Unlocking National Opportunities

New Insights on Financing Sustainable Forest and Land Management

Authors:

Alexander Asen (FAO), **Marco Boscolo** (FAO), **Ramon Carrillo** (ITTO), **Kees van Dijk** (Tropenbos International), **Camilla Nordheim-Larsen** (Global Mechanism), **Siv Oystese** (Global Mechanism), **Herman Savenije** (Tropenbos International), **Jerker Thunberg** (NFP Facility), **Jhony Zapata** (NFP Facility).

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PREFACE

The content of this policy brochure was drawn from country-level experiences in more than 80 countries worldwide over the past several years, which have focused on the development and implementation of strategies and approaches to enhance financing for sustainable forest and land management (SFM/SLM).

These experiences have emerged from the joint endeavours of the Food and Agricultural Organization (FAO), the Global Mechanism (GM), the National Forest Programme (NFP) Facility, Tropenbos International, the International Tropical Timber Organization (ITTO) and other agencies which have partnered with countries and regional organizations to assist in the development and implementation of national forest and land management financing strategies and instruments.

During this time, selected activities have included: the delivery of capacity development workshops on SFM/SLM finance; technical advice in the development of new financing instruments; elaboration of diagnostic assessments and studies; south-south knowledge exchange initiatives; facilitation of cross-sectoral platforms; analysis of investments from the private sector; climate change and trade and market access mechanisms; mainstreaming of SFM/SLM into national development frameworks; and economic valuations of ecosystem services.

It is our hope that policy decision makers, practitioners, development and aid organizations will find the experiences and lessons described in this brochure helpful in the further mobilization of financial resources for SFM/SLM.

Eva Muller, Director, Forest Economics and Policy Division, FAO Forestry Department

Elisabeth Barsk-Rundquist, Director of Programmes and OiC, Global Mechanism

Rene Boot, Director, Tropenbos International

Jerker Thunberg, Manager, National Forest Programme Facility

Emmanuel ZeMeka, Executive Director, International Tropical Timber Organization

PLANTING THE SEEDS

One of the main challenges countries face in enhancing sustainable forest and land management (SFM/SLM) is to increase the competitiveness of these land uses when compared with unsustainable ones. If users do not derive a sufficiently high return from SFM/SLM in comparison with unsustainable uses or land conversion, deforestation and resource degradation will no doubt continue.

Rising to this challenge, demands a systemic and strategic look at the issue, one that requires: (1) Raising the political profile of SFM/SLM and the visibility of their contribution to poverty alleviation and sustainable development (2) broadening and diversifying financing sources and mechanisms for investment and operation (3) increasing the revenues that can be derived from forest and land management through the payment for multiple ecosystem goods and services (4) enhancing individual and organizational capacities (e.g. business, marketing, entrepreneurship, communication, organizational development, program and process management) of producer and service provider organizations and (5) improving the overall policy and institutional environment for enhancing financing and sustainable business development in SFM/SLM.

WHY THIS BROCHURE?

The purpose of this policy brochure is to share some of the key lessons that have emerged from a broad spectrum of country-level experiences with financing SFM/SLM. It is intended for national and international policymakers and practitioners in both the public and private sectors. While the brochure focuses primarily on how to unlock national-level financial resources, many of the lessons are also applicable to leveraging international investments.

The key objectives of this brochure are to:

- Promote awareness at the national policy level on measures that can be taken to improve access to SFM/SLM investments;
- Provide valuable insights and fresh perspectives on how to strengthen ongoing and future facilitative processes which are being supported nationally and by international partners;
- Enrich the international dialogue on financing SFM/SLM in the CBD, UNCCD, UNFCCC, UNFF and other relevant global processes.

This brochure contains (1) key lessons (2) selected case studies that are used as illustrations (3) concrete steps countries can take to unlock national opportunities and (4) references for more detailed information.

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KEY LESSONS

1. More in-country money is available for sustainable forest and land management than is currently being tapped.

Insufficient investment into sustainable forest and land management (SFM/SLM) has often been framed as an issue of scarce finance. The on-the-ground reality at country level however, indicates a distinctly different picture, with a wide array of opportunities readily available, including from central government allocations, as well as both public and private financial capital and funds. The challenge is that, in many countries, the bulk of these opportunities remain largely untapped or used ineffectively.

Why is there such a striking disparity between the seemingly broad spectrum of opportunities for financing SFM/SLM at the national level and the subsequent lack of investment?

Money, it seems, is not the only or most critical restriction.

2. Overcoming investment barriers at various levels can help boost access to financial resources.

What is often initially described as a problem of “scarcity” becomes, upon closer examination, a more complex challenge of insufficient capacities to actually identify, access, and then effectively disburse and utilize financial resources (see Advisory Group on Finance paper for a more in-depth analysis of the barriers to investment).

This challenge operates at a number of different levels:

a) **the level of farmers, communities, small enterprises and their organizations**, which do not have sufficient organizational and entrepreneurial skills, or the required negotiating power, to be proactive players in the marketplace;
b) **the institutional level**, which is rarely equipped to facilitate constructive linkages between the forest, land and finance sectors;
c) **the enabling environment level**, including the quality, stability and predictability of public and corporate governance and the extent to which these are tailor-made to SFM/SLM. In this regard, it is crucial to ensure that policies and instruments support a more attractive investment climate for the providers of finance for SFM/SLM, as well as being conducive for users to make financing more accessible, affordable, and effective. Another key challenge that emerges particularly in remote rural areas is the absence of formal financing institutions.

Emerging National Initiatives

Clear examples exist at the country level, where despite the availability of significant finance for SFM/SLM, actually grasping these opportunities has been far from straightforward.

For example, in Latin America several financing programs have been established to support small forestry producers in the last one or two years, thanks to a greater awareness of environmental issues and the importance of rural people in environmental stewardship and sustainability. These include: PRONAF – Agricultura Familiar and Agricultura Baja en Carbono (ABC) in Brazil; PROFORESTAL in Paraguay; Programa de Credito Forestal by Agrobanco in Peru; Banco Produzcamos in Nicaragua; PINFOR and PINPEP in Guatemala.

Yet, despite the existence of such funds, actually accessing these resources has often proved complex due to excessive bureaucratic requirements and limited capacities, knowledge, and support (e.g. technical assistance, extension, other service providers, etc.). As a result, the potential impact of funds like these in promoting natural resource management, in many cases, remains unrealised.

Source: "Regional meeting on financing for farmers," see www.nfp-facility.org/66205/en/

3. 'Enabling investments' to improve governance, strengthen institutions and develop capacities help catalyze access to 'hard investments'.

When it comes to attracting and accessing sustained investment into SFM/SLM, a country needs to take a series of steps that helps to ensure it is 'investment ready'.

FAO, the NFP Facility, Tropenbos International, ITTO and the Global Mechanism have all been working to support countries around the globe to improve their 'investment readiness' and access to financial resources, through the provision of 'enabling investments'.

These can be defined as catalytic support actions, which are designed to remove investment barriers, whilst equipping countries with the know-how to access and secure the much sought after 'hard investments', which actually finance SFM/SLM projects and programmes. Such support measures include initiatives to improve cross-sectoral governance and coordination, strengthen institutions (e.g. supporting local and national organizations and multi-stakeholder platforms for effective participation in policies and investments), as well as capacity development initiatives (trainings, workshops, knowledge sharing initiatives).

4. The forestry and land sectors often struggle to get strong political support at the national level. Raising their political profile and evidencing their real contribution to GDP and national economic development are key steps in attracting the attention of national decision makers and investors.

SFM/SLM are all too often considered peripheral environmental concerns with low investment returns. A more active, strategic and political position can help raise the profile of the forest and land sectors and increase access to financial resources. One vital action to get lands and forests recognized, is to ensure that these issues are fully mainstreamed into broader sustainable development strategies, thereby becoming national priorities (see Jordan case). This in turn raises the potential for increased domestic budget allocations and greater access to ODA and other donor funds, since donors are aligning their support to priorities as defined by countries.

Attracting the interest of investors means attributing a clear economic value to the products and services of countries' land and forest resources, including the projected livelihood benefits. Only by internalizing the real contribution of these natural assets to economic and social development in national accounting, will their true value be realized. In Cambodia, Tanzania and Zambia, the Global Mechanism has supported the Governments in assessing the value of land and the net benefits of adopting more sustainable land management options. The assessments have been integrated into policy and planning processes, by offering concrete alternatives for more responsible land-use allocations based on quantifying the total economic value of ecosystems, assessing the net socio-economic benefits of sustainable ecosystem management and reducing the risks associated with such investments. These assessments are being used successfully by governments as advocacy tools for increasing sustainable investments (see Zambia case).

5. It is vital to analyze and overcome potential legal barriers, e.g. on resource rights, that may hamper access to investments.

Existing legal mechanisms often need to be made more effective, given that when poorly implemented or under-enforced, they may undermine investment potential and restrict the use of new mechanisms such as payments for environmental services. In some cases, perverse incentives may arise from ineffective policies and laws that actually drive unsustainable land and forest exploitation, deforestation and/ or ecological degradation.

FAO's work in Guatemala in supporting the passing by the national Congress of the "PINPEP law", which assigns incentives to small forest holders (with areas of less than 15 hectares) for forestry activities, speaks to the power of improving sector governance and strengthening the organization of small producers (see Guatemala case).

6. Integrated and diversified approaches to forest and land financing are crucial in achieving long-term financial sustainability.

It is becoming increasingly clear that public funding alone, will not fill the financing gaps necessary to make the transition towards SFM and SLM. The decreasing public funding and budget deficits, which are evident in many countries, and the levelling of ODA emphasize the importance of innovative policy approaches and strategies to leverage finance from the private business and finance sector.

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Given its relative importance, the role of ODA in financing forest and land management must therefore be re-examined. Increasingly, the role of ODA is shifting towards helping to catalyze and facilitate initiatives to develop national potentials and capacities to mobilize new and additional financing from the national level, as well as from the private sector and innovative mechanisms. Capacity building, dialogue and joint initiatives can help stakeholders think more strategically about financing forestry and land activities by targeting an integrated and diversified package of financing sources and instruments.

7. In many countries, private money is already the most important source of finance for forestry and land.

An array of new and promising private financing initiatives, policies, sources, instruments and mechanisms are materializing at both country and global levels that address sustainable timber production and trade, climate change (e.g. Green Climate Fund), bio-energy, and ecosystem protection through reward schemes for environmental services (e.g. PES, REDD+)

Untangling the meaning of SFM/SLM "financing" in different contexts

In national and international discussions on SFM/SLM, "financing" is often used rather generically as a broad blanket term. In order to develop meaningful national strategies, policies and measures, there is a need to disaggregate and analyse what forest and land financing actually means in specific situations.

A distinction should be made between (i) increasing and diversifying the financial resources available to cover costs (including supporting/subsidizing some of the costs of forest and land management when there are public benefits to be derived); and (ii) boosting revenue streams through the sale/payment for goods and services coming from forests and land (either via the market place or other public and private arrangements). The primary focus of this brochure is on how to increase access to investments for SFM/SLM and not on how to expand revenues.

A key question to answer is what types of financing are needed (e.g. from which sources and mixes), by different actors (public; private; small-scale; large scale; domestic; international, etc.), for which purposes? For example:

I. The type of land use; annual cropping, perennial crops, cattle rearing, plantations, natural forest management, forest restoration, agro-forestry have quite different investment, revenue and risk patterns.

II. Type of financing: investment finance, bridging finance, financing running costs may require different types and sources of long and short term finance.

III. Specific types of financing may be needed for creating the enabling conditions for investment, i.e. capacity building, training and education, policy and institutional development, (cross-sectoral) dialogue and the development of instruments and mechanisms.

Furthermore, the different sources of financing also have different scopes and objectives, magnitudes and operational modalities that make them more or less appropriate for specific purposes and target groups, such as loans, subsidies, private capital instruments, government budgets, donor funds, development banks.

and tapping into capital markets. It seems that finally, the multiple functions and values of forests and land are increasingly being recognized as part of the solution to pressing global issues (e.g. climate change, energy scarcity, poverty, environmental degradation, biodiversity loss and resource security).

Equally, impact investments, which allow capital investors to simultaneously pursue economic objectives while also generating positive social and environmental returns, are on the rise. Indeed, the number of funds engaged in impact investing has grown rapidly in the last five years, and the total managed value is currently estimated at approximately USD 50 billion. Some experts expect the size of this market to grow considerably in the next few years, possibly reaching USD500 billion in assets within this decade. Mainly, it includes investments in microfinance, community development finance, and clean technology, but the potential is much broader. To date, very few investors have ventured into the sustainable food and agriculture realm. However, research reveals that investment opportunities in sustainable food and farming are abundant, and suitable to diverse investment preferences and risk appetites.

Despite the clear potential of private investment, ample evidence demonstrates that (1) more private funding could be mobilized for SFM and SLM (2) current private funding is not always geared to sustainable practices and (3) it is not evenly invested among countries especially in the tropics, where small scales of operation, informality and tenure insecurity, information gaps and insufficient business organization and capacities present formidable barriers to financial investment. The key challenge therefore, is how to reorient and increase private finance to make it flow towards sustainable and competitive forest and land management practices and businesses.

8. Public and private financial institutions (e.g. national development banks, microfinance institutions and institutional investors) are increasingly exploring closer engagement with the forest and land sectors.

The commonly held view that financial institutions are reluctant to engage and invest in the forest sector in tropical /southern countries is beginning to change. Indeed, international businesses and financing companies are increasingly formulating specific policies to avoid or mitigate impacts on tropical forests – known as "do-no-harm policies" – and subsequently report on these. This growing interest is being motivated by a variety of factors, including future profits and risks, social, environmental, governance and resource security concerns, as well as corporate social responsibility. It seems likely that private financial institutions will become an ever more important source of "hard investment" in the coming years, provided that the right conditions are in place.

There is also a burgeoning interest in looking at investment possibilities in southern countries, not only because of the prospects and expected longer term market developments, but also because the opportunities to expand in traditional western markets are increasingly limited.

Yet, tapping into these potential opportunities means addressing several challenges including:

- Inadequate information, limited contacts, networks and expertise on forestry potential in southern countries, as well as weak assessments of opportunities and risks;
- The negative image and perceptions of the forest and land sectors in southern countries;
- The lack of bankable business cases with a good management track record; and
- Unreliable regulatory and business climates; poor infrastructure, corruption and governance issues.

9. Informal finance plays an important but often unrecognized role in financing small-scale forestry and land management.

Selected research and anecdotal evidence suggests that a vast and largely undocumented amount of forestry activities takes place within informal financing schemes. In rural and remote regions, strengthening and expanding existing informal financing modalities may actually work better than trying to attract urban financial institutions to rural areas (see Guatemala case).

Indeed, accessing financial services and markets can be especially challenging for small and medium forest enterprises (SMFEs), local communities and indigenous groups. Many small producers have limited access to formal financing, for several reasons including that: (1) Forests are often not acceptable collateral for a loan; (2) land cannot be used as collateral without clear land tenure; (3) lending policies favour low-risk and short-term loans; and (4) interest rates are often higher than the rate of forest value growth when timber is the only marketed output. For these reasons, many small producers rely on informal financing even when lending conditions are unfavourable (e.g. very high interest rates).

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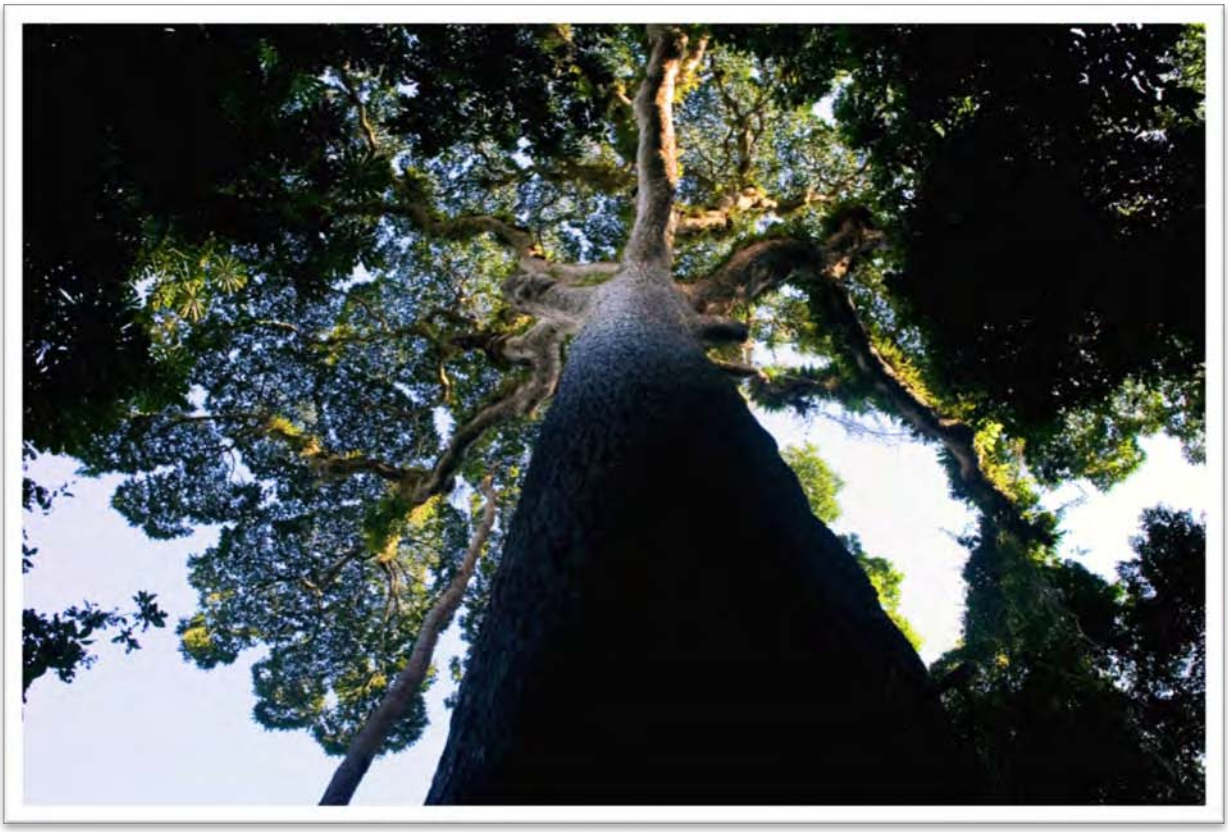
10. Building trust and cooperation between the forest, land and finance sectors is vital in paving the way towards increasing domestic financial resources for SFM/SLM activities.

At the national level, a lack of trust and credibility of the forest and land sectors is a major barrier in mobilizing public and private financial resources. Forest and land stakeholders need to reach beyond their traditional networks and invest in better communication and collaboration with other sectors, public and private entities, civil society and political circles.

In particular, capacities need to be strengthened to bridge the gaps in knowledge, expertise and culture with the financial sector, including by supporting the forest and land sectors to develop sellable business cases for investment and to attract new business partners. To facilitate dialogue between the sectors, a trusted and credible facilitator is fundamental in inspiring renewed motivation and fresh ideas for action.

In Paraguay, a facilitative process was supported by FAO/NFP Facility which demonstrated just what can be achieved through mutual learning between the forest and finance sectors. As a result of this process and increased inter-sectoral dialogue, a new credit line (initially worth US$2 million) for tree planting on pastureland was created.

When knowledge is scarce and trust is low, guarantees become essential ingredients in facilitating investments. The case of Peru illustrates how a relatively small guarantee fund was able to help unlock significant financial resources that were locally available (see Peru case). Ironically, some countries already provide for the existence of such guarantee funds in their forestry legislation (e.g. Guatemala), which, however, in many cases have not yet been fully operationalized.



Country Cases

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Guatemala

In 2007, FAO and the NFP Facility, together with partners, began supporting Guatemala to develop a national forest financing strategy, with a view to unlocking national opportunities to finance SFM.

At the time, Guatemala presented a forest sector with much potential, but lacking adequate financing. Despite this, there were certain positives that boded well for the future, including an incentive program to promote plantations and natural forest management for farmers with legal ownership title of the land. Equally, there was also a competent, well-managed forest administration which operated within a strong policy and legislative framework.

However, a clear route to progress was hindered by the considerable disconnect between the forest and finance sectors, as well as the limited support provided by the state to many small holders (namely those without legal ownership of their land and with areas of less than 15 hectares). These barriers were further compounded by the isolation of small holders (whether with land titles or not) along a number of dimensions, including: from each other, from markets and service providers, from the financial sector, from policy makers, and from critical information.

However, within the space of only a few years, much has changed in Guatemala's forestry sector, which now exhibits a far brighter outlook, with a number of key actions taken which have significantly increased access to financial resources. A crucial development in facilitating this progress was the approval of a **national forest financing strategy** by the Guatemalan Forest Agency (INAB) in 2009. The strategy focuses on six priority areas: Implementation of the Forest Finance Intelligence Unit (FFIU); Generation and dissemination of economic-financial information; Design and consolidation of financial products; Adaptation of existing programs, incentives and credit lines; Support to pre-investment; and Development of innovative financing instruments.

Within the framework of this Strategy and the additional support of the Growing Forest Partnerships initiative, a number of key actions were taken to improve the framework conditions and capacities for accessing investments. They include:

Strengthening Institutions. One of the critical bottlenecks in the development of financing instruments in Guatemala was the availability of the necessary financial information to prepare 'bankable' projects, to properly estimate the value of forest assets and future forest earnings, and to rigorously assess forestry investment risks and instruments to manage them.

To address these bottlenecks a **Forest Finance Intelligence Unit** (*Unidad de Inteligencia Financiera Forestal*) was established in 2009 within the National Forest Agency (INAB), initially with the support of the NFP Facility. Since 2011, the FFIU became fully integrated into the organizational structure of INAB and is now entirely supported by the Guatemalan Government, thereby ensuring its long-term sustainability.

The unit has had the task of facilitating communication between the forestry and finance sectors by promoting the development of financial products and knowledge sharing activities; building capacities (e.g. preparation of business plans); and contributing to the international dialogue on forest finance (in Nairobi in 2010 the FFIU represented the Government of Guatemala at the UNFF's Ad Hoc Expert Group on Forest Finance).

Self-organization of smallholders. Small forest users, communities and indigenous groups recognized that, as a group, they needed to be more organized, informed and better equipped to operate in the marketplace. Their limited coordination and common vision also hindered their ability to influence forest policy decisions and the development of financing solutions appropriate to their needs. To address these weaknesses, the first National Alliance of Community Forest Organisations of Guatemala (*Alianza Nacional de Organizaciones Forestales Comunitarias de Guatemala*) was created in 2009.

The Alliance has improved the ability of smallholders to influence forest policy decisions and develop financing solutions appropriate to their needs. It currently provides a forum for 11 second-level organizations and 400 grassroots organizations to find a common voice and influence decisions on the design of forest public funding programs, the formulation of forest policy, and to engage with REDD+ readiness initiatives. It also provides them with an opportunity to identify key priorities for action and capacity-building needs with a broad basis of consensus. This level of coordination amongst indigenous groups and community forest organizations is unprecedented in Guatemala. The Alliance members manage about 750,000 hectares of forest, a total of about 17.5% of the country's forest resources. Shortly after its creation, the Alliance became a member of INAB's Board of Directors.

Overcoming Legal Barriers. A key achievement in Guatemala has been the passing by the national Congress, in November 2010, of the "PINPEP law", assigning incentives to small forest holders (for those in possession of land less than 15 hectares, but without legal title) for reforestation and forest management activities. The financial program is funded by the Government to the amount of 0.5% of the State operating budget. From conception to approval by Congress, it took two years to pass the PINPEP law. This is significant, considering that it took eight years to achieve the approval of the other major national incentive program, PINFOR. The Alliance contributed to the institutionalization of PINPEP.

By 2011, the accompanying regulation was developed. In 2012, 50 million Quetzales (about USD 6 million) are planned to be disbursed to small farmers, communities and indigenous groups. By 2013, the PINPEP is expected to disburse 130 million Quetzales (about USD 15 million). It is expected that over 400,000 people will directly benefit from this publicly supported incentive scheme.

Broadening financing opportunities. Through joint-cooperation, forest and financing representatives have identified possible financing instruments with potential for development in the short to medium term: (1) micro-credit; (2) 'factoring'; (3) repurchase agreements; and (4) securitization of forest-based cash flows. Besides these private financing instruments, Guatemalan stakeholders are also evaluating (5) public financing options.

Stimulating enterprise development. In 2011, six local communities in the Guatemalan province of San Francesco Petén, took the key decision to establish a joint forest enterprise for the sale of wood products, with the support of the NFP Facility and the Growing Forest Partnerships (GFP) initiative. By consolidating their individual supplies of wood products into a much larger collective supply, the communities have dramatically expanded their marketing opportunities and stimulated sales to local companies, who are in general far more interested in buying larger volumes of wood products from one seller than from many individuals. Following this success, INAB created the Unit of Commerce and Industry in 2012 with the task of supporting the creation of producers' organizations. It is expected that within one year, the unit will became part of the organizational structure of INAB, which will then also fully support it financially.

The Peruvian Amazon

Often when people think of financing for sustainable forest management (SFM), big figures of money come to mind. However, a project funded by the ITTO in Peru, demonstrates how simple and practical schemes, along with small amounts of seed money and technical assistance, can make the difference for small and medium forest concessionaries in effectively managing their forests, and increasing their income.

The project entitled, *Application of Intermediate Technologies for Sustainable Forest Harvesting*, implemented a training, dissemination, and extension programme for the use of intermediate technologies for forest harvesting (portable saw-mills) in concessions under the management of small and medium producers and native communities, with two main components: technical assistance and financing.

The technical assistance component focused on training for the proper use of the intermediate technology and on business management, allowing the concessionaires to process logs into sawn timber right at the concession, and to sell it in the market with added value. This provided benefits such as:

- Added value to timber rights in the forest;
- Improved logistics and reduced transportation costs;
- Reduced risks of losses caused by lost/damaged logs during river transportation;
- Minimized negative impacts on the forest;
- Diversification of products and expansion of market access; and
- Increased income generation.

Meanwhile, the financing component, created a guarantee fund at a local bank, which provided a credit line to the concessionaries for the acquisition of the technology. As credits were repaid, further credits were extended.

The guarantee fund was established with a seed capital of USD 50,000 provided by ITTO, with a local small financial institution *Caja Municipal de Crédito y Ahorro de Maynas,* which extended credit lines to small forest concessionaires up to a maximum of USD 16,000 for the acquisition of the portable saw-mills and related accessories. The fund guaranteed 50% of the credit, while the other 50% was guaranteed by the portable saw-miller itself.

The technical assistance provided also helped the concessionaire in developing a business plan for the processed timber, which assured the repayment of the credit (repayment rate was 85%). At the end of the project it could be said that USD 7,000 of seed capital used mobilized credits for about USD 200,000

Some key lessons can be drawn from the experiences in Peru, including:

- A credit line, with effective capacity building, can help move-up small holders within the production chain;

- Simple financing schemes with smaller or local financial institutions can be effective in facilitating access to credit for SFM. They also have the potential for replication given that:

    - they build trust amongst forest concessionaires, small and medium enterprises and financial institutions;

    - they raise the profile of the forestry sector (in particular small and medium size enterprises) vis-a-vis financial institutions;

    - they help to familiarize forest concessionaries and other stakeholders with policies and procedures of financial institutions.

Jordan

Land degradation in Jordan has major socio-economic impacts on the national economy, as well as on the livelihoods of rural and Bedouin communities. The World Bank estimates the annual economic cost of environmental degradation in Jordan at 3.1% of gross domestic product (GDP), with total losses of 205 million dinars (JD) across five sectors. Most of these financial losses are caused by rangeland degradation (costing the equivalent of 0.46% of GDP) and soil salinity (0.14% of GDP).

For many years, addressing this challenge by mobilizing the necessary institutional, technical and financial resources to promote sustainable land management (SLM), was severely hampered by a variety of barriers. These included the lack of integration of land degradation related issues into sectoral and inter-sectoral policies, as well as significant shortcomings in the country's coordination mechanisms and institutional, legal and policy frameworks.

In 2007, the Global Mechanism (GM) was requested to support Jordan in strengthening the enabling environment for improving access to investments into SLM. A major undertaking under this agreement was the development of an integrated financing strategy (IFS), an instrument to support governments in mobilizing financial resources for UNCCD implementation at the country level. IFSs are designed to contribute to broadening the scope of planning processes beyond specific sectors and include comprehensive coordinating arrangements between different financing sources, instruments and mechanisms. Their objective is to improve the investment climate and create a stable and predictable enabling environment for increasing investments into SLM.

The IFS adopts a flexible step-by-step approach towards boosting investments in SLM. This included an in-depth analysis of the current investment climate for resource allocation, constraints that may have hampered financial flows, as well as recommended actions for improving this environment. One of the striking features of the process in Jordan was its participatory nature, with broad involvement from a range of national stakeholders, development cooperation agencies, civil society and other relevant entities. This was considered vital to promote inter-sectoral coordination, establish formal partnerships and initiate policy dialogue between key national actors.

The IFS quickly identified that a key measure to help boost domestic budgetary allocations and attract greater international public and private investments in Jordan would be to mainstream SLM as a national development and investment priority into key development policies and processes, such as Poverty Reduction Strategies and national budgetary frameworks. This proved a major success with the full integration of the financing priorities identified under the IFS into the 'We are All Jordan' Development Programme and the 2009-2010 National Executive Programme.

Another key achievement for the country-level process in Jordan has been the identification of concrete financing opportunities from a variety of sources, including from the country's domestic budget. Indeed, 47 SLM projects to the tune of USD 664 million were included in the National Executive Programme 2010-2012 in Jordan, signalling a positive future for the safeguarding of the country's precious land resources.

Zambia

In some cases, stimulating investments means building a body of evidence which demonstrates that the sustainable management of natural resources has the potential to stimulate sustained economic growth and long-term social security. Yet, convincing ministries of finance to assign increased national budgetary allocations for SLM and SFM requires real and hard evidence of the economic benefits that can be generated to the broader national economy.

Zambia is one of a leading group of countries to pilot a cutting-edge approach for assessing the economic value of their country's land resources using a methodology developed by the OSLO (Offering Sustainable Land-Use Options) Consortium (www.theoslo.net/about/). OSLO is a partnership which counts the Global Mechanism (GM), the Stockholm Environment Institute (SEI), the United Nations University (UNU), and the Joint Research Centre (JRC) of the European Commission, amongst others, as key members.

The aim of the OSLO Consortium is to convince decision makers, both from Governments and the business sector, of the clear advantages of SLM-smart investments and policies. The Consortium is able to demonstrate that considerable financial and socio-economic returns on investment can be generated from responsible land use, both in fertile and marginal drylands.

Based on the methodology developed by OSLO, an economic valuation was undertaken in 2011 by the University of Zambia (UNZA) in conjunction with the GM and SEI to assess the costs and benefits of specific sustainable land use options and investment strategies in the country's Kafue district.

The analysis drew up some fascinating evidence to show just how valuable Zambia's ecosystem services really are. This translated into a figure of 1,200 billion Zambian Kwacha (approximately USD 240 Million) for the entire 500 ha Kafue district. Of this, agriculture accounted for 37.80%, wetlands 35.95%, forestry 15.37% and fisheries 8.77%. Furthermore, the total stock of the carbon sequestered in the biomass and soils of the different land cover categories was estimated at USD 3.5 billion. However, with rapid resource degradation taking place in the country, there can be no doubt that these economic values are increasingly under threat.

The results of this study will enable governments, policy makers and the private sector to give the proper weight to more sustainable and efficient land use decisions. They also provide quantifiable measures to take stock of the present health of Zambia's ecosystems, identify vulnerable areas, and track future progress. The valuation methodology developed by OSLO can be scaled and customized to diverse environments and situations, allowing for consistent and comparable results within a global context.

Unlocking National Opportunities: Some Concrete Steps

1. Understand which financing sources, mechanisms and enabling conditions are already available to support SFM/SLM.

A helpful starting point is to take stock of financing opportunities that are already available, or could be made available with limited effort. Helpful questions to ask in the preparation of background information include:

(1) What are the current and potential sources of SFM/SLM financing? (2) What is their level of coordination and how do they compare to the needs and purposes of the different actors? (3) How can access to existing and emerging financing opportunities be enhanced? (4) What are the key factors that can boost their effectiveness? (these may include framework conditions, instrument design, alignment with national priorities, etc.) (5) Which instruments and portfolio combinations are most effective for different SFM/SLM needs and stakeholders?

Such background information can be helpful to support the following step.

2. Design a viable strategic process with national partners to support knowledge sharing and coordinated practical action among stakeholders in the forest, land and finance sectors.

We have found that participatory knowledge sharing events such as workshops, investment fora and fairs, working groups, and field visits to well managed forest and land areas by finance representatives, are all useful initiatives to help redress misconceptions the sectors have of each other and to identify areas of mutual interest. We have also found that working collaboratively – be it initially on a selected number of jointly identified activities (studies, the development of innovative instruments, business and policy proposals) – also greatly enhances mutual understanding and joint learning. This helps set in motion the continued efforts to up-scale collaboration, coordination and trust between the sectors.

For making such a process of learning-by-doing and joint action a success, a minimum of resources should be available to generate a sufficient “critical mass” of support over a sufficient period of time. Limited interventions in **level** (e.g. working only with forest producers), **scale** (e.g. failing to link pilot activities to institutional or scaling up plans) and **time** are all unlikely to result in a lasting and sustainable impact.

3. Identify suitable facilitators with convening power with the finance sector.

Bringing together two sectors with limited history of working together requires some initial effort. We have found that knowledge sharing events are better attended and more constructive if facilitated by individuals or organizations with high credibility and convening power with the finance sector. In general, our experience has shown that nominees by banks, banking associations and finance ministries have been particularly effective at bringing together key stakeholders and creating new financial products for forestry and land rehabilitation.

4. Build on what is already there.

Whether it is a forest fund that has not been operationalized or a credit scheme that is not well known, there are still clear signs that there is a growing interest from the finance and investment community to work with the forest and land sectors. We have found that building on existing motivation and fostering a sense of possibility is very important to initiate and maintain progress toward better and greater access to finance. In the words of one of the participants "help us do better what we are already doing."

5. Adopt an integrated approach.

Facilitating access to finance requires working at different levels. At the level of forestry and land stakeholders, capacities often need to be built on enterprise development (e.g. product and service development, marketing, organizational development, understanding value chains) financial management (e.g. preparation of investment plans, credit management, risk management) and sometimes also natural resource management. Rarely can forest and land stakeholders engage financial institutions without the above information organized in "bankable" business cases. When working with small holders, critical support is also needed to support the creation of producers' organizations for them to achieve a minimum scale of operation.

Similarly, the financial sector also needs to be supported in learning about the nature and potential of forestry business. The forest and land information that is necessary to make sound investment decisions (forest values, growth rates, prices, market outlooks, etc.) is often not readily available. At the institutional level, forest and land administrations are often not equipped to facilitate inter-sectoral dialogues, may operate with overly bureaucratic procedures and requirements, or have a limited service provision. Quite often, their capacity to share sector knowledge and provide services as they relate to forest and land finance, also needs to be strengthened. Finally, at the enabling environment level, critical bottlenecks may need to be addressed (e.g. policies, laws or regulations may need to be adjusted; mechanisms for inter-institutional coordination strengthened or established). In general, weak governance can prevent financing opportunities from materializing or jeopardize their effective use.

6. Ensure that SFM/SLM are fully mainstreamed into national development frameworks.

The mobilization of substantial financial flows is closely related to the integration of SLM/SFM issues into national policy, planning and budgetary processes, and overarching national development frameworks (see Jordan case).

Mainstreaming is part of this integration and involves a process of informed dialogue and national-level action focusing on the sustainable management of natural resources and poverty reduction, with the objective of engendering political commitment to make forest and land related issues national priorities and to carry out corollary actions to improve policy, legislative, institutional and planning frameworks. Mainstreaming is a continuous effort to integrate SLM/SFM priorities into government decision-making and the political culture. Government ownership of the process and support from development partners are fundamental to successful mainstreaming.

A country's policy measures, as spelled out in its Poverty Reduction Strategy Paper (PRSP) and related development frameworks, are often poorly prioritized and insufficiently linked to the availability of financial resources in the budget. To be effective, mainstreaming efforts must therefore target not only policy frameworks but also Medium-Term Expenditure Frameworks (MTEFs, or variations of them) and annual budgets at the national and decentralized levels.

Criteria indicating effective mainstreaming include: the integration of SFM/ SLM priorities into overarching development frameworks such as PRSs; the existence of an enabling sector policy environment comprising a legislative framework, particularly for land tenure and tenure rights; and the availability of investments, including through domestic budgets, international cooperation and the mobilization of local communities' and household resources.

7. Provide financial incentives to encourage land and forest users to adopt and invest in sustainable practices.

Economic incentive mechanisms – such as payment for ecosystem services, conservation concessions, or market labels and certification schemes – are vital in supporting land and forest users to make sustainable choices with regard to the management of their natural resources. Such incentives are crucial in helping to address the negative externalities of unsustainable land and forest practices which are not always seen on site, but rather through their broader impact in neighbouring areas or in society as a whole (e.g. reduced water quality due to run-offs or carbon emissions leading to climate change). There are often associated costs for the business or private actor operating the land or forest to adopt more sustainable practices and normally it is the land users themselves that decide which management practices to invest in. These decisions are often influenced by their immediate needs rather than the long-term benefits, let alone the needs of people beyond their perimeters.

In such situations, compensation in the shape of direct monetary payments, technical assistance or preferential market access, can provide a win-win scenario for both reducing land and forest degradation by attracting investment and benefiting local livelihoods.

8. Think about forest finance with livelihood strategies in mind.

In cases where small holders and local communities are important target groups, it is vital to remember that most rural households rely on diversified production and income-generating strategies where forest-based activities are usually only part of their household enterprise.

Forest- and tree-based activities are complemented by agricultural and animal-raising activities and labour income. Forests often function as "safety nets" in times of crop failure or other emergencies. One concrete way to adapt financing to local realities is to build awareness of already existing (often informal) mechanisms and design and implement financing schemes with a view that goes beyond forest financing needs and addresses the livelihood strategies of different groups.

For a large portion of forest-dependent people, forests are not the most important source of livelihoods. Credit schemes that permit repayments based on income from agriculture and animal husbandry can improve forest management and household incomes. Compensation schemes, that respond to community needs and that look beyond forests, have proven to be promising, practical and sustainable.

9. Ensure that risk mitigation and guarantee instruments are in place as integral parts of strategies to leverage additional finance.

This is crucial whether we talk about informal finance, habilito, micro-finance, or multi-million dollar investments (See Peru case).

Risks in forest investment and financing operate at a number of different levels including economic, business and commercial risks; political and policy risks; natural and technical risks and reputational and sustainability risks.

This is still a wide field to explore further and adapt according to the situation of many low income countries, in particular for small and medium forest producers. It includes not only tools to better identify and assess how these risks operate for different types of forest investment, but also the ways in which these risks can be effectively addressed through for example, insurance products, early risk coverage instruments and public-private partnerships.

10. Enhance capacities for innovation, knowledge sharing, expertise development and information exchange.

Time and time again, we have been surprised by the limited knowledge the forestry, land and financial sectors have of each other. However, when this veil of mutual ignorance is lifted, we consistently find that (1) significant domestic financial resources are available to the forestry and land sectors and (2) that financial institutions can be formidable allies in devising innovative solutions to the problems of the forest and land-dependent poor.

Forest and land stakeholders therefore, need to reach beyond their traditional networks and invest in better communication and collaboration with other sectors, public and private entities and civil society. To help bridge this gap between the financing, forestry and land arenas, intermediary service providers (whether national public agencies, NGOs, development agencies or private companies) can play a facilitative role, through the provision of specific areas of expertise, coaching or mentoring.

Six Practical Steps in a SFM/SLM financing strategy

The following captures some of the key practical steps necessary to unlock national level investments:

1. A shared perspective, purpose and values by a broad spectrum of national stakeholders

- the perspective determines the long-term objectives and how they are to be achieved;
- the purpose describes the objectives pursued by the actors within the strategy;
- the values are the institutional principles that shape the actions of the organization, reflecting its culture and priorities.

2. A clear overview of the national context for resource allocation, including:

- an in-depth analysis of the current climate for sustainable forest/land investments;
- identification of barriers and constraints that, to date, may have hampered financial flows into SLM/SFM;
- recommended actions for improving this environment.

3. Identification of opportunities for mobilizing increased resources, including:

- the existing mechanisms (sources, instruments and operators) for investments, as well as payments for goods and services;
- the main actors in financing chains, their responsibilities, constraints and requirements for effective functioning;
- the main users (i.e. those who manage forests and lands), together with their requirements with regard to financing.

4. A plan of action:

- development and/or improvement of existing and innovative mechanisms (for investments and payments);
- development of an enabling environment for the mobilization of additional resources;
- the path and processes for carrying out the plan;
- a portfolio of programmes and projects (including business cases).

5. A monitoring and evaluation system.

6. A multi-actor execution plan

This defines the responsibilities and procedures to be followed by those endorsing the strategy in terms of commitments concerning communication, coordination, collaboration and implementation, and the contribution of resources.

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Selected Resources and References

Partner Websites

FAO
www.fao.org

Global Mechanism
www.global-mechanism.org

International Tropical Timber Organization
www.itto.int/

NFP Facility
www.nfp-facility.org

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For more information:

Marco Boscolo
Forestry Officer
Food and Agriculture Organization
Tel: +39-06-5705-4424
Email: marco.boscolo@fao.org

Ramón Carrillo
Projects Manager, Forest Industry
International Tropical Timber Organization (ITTO)
Tel: +81 45 223 1110
Email: carrillo@itto.int

Camilla Nordheim-Larsen
Programme Coordinator, Asia and Pacific
Global Mechanism
Tel: +39 06 5459 2061
Email: c.nordheim-larsen@global-mechanism.org

Herman Savenije
Programme Coordinator
Tropenbos International
Tel: +31 317 481423
Email: herman.savenije@tropenbos.org

Jerker Thunberg
NFP Facility Manager
National Forest Programme Facility
Tel: +39 06 570 55137
Email: Jerker.Thunberg@fao.org

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