

# FAO-Facility Work on Forest Finance

Supporting the development of  
National Forest Financing Strategies

Nairobi, 13 September 2010

## Outline

- Background
- Building capacity at the national level
- Experiences
- Lessons learned

## Background: NFPs & National forest financing strategies (NFFS)

- Collaborative knowledge sharing initiative in Latin America on financing mechanisms
- Objectives:
  - (a) produce a broad assessment of the status, perspectives, and experiences with financing mechanisms
  - (b) increase the capacity of National Forest Programs (NFPs) in the development of national strategies and instruments for forest financing

## Background: Initial observations

- **Wide range of financing mechanisms exists**, but ad-hoc approaches predominate (subsidies, credit, ODA)
- **Variability** in forest functions, values and actors requires a diversified set of financing sources and mechanisms
- **The biggest problem with financing SFM is often not the lack of money** (but problems of availability and access exists for some activities and actors)
  - Framework conditions (e.g., macro, governance, tenure) often major constraint and risk factor
  - Narrow views of forests' contribution to sustainable development
  - Limited dialogue financing-forest sectors
- Potential of **integrated approach** (investments, payments, enabling environment); Public and private financing

## The capacity development process



## Experiences

- Namibia (October 2007)
- Guatemala (November 2007)
- Suriname (June 2008)\*
- El Salvador (September 2008)
- Peru (December 2008)\*
- Paraguay (February 2009)
- Costa Rica (May 2009)
- Philippines (August 2009)
- Ecuador (September 2009)

\* Module implemented by partners

## Forestry **Initial achievements**



**National forest financing strategies** publicly endorsed  
**Financing instruments** selected for development (financial and legal assessments, involvement of rating agencies, others)

- Trust funds attractive to private and institutional investors (GT, PY, ES, CR)
- Capital market instruments (with Stock and Commodity Exchange: Forwards, Repurchase agreements, Securitization)
- Incentives programs (CR, ES)

**Forest Finance Intelligence Unit** (or equivalent) created

**Sector governance** improved

**Trust fund** created

## Key lessons

**Adopt a strategy with a comprehensive approach to finance that is country specific**

**Much interest in forestry by banks, social security schemes, commodity exchange (not only for productive purposes) – Have a communication strategy**

**Significant funding is available at the national level - Engage more actively other sectors, in particular the financing sector**

**Playing a catalytic role can be very effective**

## Opportunities for Support

### **Support partnership building and communication (address “isolation”)**

- Strengthen linkages with other sectors and key stakeholders (nfps, networks, units, dialogues)
- Forming of associations among small forest SH

### **Build capacity (address “weak capacity”)**

- Financing language, instruments, processes (South-South learning)
- Enterprise development

## Opportunities for Support

### **Promote financial innovation (address excessive “dependence” on ODA and gov’t budget)**

- Reinvest forest revenues into sector
- Promote access to capital markets
- Enable payments for environmental services
- Operationalize risk mitigation and credit guarantee instruments

### **Encourage a strategic approach to finance through National Forest Financing Strategies**

**Thank you!**

**For more information**

<http://www.fao.org/forestry/finance/en/>