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**AD HOC EXPERT MEETING ON FOREST  
FINANCING SECOND MEETING  
14-18 January 2013, Vienna, Austria**

# **FINANCING FORESTRY IN AFRICA**

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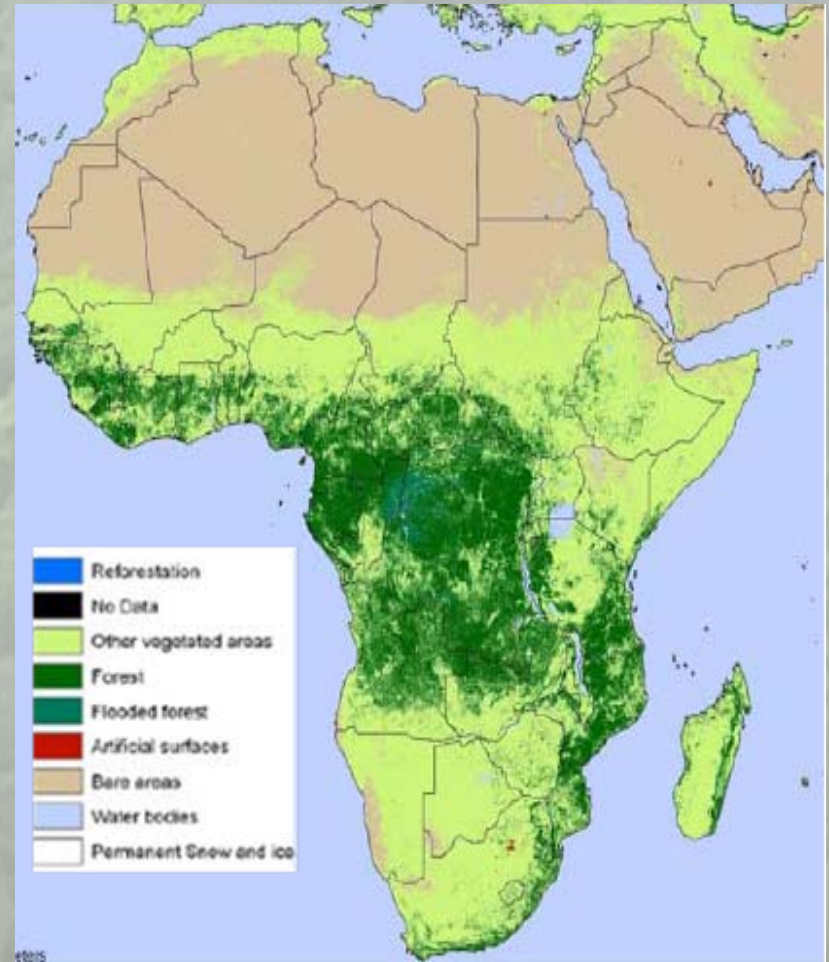
# Background



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- Africa's forest cover:
  - 635 million ha
  - 21.4% of Africa's land area
  - **450 million ha in E&S Africa**
  - annual deforestation -0.62% (4million ha per year (2000-2005) **E&S contribution 50%**)
  - US\$ 1-1.5 trillion in lost revenue (TEEB 2010)
  - 17% of GHG emissions (global)
  - < 6% under management



# Forest financing requirements

- Global estimates

- Eliasch review: \$11-19 billion p.a.
- UNCED (1992): \$70 billion per year
- UNFF (Pretoria-1996)- \$33billion per year
- UNFF (Tomaselli-2006)-\$69.3 billion
- UNFCCC 2007 : US\$21 billion per year (excluding costs of capacity building and other upfront costs)
  - Africa needs about \$2.7 billion per year

- *Current funding falls far short of any of these estimates*



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# Sources of finance

- **Domestic Public**
  - National governments budget allocations
  - Forest revenues
- **Official Development Assistance (ODA)**
  - Bilateral Donors
  - Multilateral agencies
- **Private sector investment**
  - Domestic
  - FDI
  - Small-scale enterprises
  - Individuals (e.g. subsistence farmers)



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# Sources of finance

- **Philanthropists**
  - Foundations
  - Individuals
- **NGOs**
  - International conservation NGOs
  - Local NGOs and CBOs
- **Payment for Environmental Services**
  - Carbon sequestration
  - Biodiversity conservation
  - Watershed protection services



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# Domestic public financing



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- Government budgetary allocations
- Forest revenues from state owned forests
- Taxes, Licenses, concession fees/royalties
- ***Inadequate***
- ***Low prioritisation of forests***
  - Barely covers administrative costs of PFIs
- ***Low revenue collection from informal sector***
  - Charcoal and NTFPs



## Official Development Assistance (ODA) to Forestry



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- **Global- \$1.9 billion/year**
  - Multilateral: \$0.8 billion;
  - Bilateral: \$1.1 billion/yr
  - *A small fraction of the \$11–19 billion p.a. recommended in the Eliasch review*
- **Africa's share: 20%**
  - Declined from 33% (1973-1988)
  - Uneven, Concentrated in 10 countries
  - 5 countries not supported (2010),
  - 95% from 9 Donor countries
  - Dominant source in more than 12 countries e.g. Malawi
  - *Major catalytic and leveraging role*

# Multilateral sources

- **AfDB:**

- Now major player in Africa: 21 countries majority in East and southern Africa
- \$352 million forestry portfolio; \$72.7 Million/year (2000-2005)
- **\$0.8 -2billion** earmarked for forestry projects from 2010
- Hosts Congo Basin Forest Fund



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# Multilateral sources

- **GEF** : 300 forestry projects 79 in Africa since 1991
  - (\$1.6 billion since 1991): Leveraged \$5b
  - 28 countries (2009)
  - SFM and REDD+ programme (2007)
    - Tropical Forest Account (\$50m. Congo Basin)
  - **GEF-5 (2010-2014), separate funding envelope for SFM/REDD+** : estimated at \$1b
    - *Reallocation from Biodiversity, Climate Change and Land Degradation*
- **Key challenges:**
  - Complicated procedures and long project cycle
  - Lack of capacity to prepare proposals and co-finance
  - Very few Low forest over countries have benefited



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# Major multilateral sources

- **World Bank group**

- main source of multilateral financing to forestry at Global level (72.7%)
- Supported 20 countries in Africa (2007-2009)
  - IFC supported 14 countries
    - Largest investments in tropical forests (DRC, Gabon and Liberia)

- **ITTO**

- 10 African members 6 financed (2005-2007)
- Main recipient countries are Cameroon, Congo, Cote d'Ivoire, DRC, Gabon and Ghana



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# Other multilateral sources

- **FAO-NFP Facility**
  - 35 African countries
- **Global Mechanism (GM)**
- **International Fund for Agriculture Development (IFAD)**
- **UNEP, UNDP, World Food Programme (WFP)**

# Private Financing



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- **Africa's industrial forestry level is low.**
  - 19% of global roundwood 90% - fuelwood.
  - Trade in wood products \$4 billion compared to \$200 billion Global (2006).
- Poor infrastructure, small domestic markets, insecure tenure, political instability





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- **Plantations**
  - 467 000ha 2000-2009
  - E.g. Green Resources
- Wood processing and natural forests concessions
  - Limited to tropical forests
  - Both northern and southern countries (S. Africa, Kenya Zimbabwe)
- Africa's share \$0.5 billion low
- Many low forest cover countries in dry regions have not been able to attract FDI

# FDI



# Domestic Private finance



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- Most forestry activities >70% in **informal sector**
- Major sources of financing
  - Corporate financing and financial institutions
  - Re-investments
- Informal sector
  - own savings,
  - reinvestment of profits,
  - own labour and remittances.
  - Microfinance
- Need for improved linkages with formal finance sector



## Payment for environmental services

- **Watershed Services**

- Still very few in Africa, increase in pilot projects (Ke)
  - Working-for-Water Programme in S. Africa
  - Low income levels,
  - Low demand, small markets and weak institutional capacity

- **Conservation and Ecotourism**

- Conservation concessions Limited –DRC pilot
- Ecotourism based on forest reserves, wildlife and national parks
- Community based ecotourism
  
- Ecotourism incomes growing
  - Up to 15-20% GDP



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## Payment for environmental services

- **Debt-for-nature swaps**
  - Just 2 examples in Africa at initial stages (Botswana, DRC)
- **Bio-prospecting**
  - *systematic search for sustainable commercial uses of the genetic and biochemical elements of biodiversity*
  - No documented examples in Africa
  - Opportunities of raising significant funds low



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# Conclusion

- **PES mechanisms have potential but....**
  - Weak institutions and fragmented responsibilities
  - Lack of financial and technical capacity
  - High upfront costs
  - Poverty which limits markets and in-country resource mobilization.
  - High transaction costs due to proliferation of sources and
  - Complicated lengthy administrative procedures



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# Carbon Finance

- Global concern about climate change
  - Carbon market total value for 2008 estimated at US\$125 billion
- **CDM:**
  - By end of 2007 only 1 forest carbon project, Guangxi Watershed Project in China
  - 2 out of 13 A/R projects in pipe line are from Africa
  - Uganda-Nile Basin Reforestation Project (1/7 projects approved and registered this year)
- **Challenges:**
  - complex application procedures and
  - lack of capacity



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# Voluntary carbon markets

- Value of market 2007: \$331mil. 3x 2006 level
  - **Africa's share low**
    - Distribution of projects uneven, E. Africa dominating. Examples:
      - Humbo, Ethiopia
      - Nhambita, Moz.
      - Acacia community plantations-Niger
    - favourable for smaller off-set projects



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## *Reduced Emissions from Deforestation and Forest Degradation (REDD)*

- UN-REDD pilot countries in Africa
  - Tanzania, Zambia, DRC
  - WB Forest Carbon Partnership Facility (FCPF).
    - E.g. Mozambique
    - Readiness fund and Carbon Fund
  - Few **Biocarbon fund** projects in Africa
    - Ibi Bateke carbon sink project in the DRC
    - Acacia Senegal plantations in Niger and Mali
    - The Greenbelt Movement, in Kenya
    - The Biodiversity corridor in Madagascar,
    - The Humbo assisted regeneration project in Ethiopia
    - Nile Basin Reforestation project in Uganda
  - Few countries involved in Africa



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## Other Emerging Instruments for Forest Financing

- **Eco-securitisation and forest-backed bonds**
- **Endowment funds**
  - Bwindi
- **Regional initiatives**
  - East Africa Commission, COMIFAC, ECOWAS and SADC
    - Congo Basin Forest Fund
    - SADC Fire management programme



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# Thematic Financing Gaps

- ***Upfront financing***
  - Analytical work
  - Planning, projects design
  - Capacity building
  - Implementation of policy reforms,
  - Strengthening of governance,
  - Market creation for environmental services,
- ***Management of forests outside protected areas***
- ***Trees outside forests/ Agroforestry***
- ***Land-use planning and zoning***
- ***Research and Development***



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# Geographic and other gaps

- Concentration of ODA in a few countries
  - Countries not receiving support (15 )
- Focus of climate financing especially REDD+ on forest rich countries
  - Reduced role/benefits in LFCCs
- Dry forest areas with low potential for plantations and commercial timber

# National

- Develop comprehensive National Forest Financing strategies including National Forest funds as part of nfps
- A combination of financing instruments required to mobilise adequate resources
- Better integration of the forest sector within national development frameworks
- Create an enabling environment for investment in SFM
- Strengthen microfinance to improve access to resources for smallholders



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# Private sector

- Mobilisation investments for and from the smallholder sector –especially CBFG
- Improved access to finance
  - formal and microfinance
- Improve Security of forest tenure and governance
- Partnerships with communities and financial institutions



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# International

- **Strengthen role of regional economic bodies and networks-**
  - brokering and capacity development
- **Partnerships with regional development banks e.g, AfDB and DBSA**

# International

- **Facilitative Process**

- Strengthen and give resources to UNFFS to implement the FP
- Removal of barriers to accessing funds from existing sources and
- Building the capacity of developing countries to be able to access the existing funds.
- Monitor results and report on impact



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# International Level

- **Establish Forest Instrument - specific Global Forest fund to cover**
  - Countries with special needs and thematic areas not covered by existing funding mechanisms:
    - upfront financing
      - Planning,
      - Analytical work
      - Research and development and
      - National capacity building
  - Promote implementation of the Forest Instrument



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**THANK YOU**