

## Financing Sustainable Forest Management: Ideas from the Dialogues

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### Overview

- The Forests Dialogue
- Lessons from the REDD-plus Finance Dialogues
- Lessons from the Investing in Locally Controlled Forests Dialogues





## The Forests Dialogue

### Purpose and Mission

- Established in 2000 by NGO and Business Leaders
- Reduce conflict among stakeholders in the forest sector
- International platform and process to discuss key SFM and conservation issues
- Build mutual trust, enhanced understanding and commitment to change

### Structure

- Steering Committee
- Secretariat
- Network of Partners



## TFD Initiatives

### Priority SFM Issues

- Forests and Climate including: **REDD+ Financing**; REDD Readiness
- **Investing in Locally Controlled Forestry**
- Free, Prior, and Informed Consent
- Forests & Poverty Reduction and Rural Livelihoods
- Intensively Managed Planted Forests
- Illegal Logging and Forest Governance
- Forests and Biodiversity Conservation
- Forest Certification



# Financing REDD-plus

“The successful design and implementation of REDD-plus will depend on a reliable, robust and predictable finance mechanism that is transparent and equitable and enjoys the support of key stakeholder groups”

## Investing in REDD-plus



Process engaged 100 leaders from 25 different countries in 2009

Results fed into IWG-IFR and UNFCCC processes

Includes 26 recommendations, key issues summary and phased approach matrix

**Key issues addressed include:**

- Scope and principles of REDD+
- Operational framework for the phases of REDD+
- Financial architecture
- MRV, financial assurance and institutional arrangements





## REDD-plus Learnings

- **A portfolio framework:**
  - Stable, reliable and long-term financial flows
  - Requires optimal and coordinated use of markets, public and private funds, multi/bi lateral grants and other creative sources of finance
  - Possibilities of linking with payments for other ecosystem services such as biodiversity should be explored
  - Additionality of funds is important
- **Performance based payments:**  
 REDD-plus is an “emission-reduction” scheme. Any REDD finance mechanism needs to properly address the concepts of carbon stock and flow, risk management and discount rates. It should use international accounting standards and 3<sup>rd</sup> party verification



Learnings – A PHASED APPROACH	Phase 1: Preparation and Readiness	Phase 2: Policies and Measures	Phase 3: Performance-based Payments
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>- Development of national strategies</li> <li>- Assessment of drivers of deforestation</li> <li>- Clarification of rights</li> <li>- Preparation of carbon accounting</li> <li>- Institutional and protocols development</li> <li>- Capacity building assessment</li> <li>- Deployment of multi-stakeholder processes</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity building</li> <li>- Pilot Projects</li> <li>- Development of national portfolio</li> <li>- Benefit-sharing and equitable distribution</li> <li>- Enabling of policies and measures</li> <li>- Inclusion of small-scale projects</li> <li>- Carbon registry</li> <li>- Way paved for upfront investments</li> </ul>	<ul style="list-style-type: none"> <li>-Third-party-verifiable emissions reductions and carbon-stock enhancements</li> <li>- Equitable distribution mechanism</li> <li>- Verification</li> <li>- Social and environmental impact assessment</li> <li>- Monitoring processes developed as part of a learning-by-doing process</li> </ul>
<b>Finance Mechanism</b>	<ul style="list-style-type: none"> <li>-Multilateral and bilateral grants</li> <li>- Mechanisms such as FCPF and UN-REDD</li> <li>- Voluntary carbon markets</li> <li>- Proposed windows within the UNFCCC</li> <li>- Public-sector and private-sector funding</li> </ul>	<ul style="list-style-type: none"> <li>-Application of a finance portfolio framework</li> <li>- Scaled-up public and private sector investments</li> <li>- Voluntary contributions from governments, market linked and transaction-linked international levies and the auction of emission allowance</li> <li>- Multilateral concessional financing sources</li> <li>- Underwriting financial, livelihood and political risks</li> <li>- Rules for performance-based payments</li> <li>- Implementation of equitable distribution mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>-Compliance market</li> <li>-Non-market compliance</li> <li>-Underwriting risk</li> <li>- Equitable distribution mechanisms</li> <li>- No double-counting with transparent registries and the integration of transaction logs</li> </ul>



## REDD-plus Learnings

- **Safeguards:** In addition to the assessment of changes in carbon stocks, the performance of REDD-plus activities should be measured against social, environmental and financial indicators at the local, national and global levels.
- **Effective and equitable distribution mechanism:** Investors need to ensure benefits reach all stakeholders effectively and fairly. It is important that benefits are not diminished disproportionately by intermediaries.
- **Governance Paradox:** Those countries where REDD+ has the greatest potential and SFM financing is sorely needed, tend to have governance challenges that shy away investors. Governance issues must be addressed in all phases to give investors confidence.



## Investing in Locally Controlled Forests

“There are huge opportunities to invest in small-scale or community-based forestry projects that achieve a decent return on investment whilst advancing environmental and developmental goals. However, current financing mechanisms are not oriented to this sector, except in some specific and quite limited examples.”



## Locally Controlled Forests

- One billion people
- One quarter of the world's forests
- \$75 - \$100 billion/year in goods and services
- Broad range of economic, environmental, social, cultural and spiritual benefits
- Multiple use, including climate change mitigation
  - Must play a key part in the development and expansion of REDD-plus



## The ILCF Initiative

- **TFD dialogues – so far**
  - Belgium (scoping)
  - Panama (field)
  - Nepal (field)
  - Macedonia (field)
  - London
- **Growing Forest Partnership**
  - World Bank
  - IIED
  - FAO
  - IUCN
- **3G Alliance**
  - Indigenous Peoples (IAITPTF)
  - Family Forest Owners (IFFA)
  - Forest Dependant Communities (GACF)
- **“Hard” and “soft” Investors**
- **Dominic Elson Paper**







## ILCF Initiative - Objectives

1. Ensure that investment streams strengthen LCF and address concerns
2. Bridge the gap between investors and three rights groups
3. Build investment preparedness among all actors



## ILCF Learnings - Needs

- Local rights both secure and 'legible'
- Integrative approach: synergy between 'soft' and 'hard' investment
- Business support services and capacity building
- Partnerships, alliances, aggregation and portfolio approaches





## ILCF Learnings - Obstacles

- Misperceptions and language differences
- Limited business development capacity amongst communities
- Insecure land tenure
- High transaction costs
- Long time scales
- Inadequate value proposition of business plan
- Insufficient consultation and unclear communication
- Mismatch in expectations and practices
- Inadequately assessed market and political risk
- Difficulty extracting profit



## ILCF Learnings - Solutions

- A partnership approach
  - Well-defined roles for hard investors and rights holders
  - Clear and agreed sharing of risk, cost and benefit
- Role of soft investment and governments
  - Systemic investments that improve conditions to attract private capital
- Innovative mechanisms such as:
  - Escrow accounts
    - e.g. Root Capital and FAST
  - New legal and financial mechanisms such as Real Estate Investment Trusts and leasing
- Make better use of existing, effective data and networks







## Next Steps

- Continue TFD's dialogues to develop:
  - guidelines and principles of ILCF for investors and communities
  - Best practice/codes of conduct
  - Investment process models
- GFP will continue to support:
  - in-country actions
  - working with forest dependent people to ensure and increase ILCF
  - supporting existing initiatives and filling in the gaps on the ground
- Research and analysis will be commissioned for:
  - quantitative data
  - definitions and typology
  - case studies



## Thank You!

### TFD Documents and Publications

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