



Paramaribo Dialogue Bulletin

A Daily Report of the Country-Led Initiative on Financing for Sustainable Forest Management in support of the UN Forum on Forests (UNFF)

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UNFF CLI ON FINANCING SFM HIGHLIGHTS: MONDAY, 8 SEPTEMBER 2008

On Monday, 8 September 2008, participants representing governments, inter-governmental and non-governmental organizations convened in Paramaribo, Suriname for the first day of the Country-Led Initiative (CLI) on Financing for Sustainable Forest Management (SFM) in support of the UN Forum on Forests (UNFF). In the morning, participants heard opening addresses and presentations providing an overview of SFM financing. In the afternoon, they listened to presentations on producer, consumer and community perspectives, and met in three breakout groups to discuss the day's presentations.

PLENARY

Amb. Ewald Limon, Suriname, CLI Task Force, welcomed participants and expressed hope that the CLI will set the stage for the commitment of new and additional resources to enable SFM.

Hans Hoogeveen, the Netherlands, UNFF 7 Chair and CLI Co-Organizer, identified challenges and opportunities within SFM, including improving the lives of forest peoples and reversing climate change. He said the non-legally binding instrument (NLBI) on all types of forests can only be implemented with increased funding, including from philanthropic organizations and the private sector. He encouraged coherence within international forest policy efforts, based on a shared vision.

Stephanie Caswell, US, CLI Co-Organizer, noted the importance of CLIs within UNFF. She said that the NLBI is a landmark agreement that provides a framework for cooperation on SFM, and that its implementation will require increased funding and good governance. She suggested that public funds can be used to leverage additional funding from other sources.

Boen Purnama, Indonesia, UNFF 8 Chair, stressed the need for continued commitment from stakeholders to achieving the four Global Objectives on Forests, which include: reversing the loss of forest cover; enhancing economic, social and environmental benefits from forests; increasing the coverage of protected areas; and reversing the decline of financial assistance for SFM.

Runaldo Ronald Venetiaan, President of Suriname, noted the steps undertaken by Suriname to protect its forests, including legislation for protected areas and forest sustainability. He emphasized the need for developing financial mechanisms based on a portfolio approach as well as developing a mechanism to allow service payments from consumers for using forests as carbon sinks.

OVERVIEW: Russell Mittermeier, Conservation International, outlined examples of new opportunities for SFM financing and investment, including protected areas, ecotourism, sustainable timber and non-timber forest product extraction, payments for ecosystem services (PES) and forest carbon, which he said together demonstrate the value of forests at a scale comparable to economic gain from unsustainable

extraction. Noting the opportunities and obstacles associated with financing through reducing emissions from deforestation and forest degradation (REDD), he listed examples of current carbon funds and investments.

Michael Jenkins, Forest Trends, described the change in forest threats and opportunities over time, and noted that forests present a nexus between climate, communities and conservation. He provided an overview of potential new funding sources, including PES. Jenkins highlighted that forest-related carbon represents 20% of the voluntary carbon market, yet only one percent of the regulated market. He said that REDD holds potential but presents challenges that must be addressed, including leakage, equitable distribution of payments, and perverse incentives.

Tiina Vahanen, UN Food and Agriculture Organization (FAO), presenting on the Collaborative Partnerships on Forests (CPF) background analysis of the NLBI, noted that it identifies sources of financing, examines links between existing funding sources and the national measures of the NLBI, and provides illustrations on proactive efforts by countries to increase forest financing. She stressed that supportive policies and institutional environments, including land tenure clarity, are important for successful implementation of the NLBI and SFM, and suggested creating a programme to assess national financing needs and mobilize the necessary resources.

Markku Simula, CPF Advisory Group on Finance, presented the results of a study on the external financial flows for SFM in developing countries. He said the study found that: there is relatively weak country demand for forest-related overseas development assistance (ODA); bilateral and multilateral financial flows come from a narrow base of sources; and private foreign direct investment has shown to be very profitable. He identified several geographic and thematic gaps in forest financing, including: SFM outside protected areas; management of natural tropical forests for production; and upfront investment for SFM.

Presenting on new and emerging World Bank initiatives on forest finance, Gerhard Dieterle, World Bank, noted that new funding opportunities available include: forests being included in the climate change agenda, particularly the Bali Roadmap; private sector investment in forests; and significant new ODA financing. He highlighted challenges for funding, including: the linking of development and climate change agendas; improved coordination between donors and funding agencies; and increased governance and institutional bottlenecks.

On the issues and opportunities for financing forestry in Latin America and the Caribbean, Dora Currea, Inter-American Development Bank (IDB), highlighted that climate change provides new opportunities for direct financing. She noted that increased emissions in the region were largely from forest degradation due to increased land competition. She underscored opportunities available to mitigate emissions, including: forest fire reduction; decreasing illegal logging and

promoting SFM; and the establishment of forest plantations. She stressed that the IDB aided in achieving these by reducing bottlenecks and mainstreaming forest management.

Bharrat Jagdeo, President of Guyana, lamented that SFM financing must be substantially increased as it has yet to match political commitments. He noted that forests must be part of any development strategy, and that ultimately forests will be cut down as long as it is more profitable than keeping them standing.

FINANCING SFM: PRODUCER, CONSUMER AND COMMUNITY PERSPECTIVES: Amha Bin Buang, International Tropical Timber Organization (ITTO), gave an overview of ITTO's financing of sustainable tropical forest management, noting that between 1988 to 1996, US\$129 million was granted to various projects in tropical timber producing countries. He described the financial provisions under the International Tropical Timber Agreement, 2006, including the specific funding of Thematic Programmes. He noted that ITTO's funding base is narrow, with Japan, Switzerland and USA together accounting for 90% of contributions. He added that the funding of projects is similarly concentrated, with eight recipients accounting for 50% of funding awarded.

Linda Mossop-Rousseau, South African Forestry Company Limited and African Forest Forum, presented on the financial challenges facing forest product producers in South Africa. She reviewed the effects of the Apartheid era on South Africa's forestry sector, including social, political and economic exclusion that has left forests in some regions under extreme pressure because of overpopulation and lack of funding. She stressed that the duality of economies in the forest sector continues despite policy reforms, and that although large corporations dominate the forest sector, small producers are making inroads.

On community forestry and financing, Yati Bun, Foundation for People and Community Development, Papua New Guinea, stressed that capacity building was a large challenge for SFM. He highlighted benefits of SFM to the community, including: directly received export revenues; permanent houses being built; the establishment or improvement of copra fermentries; and funds to meet the needs of households. He stressed that a number of challenges remained, including: the impracticality of long-term subsidization; modernizing traditional ways to enable market participation; and understanding the local situation.

Erik Albrechtsen, DLH Group, Denmark, said that corporate social responsibility requirements for wood products coming from "high-risk" countries are greater, yet no price premium exists for these markets. He added that this is because sustainably produced products are forced to compete on an uneven playing field with wood from dubious origins. He said that funding is required to support SFM efforts, as market mechanisms alone are insufficient in providing an incentive.

Adil Najam, Boston University, presented on governance reforms necessary for the implementation of a portfolio approach. Noting that the complexities of forest governance have to be managed, not simplified, he highlighted that a portfolio approach is necessary to address diverse realities and interests. In designing an innovative financing mechanism, he called for, *inter alia*: focusing on key interests; capitalizing on diverse capacities of governments, markets and civil society, and encouraging partnerships among them; building strength through flexibility; and operating at multiple levels. He noted that governance challenges in a portfolio approach include financial coherence within public sector funding and appropriate governance mechanisms to broker private initiatives.

BREAKOUT GROUPS

Three breakout groups met to discuss country experiences with: changes, threats and opportunities within the forestry sector; financing mechanisms for SFM; the role of forestry in climate change mitigation and adaptation; and the linking of global and local funding initiatives.

BREAKOUT GROUP 1: Participants reflected on challenges faced by their countries, including the lack of an adequate institutional framework and good environmental governance, diverse interests among government ministries, land use competition, forest degradation, lack of domestic action to address adaptation, and illegal mining. Several participants raised concerns associated with REDD's dominance of discussions, noting that a new mechanism needs to be developed to compensate countries that do not have major deforestation problems. Some participants stressed that indigenous and local communities must benefit from such mechanisms, and inquired about payment distribution mechanisms for the voluntary carbon market, while one participant noted that the development of a country's population as a whole should be considered and that communities living in cities are also stakeholders.

BREAKOUT GROUP 2: Focusing on financing mechanisms for SFM practices, participants discussed the need to mobilize resources across all sectors within a country to ensure that resources are effectively used. They also stressed the need for strong institutional frameworks for effective SFM implementation. Participants highlighted that PES mechanisms differ across countries due to variations in service needs, and consequently the history of the area plays an important role in determining the appropriate mechanism. Some expressed concern that funding opportunities are not widely known amongst all stakeholders and suggested that mechanisms should be scaled down to enable easier access.

BREAKOUT GROUP 3: Several participants remarked on the need for policy coherence, both among the various agencies involved in international forest policy, and also among different ministries at the domestic level. One participant expressed concern that while expectations for SFM have risen, donor funding has not. While one participant highlighted that National Forest Programmes (NFPs) are needed to provide a comprehensive policy framework at the national level, another countered that these do exist for many countries, but lack adequate funding for implementation. The concept of basing compensation on "opportunity cost" was raised several times, with participants emphasizing that forests will always be cut down if alternative land uses are more profitable. Several participants said that REDD is currently dominating discussions at the expense of more nuanced discussions of SFM.

IN THE CORRIDORS

The week's discussions got off to a strong start, with many participants remarking on the high level of expertise present at the meeting and the quality of supporting background documents. The afternoon breakout groups provided a good opportunity for participants to speak informally and respond to earlier presentations. REDD, an issue that has also figured prominently within recent biodiversity and climate change negotiations, has already been put in the spotlight at this meeting. As delegates delve further into innovative financing strategies, the rest of the week promises more debate on whether a preoccupation with REDD is narrowing the focus of SFM and eclipsing other services and values that SFM provides, or whether it provides perverse incentives and unfairly excludes countries that have managed to keep deforestation at bay.