



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: TUESDAY, 9 SEPTEMBER 2008

On Tuesday, 9 September 2008, the Country-Led Initiative (CLI) on Financing for Sustainable Forest Management (SFM) in support of the UN Forum on Forests (UNFF) convened in Paramaribo, Suriname for the second day of discussions. In the morning, participants heard reports from the co-chairs of breakout groups from the day before, and presentations on financing from forest ecosystem services. In the afternoon, they discussed payment for environmental services (PES) in three breakout groups, which then reported back to plenary.

MORNING PLENARY

The co-chairs of the previous day's breakout groups, Elise Haber (South Africa), Stefanie von Scheliha (Germany), and John Hudson (UK) reported to plenary on their respective groups' deliberations. They highlighted, *inter alia*, discussions on payments for reducing emissions from deforestation and forest degradation (REDD), noting that participants considered it an important potential financing mechanism but not the only one, as it excludes some countries and focuses on one of many services provided by SFM. They concluded that timber is still seen as the strongest focus of SFM, and summarized participants' concerns that indigenous and local communities and small producers will have trouble accessing new financing mechanisms.

FINANCING FROM FOREST ECOSYSTEM

SERVICES: Carlos Manuel Rodriguez, Conservation International, presented on creating an enabling policy environment to mobilize financing from forest ecosystem services. He stressed two overarching goals, namely, bridging the gap between the affluent and the poor and reducing the gap between man and nature, and emphasized four challenges to addressing these: stabilizing climate change; stabilizing population growth; decreasing poverty; and restoring, conserving and preserving existing ecosystems. He highlighted steps that Costa Rica has taken to create an effective policy environment, including: legislation to implement sustainable development; creating a national system of protected areas; and transforming incentives and creating funds for PES to promote forest protection. He underscored that policies should not be sectoralized in order to maintain and upscale forestry services.

Simon Petley, Enviromarket, UK, provided an overview of capital markets available for forest financing. He said that at US\$455 billion per annum, this represents ten times the amount of overseas development assistance (ODA) currently assigned to forests, noting that 60% of this is concentrated within only five countries, and that ODA is still greater than private investment in 60% of developing countries. He emphasized the role of local markets, which provide 90% of forest financing, adding that lenders have yet to express interest in investing in

ecosystem services. He examined differences in expectations held by borrowers and lenders regarding capital for SFM, with the latter being primarily concerned with certainty of repayment and risk management. Highlighting the importance of country-specific constraints, he said that managing risks requires enforceable property rights and good governance.

Claudio Maretti, WWF-Brazil, presented on Brazilian perspectives of carbon compensation for the protection of the Amazon rainforest. He listed the objectives of WWF's Amazon Region Protected Areas Programme (ARPA), highlighting partnerships with local communities and non-governmental organizations, the federal government, and several international donors. He reviewed the increase in strict protected areas and sustainable use reserves in Brazil over the past two decades, noting that almost half of the Brazilian Amazon is legally protected in some form. He highlighted that deforestation rates have decreased within and around these areas, resulting in a large projected reduction of carbon emissions. He listed keys to ARPA's success, including: strong commitment and support from state and federal governments; a broad vision that includes strict nature protection and sustainable development; and strong partnerships. He underscored the importance of PES to contend with alternative land uses.

Rezal Kusumaatmadja, Starling Resources, presented on concessions for ecosystem restoration in the peat forests of Indonesian Borneo. Stressing the importance of peat forests as a carbon sink, he lamented that due to land use change these forests are being lost and consequently carbon emissions are increasing. He highlighted that a new policy in Indonesia allowing land concession permits to restore ecosystems, in conjunction with opportunities in the voluntary carbon market, has made the restoration of peat forests financially viable and beneficial to both local communities and the private sector. He stated that the ecosystem restoration permit was well received by carbon markets as it met conditions of permanence and additionality, and this has meant that ecosystem restoration projects can be wholly financed through the carbon market. He underscored this model as an example of a portfolio approach for SFM financing.

Doris Cordero, IUCN, discussed lessons learned regarding PES in the Northern Andes, emphasizing the importance of considering differences in social, legal and institutional contexts. She lamented that there is an overall lack of understanding regarding the impacts of land use change on local water quantity and quality. She noted that PES systems have been primarily funded by local communities, and run by municipalities with support from NGOs. Regarding carbon sequestration and avoided deforestation, she said that this has been mainly dependant on the voluntary market. She said that while biodiversity conservation is difficult to measure as an

environmental service, it can be bundled with other services such as watershed protection. She stressed the importance of establishing objectives and defining exactly what is being bought and sold, and emphasized that institutions must be strong enough to enable trust and certainty between buyers and sellers of services.

BREAKOUT GROUPS

Each of the three breakout groups addressed the following issues: policy, institutional and legal frameworks needed for effective realization of PES; mechanisms to utilize PES effectively towards SFM and societal well-being; sensitivity and responsiveness of current financial institutions and capital markets to support SFM; cross-border protected areas; and availability of information.

BREAKOUT GROUP 1: Participants asked for more sharing of information on practical demonstrations of PES, while others questioned the replicability of currently successful PES mechanisms in diverse contexts. They agreed that a “one size fits all” model is not realistic, noting that a portfolio approach recognizes the different needs and capacity of countries. One participant brought attention to the fact that low forest cover countries were being excluded from the discussions, and another commented that SFM in these countries will be more prominent on the climate change agenda when considering adaptation.

One participant stressed the need for practical and immediate action towards creating partnerships with private companies, focused on countries with limited resources. Others brought attention to the challenges of ensuring that payments reach indigenous communities, and in determining the value of environmental services.

Some participants said that financial institutions required clear and concrete contextual information of investment conditions to be able to support PES initiatives, citing the forestry investment attractiveness index of the Inter-American Development Bank as a good example, and noted that the private sector dislikes uncertainty. It was also mentioned that there are opportunities for traditional forest industries to be more involved and sell the benefits of SFM to the investment community.

On information sharing, participants listed information resources such as the National Forest Programme Facility, UNFF, and Collaborative Partnership on Forests websites, while others called for more information, specifically on PES.

BREAKOUT GROUP 2: Focusing on how to create enabling environments for PES mechanisms, participants discussed the need to clarify land tenure and create good business environments in order to encourage the establishment of and financing for PES, with particular reference to specific and focused legal frameworks. They also noted the need to acknowledge the uniqueness of each country’s situation. Participants stressed that PES should not focus solely on carbon payments, so that mechanisms can be more inclusive. They also emphasized that PES allows for a diversification of incomes from SFM by creating additional marketable products and services for the private sector and local communities. One participant highlighted the need to prove the business case and raise awareness of PES to demonstrate its financial viability.

Participants stressed the need to develop capacity amongst stakeholders, the public and private sectors, as well as disseminate information to and build relationships with local and indigenous communities, and agreed that UNFF could support this process. They noted that there were good examples of PES at the local level, and that lessons learned

should be fed back to the policy level and other stakeholders, in order to scale up and nationalize PES mechanisms. Participants also suggested that strong political will and a clear understanding of the concepts are fundamental to the success of PES mechanisms. Cross-border opportunities for protected areas under PES were also highlighted, with one participant noting his country’s positive experiences and available future possibilities.

BREAKOUT GROUP 3: Discussions in this group focused on the level at which environmental services should be bought and sold. Some participants supported the notion that local communities should determine which services are sold, for how much, and to whom. Other participants expressed concern that this will bypass the authority of national governments, and questioned small communities’ capacity to knowledgeably enter into PES negotiations and equitably distribute payments. It was argued that since the provision of environmental services by a given country will ultimately be determined by a national government’s action or inaction, payment for and provision of environmental services should occur at this level. Others countered that local communities need a direct incentive to maintain forest cover, and that the role of government will be to provide an enabling environment for communities to participate in these markets.

One participant emphasized that REDD is just one instrument within the larger PES context, drawing attention to available information on a wide array of such instruments on the Katoomba Group’s website, “Ecosystem Marketplace.” Participants generally agreed that PES is based on capturing positive externalities that have been taken for granted to date, and that getting beneficiaries to pay for these will require a change in attitude. Several participants cautioned against placing the provision of environmental services at the mercy of the market. One participant pointed out that climate change threatens the environmental services that forests are able to provide, and that this has not received adequate attention. Participants also expressed support for UNFF playing a leadership role within PES and particularly REDD.

AFTERNOON PLENARY

Following reports from the breakout group co-chairs, Glen Kile (Australia), Carlos Gonzalez Vicente (Mexico), and S.P. Yadav (India), CLI Co-Chair Cornelis Pigot (Suriname) concluded the sessions with some reflections on the first two days’ events. He said that the discussions within the breakout groups are increasing participants’ awareness of forest finance challenges, and that this will contribute to a successful outcome at UNFF 8.

IN THE CORRIDORS

Today’s deliberations raised several issues fundamental to forest financing, particularly with regards to payment for environmental services (PES). Concerns over sovereignty, familiar to those involved with the international forest processes, were expressed by several participants, this time regarding the funding of PES at the local level, which some believe would undermine national governments. Some questioned whether the fate of the world’s forests should be determined by market forces, which could risk excluding low forest cover countries from accessing funds. Participants will have a chance to reflect on these issues during Wednesday’s field trips before resuming discussions on Thursday morning.