Financing Sustainable Forest Management: a UNEP perspective

UNFF open ended ad-hoc expert group on forest financing (AHEG)

Nairobi, September 14, 2010

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Evidence for change

- Two basic messages:
  - Evidence-based policy advocacy can shift policy and investments in forests, if it is relevant and timely
  - Therefore it is critically important to identify the areas where that evidence is likely to be found and deliver it in a timely manner

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Change that happened

- Kenya
  - UNEP's assessments of the state of the Mau Forest complex identified the challenges and opportunities for investment
  - Kenyan government at the highest levels has responded positively & proactively with a suite of investments and actions in SFM
- India
  - TEEB & partners estimated forestry benefits in India
  - Taken into account by Supreme Court of India in designing compensation arising out of deforestation, better reflection of true opportunity costs
  - Parliamentary recognition of Ecosystem Services value from forests

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2009

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Finding the evidence:
Overview of UNEP's activities

- Establishing context and frameworks
  - The Economics of Ecosystems and Biodiversity (TEEB)
  - Green Economy initiative & green accounting
- Innovative finance in forests
  - UNEP Finance Initiative
  - CASCADe and CDM
  - REDD+ (within UN-REDD)

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Setting the context: changes in global land use

Actual	2000	2050	Difference
Area	million km2	million km2	2000 to 2050
Natural areas	65.5	58.0	-11%
Bare natural	3.3	3.0	-9%
Forest managed	4.2	7.0	70%
Extensive agriculture	5.0	3.0	-39%
Intensive agriculture	11.0	15.8	44%
Woody biofuels	0.1	0.5	626%
Cultivated grazing	19.1	20.8	9%
Artificial surfaces	0.2	0.2	0%
World Total *	108.4	108.4	0%

Natural areas loss is 7.5m km2 - broadly equivalent to the area of the Australia.
Losses: natural, bare natural areas & extensive agriculture broadly equals the USA

Source: Leon Braat et al (2008), Cost of Policy Inaction, European Commission Brussels. (TEEB)

Estimates of costs and benefits of restoration projects in different biomes: UNEP, 2010

Biome/Ecosystem	Typical cost of rest-oration (high scenario)	Est. ann benefits from restor (avg.scenario)	Net present value of benefits over 40 years	Internal rate of return	Benefit/ cost ratio
	USD/ha	USD/ha	USD/ha	%	Ratio
Coral reefs	542,500	129,200	1,166,000	7%	2.8
Coastal	232,700	73,900	935,400	11%	4.4
Mangroves	**2,880**	**4,290**	**86,900**	**40%**	**26.4**
Inland wetlands	33,000	14,200	171,300	12%	5.4
Lakes/rivers	4,000	3,800	69,700	27%	15.5
Tropical forests	**3,450**	**7,000**	**148,700**	**50%**	**37.3**
Other forests	**2,390**	**1,620**	**26,300**	**20%**	**10.3**
Woodlands/shrubland	**990**	**1,571**	**32,180**	**42%**	**28.4**
Grassland	260	1,010	22,600	79%	75.1

Sources : UNEP: Dead Planet, Living Planet, 2010, ciiting TEEB, 2009;

What TEEB tells us…

- If we do not make the value of our ecosystem services explicit, we will continue to lose them at alarming rates
- Markets consistently undervalue ecosystem services

- Most services provided by the natural environment to human society are not captured by GDP or other conventional macro-economic indicators
- Biodiversity is important for all but essential for the rural poor

Losses of ESS from forests as share of % GDP		**-5.5%**
Losses of ESS from natural areas in forest biomes as share of % GDP		**-6.3%**

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So what do we know about the economic importance of our forest ecosystems?

Timber
NTFPs
Tourism

- **Accounted**
- **Monetarily Valued**
- **Recognized**

Carbon
Watersheds
Services

- **Partially Valued**
- **Unaccounted**

Culture
Educational

- **Acknowledged**
- **Unpriced**

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The Green Economy Report will try and redress this ..

- Economic case for greening economies and jobs by investing in a new generation of assets (social, natural, human and financial)
- 11 Sectors, including **Forestry**

- It will deal with investments in terms of:
  - Current levels
  - What additional level of investment is required?
- And also economy-wide effects of increased investments:
  - output
  - jobs/livelihoods
  - poverty reduction
  - Environment

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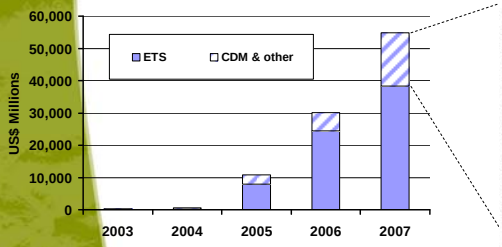
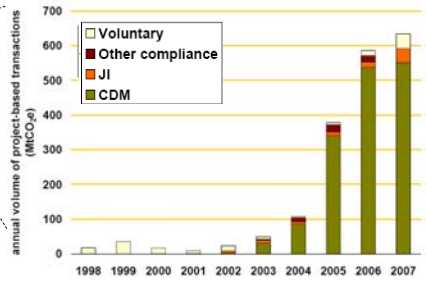
New and additional source of forest finance: carbon trade and bio-carbon offsets

Global Carbon Trade



Project-Based Carbon Offsets



Investors all over the world have pumped around $66 billion into more than 200 newly launched mutual funds and exchange traded funds investing in companies that help to mitigate or adapt to climate change" (Deutsche Asset Management, 2008)

Sources: World Bank (2007); Point Carbon (2008); Financial Times (24.03.2008)

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UNEP's major focus is on REDD+ ... *within UN-REDD*

- REDD+ implementation is currently in its first phase
- Coordination and partnerships are essential, hence UN-REDD
- Insights on how to deliver REDD+ readiness are emerging

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REDD+, taken as a whole, is a unique opportunity to transform the forest sector and forested landscapes – thus contributing to SFM

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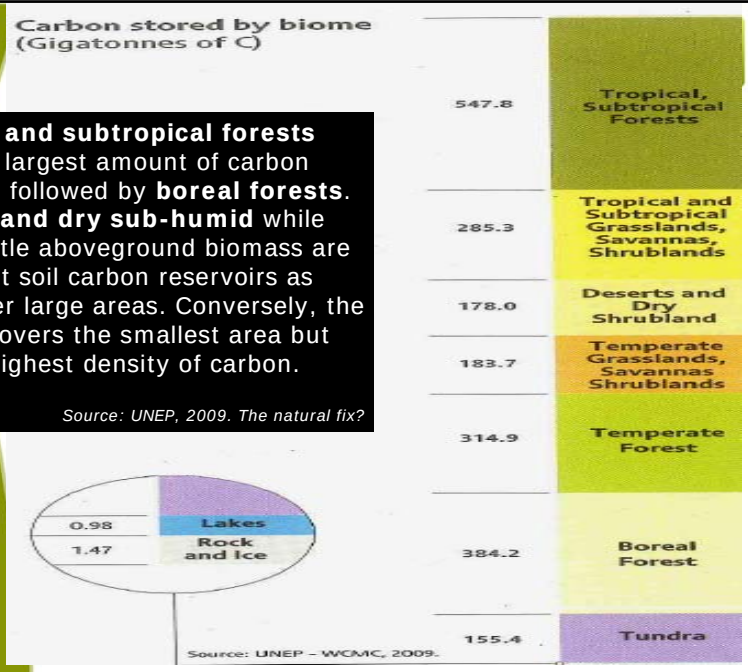

Tropical and subtropical forests store the largest amount of carbon (550 Gt), followed by **boreal forests**. **Deserts and dry sub-humid** while having little aboveground biomass are significant soil carbon reservoirs as they cover large areas. Conversely, the **tundra** covers the smallest area but has the highest density of carbon.

Source: UNEP, 2009. The natural fix?

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Fundamental assumptions

REDD+ will achieve its objectives only if:

- It delivers carbon benefits that are 'additional' & 'permanent'
- Safeguards biodiversity and ecosystem services
- Promotes SFM & equitable development (i.e. local livelihoods and jobs, through to enhancing national income)
- Is efficient, i.e. transaction costs are kept to the minimum

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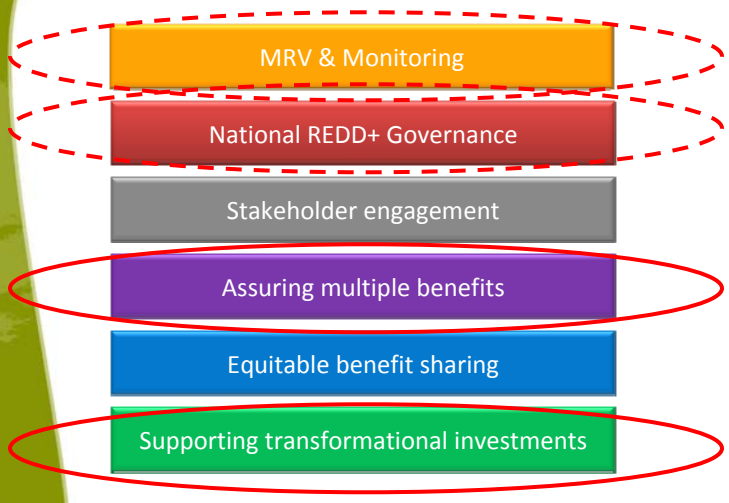
UN-REDD Global Program Components



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UNEP contribution

Supporting transformational investments based on REDD+

- To offer & secure a forest based carbon asset within the context of national development, countries will:
  - Reduce 'consumption' of existing forest resources per output of production
  - Shift to less consumptive land use patterns
  - Assure optimal, multiple benefits from forests
- This will require
  - Investments in efficiency of resource use

    E.g.shift from 'conventional' to Reduced Impact Logging
  - Identification of alternative land-use options

    E.g. 'layering' payments for ecosystem services such as water or NTFPs on top of carbon for economically viable forests as a land-use system

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Conclusions

- UNEP's focus is on finding new & innovative sources of financing for forests
- Much of this is focused on some forms of payments for ecosystem services &
- Realization of a green economy model
- REDD+, in this context, represents both a significant new source of financing by itself
- As well as a 'leveraging' opportunity for additional financing to secure multiple benefits

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Thank you for your attention!

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