized processing facilities. Meanwhile, non-corporate landowners are increasingly under financial pressure to sell land for development. Potential opportunities for finance include increasing productivity of intensively managed timber plantations, expansion of the certified forest land base, forests and payments for ecosystem services (water, carbon, biodiversity), expanding the use of wood for energy and as an energy efficient building material and expansion in the use of conservation easements to protect forest land. Turning to US international financing for forests, Mr. Barber said that the goal is to recognize and maintain the multiple benefits of forests, namely, biodiversity, legal and sustainable production of timber, community development and livelihoods and the maintenance of ecosystem services, including REDD+. The US has consistently dedicated at least $100 million a year to bilateral forest aid, with a major focus on the major tropical forest areas of the world. Another $100 million is destined for multilateral programs including the GEF, FIP and FCFP. He added that at Copenhagen, President Obama pledged $1B billion over three years in fast-start REDD financing. Mr. Barber explained that the US

Government needs to be able to demonstrate to domestic tax payers that expenditure on international forests represents an effective use of public money.

52. Mr. Emad Al-Qudah, Directorate of Forestry, Jordan gave a presentation that highlighted findings from an analysis of forest financing in Jordan, including current and potential funding sources and gaps. Forests in Jordan cover an area of about 87,000 ha, or less than 1% of the total area of the country. The natural forests in particular are fragmented and of low commercial value. The limited industry produces firewood (6,000 – 10,000 tonnes per year, mostly from planted forests), furniture, joinery and fruit boxes. The annual budget for the Ministry of Agriculture, which has responsibility for forests, is around $74 million. Public sector funding for forestry is derived from financial instruments under the agricultural law, the Environmental Protection Fund and entrance fees to forest areas and charges for tourist facilities and services. There is no data available on the contribution of private sector to forest financing, but it is considered to be very limited. External financial flows include contributions from a number of key international and regional agencies active in Jordan. This includes grants and soft loans, and the total for all sectors has more than doubled since 2004. In 2010, grants and soft loans for projects financed through foreign assistance amounted to over $3.2 billion, but only about $62 million related to agriculture and forestry. He explained that new sources of funds of potential relevance to SFM were emerging rapidly and should be investigated further. However mobilizing funds from non-traditional sources required knowledge of the mechanisms and instruments that are applied in the country. Examples include debt-swaps, the Clean Development Mechanism, establishing a Forest Fund, public-private partnerships and tourism fees. He also highlighted financing gaps and key challenges for increasing financing for SFM. These include lack of integration of forests in poverty reduction strategies and broader national development, and a lack of clarity regarding the concept of SFM and opportunities offered by forests in sustainable development. In addition, there is a lack of reliable data on forest resources which are usually needed to identify priorities for actions. According to this analysis, it was clear that SFM would require external financing. Mr. Al-Qudah also suggested that a number of steps should be taken toward the improvement of legislation and institutional arrangements, including research and capacity building. Forest components should be clearly and effectively included into the relevant national development plans and strategies. This should be remedied by creating awareness among decision makers with regard to the potential contribution of forest sector in the national sustainable development. In addition, a proportion of forests entrance and service fees such as concessionaire licenses, fines and fees should be returned to the Forest Department to support protection, interpretation, and maintenance as well as local development. Other recommendations included the use of positive incentives to reduce the loss of forests, and to promote reforestation, afforestation, and rehabilitation, and coordination with relevant regional and international organizations.

Summary of interactive discussions

53. During the ensuing discussion, experts recognized that identification of needs should be the starting point for developing specific national and regional strategies on mobilizing financing for SFM. There is a clear link with national forest programmes, and similar documents, which have to be accompanied by financing strategies in order to be effective. The importance of indicators for effective monitoring and evaluation processes and their integration in the national forest programmes as well as strengthening capacity to improve effectiveness of these programmes were highlighted among the factors for an effective forest financing strategies. It was noted that at the practical level of implementing SFM there was likely to be considerable synergy between REDD+ readiness activity and capacity building for SFM. Meanwhile, some experts pointed out that REDD+ may not bring financing for small countries, as they have small forest areas. Therefore, other ways of attracting necessary resources have to be considered for these countries.

54. Experts highlighted the importance of effective engagement with the private finance sector and understanding the requirements of this sector in relation to financing SFM. This includes understanding the time-scales for financial returns; identifying business opportunities (opportunity costs); and analyzing risks and risk mitigation strategies, such as insurance and diversification of investment portfolios. Information should be packaged and transmitted in language understood by the financial sector (including, for example investment criteria and the "triple A" type rating systems). Lack of knowledge is a key barrier for potential investors who may (for example) be adversely influenced by press reports of forest fires, etc. Examples were given of successful dialogue with the financial sector, with intermediaries helping to explain the benefits of forest-related investments. It was noted that some potential investors had expressed interest in the full range of forest-related benefits, including carbon sequestration, water catchment functions and biodiversity, as well as returns from timber production. However, it was also noted the nature of the financial sector varies between countries. Furthermore, some investors are only interested in commercial profit even where this is not consistent with SFM. Confidence and trust are key ingredients in building market relationships. While the creation of an enabling environment is necessary to attract investment for SFM, there needs to be analysis of the specific requirements of different types of investors and critical factors for different countries.

55. It was recognized that public sector funding is required in order to support elements of SFM that are less attractive to the private sector. This was the case where the full value of forests and related ecosystems is not properly valued by the market. Public sector funding can also bring increased economic benefits through the multiplier effect. It is important to understand the sustainability of different funding approaches, and potential scope for drawing public support (for example where it is needed in the early stages of an infant industry). Public-private partnerships have also been successful, for example where there are payments for environmental services (such as provision of water supplies). Approaches to financing SFM would vary according to circumstances, but it was important to understand when particular models could be replicated, scaled-up, or adapted.

56. Experts also discussed some of the factors that had led to success in attracting international funding for SFM. For example, the presentation from DRC highlighted significant funding pledges for the Congo Basin. These reflected the global importance of these forests and the commitment, at national level, to measures that include designation of large protected areas and reform of concessions. Donors have also been attracted by the strength of the partnership at regional level. Another example that was given of this regional approach is an initiative relating to forest areas around the Mediterranean Sea. More generally, it was suggested that beneficiaries would find it easier to attract funding where they were proactive and could show that funding was likely to lead to tangible results. For accessing both international and domestic funding, it is useful for forestry departments to have staff members with a good understanding of the relevant procedures and practices. Moreover, promoting partnership among countries should be considered as a tool to attract additional resources for forests.

57. Experts emphasized the importance of local communities and indigenous peoples, and their critical role in securing SFM on the ground. Examples were given of meaningful economic participation by indigenous peoples as resource owners, and of other payments to local communities, including the channelling of support through an alliance of local forest communities with large numbers of individual members. Human capital is needed alongside access to finance. The active participation of youth was also recognized as important, and examples were given of educational and other initiatives that aimed to improve understanding of the benefits of SFM.

Topic 2: Progress made by the existing and emerging forest related financing mechanisms and processes to mobilize financing for SFM

Summary of presentations

58. Mr. Dirk Gaul, from the GEF Secretariat, highlighted the GEF-5 SFM/REDD-plus program. The overall replenishment for GEF-5 (2010-2014) is $4.3 billion. GEF projects are country-driven and funding for forest-related projects mainly derives from the three focal areas biodiversity, climate change and land degradation. In addition, a separate $250 million funding envelope for SFM/REDD-plus has been established for GEF-5. To date the GEF has funded more than 350 SFM projects with $1.7 billion. While addressing the GEF-4 SFM program, created in 2007, Mr. Gaul mentioned its lack of a separate funding envelope. He reported however that it drew on resources from three focal areas. In addition he highlighted the Tropical Forest Account, depicting it as a $40 million GEF pilot in REDD-plus. He talked about the rich portfolio of SFM projects in GEF-4. In this context, he underscored the project currently underway by the UNFF and UNEP on facilitating financing for SFM in SIDS and LFCCs, which will also benefit from GEF financing. Mr. Gaul described the independent GEF-5 SFM/REDD-plus strategy, including the potential scope of projects (e.g. national forest policy reformulation, protected area management, capacity building for monitoring GHG from deforestation and forest degradation, certification of timber and non-timber forest products, etc.). The separate funding envelope will be used as an incentive mechanism. It is expected to raise up to $750 million for SFM/REDD-plus from the three focal areas biodiversity, climate change and land degradation. Altogether, the GEF provides up to $1 billion for SFM/REDD-plus projects and programs for the period 2010-2014. One of the conditions to access such financing includes bridging investments from at least two GEF focal areas to maximize multiple benefits. He added that SFM/REDD-plus projects carry an enormous potential to generate multiple environmental and social benefits.

59. Ms. Tiina Vähänen, from the UN-REDD Programme Secretariat, presented an overview of three multilateral initiatives, namely the Forest Carbon Partnership Facility (FCPF) and Forest Investment Program (FIP), both hosted by the World Bank, and the UN-REDD Programme, a collaborative programme among FAO, UNEP and UNDP. She described the state of play of REDD+ emphasizing the links to broader development goals and the pending negotiations on the issue within the UNFCCC context. Turning to the FCPF, Ms. Vähänen introduced the readiness fund focussing on capacity building, amounting currently to US$152 million (commitments and pledges); and carbon fund for payments for verified emission reductions, amounting currently to US$76 million. Within the readiness fund, FCPF has selected 37 REDD+ countries, and it is governed by the Participants Committee (PC), which takes the decisions on grant allocations. She also highlighted that 11 countries have signed a grant agreement on the basis of approved national Readiness-Preparation Proposals (R-PPs) for which the FCPF has approved a grant US$3,6 million each, The various roles of the World Bank, serving as the secretariat, trustee of funds and the deliver partner, were also described.

60. As for the FIP, Ms. Vähänen presented its focus in supporting developing countries' REDD+ efforts, in particular serving as an up-front financing bridge for readiness reforms and public and private investments, to address the underlying causes of deforestation and forest degradation. In total contributor countries have pledged $542 million, mainly in the form of grants. Concerning opportunities for REDD+ collaboration, she mentioned Phase II of REDD+, which targets investments linked to Phase I (readiness) and Phase 3 (performance-based payments). Moreover, she reported that most of six FIP pilot countries are already involved in readiness activities supported by FCPF and/or UN-REDD.

61. With respect to the UN-REDD Programme, Ms. Vähänen underlined its current funding portfolio of $105 million from three donor countries, to support the readiness phase of REDD+. Specifically, the program tailors country efforts to national REDD+ strategies and helps to enhance coordination. She described the UN-REDD as a UN joint programme among FAO, UNDP and UNEP, established in 2008. Among its profile and development perspectives, the programme focuses on national (nine pilot countries) and international level action and has a fast-track record for disbursing funds for the national joint programmes, with a focus on capacity building and stakeholder engagement. Specific to future view, she underscored the importance of scaling up the program to meet the growing demands. Adding to this, she highlighted the value of planning joint delivery measures with the World Bank hosted initiatives FCPF, FIP and other SFM/REDD+ initiatives and programmes; continued assistance to REDD+ readiness initiatives; future supportive roles in the implementation phase; as well as the joint effort with FCPF and FIP to provide secretariat services to the REDD+ Partnership. As concrete action, she underlined the need to ensure and the work ongoing on toward common delivery channels at the national level, with delivery partners, through joint planning and missions and common standards and templates. She also highlighted the positive example of the DRC, as regards the Government's efforts to streamline funding requests from FCPF and UN-REDD Programme.

62. Mr. Kmal Elkheshen, from the African Development Bank, presented the Congo Basin Forest Fund (CBFF), a multi-donor special forest financing mechanism to preserve forests resources of the Congo Basin. The Fund is demand-driven, quick to access and has a quick disbursing facility. As an innovative forest financing mechanism, the Fund uses the Portfolio Approach, combining financial products and services to raise financial resources for effective action on forests. It merges three of the six major financial product and service types of the Bank, including: public sector funding, payments for ecosystem services and the engagement of philanthropic leaders. Mr. Elkheshen explained the Fund's livelihoods focus, targeting different economic activities, reforestation aspects and how stakeholders can implement different actions. He also highlighted the alarming rates of deforestation, particularly in Africa which is loosing 4 million hectares of forests per year. Logging, shifting agriculture, population growth, as well as oil and mining industries are all putting increased pressure on Africa's forests. He added that curbing the rate of deforestation is essential for many reasons, including maintaining the carbon-storing capacity and the ecological services forests provide, such as biodiversity, watershed protection and recreation. To ensure sustainability, the Fund has been assisting local communities to develop capacity to build livelihoods, consistent with the conservation of forests. The approach aims to develop the forest management capacity of national and/or regional institutions to help reverse the rate of deforestation through new financial mechanisms and appropriate models. Key lessons learned for achieving sustainability point to the need for incentives and policies to motivate and engage all stakeholders and, likewise, to ensure that the selected policies address the underlying problems. Mr. Elkheshen also noted the importance of good governance and clear indicators to measure performance. Future actions include advocacy measures to mobilize greater resources for the CBFF, creating partnerships with other institutions involved in the preservation of the Congo Basin Forest Ecosystems, developing strategies and programs to leverage more financial resources, and reducing the process and timeframe for the approval of projects.

Summary of interactive discussions

63. During the discussion, experts highlighted the difficulties of accessing funds and associated high transaction costs. Different funds had different rules and requirements (both for applications and reporting). Countries applying for funds needed adequate expertise, and this is better provided through the development of human capacity rather than provision of short-term external

input. It was also emphasized that there can be considerable delay between making applications and securing funding. Experts working for funding agencies explained that there is a need to balance speed of disbursement with safeguards to ensure that the funding is used effectively, resulting in desired outcomes. They sought to minimize the time taken to process applications, but initial concepts needed to be worked up into full projects proposals; these proposals needed evaluation, and then further work to address issues raised in that evaluation; and there was a need for due diligence procedures. Another related issue was availability of information about funding sources and criteria for applications. It was noted that the CPF Sourcebook is a good source of information, with links to individual websites that contain further information. Experts also discussed the setting of priorities. While individual funds have their own overarching policy framework, allocations also take place according to country priorities. It was important to ensure that forests are identified within country priorities, for example in relation to their role in improving livelihoods and reducing poverty. In addition, it is necessary to have in place effective indicators for monitoring and evaluation so that positive outcomes from forest programmes could be clearly demonstrated in quantitative terms. It was noted that this is also important for donor countries, as they need to be able to justify expenditure on ODA to their finance ministries.

64. Experts also addressed the important issue of mobilizing new and additional resources. It was clear that at present there is inadequate financing for SFM. For example, while around $6 billion is available, largely for REDD+ related activity, studies had shown that $25 billion per year is needed to reduce global deforestation by 25%. While every effort should be made to secure access to private sources of finance, it was recognized that these would not provide the complete answer, especially in relation to provision of public goods. It was noted that the opportunity costs of establishing protected areas and reducing production of timber and other products could be very high, and this needed to be taken into account as well as direct costs. Furthermore, there are serious gaps in funding. In particular, available funding is concentrated on countries with high forest cover, and on particular challenges such as climate change mitigation. In this context experts discussed the role of a voluntary global forest fund. This would have the advantage of providing a "one stop shop" for forest-related funding applications, and could have a single set of procedures. It could address the problem of fragmented resources and the focus would be on SFM, the GOFs and implementing the NLBI. Some experts said that this would help attract new, additional and predictable resources while other experts said that there would still be a need to make the case to potential donors for an increase in forest related funding, for example in terms of the global public goods delivered by forests.

IV. Facilitative Process

A morning plenary session was held on the Facilitative Process, with an update of activities and suggestions for future action.

Summary of presentations

65. Dr Benjamin Singer, of the United Nations Forum on Forest Secretariat, gave a presentation on the UNFF Facilitative Process on Forest Financing. He explained that in the Resolution on the Means of Implementation of SFM at the special session of the ninth session the Forum had the Facilitative Process established as part of the Resolution on forest finance. He said that this action represented one of two components of the Forum's strategy to develop a comprehensive strategy on forest financing. It was envisaged that the Open Ended Intergovernmental Ad Hoc Expert Group and the Facilitative Process would work in complementary and synergistic fashion, with the Group providing a top-down approach with strategic guidance and the Facilitative Process providing a bottom-up approach by producing data and facts from the field. The Resolution

identified eight functions for the Facilitative Process, two of which are to assist in mobilizing and supporting new and additional financial resources from all sources for sustainable forest management, and to identify obstacles to, gaps in and opportunities for financing sustainable forest management. Dr Singer explained that the Project on Financing for Sustainable Forest Management in Small Island Developing States (SIDS) and Low Forest Cover Countries (LFCCs) had been financed through voluntary contributions of over $1.5 million from the UK and GEF. SIDS and LFCCs were selected for the study because both categories had suffered from a particularly sharp decline in forest financing over a 20 year period. Indufor Oy (Finland) had been employed to undertake the first component of the project. Following this component, which was presented by Mr Salmi of Indufor immediately following Dr. Singer's presentation, the project would be taken forward through two further components. Component II would consist of four international workshops (two in SIDS and two in LFCCs) where stakeholders would be able to discuss the findings from the initial work and become more closely engaged with the project. Component III will consist of a revision of the analyses together with a communications strategy to reach out to all forest financing stakeholders. Dr Singer noted that donor support would be necessary for further projects that could make it possible to extend this approach beyond SIDS and LFCC, to (i) forest financing in Africa and LDCs and (ii) assessing the impact of REDD+ on forest financing.

66. Mr. Jyrki Salmi, of Indufor Oy (Finland), presented the initial findings from the Study on Financing for Sustainable Forest Management in SIDS and LFCCs. He explained that a 2008 study by the Collaborative Partnership on Forests (CPF) Advisory Group on Finance on financial flows and needs2 had detected a particularly steep decline in development cooperation financing for forests in SIDS and LFCCs. As a result, this first phase of the 2010 UNFF study assessed present financing flows and demand for financing, and analyzes specific problems, challenges and opportunities in mobilizing additional financing. In addition, it studies the enabling environment that would be conducive for enhanced forest financing. The study covered 49 LFCCs and 38 SIDS. There were also seven case study countries, namely Cape Verde, Fiji, Jordan, Kyrgyzstan, Mali, Trinidad and Tobago, and Uruguay. Conclusions from this part of the study had been drawn from an analysis of available data, an email survey of 87 countries (although with a low response) and the case study work.

67. General conclusions on SIDS were that they are a heterogeneous group with common disadvantages of small size and strong competition for land. Many SIDS are biodiversity hotspots, but most have fairly well conserved forest cover. There is typical vulnerability to natural hazards, such as storms, volcanic eruptions, earthquakes, fires, land slides and tsunami. Economies are small and many SIDS are far from international markets. In many SIDS, forests are not considered a priority in national development policies; 22 countries of the 38 SIDS have identified forests and trees outside forests in their development strategies. Only half the SIDS in this study have a forest policy and/or legislation. Forests are recognized in national policies in those SIDS with more significant forest resources (e.g. Fiji, Guyana, PNG, Samoa, Solomon Islands and Suriname). Capacity for forest administration and law enforcement, where it exists, is limited due to inadequate resources. Currently ODA is a major source of forests financing in SIDS; however the volumes and the share of SIDS from total forestry ODA have been decreasing (to about $5 million in 2008). ODA allocation is reasonably equally distributed between countries. In many SIDS, the commercial forest sector is marginal or absent. Watershed services are often important; but the potential for climate change-related financing of forests is unlikely to be significant, although adaptation to rising sea levels and increasing storms is crucial. Tourism is

[2] ''Financial 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 CPF, chaired by the UNFF Secretariat.

likely to have a major potential for generating new sources of forest finance in many SIDS. The study recommendations included the need to recognize and value all forest products and services and internalize them in GDP; integrate forests into relevant policies, such as agriculture, water, environment, climate, energy, tourism and infrastructure, with a cross-sectoral approach to land-use planning and forest financing; promote payment for environmental services (PES), particularly for watershed services; special support to forestry education and training; and studying linkages between forest and tourism sectors through in-depth case studies.

68. General conclusions on LFCCs were that, while the forest sector is marginal in many LFCCs, forests and trees outside forests play important, supportive roles in rural livelihoods, particularly in agriculture and animal husbandry. Many LFCCs are facing challenges related to deforestation, forest degradation, desertification and soil degradation; furthermore, in developing LFCCs, food production and food security are national priorities. There is competition for land and water resources with agriculture, and pressure on forests from grazing and fuel wood collection. While forests are integrated in agricultural, environmental and poverty reduction policies in many LFCCs, less than half of have an official forest policy document. The volume of forestry ODA in LFCCs has been decreasing slightly (to about $12 million in 2008), but forestry ODA is unevenly distributed among the LFCCs, with least developed countries being particularly disadvantaged. Forestry development is the largest thematic are of forestry ODA (60%). There is limited available information on financing sources other than ODA, but environmental services, such as water, could potentially provide opportunities for fund mobilization. A few countries have carbon projects, most of which are forest bio-energy related. Opportunities for carbon financing through afforestation are restricted where there is heavy pressure on the availability of suitable land. As with SIDS, the study recommendations include the need to recognize and value all forest products and services and internalize them in GDP. It also recommends integrated financing strategies to improve the coordination of finance planning and to tap the cross-sectoral financing potential, with in-depth studies of linkages between investments in agricultural sector and forests in LFCCs.

Summary of interactive discussions

69. During the discussion, experts made a number of suggestions, including proposals about how this work would be taken forward. It was noted that it would be useful to engage with the LFCC Secretariat in Teheran during the next phase of this study. Furthermore, further work on the Facilitative Process was dependent upon funding through voluntary contributions to the UNFF Trust Fund. Additional organizations also declared their willingness to contribute, including FAO and UEMOA. Emphasis was also given to the importance of developing forest policies and making linkages with other policies, noting for example the impact on forests of agricultural policy and related fiscal systems. Experts highlighted the need for information and evidence in order to demonstrate the value of forests to other policy agendas. In this context it was noted that a broad definition of forests should be used, recognizing their wide range of functions, values and benefits. Experts explained that marginalization of the forest sector was less likely to be a problem where there was widespread understanding and commitment among the public and decision-makers about the important role that forests play, for example in relation to livelihoods, food security, climate change, water, biodiversity and the role of coastal forests in protection and fisheries management. It was noted that a number of LFCCs had already been successful in addressing problems of low forest cover and it was useful to learn lessons from their experience.

V. Keynote Speeches: Feasible and realistic strategy (ies) to finance SFM; Making the discussion on strengthening existing financial mechanisms and processes, and other options including on establishing a voluntary global forest fund, a win-win opportunity

An afternoon plenary session was held, focusing on two keynote speeches.

Summary of presentations

70. Mr. Sergio Weguelin, Deputy Director of the Environment Area at the Brazilian Development Bank (BNDES), gave a keynote speech on the Amazon Fund. As the main Brazilian development financing entity, the Bank provides financial support mechanisms leveraging funds from various sectors to Brazilian companies and public administration entities to enable investments in all economic sectors. Apart from managing the Amazon Fund, the Bank analyzes, approves and contracts projects with a focus on the conservation and sustainable use of the Amazon biome forests. It also monitors, tracks and settles accounts, maintaining the resources from donations in separate accounting records. The Fund's coverage extends to all Amazon countries – Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela, as well as to other regions and tropical countries. In this context, reducing deforestation, promoting sustainable productive activities, strengthening scientific and technological activities and promoting conservation and protection of protected areas are the key pillars of the Fund. To date over 100 projects have been presented. Financing exports of Brazilian goods and services in projects carried out overseas is also a key target.

71. In describing the funds, Mr. Weguelin highlighted that projects on the reduction of emissions from deforestation should finance the conservation and sustainable use of forests and demonstrate the feasibility of the incentive mechanisms. While the Fund has received donations from foreign governments, at present it is setting up a structure to receive donations from other sources, including multilateral institutions, non-governmental organizations, companies and individuals. Mr. Weguelin described the first donation agreement with the Government of Norway. The governance structure, particularly the technical and guidance committees, were highlighted. He noted that the latter was comprised of nine agencies of the federal government, nine states of the Brazilian Legal Amazon and six representatives of civil society. In moving forward, he addressed the need for analytical work and knowledge generation, including systems for attributing proper value to the benefits derived from goods and services provided by forests. The contribution of SFM to the broader development goals and the links between the Fund and the UNFF Global Objectives of Forests were also presented. The importance of transparency, accountability and the development of good governance indicators were also emphasized. In concluding, he expressed his view of the region's vast potential as a leading emerging economy.

72. Mr. Markku Simula, Department of Forest Sciences of the University of Helsinki, presented elements towards feasible financing strategies for SFM. He identified areas in which consensus already exists and requirements for forest financing strategies both at international and national levels. There are two main pending issues to be addressed: (i) how to mobilize new and additional financing from all sources, and (ii) through which mechanisms should such financing be arranged at international level considering two mutually non-exclusive options: (a) strengthening of the existing and emerging mechanisms on different levels, and (b) establishment of new facilities such as global or regional forest funds. There are various ways through which the existing arrangements can be strengthened but in many cases more clarity is needed on how they could be implemented in practice. A global forest fund could be a new element in international arrangements but it requires conceptualization and agreement on its configuration and role. Nevertheless, a set of arguments in favour and against such a solution should be identified by

stakeholders. There are also several opportunities for innovation to mobilize financing for SFM but their potential to mobilize new resources needs clarification. It appears that no single instrument can support all needs and any new facility or facilities should be based on confirmed, long-term adequate funding. REDD-plus is expected to mobilize large-scale funding for forests but there will likely be major strategic gaps and in filling them and private sector financing will have a pivotal role.

Summary of interactive discussions

73. The Amazon Fund was recognized as an interesting and promising model for financing activities to reduce deforestation and with extensive other benefits. Positive features in the Fund as identified by participants include its regional approach, stakeholder involvement, broad range of eligible beneficiaries, local level fund delivery and implementation, emphasis on sustainable development of the Amazon based on its productive functions, mechanisms to leverage funding from other sources including the private sector, the governance structure, accountability in achieving the targeted objectives including indicators of measurement, sharing of experience, and a sunset clause. The Amazon Fund could benefit from any global level financing arrangement for SFM as it currently has only one donor. Parallel to the Amazon Fund, BNDES is directly financing forestry investments and plans to launch a private equity fund in September 2010 to encourage private investment in forests.

74. A global forest fund could take the form of a “fund of funds”, which would enable investment in eligible existing national and regional funds. This would ensure that implementation would take place on national and local levels and consistent with their own priorities which was considered necessary. Some developing countries have national forest funds which could benefit from a global fund but such facilities are lacking in many cases. A global “fund of funds” could be a source of knowledge and information for investors, thereby facilitating efforts at national level and its transaction costs could be streamlined. It could also provide common guidelines for successful investments, including appropriate safeguards.

75. It was noted that a global forest fund could be a key instrument, which is currently missing, to implement the Forest Instrument. Its establishment could ensure equitable participation in decision-making would help build trust between developed and developing countries. It could also contribute to addressing the problem of the current low concentration of forest ODA into a small number of countries from a small number of donors. In particular, the needs of the least developed countries and LFCCs need to be given a priority.

76. The potential capacity of a new global fund to mobilize new and additional financing on a sustained basis and on a required scale is not clear. If sources like the proposed Tobin tax could be tapped, this problem might be avoided. It was noted that any new mechanism should target transformational change so that private financing in SFM would be mobilized. A common vision on SFM as a common goal is be needed among stakeholders, including investors and financial intermediaries who should be educated on the opportunities and associated risks in forestry investments. It was also noted that a new fund could suffer from bureaucratic procedures, long project cycles and ineffectiveness, which should be mitigated. It was also pointed out that there should be arrangements for facilitated access to financing by local communities and forest-dependent people.

77. It was stated that as no single instrument can solve the problem of SFM financing on a global level, there is a need to draw on the existing and emerging mechanisms and innovations in forest financing recently being undertaken. Important lessons are being accumulated in the

implementation of REDD-plus financing which need to be considered in the consideration of any new facilities. In addition, the recently launched GEF's Sustainable Forest Management Program is likely to address some gaps in the existing financing arrangements. The limitations of ODA in targeting catalytic transformational interventions and the likely declining trend in traditional forest-related ODA need to be considered in this context as well.

78. There was a common view that further work is needed to explore the current needs of SFM financing and to what extent they can be met through the functions of existing and emerging sources. Based on such a stepwise approach the feasibility and potential added value of a new instrument such as a global forest fund could be assessed within the overall international financing architecture for SFM.

79. Finally, it was observed that the crux of the problem of SFM financing is probably on the national level. Country experiences show that success in national level financing often depends on political commitment, prioritization of forest finance, clarity about objectives to be achieved, implementation decisions on a sufficiently large scale to have a true impact, accountability and adjusting strategies based on accumulated experience. When these are in place, together with enabling conditions and country capacity, it is easier to attract whatever external financing and support is needed.

VI. Topic4: Required actions to strengthen mobilization of and access to financial resources for SFM including areas for quick action

A. Break out Group 1: National and regional actions

80. During their discussions on national and regional actions to strengthen mobilization of and access to financial resources for SFM, and areas for quick action, experts highlighted a number of clear themes. They recognized that trust – for example between beneficiaries and donors or investors is fundamental to accessing finance. Trust can be built through strong partnerships, good governance, a positive enabling environment and confidence that resources will be used efficiently and effectively, but unreasonable conditionalities and bureaucracy can undermine trust. Experts also stressed the importance of capacity building, which is necessary, for example, to put in place arrangements for project development, monitoring and evaluation. In addition, they recognized the importance of political will, which is a prerequisite for securing financing for SFM in both developing and developed countries.

81. Experts highlighted the challenge of communicating messages about the value of forests to political leaders and the public. They recognized that these messages need to be based upon sound evidence regarding the values of forests to the economy (including the informal economy), to poverty reduction and to the environment. Work is needed to provide this evidence and put together convincing arguments about the value of forests, for example in terms of 'green' GDP. Communication channels include meetings to share information with peers and to brief decision-makers in other sectors about forests. Experts referred to positive and negative examples of securing inter-sectoral cooperation. They stressed the need to develop national forest programmes (and associated forest financing strategies) that are integrated within national development strategies. They noted that, at national level, partnerships are important in building trust between different parts of government, civil society, the private sector and local communities. Partnerships can also be very powerful at the regional level. Experts recalled earlier presentations about partnerships in the Congo Basin and the Amazon, as well as a forthcoming initiative relating to forests around the Mediterranean Sea.

82. Experts explained that analyses of funding needs should be based on a clear understanding of the different roles of forests. Where the primary role of forests is economic (for production of timber and non wood products), financing for SFM should be built around private sector funding, also recognizing that public funds can catalyze investment and help create the necessary enabling environment. Where the primary role is environmental, a clear case can be made for public funding – from national, regional and global sources and depending on the scale and nature of the environmental benefit. Many experts highlighted the urgent need for a global forest fund to introduce new and additional resources. Experts also discussed the role of dedicated funds established at national level, relating for example to forests, biodiversity or climate; such funds could provide a useful mechanism for channelling dedicated global funding. However, others also noted that a proliferation of separate funds can be problematic. Another proposal for mobilizing additional finance was the improved capture of income from forests through rents, other payments and formalization of the informal sector; such additional income could be used to help local communities meet the costs of SFM.

83. There was also discussion about improving existing financing mechanisms, which are not sufficient to meet the needs of SFM and have particular thematic and geographic gaps, such as LFCCs and SIDS. Experts suggested that there were opportunities to improve these mechanisms by making them more flexible and giving more priority to SFM, by reducing bureaucracy, by shortening the time taken to approve project applications and by making existing mechanisms more flexible. It was suggested that further progress in taking forward the eight functions of the Facilitative Process would help strengthen mobilization of and access to financial resources for SFM. In addition, it was noted that Mr. Simula's earlier presentation had identified a number of important action points as the way forward. Furthermore, it would be helpful if key messages from this meeting were conveyed to FAO's Committee on Forests at its forthcoming meeting in October.

B. Break out Group 2: International actions

84. Participants noted that the NLBI and the GOFs are more than a consensus; they are firm commitments from both sides which should be implemented. National level action is critical but international cooperation is also needed to achieve the four GOF. If there are signals that traditional forest ODA may be declining in the future, strategies and actions are needed by developed countries to enable them to reverse the trend either by replenishment or reallocation. Developing countries should develop their own strategies to mobilize funding from domestic sources and to create enabling conditions for financing. The absence of a priority for forest financing is observed at national level, both in developing and developed countries, as well as at international and regional levels. Strategies should be based on the global benefits that forests provide and the multiple contributions to achieving national sustainable development and poverty reduction in particular.

85. Access to financing continues to be a fundamental constraint. The variety of potential funding sources does not mean that they are readily accessible for SFM financing. It is not always clear how the various funding windows could support SFM related activities as their priorities and criteria do not make direct reference to SFM. An important lesson has also been learned on the lack of success of the Clean Development Mechanism of the Kyoto Protocol in financing forest activities which shows that meaningful criteria and simple procedures should be in place to make such instruments truly accessible to beneficiaries in developing countries.

86. In international assistance there is a chicken-and-egg problem. If the recipient cannot have access to funding sources and prepare adequate proposals, there is no effective demand. Therefore, technical capacity building assistance should be provided together with financing.

87. Forest financing from the existing funding mechanisms could be expanded if it can be demonstrated that SFM can contribute to their specific objectives. This could also help leverage private and public funding for SFM. Effective engagement of the private sector is not possible without enabling conditions and governance is a key aspect. A close linkage between catalytic ODA and follow-up private investment was considered a way to ensure long-lasting contribution of SFM investments to sustainable development. It was also noted that the contribution of the markets for forest products and trade facilitation should be given due attention in raising financial resources for the productive activities of SFM.

88. Many participants called for urgent action to be taken to establish a global forest fund within the framework of the United Nations. They emphasized that there cannot be an adequate response to implement the NLBI and to achieve the GOFs without such a fund. It should provide equitable and open access to all countries, have no conditionalities and minimum bureaucracy, and a balanced governance structure. The fund could assist countries in establishing an enabling environment, build up technical capacities, carry out analytical work, make direct investments and leverage private sector financing. Some participants noted that there is no need for further studies on the subject but the work could progress based on submissions of the UNFF members and Major Groups on the characteristics of such a fund. It was mentioned that each main forest function (ecological, economic, social) may need its own global fund.

89. On the other hand, other participants emphasized that it is necessary to assess the actual needs of SFM financing in countries for which functions and actions funding is needed; what is presently delivered through various existing channels, how this could be increased considering both demand and supply; and the potential of emerging and new innovative mechanisms to mobilize funding for SFM (including REDD-plus), including the private sector. Based on these elements, a detailed problem statement could be elaborated together with a respective strategy for enhanced international financing, including assessing the viability of a new instrument such as a global forest fund. This work would benefit from submissions from members states to identify gaps and measures needed to improve the existing situation. It was emphasized that there should be a compelling case for a new fund for forests and it may have to have innovative elements to make it work in view of the diversity of country situations and potential beneficiaries.

90. Through the forest-climate interface and several high-level initiatives, significant social capital at the highest political levels exists which should now be capitalized upon to recognize all aspects of SFM. This is needed both in developing countries to bring forests into the priorities of sustainable development and in developed countries to create awareness and acceptance for additional funding to forests. There is a need for proactive action at all levels (including UNFF and other forest-related international organizations) to ensure that the holistic view of SFM will be part of REDD-plus. The focus should be on multiple benefits but there should be clarity about what "forest" and its sustainable management mean. Effective communication is needed, drawing on factual information such as the on-going TEEB study by UNEP.

91. Several ideas were proposed to be undertaken by the Facilitative Process: Country level support should be provided to facilitate access to existing SFM financing sources, particularly in priority cases which are least equipped to prepare their requests (e.g. LDCs, LFCCs). Countries which have not yet done so should prepare convincing approved plans ("a business case") for their forest development to mobilize both public and financing for SFM. The facilitative process

could also identify ways to simplify access to existing funding sources and carry out more useful country case studies. The facilitative process could also look into ways to engage the private sector in SFM as most international organizations have not worked on this. The idea of developing a national SFM index (in the same way as the World Economic Forum's Competitiveness Index) was proposed as a tool for communication and attracting greater attention from the governments and other stakeholders. The need for continued work on the existing study on LFCCs and SIDS was highlighted.

92. There may be a need for facilitation among donors to increase financing for SFM, including improved coordination and expansion of the funding base and to consider an appropriate balance in the delivery between bilateral and multilateral channels to optimize effectiveness in the use of funds drawing on the competitive advantage of these mechanisms.

93. Regional cooperation also requires adequate resources to make it effective. The past experience in the Congo Basin and West Africa shows that good planning and political commitment is necessary. Regional organizations could be effective channels for SFM funding and harmonization of policies.

VII. Co-Chairs' proposals for intersessional activities

94. The Resolution on the Means of Implementation for Sustainable Forest Management adopted by the special session of the UNFF9 calls for the mobilization of financial resources from all sources 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, including, inter alia, strengthening and improving access to funds and establishing a voluntary global forest fund, taking into account the results of the Forum's review of the performance of the facilitative process, views of Member States, and review of sustainable forest management-related financing instruments and processes.

95. Based on presentations by 28 experts in keynote speeches, workshop panels, the first component of work under the Facilitative Process and the extensive exchange of experience and views among about 200 experts from 68 countries, and 23 international and regional organizations, and major groups participating in AHEG1, the Co-Chairs were afforded a substantive platform of experience, ideas, information and views upon which to base their proposals on intersessional activities. These proposals focus on the scope of further work which would further advance the understanding of forest financing opportunities, gaps and possible modalities, including through intersessional actions, analyses and activities to be taken in preparation for the AHEG2.

96. Both AHEG1 and the Facilitative Process work undertaken following the Resolution taken at a special session of UNFF9 on October 30, 2009 provide the basis for these proposed further intersessional activities to be considered by UNFF9 at its session. The intersessional period addressed in these proposals takes into account work to be carried out following UNFF9 and in preparation for AHEG2, and UNFF10.

97. Based on the in-depth discussions by experts at AHEG1, the Co-Chairs offer the following proposals on intersessional activities, for consideration by the United Nations Forum on Forests at its ninth session:

- That the Forum adopt a decision on intersessional activities, taking into account the outcome of the AHEG1. In such a decision, the Forum may wish to:

a) Emphasize the importance of forests and the need for political will, awareness and commitment to urgent action at the national, regional and international levels.

b) Emphasize the need to mainstream the interests of forest-dependant people including indigenous peoples and local communities in financing mechanisms for SFM, due to the importance of forests in securing poverty eradication, sustainable livelihoods and achieving the internationally agreed development goals, and recognizing the value of contributions from major groups.

c) Invite substantive submissions by Governments, CPF member organizations, regional organizations and processes and major groups on forest financing options, modalities and their possible structures, including a global forest fund and strengthening of existing and emerging mechanisms, and the advantages and disadvantages of these options, envisaged functions, requirements and deliverables of the different options, and request the UNFF Secretariat to separately compile these submissions to inform the work of AHEG2.

d) Invite members of the CPF to report to UNFF10 on their ongoing and future actions on forest financing and to consider holding an open-ended Organization-Led Initiative in support of the work of the Forum prior to AHEG2, and to focus, deepen and broaden their work in support of national-level action on financing SFM.

e) Invite the CPF Advisory Group on Finance to update and expand its:

   i. analyses with a focus on forest-related financing mechanisms, including funding gaps among the Rio Conventions (time frames, deliverables and the working modalities of funding mechanisms), addressing *inter alia*, financing, forests and climate change, including REDD+, arrangements pertaining to forest biological diversity in the framework of the CBD, relevant financing strategies and investment frameworks on sustainable land management under the UNCCD, the new SFM/REDD+ Programme of the GEF, as well as financial resources associated with the forest law enforcement governance and trade processes (FLEG and FLEGT) at country and regional level and keeping in mind the role of markets.

   ii. 2008 finance paper for AHEG2, and to provide proposals on ways to strengthen existing forest-related financing mechanisms, enhance coordination, improve access to their resources and identify how they fit into the broader forest-financing frameworks.

f) Invite the UNFF Secretariat to deepen its collaborative work to address gaps and explore new opportunities on forest financing.

g) Call upon Member States and international organizations to support implementation of all functions of the Facilitative Process, and strengthen collaboration with relevant partners on the initial outcomes of the Facilitative Process, in particular on SIDS, LFCCs, Africa and LDCs.

h) Request the UNFFS in its work on the Facilitative Process, and in collaboration with the CPF member organizations, to:

i. Work to remove barriers in access of countries to financing including through building their capacities, and to further examine the effects, impacts and synergies of cross-sectoral and cross-institutional activities on forest finance.

ii. Utilize the platform of the UNFF to convene relevant financial institutions such as regional and national banks, working in close concert with regional forest processes to further develop and understand ways to mobilize resources and to mainstream the global objectives on forests in their programmes.

i) Request the UNFF Secretariat, in close cooperation with CPF and other key actors, to undertake work on REDD-plus and forest financing including the implications of REDD-plus funding on broader forest financing be undertaken within the Facilitative Process.

j) Call, in preparation for AHEG2, for further collaboration and sharing of experiences with the private sector, building on lessons learned, given the importance of the private sector in providing sustainable finance for SFM, and the crucial role of a stable and predictable enabling environment for their investments.

k) Call for further collaboration and sharing of experiences among governments to develop innovative financing mechanisms.

l) Request the UNFF Secretariat, based on all of these submissions, to undertake an assessment, with a sense of urgency, of different options for the forest financing architecture, including a global forest fund and to prepare a note for AHEG2.

m) Urge Member States to develop and implement national forest policy and legislation on financing for forests, including all of the functions of forests, and in so doing consider the financing roles of key Ministries including, inter alia, agriculture, forestry, transportation, environment - with a focus on forests and biodiversity, climate change and water - and Finance Ministries, also keeping in mind the importance of integrating forests into poverty reduction strategies or equivalent cross-cutting donor and finance mechanisms and report to AHEG2 and UNFF10 on their progress and experience.

n) Request the AHEG1 Co-Chairs to hold an open-ended informal consultation during the intersessional period.

o) Recognize that only proposed actions which are part of the agreed biennial programme of work of the UNFF Secretariat are covered by the regular budget, that actions by CPF and Member States will be undertaken by them, and that the remaining proposed intersessional actions require voluntary contributions to the UNFF Trust Fund.

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Annex II

List of Participants

(Please send any correction to UNFFS, Ms. Ninon Thermidor: thermidor@un.org)

Member States

Algeria

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Mr. Andrey Laletin

Indigenous People
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The Forest Dialogue
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Third World Studies Inc.
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*** Government-nominated Expert/Head of Delegation**

Annex III

List of Documents

Provisional Agenda and Annotations E/CN.18/2010/1

Note by the Secretariat: Strategies to mobilize resources from all sources 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, including, *inter alia*, strengthening and improving access to funds and establishing a voluntary global forest fund E/CN.18/2010/2

Programme of Work

Other Relevant Documents

Report of the Forum on the special session of the ninth session E/CN.18/SS/2009/2

Report of the United Nations Forum on Forests Eighth Session E/CN.18/2009/20-E/2009/42

Chair's summary report of 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 E/CN.18/2009/11

Towards National Financing Strategies for Sustainable Forest Management in Latin America, Forestry Policy and Institutions Working Paper, FAO, 2009

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

Background Analysis Paper on Financing for the implementation of the Non-Legally Binding Instrument on Forests: A FAO contribution to the Advisory Group on Finance of the Collaborative Partnership on Forests

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 E/CN.18/2009/17