

Sustainable Forest Financing or Financing of Sustainable Natural Resource Management Through Landscapes?



Reconciling Tensions between Financing Instruments and Sustainable Development Needs

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Context for Forest Financing: From REDD+ To Landscapes?

Factors Affecting Land Use Changes Filled with Greater Uncertainty & Fragmented Efforts

New Interacting Challenges to Traditional development Cooperation Include:

1. Great Recession—Symptomatic of Collective Action Failure in Global Financial Markets
2. Slower Growth in OECD countries—
3. Growing Demand from Emerging Countries
4. Uncertainties Caused by Global Financial, Commodity and Land Market Integration, e.g. Land Grab
5. Bio-fuels, Food Security Poverty Nexus: Public Goods/Private Profits
6. Climate Change: Impacts on Food, Water and Forests
7. Lack of Progress on Doha—Subsidies and Protectionism
8. Weak Multilateralism-Rising Bilateralism
9. Need for Strong Global Collective Action
10. Yet Global Collective Action Challenges

Genesis of Carbon Finance: the EU/US Dynamics

- EU - emissions trading, the centerpiece of its international negotiation strategy as well as its domestic mitigation efforts
- The growing trust in emissions trading in realizing ambitious mitigation targets has been buttressed by a recent assessment of the IPCC which, in its Fourth Assessment Report of 2007, argued that...
“[...] carbon prices in the range 20–50 US\$/tCO₂ (US\$75–185/tC), reached globally by 2020–2030 and sustained or increased thereafter, would deliver deep emission reductions by mid-century consistent with stabilization at around 550ppm CO₂-eq [...] if implemented in a stable and predictable fashion.”

Cap and Trade: Most Effective and Efficient?

Timo Behr and Jan Martin Witte with Wade Hoxtell and Jamie Manzer

- Cap-and-trade systems establish property rights to emissions, allocate them to actors that are included in the system, create a market in which those actors can trade these property rights and, finally, institute penalties for non-compliance.
- Purpose: to either reduce energy demand or to change the way energy is produced (switching into non-carbon alternatives)
 - Would need to be global
 - Sufficiently stringent cap and trade to shift from fossil fuels.
 - The current system being negotiated is neither global nor stringent, but....
 - Once an emissions trading system exists it is hard to dismantle altogether
- Many serious analysts in the scientific/environment community in the US are now pushing for a Carbon Tax.

Carbon Tax simpler, more efficient, and transparent measures for cleaning up the economy

Mark Muro and Jonathan Rothwell

- Institute a modest carbon tax in order to help clean up the economy and stabilize the nation's finances.
 - Specifically, Congress and the president should implement a \$20 per ton, steadily increasing carbon excise fee that would discourage carbon dioxide emissions while shifting taxation onto pollution, financing energy efficiency (EE) and clean technology development, and providing opportunities to cut taxes or reduce the deficit.
 - The net effect of these policies would be to curb harmful carbon emissions, improve the nation's balance sheet, and stimulate job-creation and economic renewal
- Scale of technological change needed to achieve America's share of the 60 to 80 percent world emissions cuts (from 1990 levels) needed by 2050 to limit global warming to acceptable levels is large.
- 2010 rejection of cap-and-trade legislation suggests that achievable price solutions will not by themselves prompt enough energy system clean-up or emissions reduction to slow climate change sufficiently.

**Such Approaches , properly designed,
could help finance sustainable
development**

Inter-Connected “Insecurities” of the Poor With No Clear Boundaries — and @ International Level Trend to Move From MDGs to SDGs

- At National and Sub-National Levels:
 - Poverty, Water, Food, Energy
 - Nutrition Insecurity, Forest and Biodiversity Loss, Fuel wood, Climate, Soil and Land Degradation
- At the household level:
 - Unclear relationship between income growth and changes in food consumption—e.g. in India
- Acute Infant and Child Mortality
- Women facing collective “Insecurities” of hunger, fuel wood, water, sanitation, diseases
- Bulk of support for these activities comes from national sources

In the Short Run

(Often) Unquantifiable Changes in Natural Resources Accompanying Forest Loss

- Extent of Forest Degradation
- Watersheds lost or threatened
- Excessive Groundwater Exploitation
- Increased Salinity
- Still Huge Dependence on Fuel wood as source of energy among the poor
- More Trees Outside Forests

Why Do We care About Forests?

Maximizing Diverse Values – But Some Key Values Are Non-Quantifiable with Externalities & Absent Markets and no short term returns

- Existence Value
- Timber
- Biodiversity
- Climate -Carbon
- Ecosystem functions: watersheds, soils and water
- Cultural values
- Forest dependent communities including Indigenous Peoples
- Recreational Values
- Health -
 - Medicinal products
 - Spread of diseases
 - Pharmaceuticals

Long Run Global Food Challenge

9 Billion + in 2050: Cereal Production (Net of Biofuels) Increase by 70%, Meat production 220%, Cereal Imports of Developing countries by 220%

On Demand Side

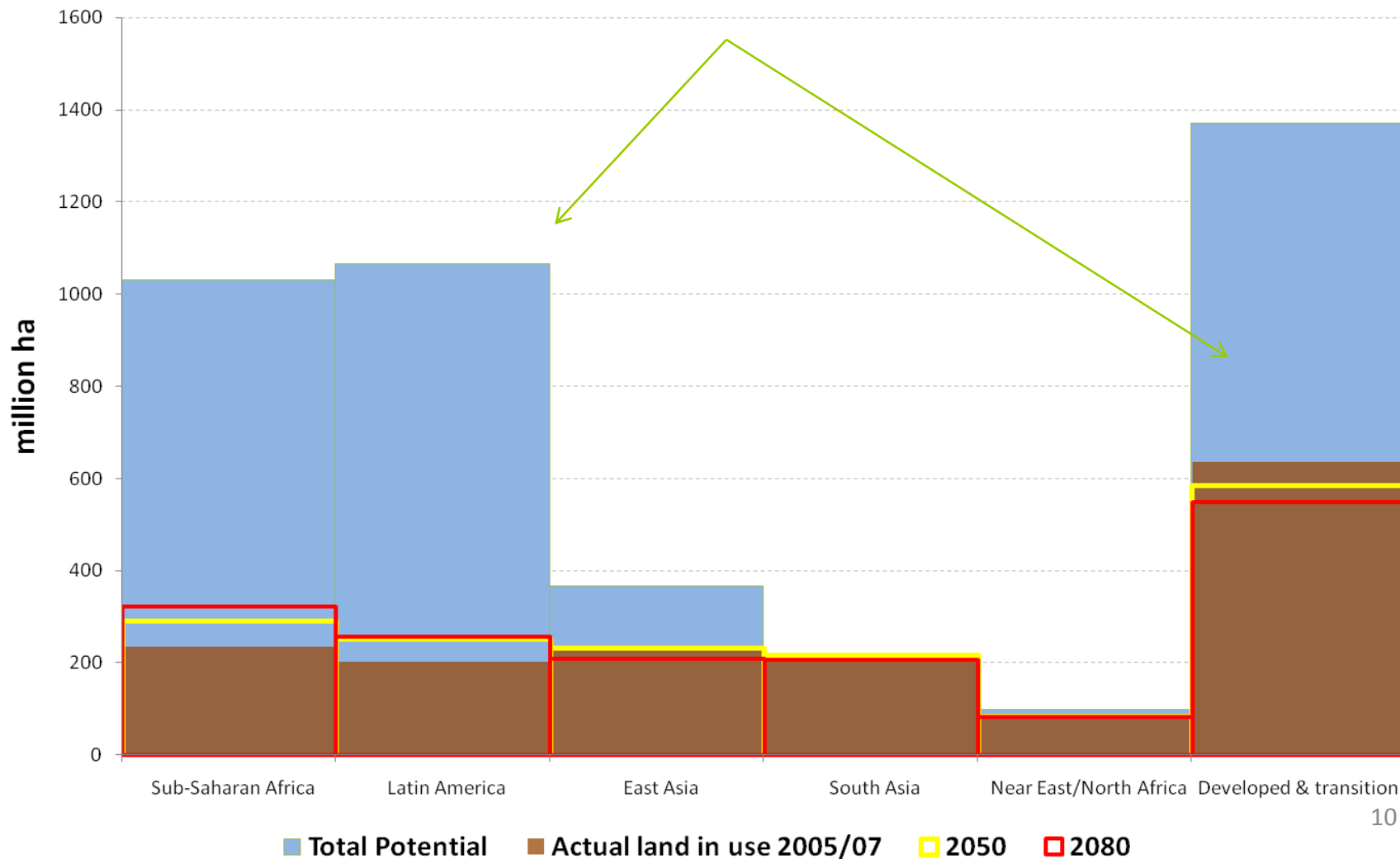
- Population Growth:
 - All in LDCs
- Income Growth:
 - Mostly in LDCs
- Urbanization:
 - Up from 50% to 70%
- Shift in Food Consumption Patterns:
 - Rice, Wheat, Maize, Soybeans for Feed:
- Biofuels: maize, oilseeds
- Processed Foods

On Supply Side

- Slowing Yield Growth
- Climate Change
- Limits to Land, Water, Soils, Biodiversity, Forests, Fisheries
- Last Frontiers?
 - LAC, SSA, Eastern Europe
- Increased Market Related Risks and Uncertainty
- Decapitalization of Agriculture-
-Investment in R and D

Where Will Future Food , Agricultural and Bio-Energy Production Growth Come From?

Land Potential for Rain fed Production, Actual Use in 2005/07, 2050 and 2080



“Biofuels Are a Wild Card” -- Thomas Hertel

They could affect Croplands, Grasslands, Permanent Crops and Forests

- “Food-competing biofuels *can do more harm to the welfare of poor and landless*, globally, than *the greatest conceivable aid efforts or productivity increases could compensate*”
-- Brian Wright
- First generation biofuels ineffective for climate change
- Second generation (Cellulosic ethanol) could be more effective, but “if it is perennial crops, and compete with food production, could be worse than annual crops, because inflexibility”
-- Brian Wright
- “*Flexible Crops with possibilities to switch could be the future name of the game*”
-- Alain Karsenty

Different Challenges of Middle and Low Income Developing Countries

Middle Income Countries

- Aid as Small Share of Saving, Investment, and GDP
- Growing focus on Knowledge Transfers?

Low Income Countries

- Special Challenges of less developed countries
 - Diseconomies of scale
 - Still Limited skill mixes
 - Early stage of demographic transition
 - Need for Regional Integration
 - Insufficiently developed markets

Diverse Countries, Diverse Forests, Diverse Forest Values from Global to Local

Countries With Diverse Forest Roles

- Mega Countries - population 2.2bn
- Large: 200m+—
- Medium-Size: 100 to 200m
- Moderate-Size: 50 to 100m
- Small countries
- Island States

Diverse Forest Types and Trees Outside Forests

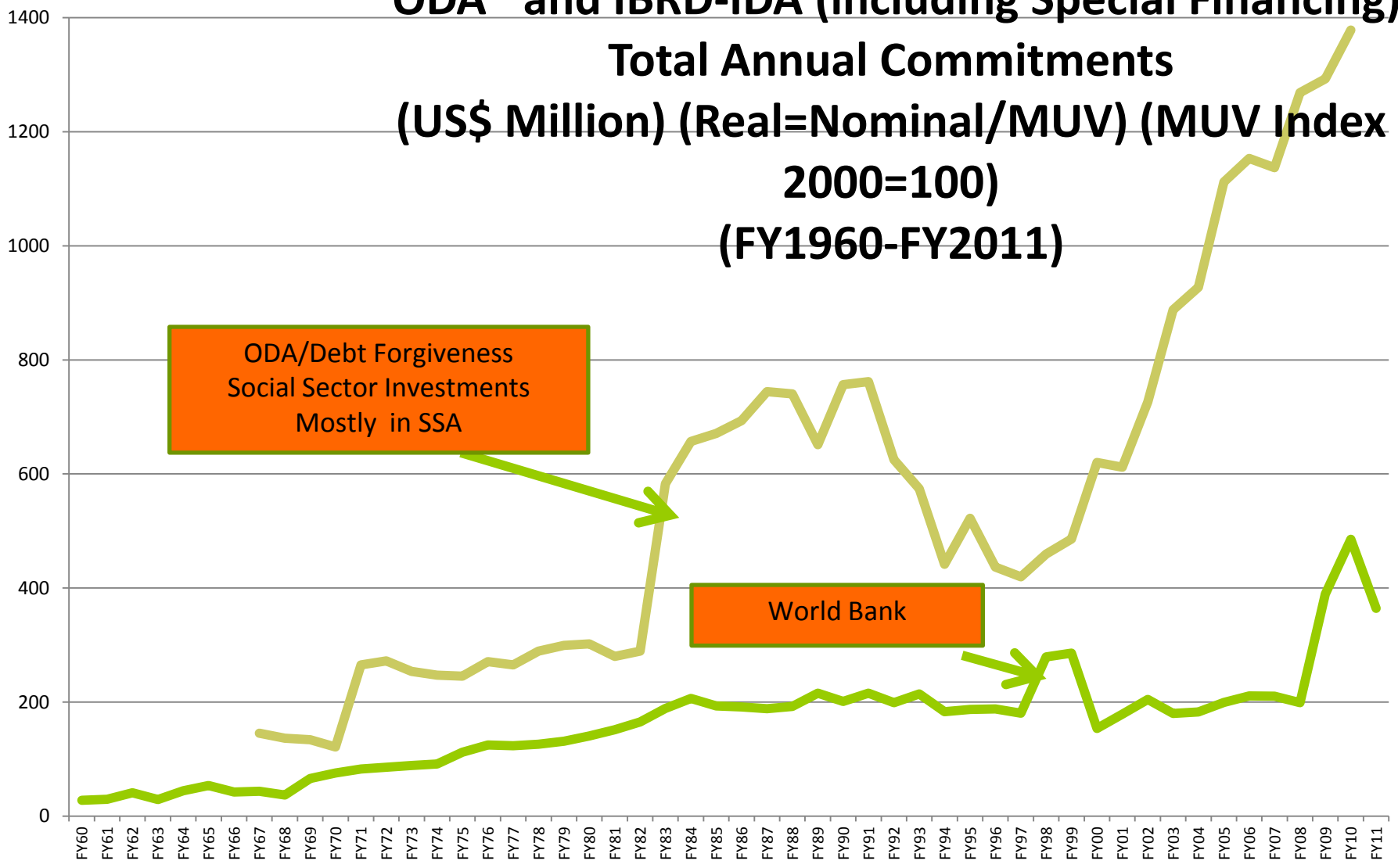
- Tropical
- Primary
- Secondary
- Temperate
- Boreal
- Dry land

Small island vulnerability to sea level changes, rainfall regimes, and prevailing, wind & wave action (**<1% of GHG emissions**)

Common features that serve to increase their vulnerability to projected impacts of climate change include:

- small physical size surrounded by large expanses of ocean;
- limited natural resources;
- proneness to natural disasters and extreme events;
- relative isolation; extreme openness of economies,
- highly sensitive to external shocks;
- High population densities;
- poorly developed infrastructure; and
- limited funds, human resources, and skills. limit the capacity of small island states to mitigate and adapt to
- future climate and sea-level change.

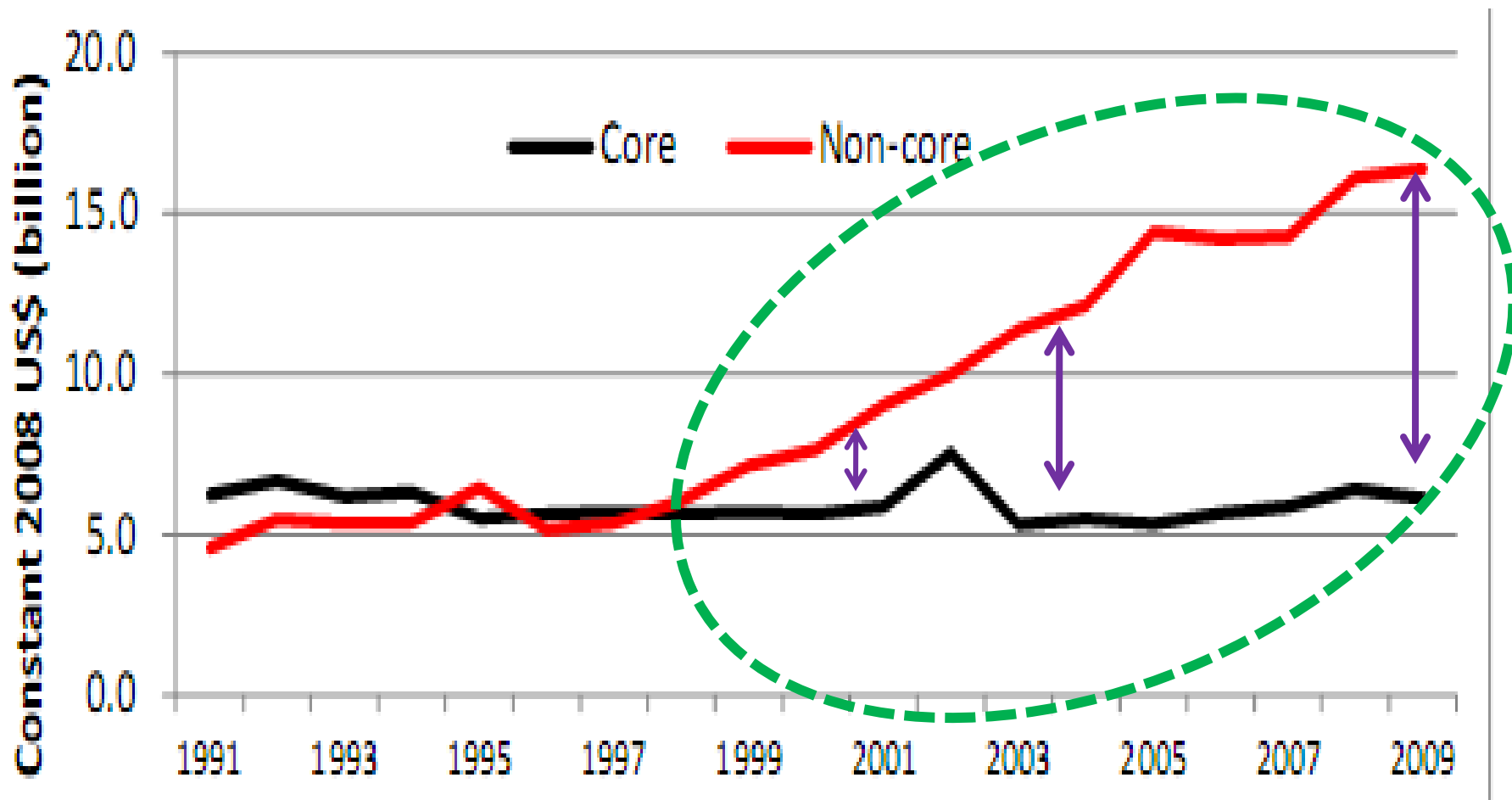
ODA* and IBRD-IDA (including Special Financing) Total Annual Commitments (US\$ Million) (Real=Nominal/MUV) (MUV Index 2000=100) (FY1960-FY2011)



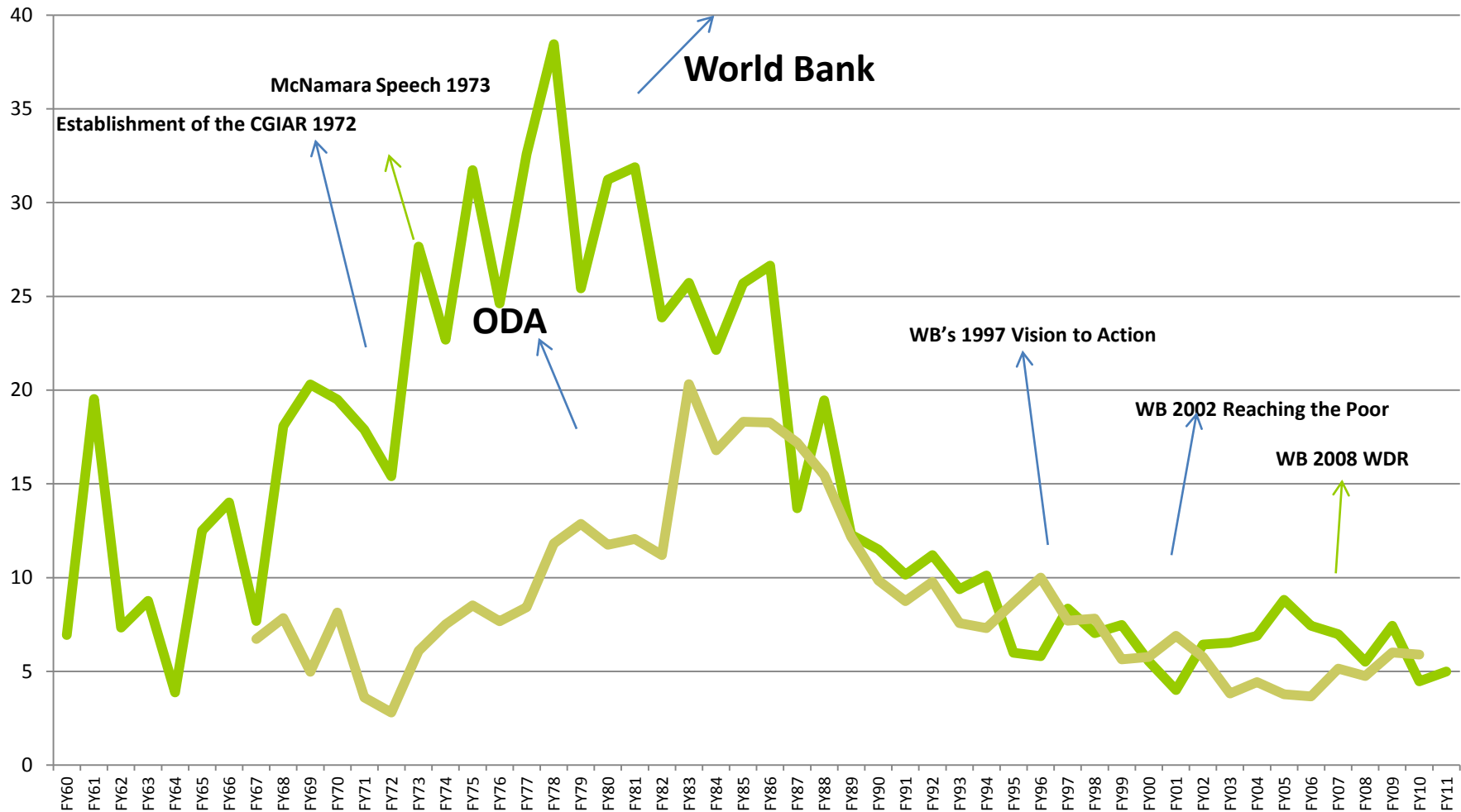
Source: OECD stat and Data sent by Sanjiva Cooke from World Bank
Note: ODA data is available for the period 1967-2010

— IBRD-IDA Total Annual Commitments
 — Total ODA

Total UN Operational Activities for Development (1991-2009)



Weak Donor Support to Agriculture & Forests

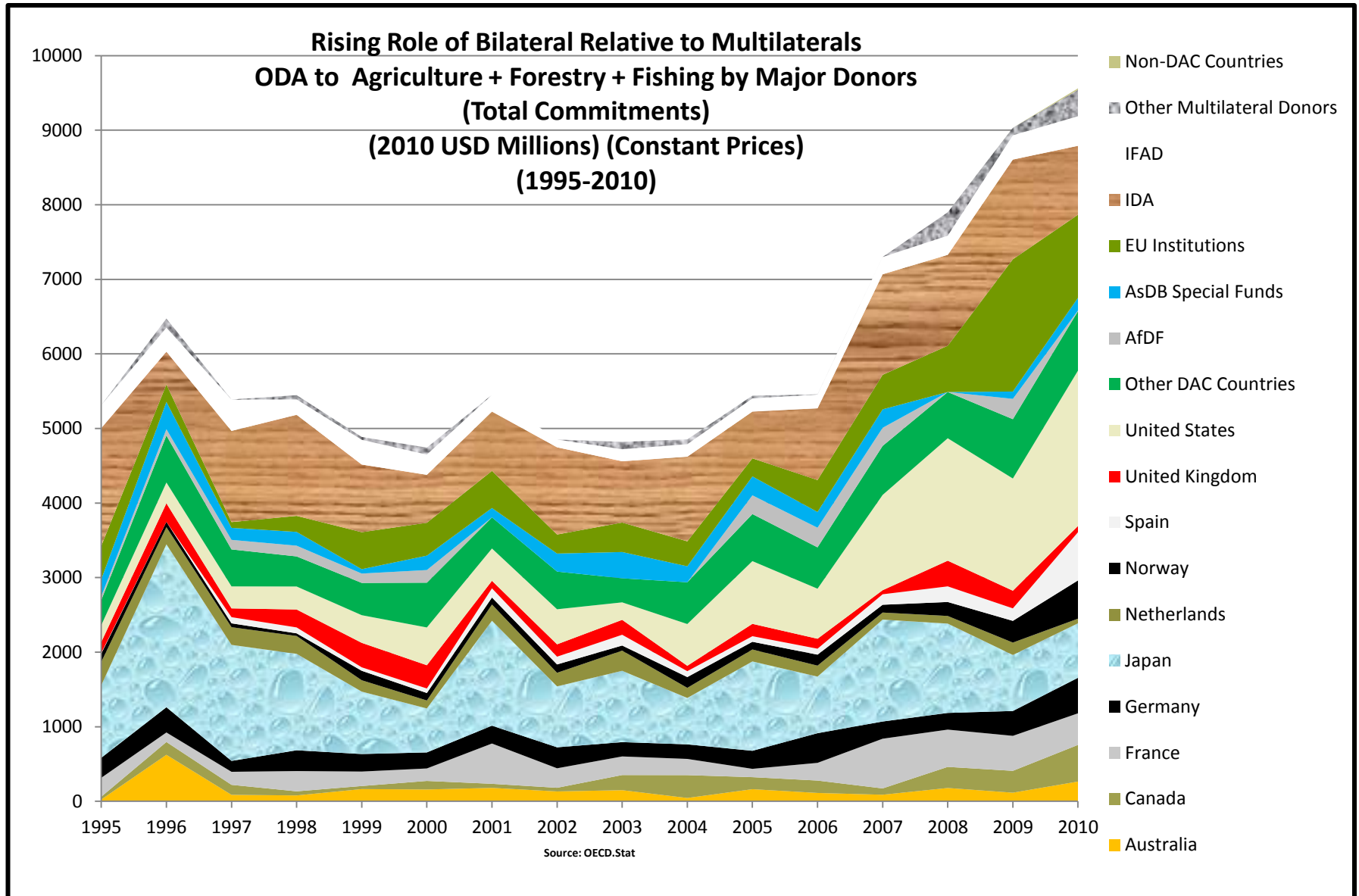


Source: OECD.Stat and Data sent by Sanjiva Cooke from World Bank

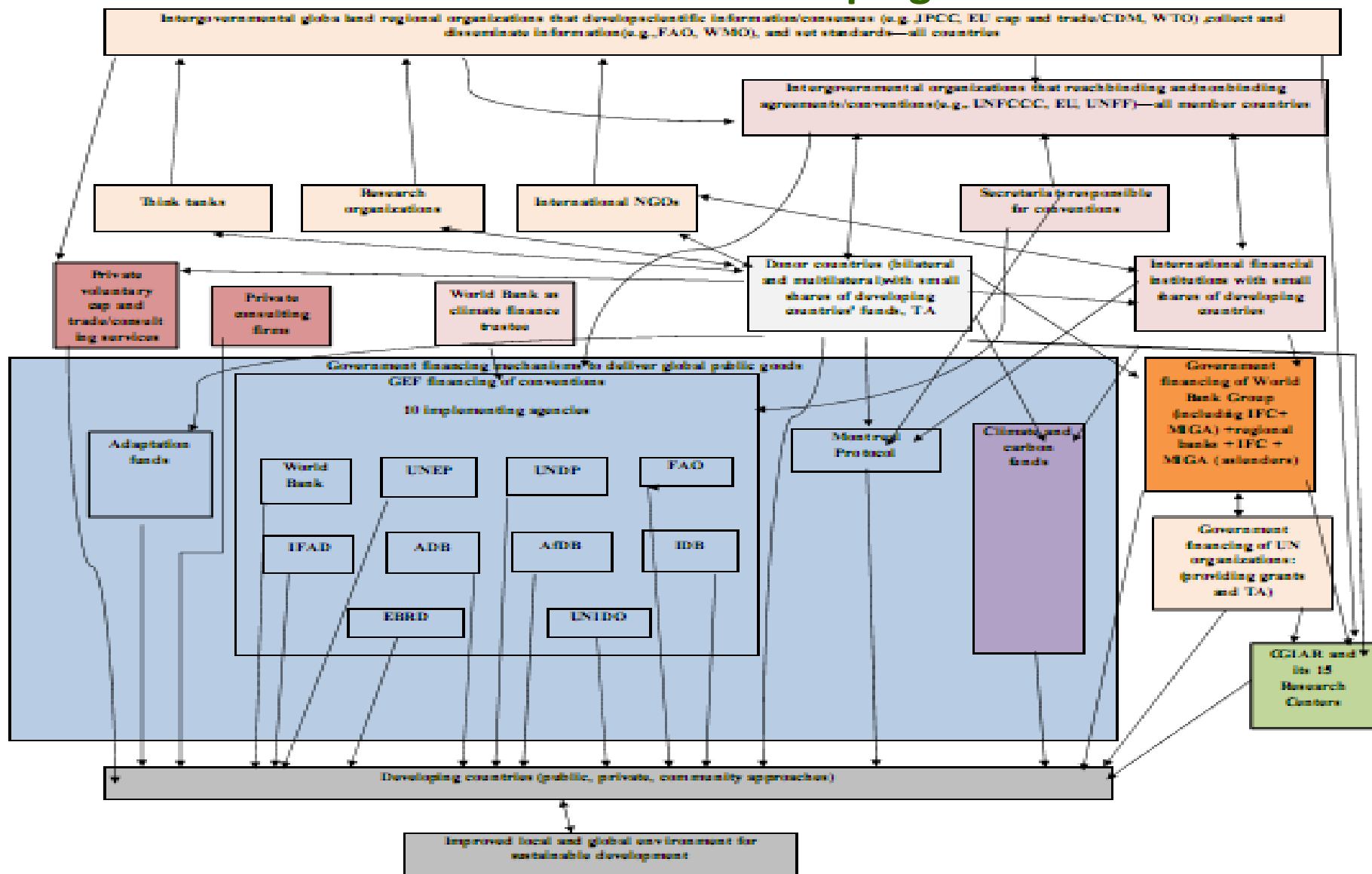
— Share of Agriculture (%) (IBRD+IDA)

— Share of Agriculture (%) (ODA)

Bilateral and Multilaterals ODA to Agriculture + Forestry + Fishing by Major Donors



Global Environmental Architecture: Global Agreements, Rule Setting, and Financial Flows to Developing Countries



Source: Authors

Need for Formalized South-South Cooperation Under International Umbrella

- Middle Income Countries have shown results Without much external financing with Government Effectiveness
- What can they help with?
- Policy, Institutional and Technological Innovation
 - Real Time data on forest cover-Brazil
 - Enforcements of Forest Laws
 - Domestic Resource Mobilization
 - PES
 - Solar Energy
 - Fuel wood-charcoal—will have to be done by the state

Some Key Arguments/Findings of UNFF Forest Finance Studies

- Forests are integrally related to other sectors
- Forests make large contributions to GDP—larger than measured
- Non-quantified/quantifiable contribution is very large
- Middle Income countries are pursuing a variety of multi-sectorial approaches and mobilizing forest finance
- Low domestic resource mobilization in developing countries is a challenge
- Declining aid to forestry compared to the peak in 1988-90
- Most new funding has gone to carbon and biodiversity
- Most Forest ODA goes to middle income countries?
- Most ODA (including particularly bilateral aid) going to low income countries goes to a few countries?

Traditional Forest Activities Supported by Donors Using Existing Financing Instruments

- Production forestry to facilitate everything from the establishment of nurseries and equipment purchases to technical studies and research and development of forestry products.
- Social forestry
- Community forestry-joint forest management
- Protection of biodiversity
- Mitigation of greenhouse gases
- Scenic beauty
- Protection of water resources- EPS Program
- Trees outside forests
- Poverty and Rural development

Private Sector

- Timber: substantial financing by private sector
- Non-timber: forest product financing

Other Issues with Donor Aid

- Driven by Fashions, fads and by constituencies in donor countries
- E.g. CDDs, Integrated Rural Development, T and V Extension, Structural Adjustment, REDD
- Issues:
 - Short term
 - Unpredictable
 - Fragmented
 - Uncoordinated
- But also catalytic, experimental, bringing new ideas

Can Aid be Improved?

- Can it be made more flexible?
- Better coordinated
- Expeditious
- More responsive to the real needs of developing countries?
- More predictable
- With Clear Goal Posts
- Focusing on capacity building

How can follow-up to the UNFF efforts help improve aid?

- Unclear whether this needs a new global fund or whether one is even politically feasible given divide between G 77 and G 7, unless it is funded by developing country members of G 20.
- But with well Over 275 recommendations

There should be an attempt to sift through them and operationalize worthy ones

Explore if Current Financing Mechanisms Can Respond to Good ideas emerging from the UNFF process and holistic approaches

- Do this without wasting much time
- Establish an independent external advisory committee to oversee the process—consisting of people who have no axe to grind and are respected by both developing countries and donors.

So as not to lose momentum

- Failing G7 support approach the rest of G13
- Establish South-South Cooperation Under an international umbrella for capacity building
- Use existing mechanisms as much as possible.
- Report Progress Periodically to All Stakeholders.
- Encourage Emerging Countries to become part of the international donors' club to broaden perspectives.

Thank You