Study on Forest Financing in African countries and LDCs

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Content

- ✓Background to the studies and the study process
- ✓Data issues and methodology
- ✓Key findings
- ✓Key conclusions

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Background and objective

- The 2008 study on financial flows and needs detected a long term decline in development cooperation financing for forests and highlighted gap in financing African countries and Least Developed Countries
- UNFF (October 2009) decision launched, among others, the Facilitative process on forest financing addressing the special needs of countries that have faced decline in forest financing
- Present study is part of the Facilitative process
- Immediate objective is to improve the understanding financing and investments through:
  - ➢ Assessing the present financing flows and channels
  - ➢ Assessing the demand for financing
  - ➢ Identifying gaps and challenges in mobilizing (additional) financing
  - ➢ Seeking lessons and success stories
  - ➢ Studying enabling environment that would be conducive for enhanced forest financing
- Broad objective is to find out ways to facilitate additional financing for forest sector development in African countries and LDCs (Fourth Global Objective on Forests)

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Scope

- The studies cover 54 African countries and 48 LDCs
- Including 4 case studies in:
  - Tanzania - African LDC
  - Tunisia - African non-LDC
  - Uganda - African LDC
  - Nepal - Non-African LDC

Context

African countries and LDCs groups cover significant share of world´s forests:

- African countries ~ 17%
- LDCs ~15%

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Methodology and products

- Data mining of available information: statistics, reports, studies and other available documents
- In-depth country case studies for deeper understanding of the financing landscape
- Products of the study process are 8 papers - 4 for each country group:

  - 2 macro level papers:
    - Background paper
    - Forest financing paper
  - 2 country case study papers

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Data issues

- Data that is available:
  - ✓ Domestic expenditure and revenue (not for all countries)
  - ✓ODA flows
  - ✓GEF financing
  - ✓REDD+ financing flows
  - ✓FLEGT financing flows
  - ✓Plantation investment
- Data that is not available
  - ✓Private sector investment and financing – both domestic and foreign
  - ✓Cross-sectoral financing patterns (inflow and outflow)

The better availability of foreign public financing data might skew the image of financing

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Key findings 1/4

- Forests and trees have *political attention* and awareness - at least on the development agenda
  - Most countries have forest legislation and forest policy
  - In most countries forests are mentioned in the development strategy (PRS). Role of forests is mainly defined in cross-sectoral context (biodiversity, energy, eco-tourism, land and watershed management etc.)
  - forests are noted to varying degree in other sector policies/strategies (e.g. agriculture, energy, livestock, poverty reduction, climate change and biodiversity)
- However, at *macro level* economic growth strategies forestry is not identified as one of the priority sectors of the economy
  - Countries that together cover ~80% of Africa's forests do not mention forests in their national economic growth plans or strategies
  - Other land-based sectors e.g. agriculture, mining, and tourism are often prioritized

Key findings 2/4

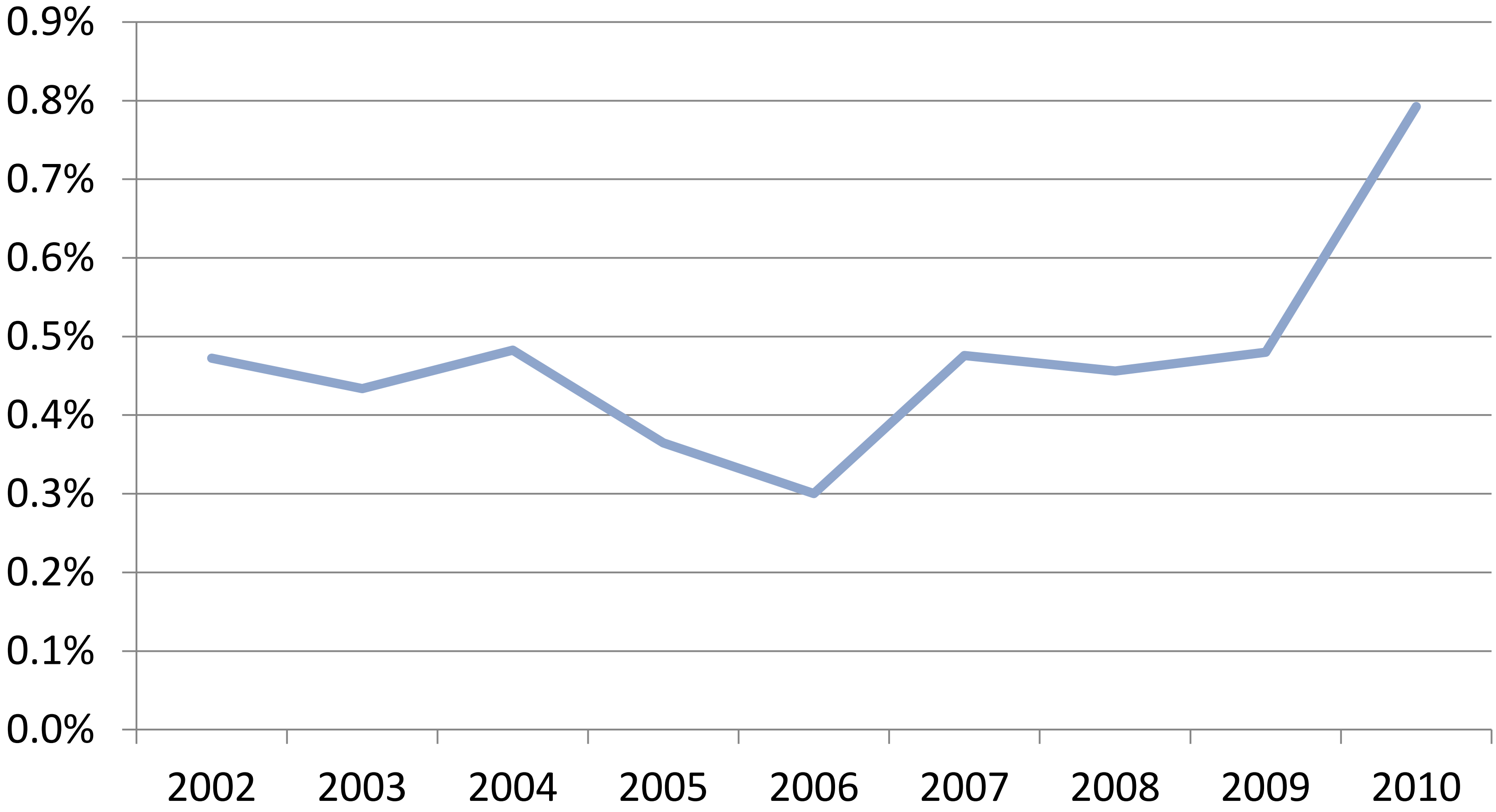
- Forest sector's *contribution to formal economy* is marginal and has been on decline
  - ➢ however, informal activities related to forests and trees contribute significantly to livelihoods, income and employment of millions of people
  - ➢ not usually accounted for when calculating contribution of forests and trees to economy which leads to undervaluation of the sector
- Low *revenue collection* – for example African countries collect on average less revenue than other regions (USD 0.67 per hectare)
- Much of the revenue collected was by just couple of countries indicating that most countries collect very limited revenue from the resource
- Also *public expenditure* on forestry was low (for example in Africa USD 2 per hectare)
- Vast majority of the domestic expenditure (almost 90 %) goes to cover operating expenditure (e.g. staff costs)

➢ Forests represent net expenditure from public financing perspective

- In many countries *foreign financing* (ODA) covered significant share of the total public expenditures:
  - In Africa on average almost half (North Africa decreasing the average)
  - In LDCs on average two thirds

Share of forestry ODA from global ODA 2002-2010

- From decline to growth



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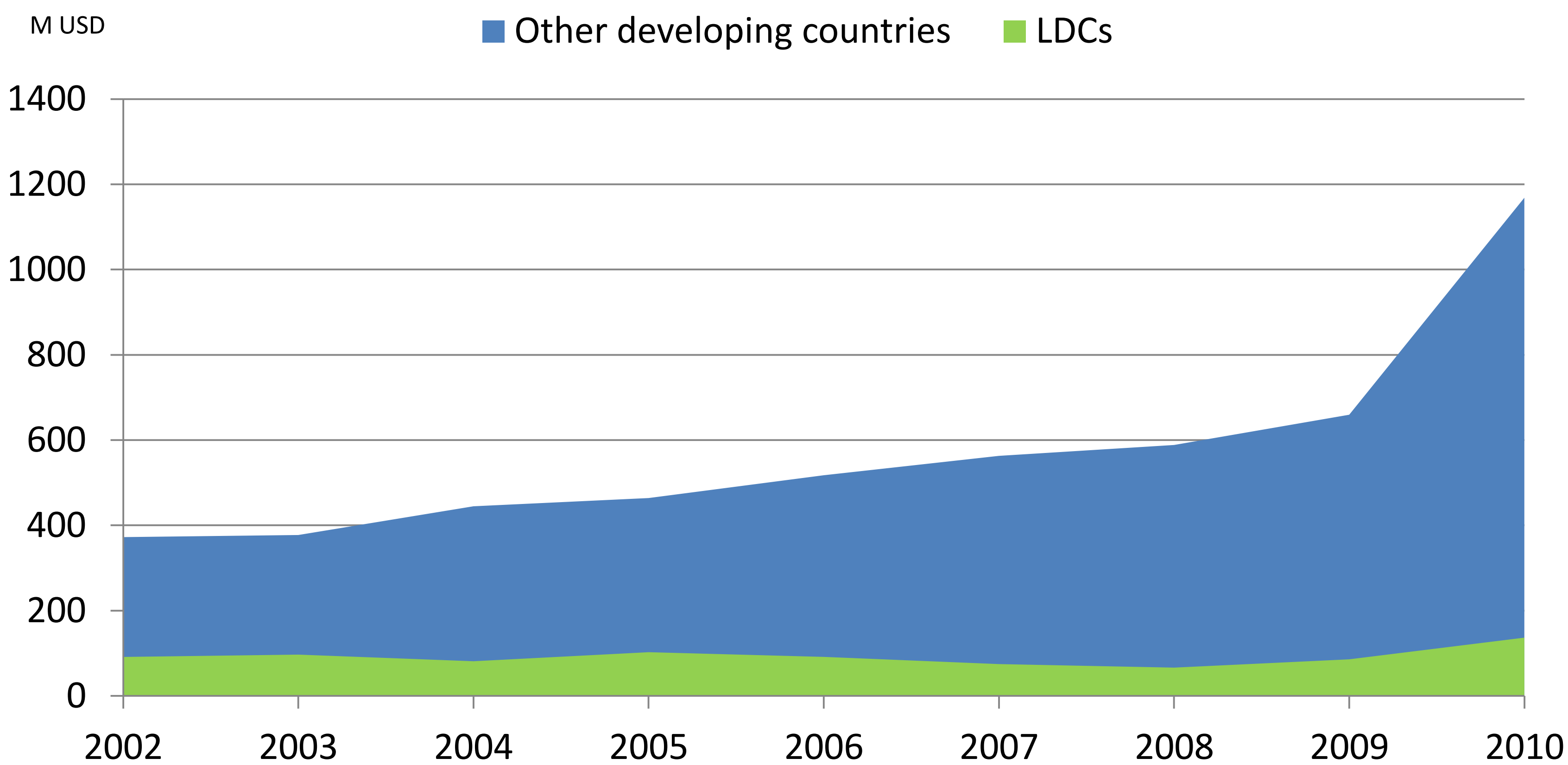
LDCs share of forestry ODA

- LDCs have not significantly benefited from recent increase in forestry ODA
- Relative share constantly decreasing from 25% in 2002 to 12% in 2010



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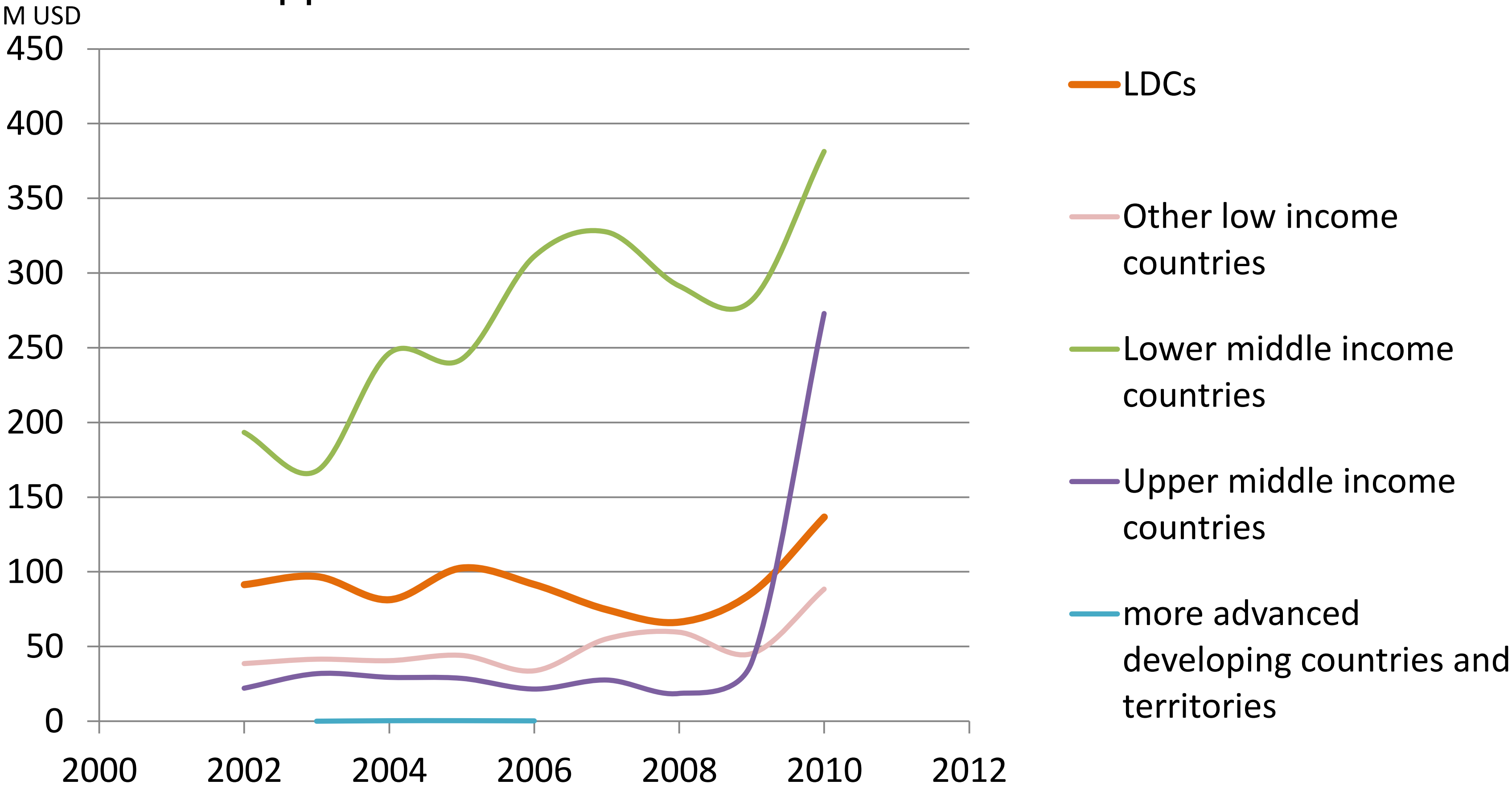
Trend of forestry ODA by income group (2002- 2010)

- Lower and upper middle income countries have received most of the increased support



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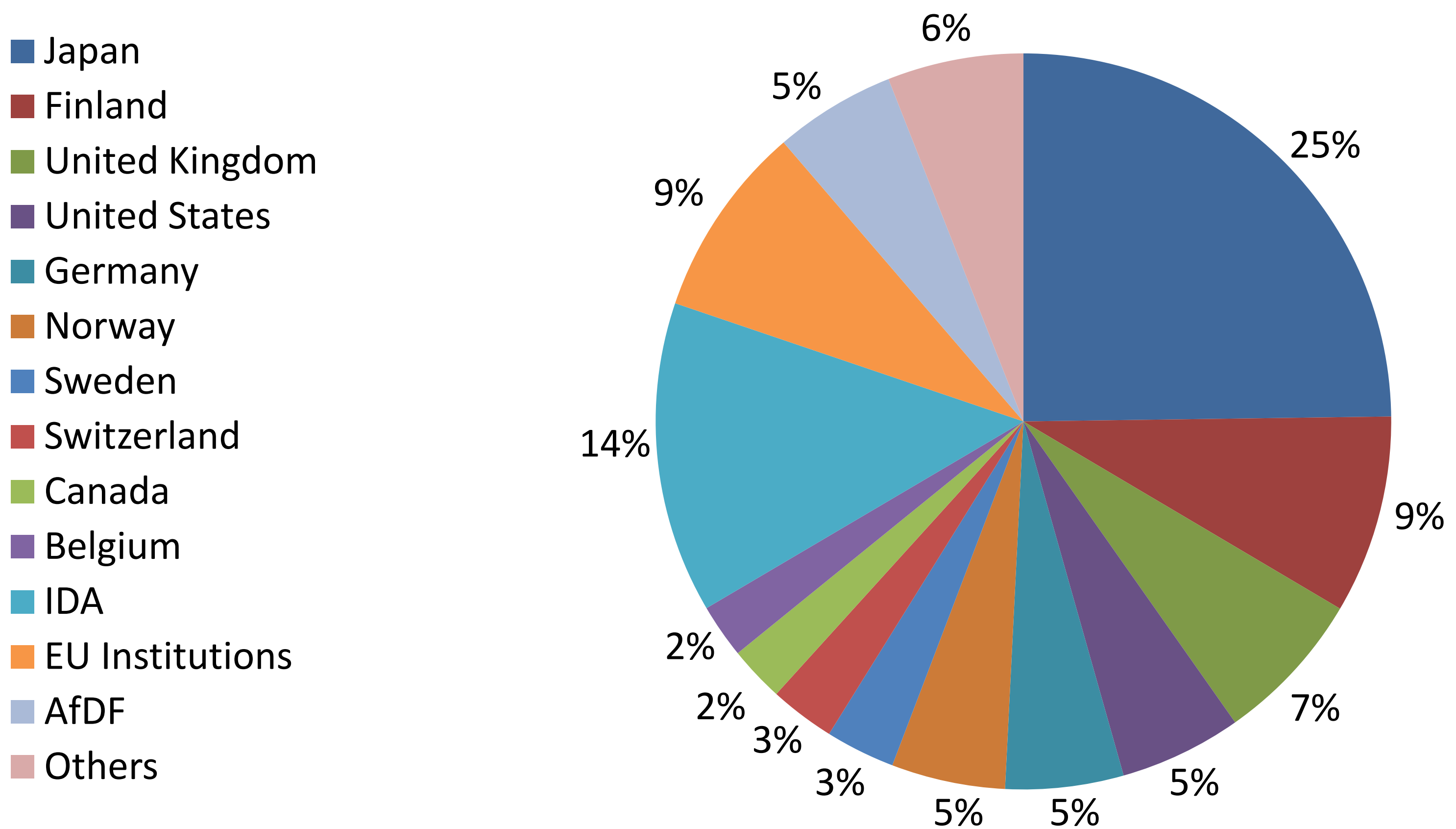
Most significant partners in LDCs (2006-2010)



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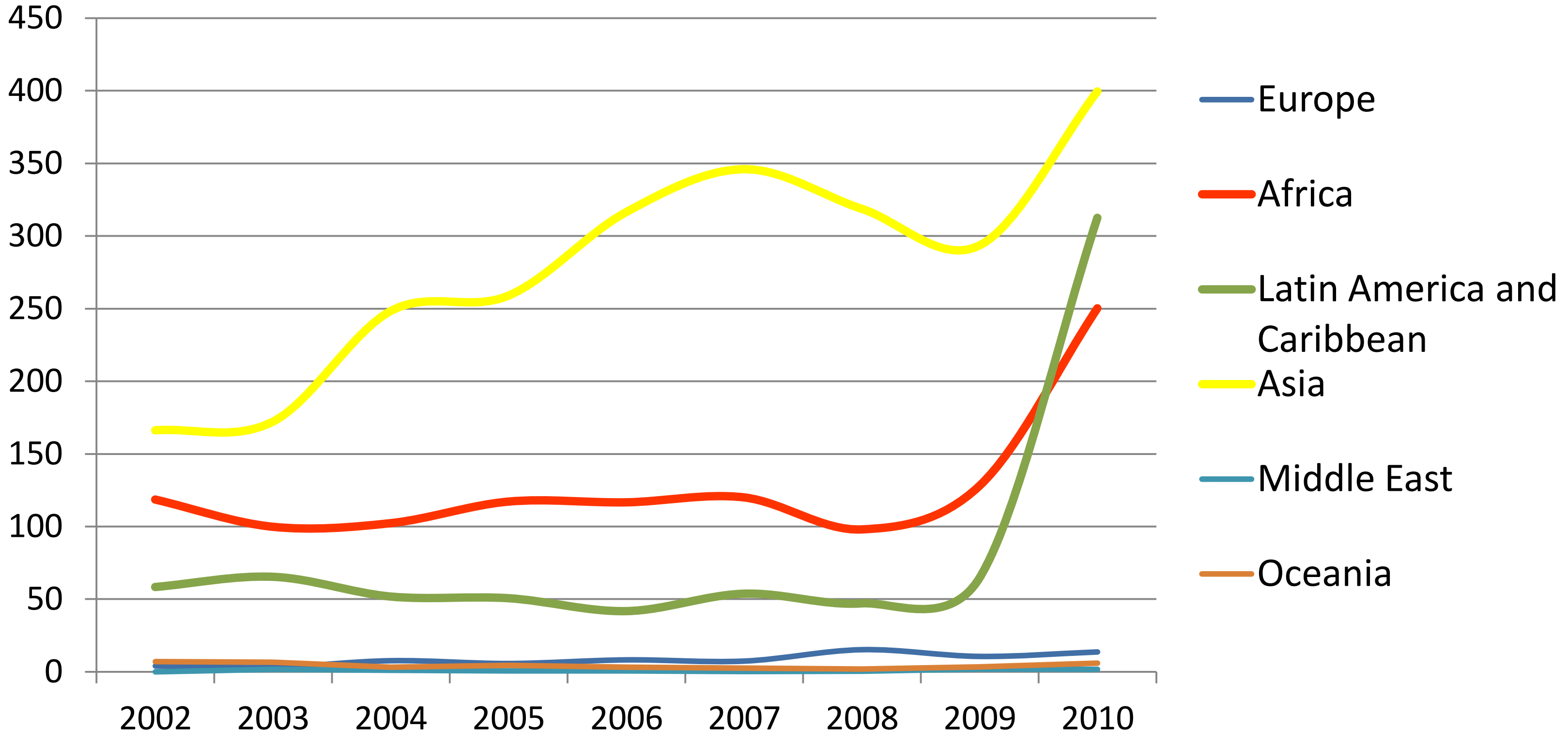
Trend of forestry ODA by region (2002- 2010)

- African countries are benefiting from growing forestry ODA but relatively less than Latin America and Caribbean



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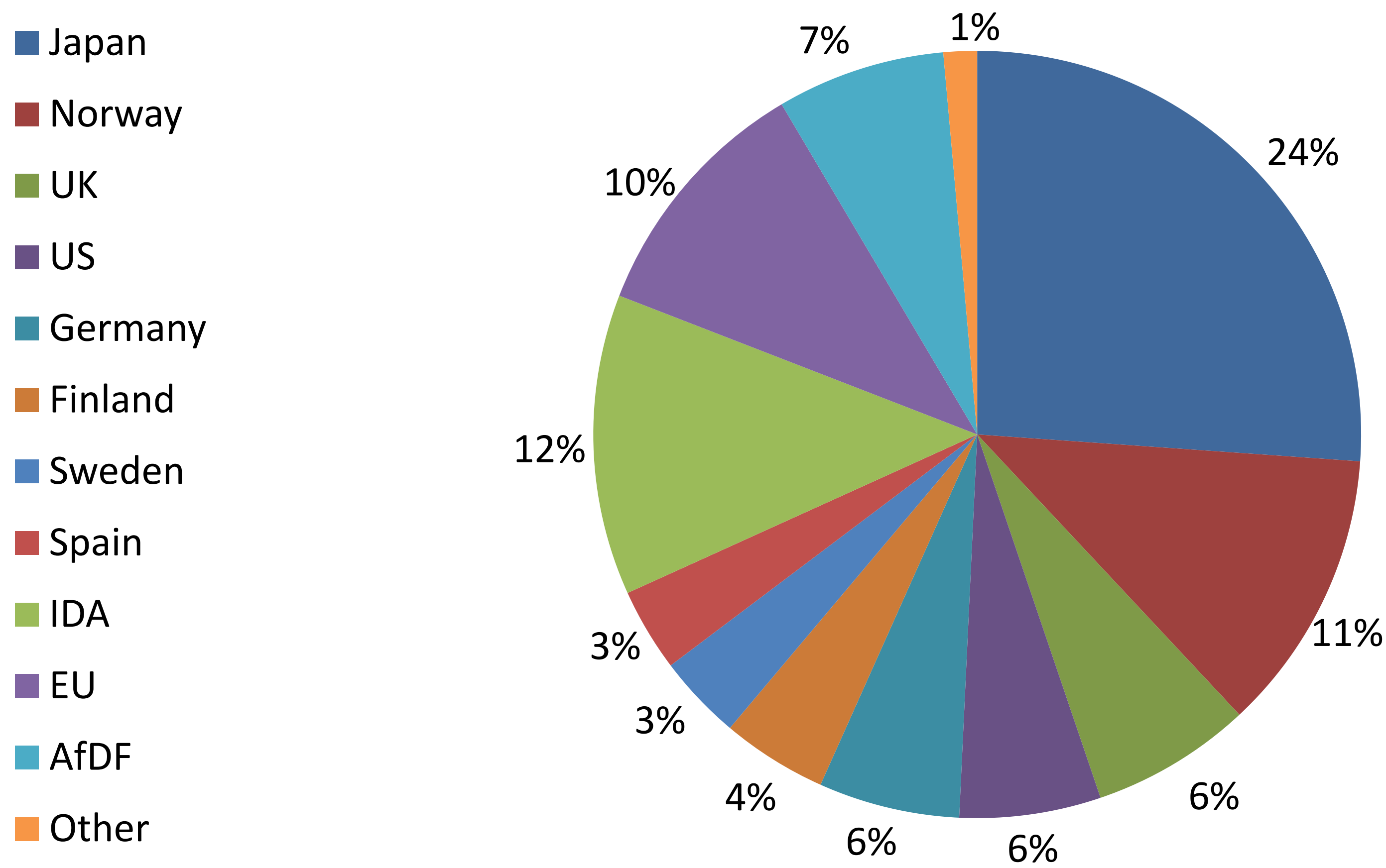
Most significant partners in Africa (2006-2010)



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Key findings 3/4

- More than half of African countries and LDCs have established funds relevant to forests and trees
  - The forest funds have cross-sectoral linkages supporting wildlife, fuelwood, forage production etc. – the benefits resulting from the financed activities can be recorded under other sectors
  - Role of the funds are likely to increase especially in the context of climate finance
- Domestic investment into small and medium scale plantations is increasing. For example in Uganda plantation investments grew four-fold from 2002 to 2008
- However, overall limited private sector plantation investments which also concentrate to limited number of countries in Africa and in LDCs

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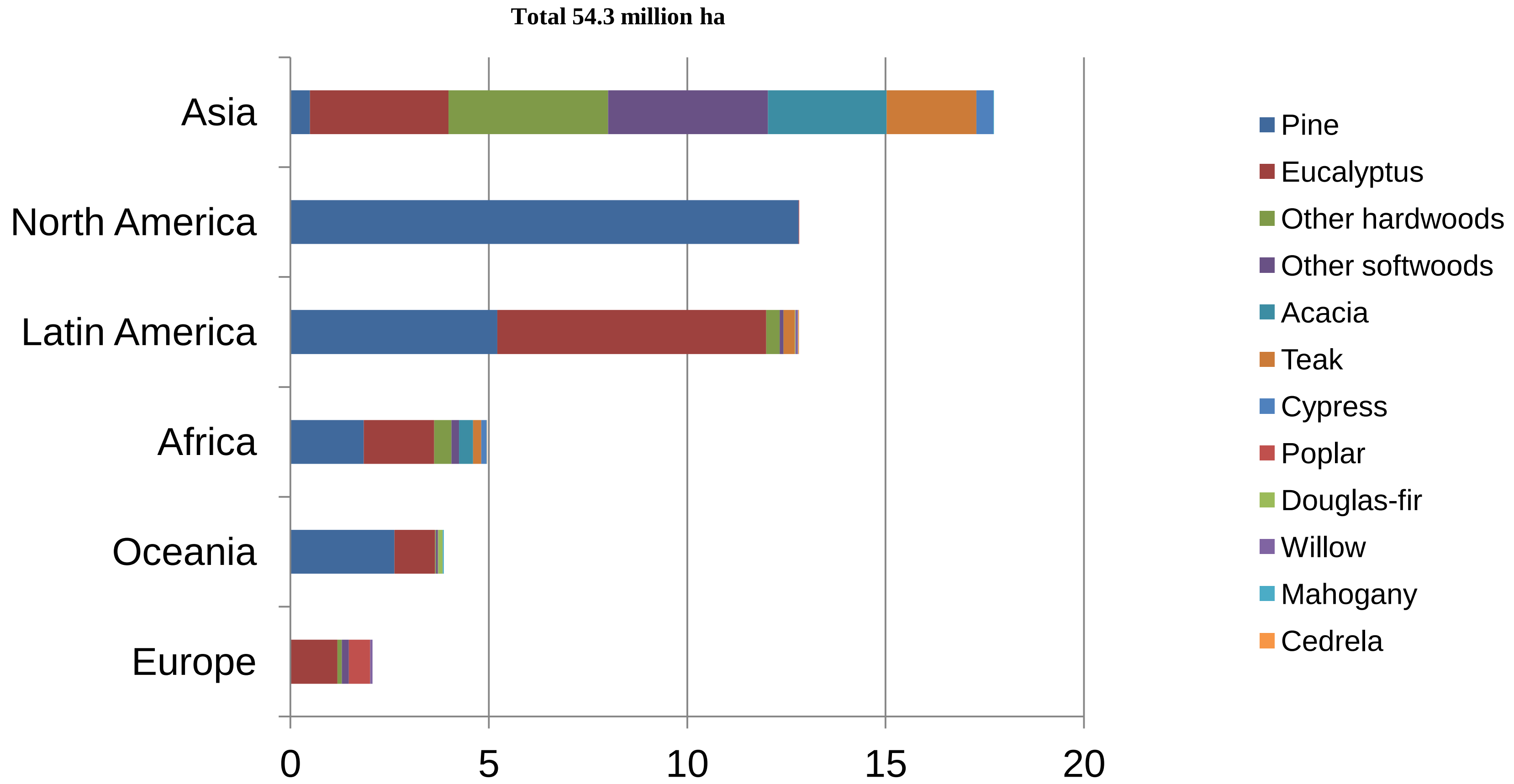
Commercial plantations regionally
- Africa ~9 % of total, 5 countries cover 50%
- LDCs less than 3.7% of total, 7 countries cover 75%



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Key findings 4/4

- Increasing numbers of carbon projects but relatively limited number of other PES projects (biodiversity and watershed services)
- Since 2006 global forestry ODA was in USD 3.5 billion, and REDD+ financing was ~ 6 billion
  - Africa:
    - Forestry ODA USD 730 million
    - REDD+ financing USD 900 million
    - (Plantation investment USD 4 billion)
  - LDCs:
    - Forestry ODA USD 450 million
    - REDD+ financing USD 800 million
    - (Plantation investment USD 1.7 billion)

- Both forestry ODA and REDD+ financing center to few countries
  - In Africa and LDCs 7 countries receive half of the forestry ODA
  - In African countries 5 countries, and in LDCs 4 countries receive half of the REDD+ financing

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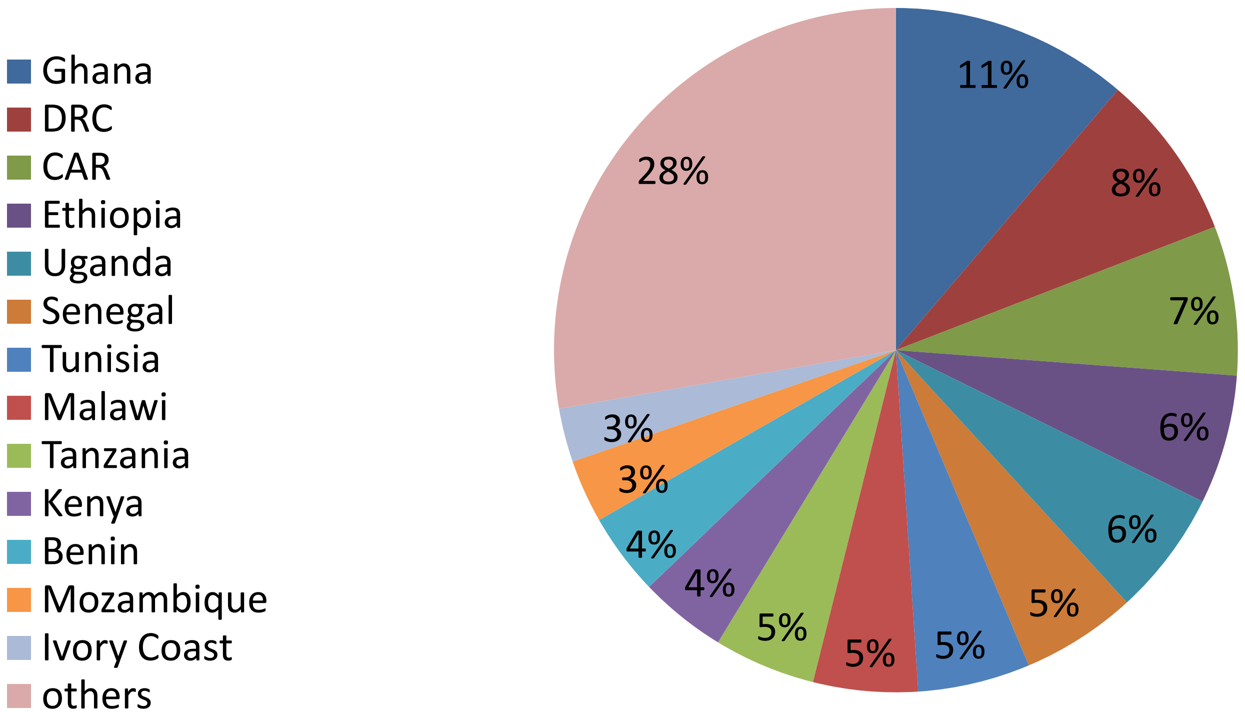
Africa: Most significant forestry ODA recipients (2002-2010)

- During 2002-2010 support centered to one quarter of countries which received almost three quarters of all forestry ODA



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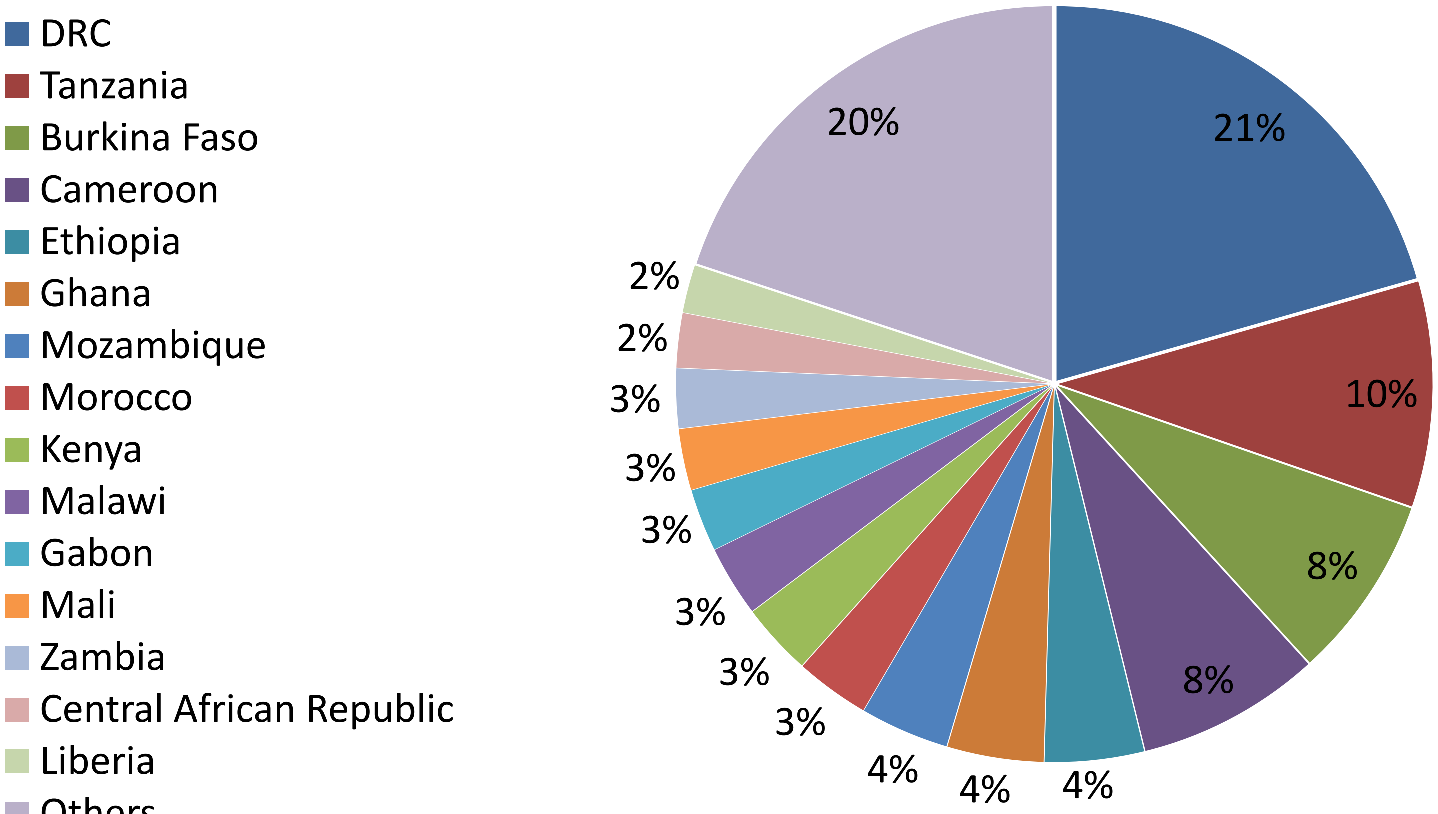
Africa: Most significant recipients of REDD+ financing (cumulative since 2006)

- Almost half of the support concentrates to 5 countries



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Selected key conclusions 1/3

- It is challenging to convince decision makers at the very top to increase resourcing if:

i) Forest revenues are small (only a fraction of potential is collected)

ii) Benefits from forest and trees are seemingly small in monetary terms (value of also non-monetary and informal forest goods and services is not considered > seemingly low contribution to GDP)

iii) The cross-sectoral linkages and contributions are poorly articulated (many forest contributions are recorded under other sectors, at practical level cross-sectoral coordination is limited)

- There is a gap in public financing, both domestic and foreign, of training and likely also related to R&D
  - Private sector has the opportunity to bring in not just money but technology, knowhow and investment into R&D, and improved production techniques

Selected key conclusions 2/3

- Lack of sufficient financial and human resources, capacities, and political interference and instability were identified as main challenges in the enabling environment resulting with:
  - Weak institutions and governance
  - Inadequate implementation of policies and strategies, and enforcement of laws relevant to forests and trees

- Specifically lack of capacities was also considered as a root cause for many bottlenecks related to domestic revenue generation:
  - ✓Setting correct level of charges and prices to increase government revenue
  - ✓Revenue collection

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Selected key conclusions 3/3

- The domestic demand is increasing rapidly for wood products
  - Small and medium scale producers have much untapped potential in supplying the market, especially if key enabling factors, such secure land tenure and organization to producers groups, and access to finance and risk mitigation are supported
  - PPPs are one tool in catalyzing financing for small and medium scale timber plantations (E.g. SPGS in Uganda)
- Along increasing in “new and additional” climate financing related to forest carbon a transformation is taking place in the international forest financing arena
  - Much of the financing to forest development has been channelled through ODA but support to REDD+ is superseding forestry ODA
  - In the future the performance based payments for forest carbon can be significant source of finance
  - There can be significant opportunities present, but all countries might not benefit equally

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Thank you!

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