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**United Nations Forum on Forests
Open-ended Intergovernmental Ad Hoc
Expert Group on Forest Financing
Second meeting**

Vienna, 14-18 January 2013

Item 4 of the provisional agenda*

Tasks of the Expert Group

Note verbale dated 11 October 2012 from the Permanent Mission of Ecuador to the United Nations addressed to the Secretary-General

The Permanent Mission of Ecuador to the United Nations has the honour to enclose herewith the Co-Chairs' summary of the Collaborative Partnership on Forests Organization-Led Initiative on Forest Financing in support of the United Nations Forum on Forests, which was held in Rome from 19 to 21 September 2012 (see annex).

In view of the importance of the summary and its relevance to the work of the United Nations Forum on Forests, the Permanent Mission of Ecuador would appreciate it if the present note and its annex were circulated as a document of the second meeting of the Ad Hoc Expert Group on Forest Financing, to be held in Vienna from 14 to 18 January 2013, and the tenth session of the United Nations Forum on Forests, to be held in Istanbul from 8 to 19 April 2013.

* E/CN.18/AEG/2013/1.



**Annex to the note verbale dated 11 October 2012 from the
Permanent Mission of Ecuador to the United Nations addressed to
the Secretary-General**

The Chair of the Bureau of the tenth session of the United Nations Forum on Forests and the Chair of the Collaborative Partnerships on Forests, in their capacities as the Co-Chairs of the Organization-Led Initiative on Forest Financing in support of the United Nations Forum on Forests, have the honour to transmit the enclosed Co-Chairs' summary. The Organization-Led Initiative was held from 19 to 21 September 2012 in Rome, with the participation of about 150 representatives from Governments, international and regional organizations, civil society and experts.

In the light of the importance of the Co-Chairs' summary and its relevance to the work of the Forum, we would appreciate it if the present letter and the Co-Chairs' summary could be issued as a document of the second meeting of the Ad Hoc Expert Group on Forest Financing and of the tenth session of the United Nations Forum on Forests.

(Signed) Mario Ruales **Carranza**
Co-Chair of the Organization-Led Initiative and
Chair of the Bureau of the tenth session
of the United Nations Forum on Forests

(Signed) Eduardo **Rojas-Briales**
Co-Chair of the Organization-Led Initiative and
Chair of the Collaborative Partnership on Forests

Enclosure

Co-Chairs' summary of the Collaborative Partnership on Forests Organization-Led Initiative on Forest Financing in support of the United Nations Forum on Forests, held in Rome from 19 to 21 September 2012

I. Introduction

1. The summary is presented in two sections: section II contains the Co-Chairs' summary of actions, recommendations and suggestions on forest financing, extracted from the discussions in the plenary meeting and working groups; and section III contains a summary of the discussions in the plenary meeting and working groups.
2. The Co-Chairs are extremely satisfied with the depth and richness of the discussions during the Organization-Led Initiative, including on the 2012 Advisory Group on Finance study on forest financing. More importantly, the Co-Chairs were highly impressed by the positive and constructive atmosphere that prevailed during the Organization-Led Initiative. This conducive environment paved the way for an open, frank and sincere exchange of views among participants, and was the key factor that allowed participants to focus on finding solutions to the problems.
3. The Co-Chairs firmly believe that the outcome of the Organization-Led Initiative, and in particular, the actions, recommendations and suggestions that were made by the participants, will provide a substantive and productive input to the second meeting of the Ad Hoc Expert Group on Forest Financing, to be held in Vienna from 14 to 18 January 2013.
4. The Co-Chairs and participants welcomed the pledges of financial support to the United Nations Forum on Forests from China and the Russian Federation.
5. The Co-Chairs would like to take this opportunity to thank sincerely all the participants for their active involvement in the debate, as well as members of the Collaborative Partnership on Forests, in particular, the United Nations Forum on Forests and the Food and Agriculture Organization of the United Nations (FAO), for planning and organizing the meeting.

II. Co-Chairs' summary of the key actions, recommendations and suggestions on forest financing

6. To mobilize financing for all types of forests at the national level, it is important to:
 - (a) Develop and implement awareness-raising programmes on the role and contributions of forests to other sectors;
 - (b) Promote the multiple functions of forests and trees outside forests and their contribution to and impact on other sectors and the overall sustainable development objectives, as well as the post-2015 development agenda;

(c) Stress that financing forests is primarily a national responsibility, but international assistance has an important catalyst role in many countries;

(d) Strengthen cross-sectoral and interdepartmental collaboration at the national level, in order to attract greater funding for forests;

(e) Develop integrated sustainable land management plans that take into account the interlinkages of different sectors such as agriculture and rural development, and the potential of forests to contribute to other sectors;

(f) Adopt forest financing measures that focus on the multiple functions of forests and are implemented in a cross-sectoral landscape approach;

(g) Create enabling conditions, especially effective institutions, legal frameworks and good governance, to attract forest finance from all sources and reduce investment risk;

(h) Unleash the funding potential of other sectors, such as watersheds and energy, to help in mobilizing funding for forests at the national level, and to understand how finance in other sectors affects forests;

(i) Recognize and/or formalize informal markets for trade in forest products, as a key source of financing;

(j) Mobilize financing through user fees for forest use, without affecting customary practices, and enhance the capacities of countries to collect such fees;

(k) Assist countries to address the challenges of financing by building their capacity to access funding, including through flexible and tailored strategies that package public, private and international finance;

(l) Communicate clearly how forest finances are used and convey simple and clear indications of value for money, and simplify the language on forests with the policymakers;

(m) Recognize the importance of official development assistance (ODA) support as seed funding to catalyse the development of forests for many countries;

(n) Increase investments in afforestation and restoration activities;

(o) Recognize the importance of national forest programmes and national forest financing strategies in augmenting resources for sustainable forest management and by taking advantage of the National Forest Programme Facility/Farm Forest Facility.

7. To mobilize financing for all types of forests at the international level, it is important to:

(a) Streamline international funding processes and procedures, particularly those of the Global Environment Facility (GEF), with encouragement to continue and refine the GEF-coordinated actions with respect to forests and to promote better access to funding by countries;

(b) Explore the possibility of having forests as a specific focal area under GEF and other mechanisms, as well as similar possibilities in other Collaborative Partnership on Forests member organizations, on the basis of emerging lessons learned;

(c) Make forest-finance knowledge management and the provision of forest finance data a continuous process rather than an ad hoc one, with associated committed funding, and also take advantage of data collection processes in other institutions;

(d) Distinguish between enabling and asset investments, and support countries enabling activities in the area of forest finance;

(e) Provide a guidance document on how to facilitate finance strategy processes at the national level;

(f) Explore the idea of having “broker” institutions at various levels (national, subregional and international) facilitate access to funding by interested parties, including by helping indigenous people and small holders to overcome barriers to funding;

(g) Establish forest financing coordination platforms at the national and subregional levels, taking into account national conditions;

(h) Identify preparatory activities that can be undertaken by the United Nations Forum on Forests to bridge information gaps in facilitating an informed decision on the future international arrangements on forests at the eleventh session of the Forum, in 2015;

(i) Increase transparent and equitable distribution of costs and benefits along the value chains and get a better understanding of the formal and informal dynamics in those chains, with particular reference to local and small-scale forest producers;

(j) Consider the possibility of organizing a funding fair, a high-level meeting between the ministers and the Collaborative Partnership for Forests and a meeting for low forest cover countries and small island developing States during the tenth session of the Forum;

(k) Consider having a specific global forest instrument or convention;

(l) Consider establishing a global forest fund or funds.

8. To address key gaps and needs, and to take advantage of the opportunities in forest financing at the national level, it is important to:

(a) Raise public and political awareness, as a crucial factor, through the provision of data and information, and through targeted communications and improved intersectoral cooperation;

(b) Address the current data gaps by combining existing data on forests with available data on other sectors such as agriculture, livestock and health, as a tool to make compelling arguments in demonstrating the value of forests.

9. To address the key gaps and needs and to take advantage of the opportunities in forest financing at the international level, it is important to:

(a) Strengthen funding mechanisms that address the multiple functions of forests;

(b) Consider a combination of financing mechanisms and strategies, including building on synergies, to address forest financing needs;

(c) Examine the impact of corruption on forest financing;

(d) Recognize the broad and varied nature of the private sector and the need to address its different needs accordingly, as this sector ranges from individuals to communities and from small and medium enterprises to large-scale corporations and investment funds;

(e) Assist in identifying gaps, obstacles and opportunities for each level to ensure properly targeted interventions by the private sector;

(f) Carry out additional studies to show the importance of forests and the economic value of forest ecosystems and to improve the availability of data, and continue to take action based on the available information, noting a specific need for the Collaborative Partnership on Forests to lead on this action;

(g) Use the potential of regional, subregional and national networks in mobilizing forest finance, through brokerage services;

(h) Explore and develop the idea of having a “broker”-type institution at various levels (national, subregional and international) to facilitate access to funding and to help in overcoming barriers to investment, including for indigenous peoples, local communities and small holders, and also to identify suitable investment opportunities and projects on behalf of potential sources of funding;

(i) Give special consideration to dryland forests in any global forest financing options, as these are critical for the livelihoods of many countries;

(j) Improve understanding of the term sustainable forest management so as to make it easier to be understood by all people, in particular local people.

10. In developing options on forest financing, it is important to:

(a) Recognize the increased importance of forests for addressing global challenges in the past few years;

(b) Avoid the “business as usual”, rhetorical and theoretical debate on forest financing, as has been seen in the past 20 years;

(c) Work together to agree on win-win solutions and viable options for forest financing;

(d) Reaffirm that no single solution exists for forest financing, and a combination of measures at all levels is needed, along with the political support and involvement of all stakeholders;

(e) Focus on addressing gaps in forest financing, including data, geographical and thematic gaps, and devote adequate resources and make concerted efforts to address these gaps at all levels;

(f) Invite the Collaborative Partnership on Forests to make its utmost effort to address the data gap in a systematic, coordinated and coherent manner so as to provide consistent and accurate data on forest financing across all sectors;

(g) Utilize the potential of both the facilitative process and “brokerage services”, to address financing gaps and obstacles and improve access to existing funds, including by:

- Addressing the geographical gaps in forest financing by giving special consideration to the needs of countries that have been deprived of external

funding for forests, including low forest cover countries, small island developing States and least developed countries in Africa

- Devoting specific funds to address the thematic gaps in forest financing, including all seven thematic elements of sustainable forest management so as to realize the full potential of forests
- Considering the establishment and/or strengthening of “brokering” institutions at various levels to help parties in accessing forest financing

(h) Recognize that the Green Climate Fund offers opportunities for mobilizing new forest financing, albeit with the danger of focusing on one or a limited number of forest values or functions;

(i) Recognize that REDD-plus and adaptation financing have great potential but they need to be planned and implemented, including for the benefit of small and dryland countries;

(j) Strengthen the implementation of the forest instrument as a centrepiece of any forest financing options both nationally and internationally, with a view to advancing sustainable forest management;

(k) Invite donors, international organizations and conventions to support enabling activities in developing countries to advance implementation of the forest instrument;

(l) Utilize all options on forest financing from all sources, including strengthening existing forest financing mechanisms and streamlining funding processes and procedures, improve access to resources and consider devoting a fund or funds to addressing the needs of sustainable forest management and gaps that are not yet addressed by the existing mechanisms;

(m) Endeavour, at the tenth session of the United Nations Forum on Forests, to adopt a meaningful decision on forest finance, which will pave the way for a decisive agreement on the future of the international arrangements on forests at the eleventh session, in 2015;

(n) Emphasize the role of sustainable production and consumption and the contribution of forests in the context of the concept of “the green economy”.

III. Summary of the discussions

A. Background

11. At the special session of its ninth session, held on 30 October 2009, the United Nations Forum on Forests adopted a resolution on the means of implementation for sustainable forest management (see E/2009/118-E/CN.18/SS/2009/2, para. 3), in which it invited members of the Collaborative Partnership on Forests to consider holding an organization-led initiative in support of the work of the Forum on forest financing. The Forum reaffirmed its invitation to the Partnership in the resolution on forests for people, adopted in February 2011 (see E/2011/42-E/CN.18/2011/20, chap. I.B). At the ninth session, the Forum also made several requests to the Partnership member organizations in preparation for the second meeting of the Ad Hoc Expert Group on Forest Financing and the tenth session of the Forum. The

Initiative was co-organized by the United Nations Forum on Forests secretariat and FAO, with support from other Partnership members and resources from a number of donor countries.

B. Venue/duration/documentation of the meeting

12. The Organization-Led Initiative was held in Rome from 19 to 21 September 2012. The documentation prepared for the meeting is listed in section IV below.

C. Attendance and participation

13. The Organization-Led Initiative was composed of approximately 150 experts from 69 countries and 21 regional and international organizations and groups. In addition, experts designated by member organizations of the Collaborative Partnership on Forests, other international and regional organizations, regional processes and major groups were in attendance. A full list of participants is provided in document E/CN.18/AHG/2013/INF/1.

D. Item 1 — Opening plenary session

14. The meeting was opened by Eduardo Rojas-Briales, Chair of the Collaborative Partnership on Forests and the Assistant Director General of the Forestry Department of FAO. Mr. Rojas-Briales welcomed the participants to the Organization-Led Initiative and made opening remarks. In his remarks, Mr. Rojas-Briales highlighted that the meeting was taking place just prior to the twenty-first session of the FAO Committee on Forestry and the third World Forest Week. The theme of the Committee on Forestry session was “Forests: a green pathway for development” and it focused on ways to translate the outcomes of the United Nations Conference on Sustainable Development into action. He noted that adequate forest finance would be a prerequisite for forests and forestry to fulfil their tremendous potential to contribute to a greener economy and to a more sustainable future. He stressed that finance had been a high priority issue for the Collaborative Partnership on Forests for many years, and at the ninth session of the Forum, in 2009, member States had adopted a resolution in which the Forum specifically requested the Partnership to be actively engaged in forest finance work. It also invited the Partnership to consider holding an organization-led initiative in support of the work of the United Nations Forum on Forests on forest financing. Furthermore, the Forum specifically requested the Partnership to expand the 2008 forest finance paper.

15. Mr. Rojas-Briales thanked the members of the Advisory Group on Finance of the Collaborative Partnership on Forests and other Partnership members for their substantial contributions to the study, including the United Nations Forum on Forests secretariat for coordinating the work and finalizing the document. He also noted that the United Nations Conference on Sustainable Development had reaffirmed that the wide range of forest products and services create opportunities to address many of the most pressing challenges relating to sustainable development (see General Assembly resolution 66/288, annex, para. 193). In that regard, there was a need to scale up efforts to find more solid approaches that guarantee consistent financing at the global and national levels. He concluded by thanking

Finland, Sweden, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America for their generous financial support, without which the meeting would not have been possible.

E. Item 2 — Election of the Co-Chairs

16. Mr. Rojas-Briales invited the participants to nominate two candidates to co-chair the Organization-Led Initiative. Ibro Adamou from the Niger nominated Mr. Rojas-Briales and Mario Ruales Carranza to co-chair the Initiative. The participants elected the candidates by acclamation.

17. Mr. Rojas-Briales thanked participants for their confidence in them, and invited Mr. Ruales Carranza to make his opening remarks.

18. In his opening remarks, Mr. Ruales Carranza thanked the United Nations Forum on Forests and FAO for planning and organizing the meeting. He informed the meeting that since the adoption of the resolution on the means of implementation (forest financing) by the Forum at its special session of the ninth session in October 2009, significant work on forest finance had been carried out. In order to implement the provisions of the resolution, a four-year strategic workplan for the period 2009-2013 was prepared by the Forum secretariat, anticipating activities that had to be carried out in order to enable the Forum at its tenth session to make a meaningful decision on forest finance. The Ministerial Declaration adopted by the Forum at its ninth session also provided the basis for an agreement on forests during the United Nations Conference on Sustainable Development, which was reflected in the outcome of the Conference (see General Assembly resolution 66/288, annex). He added that the Organization-Led Initiative was an important element of the Forum's strategic approach to forest finance. It would be considering the 2012 study on forest financing by the Advisory Group on Finance, including the challenges and opportunities experienced by stakeholders. The Initiative provided a good opportunity to exchange experience and knowledge about how to improve the situation and how to address those challenges.

19. The Co-Chair then invited the plenary to elect the Co-Chairs of the working groups. He proposed the Bureau members Srecko Juricic from Croatia as the Chair of Working Group 1 and Saiful Azam Martinus Abdullah from Malaysia and Shuli Davidovich from Israel as the Co-Chairs of Working Group 2. Mr. Rojas-Briales also informed that Anna Masinga, the Bureau member from Zambia, was not able to attend the Initiative to co-chair one of the working groups. The plenary elected the suggested nominees as the Chairs of the working groups.

F. Item 3 — Adoption of the agenda and other organizational matters

20. The Co-Chair introduced the provisional agenda and the organization of work and invited the participants to adopt the agenda. The plenary adopted the agenda and the organization of work.

21. The Co-Chair then invited Uma Lele to make her keynote address on the theme "The way forward on forest finance".

Keynote address

22. Ms. Lele presented a keynote address on the nexus of forests, food, agriculture, energy, water and poverty and the implications that these trends had for future financing for “optimal land use”. She highlighted the interrelated nature of forests and land use and the diversity that existed at the level of both resources and impacts. She pointed out that recent trends in economic transformation showed a declining share of forests and agriculture in gross domestic product (GDP) and employment, along with increased demand for land and rural-urban migration.

23. She highlighted the fact that food and energy price increases had implications for forests and for future land-use changes in general. Ms. Lele stressed that the interconnected “insecurities” of poverty, food, water, fuel, forest loss, climate and land degradation should be addressed “at large” rather than in a segmented manner.

24. In the context of the global food consumption and production needed for a world population of over 9 billion in 2050, she noted that the future of food, agriculture and forests were interrelated — much of the remaining rain-fed land areas are in forested areas in Africa and Latin America. She observed that donor support to agriculture tended to increase when food prices increased; however, what the sector needed was more predictable and sustained financing.

25. Ms. Lele highlighted that the rising importance of biofuels was a wild card in the nexus of forests, food, agriculture and energy, one that could affect forests, croplands and grasslands and could ultimately have a negative impact on the welfare of poor and landless people. In this regard she noted the inherent tradeoffs in both the opportunity cost of land use and the growing international private investment in land.

26. In closing, she emphasized that landscapes would matter far more in the future than they had in the past owing to the increased complexity in land-use management and the growing importance of markets. She stressed that for long-term equity and sustainability, greater accountability was needed on tenure and governance issues related to forests and associated sectors. Lastly, she noted the importance for future financing to be synchronized with the realities of developing countries, taking into account the natural and human resources at the national level.

G. Item 4 — Tasks of the Organization-Led Initiative

27. Under this agenda item, the Co-Chair invited Jan L. McAlpine, the Director of the United Nations Forum on Forests secretariat, to present an overview of the work of the Forum on forest financing. Ms. McAlpine noted that previous discussions on forest financing had been narrowly focused but there was a need to address the issue in a broader and more comprehensive approach that recognized the cross-sectoral nature of forests. Ms. McAlpine provided a detailed overview of all the activities carried out to date on forest financing at the Forum, highlighting that most of the work was aimed at improving the knowledge and understanding of the nature of the issues in forest financing and sharing experiences. She also referred briefly to numerous intersessional activities that the Forum had carried out since 2009, including the Ad Hoc Expert Group on Forest Financing, the facilitative process workshops, the study by the Advisory Group on Finance and the work of the Forum on forests and economic development.

28. The facilitative process workshops undertaken with low forest cover countries, small island developing States and least developed countries in Africa have helped to generate information on barriers and opportunities at the national level and the importance of the non-cash values of forests, which are little studied and not well understood by policymakers. Thus there is a need to take a cross-sectoral and a landscape approach for the recognition of all forest values and the linkages of forests to other sectors. Ms. McAlpine also emphasized the importance of the resolution on the means of implementation of sustainable forest management, adopted at the special session of the ninth session of the Forum, as a milestone achievement, as it separated the discussion of forest finance from the discussion on the future international arrangement on forests to be discussed in 2015. This separation has allowed the current work to be focused on the importance of forest finance in a broader context and to generate information that will also form the basis for the discussions in 2015. Regarding the possible future international financing options, she noted that both options of using existing financing mechanisms and a global forest fund would be on the table, not as conflicting or competing options but as complementary options. What is important is to provide specific details of each option highlighting where the existing funds are, where the gaps are and what needs to be done to improve forest financing. Clarity is also needed on what type of fund(s) would be desirable to address the gaps and eliminate fads.

H. Item 4 (i) — Key issues and findings of the 2012 study on forest financing by the Advisory Group on Finance

29. The Co-Chair invited Ms. McAlpine to introduce the key issues and findings of the 2012 Advisory Group on Finance study on forest financing and to moderate the presentations by the members of the Advisory Group.

30. Ms. McAlpine stated that the study was the most comprehensive and up-to-date study on forest financing worldwide, and noted that the study updated and expanded the 2008 study. The 2008 study was mainly on financing the implementation of the forest instrument, while the 2012 study expands the scope and covers all types of forests and all sources of financing. Led by the United Nations Forum on Forests, the study was produced by the Advisory Group on Finance, a subset of the Collaborative Partnership on Forests. The study confirms that no single solution exists for forest financing and a combination of measures at all levels is needed, along with the political support and involvement of all stakeholders. At the same time, addressing data gaps is key, especially with respect to domestic data. The study suggests strengthening data collection mechanisms at all levels, including multiple mechanisms under the National Forest Programme Facility, the Forum, the United Nations Convention to Combat Desertification, the Convention on Biological Diversity and the Collaborative Partnership on Forests online sourcebook. The 2012 study demonstrates a true example of focused, close and consistent inter-agency collaboration and serves as a strong basis for reaching an agreement on forest finance at the tenth session of the Forum, which will pave the way for a decisive agreement on the future of the international arrangements on forests in 2015 at the eleventh session. Finally, the 2012 study shows that REDD-plus funding has reversed the downward trend of public international funding to forests, although this recent increase is mostly directed to high forest cover countries.

31. Ms. McAlpine then introduced the members of the Advisory Group on Finance and invited them to present the different chapters of the 2012 study.

32. In his presentation, Hossein Moeini-Meybodi, United Nations Forum on Forests Senior Forest Policy Officer and the coordinator of the 2012 study, covered chapters one and six of the study. An analysis of domestic flows of financing to forests indicated a general growing attention to forest financing and its significance for improving the overall socioeconomic and environmental situation in developed and developing countries. With close to 80 per cent of the world's forests publicly owned, the public sector plays an important role in forest financing. Financing is generally derived from general government revenue and revenues generated from State-owned forests. Despite the global economic downturn, there has also been a general increase in donor country support in the form of public bilateral and multilateral flows, largely marked by REDD-plus readiness activities and pilot programmes, including fast-start funding. The ODA flows to forestry (both commitments and disbursements) indicate that Asia has historically received the bulk of the funding. However, this situation is changing, with funding to Africa and Latin America growing significantly owing largely to REDD-plus readiness activities, which indicates that the fourth global objective on forests, to the extent that it deals with ODA, has been achieved. However, analysis of ODA flows to low forest cover countries and small island developing States showed that these countries continue to experience decreases in forestry ODA. In order to strengthen and mobilize resources for forests at the national level, actions have to be taken to improve policy, legislative and institutional frameworks, including the provision of a platform for engaging forest financing stakeholders, including the private sector, and cooperating on strengthening countries' technical and technological capacities. At the international level, countries' access to resources should be improved and funds should be allocated to address sustainable forest management gaps.

33. Rao Matta, Forestry Officer from FAO, in his presentation covered chapter five of the 2012 study, focusing on successful country examples and initiatives. The common elements that underpin investments in forests included turning crises into opportunities; mainstreaming forestry in rural development, providing a level playing field for the forest sector; and creating a congenial enabling environment for private sector investment. The underlying motivating factors identified in chapter five included strong governmental support and leadership at the highest level focused on enhancing the public profile and the political significance of forests; the existence of good governance systems; efficient and robust yet flexible capacities in the field; strong local community involvement; establishing innovative financing institutions and mechanisms, for example, trust fund and forest funds; and creating an enabling environment for private sector investments.

34. Camilla Nordheim-Larsen from the Global Mechanism of the United Nations Convention to Combat Desertification presented chapter four, entitled "Barriers to sustainable financing for forests". While many factors limit the extent to which existing financial resources may be accessed, a weak enabling environment is typically the superseding cause. The study found that there was a lack of knowledge and/or capacity to properly value the contribution of forests to sustainable development. The monetized values of forests seldom include the socioeconomic value of the full range of ecosystem services and goods. There is a need for an integrated landscape approach and for increasing the understanding that the long-term sustainability and availability of food and natural resources to support

sustainable development require the application of integrated landscape-level management. Stakeholders at all levels also need to play a larger role in decisions related to sustainable forest management and be better organized, harmonized and coordinated. At the same time, significant challenges to forest governance and legality undermine the efforts to mobilize forest-related finance and investment as a result of heightened concerns about investment and financing risks. Challenges for sustainable forest management have to do not only with availability of funds, but also the conditions framing finance mobilization. A holistic, integrated financing strategy is needed to overcome barriers and facilitate investment from public and private sources and mechanisms. The strategy should focus on how to strengthen the enabling environment to facilitate investment and resource mobilization.

35. Ian Gray, Sustainable Forest Management Specialist, GEF, noted that forest investments in general were at holding levels and not improving significantly. ODA was focused on a few countries but was relatively low in low forest cover countries, small island developing States and least developed countries in Africa. He pointed out that in some developing countries, forests were not integrated into the national development agendas or were not high enough in the political agenda. There were major data gaps that were thematic and geographic, national, regional and international. He also highlighted the need for the decentralization of forest management, to be accompanied by commensurate financial resources and capacity for financial management. He stressed the need to bundle and stack various forest products in order to make forestry projects attract adequate funding. He also highlighted that in addressing the needs of the private sector, it was important to recognize that there are different types of private players, from small holders to large corporations with varied needs. He concluded by noting the need for sound government at both the local and national levels to attract private sector funding.

36. The presentations were followed by questions and comments from the participants. The participants highlighted the need to take advantage of all potential to generate funding for forests. These include engaging insurance companies and promoting payment for environmental services. It was also mentioned that the implementation of the REDD activities should be undertaken in a broader landscape approach.

37. Based on the findings of the 2012 study, some participants underscored the significance of external sources for low forest cover countries and the need to help these countries to address the challenges they are facing. The role of subregional networks and arrangements in addressing the financing gaps of countries with the assistance of FAO was raised. In response to this comment, Mr. Moeini-Meybodi pointed out that the outcome of the facilitative process workshops on low forest cover countries had provided sets of recommendations to the upcoming meeting of the Ad Hoc Expert Group on Forest Financing and to the tenth session of the Forum.

I. Item 4 (ii) — Experiences and best practices, focusing on cross-sectoral and cross-institutional approaches

Working Group 1: panel on mobilizing finance for all types of forests at the national level

38. Under agenda item 4 (ii), Working Group 1 held a panel discussion on 19 September on mobilizing financing for all types of forests at the national level. The session was chaired by Mr. Juricic.

Presentation by Peter Dewees, Lead Forests Specialist, Agriculture and Rural Development Department, World Bank

39. Mr. Dewees highlighted the importance of creating an enabling environment for investment in forests, in particular for private investment. He stressed the need to generate investment at all levels, in particular from small holders to local entrepreneurs to small and medium forest enterprises.

40. He identified a number of policies that could help mobilize investments at the national level. This included the importance of devolution of rights over forests, with corresponding institutional frameworks. On the promotion of payment for environmental services, he pointed out there were uncertainties that limited their potential and that price volatility and thin markets were factors that affected the extent of investment mobilized by such payments. Mr. Dewees highlighted that enhancing policies for markets could be done through simplifying regulation, removing restrictive legislations, increasing the formality of markets and strengthening the capacity of local producers. On the role of good governance policies, he noted that they generated a positive response from the private sector and farmers. He pointed out that the negative impacts of large-scale land acquisition could be reduced by applying the Principles for Responsible Agricultural Investment. Lastly, he stressed the need to revitalize institutions by shifting from a command-and-control approach towards a service delivery orientation.

Presentation by Wu Zhimin, Deputy Director General, International Forestry Cooperation Centre, China State Forestry Administration

41. Mr. Zhimin provided an overview of the historical trends, major uses and challenges related to forest financing in China. He highlighted a set of lessons learned from China's experience.

42. He pointed out that forest financing was closely linked with overall national development and that forests were treated as a priority area only when forests were linked to the attainment of national development goals and integrated into national planning. Mr. Zhimin stressed the importance of demonstrating the multifunctionality of forests to help in attracting funds. He noted that in China large-scale forest programmes and projects had been essential for speeding up national forestry development. He also highlighted that while forest financing was a national responsibility, external resources, including ODA, were important as seed money and as a catalyst to promote sustainable forest management. Lastly noting that there was no single solution to forest financing at the national level, he said that policy frameworks to promote forest development should be based on countries' national conditions.

Presentation by Heikki Granholm, Director, European Union and International Forest Affairs, Ministry of Agriculture and Forestry, Finland

43. Mr. Granholm provided an overview of the forest sector of Finland, including examples of forest costs, revenues and financing as well as the policy framework. He highlighted some of the specific environmental factors, such as the short growing season and the extremely long rotational period (80-120 years) that impact the forests in Finland. He noted the importance of forest from economic aspects (20 per cent of exports from forests) to social (private forest owners own 60 per cent of forests) and environmental (73 per cent of land is forested). He emphasized that sustainable forest management and forest sector activities should be economically viable and profitable; for example, in Finland total stumpage earnings in 2010 were 1.8 billion euros and a majority of this (1.2 billion euros) was by private individuals.

44. He identified several lessons learned on mobilizing financing for forests at the national level. Promoting private sector funding was seen as a fundamental factor in securing sufficient funding for forests. In Finland, Government incentives were geared mostly towards keeping up basic infrastructure such as forest roads and providing “seed money” for long-term investments or time-bound policies.

45. He noted the importance of developing policy frameworks, regulations and economic incentives to promote financing for forests and the need to ensure coherence and coordination between and among forest-related policies, strategies and instruments. Some of the enabling conditions he highlighted included financing for forest research and education and promoting good governance and policy frameworks for mobilizing forest financing. Lastly, he stressed that there was no single solution/source for forest-related financing at the national level and the need to be cognizant of the negative impacts of the global financial crisis and its impacts on providing financing for forests.

Presentation by Andrey Laletin, focal point of the non-governmental organizations major group, Friends of the Siberian Forests

46. Mr. Laletin provided an overview of the forest sector revenues and expenditures in the Russian Federation, pointing out that the country had the largest forest territory, with 70 per cent of boreal forests, and 25 per cent of intact forests. Logging accounted for the majority of forest revenue (70 per cent), followed by payments for forest use (20 per cent) and recreation (10 per cent). Round wood exports had more than doubled from 1996 to 2006. The majority of expenditures relating to the country’s forest management came from the federal budget. Around half of this expenditure (46 per cent) was spent on forest protection and reforestation activities.

47. Following the presentations by the panellists, the Chair of Working Group 1 then put forward the following questions and invited participants to engage in interactive discussions, focusing on responding to those questions:

(1) What sources of forest financing currently exist at the national level? Where should we invest to get more financing? How can financial flows in other sectors be successfully harnessed for the implementation of sustainable forest management?

(2) How can efforts to pursue shifts towards green economies and poverty eradication further mobilize national resources for forests?

(3) What institutional, regulatory and policy changes are needed at the national level to successfully mobilize resources for forests and to support a dedicated national platform/institutional mechanism to promote financing for forests?

(4) What are the key lessons to draw from the successful experiences of some countries in mobilizing finance at the national level?

Summary of key points

48. The key suggestions, actions and recommendations that came out of the interactive discussions on the above questions are reflected in section II above.

Working Group 2: Panel on mobilizing finance for all types of forests at the international level

49. Under agenda item 4 (ii), Working Group 2 held a panel discussion on 19 September on mobilizing financing for all types of forests at the international level. The session was chaired by Mr. Abdullah.

Presentation of Ian Gray, Sustainable Forest Management Specialist, GEF

50. Mr. Gray's presentation highlighted, among others, the sustainable forest management/REDD-plus incentive mechanism as a way of strengthening resources for sustainable forest management and explained how countries could access this special incentive. He also highlighted how this requirement to integrate at least two focal areas had enabled some cross-sectoral integration and involvement of sectors other than forest departments, such as ministries of finance, agriculture and environment. He also highlighted the current low number of projects coming from small island developing States, low forest cover countries and least developed countries in Africa. He particularly stressed the need to bundle various functions and services of forests for achieving greater impact and meeting multiple objectives.

Presentation of Rob Busink, Ministry of Economic Affairs, Agriculture and Innovation, the Netherlands

51. Mr. Busink underscored the fragmented nature of forest financing, which had resulted in as many as 41 multilateral forest financing streams operating. He also elaborated how sustainable forest management was critical to achieving green growth. In order to achieve progress in this area, he stressed the importance of having strong linkages with other development dimensions, such as food security, water and agriculture. The importance of promoting markets for sustainably produced forest products by changing consumer attitudes, establishing legal markets and strengthening the enabling environment were also elaborated. In his concluding remarks, he suggested the establishment of innovative "brokering" institutions to facilitate access by developing countries to finance from various sources.

Presentation by Fabian Schmidt, Adviser on international forest policy, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Germany

52. Mr. Schmidt presented an overview of forest financing from the German perspective, providing details of Germany's various contributions. In particular, Mr. Schmidt explained the functioning of Germany's latest innovative financing mechanism, the Energy and Climate Fund. Raised from the "auction revenues" of

the European Union Emission Trading Scheme, the Energy and Climate Fund provides additional climate finance. In 2010, the Fund provided around \$500 million, of which 20 per cent was used to finance forests and biodiversity. Mr. Schmidt also provided a realistic assessment of REDD-plus finance, pointing out the different architectures that the REDD-plus mechanism could still take, and suggested potential solutions.

Presentation by Peter De Marsh, focal point of the farmers and small forest owners major group, Canadian Federation of Woodlot Owners

53. Mr. De Marsh focused his presentation on the three “myths” associated with investing in locally controlled and small holder forests: that small and family forest holders do not have the capacity needed to become successful ventures; that such investments could act as poverty traps for them; and that even if they become successful they will still be just small and insignificant, catering only to niche markets. He explained how, when certain enabling conditions are in place, these myths can be dispelled. The enabling conditions necessary for dispelling the myths include secure tenure and access rights; effective associations; fair market access and good quality extension services; and strengthening both enabling investments and asset investments.

54. Following the presentations by the panellists, the Chair of Working Group 2 then put forward the following questions and invited participants to engage in interactive discussions, focusing on responding to those questions:

- (1) Who are the key players in mobilizing international financing for forests and how can their roles be strengthened?
- (2) What more could be done to improve the coordination and harmonization of procedures and priorities by donor countries/agencies?
- (3) What is the role of private sector and how can it be engaged to assume larger involvement in mobilizing resources for sustainable forest management?
- (4) REDD-plus is dominating the international finance for specific types of forests. How can financing of all types of forests and trees outside forests be addressed? What is the advice for low forest cover countries, small island developing States and other countries that have not yet benefited from REDD-plus?

Summary of key points

55. The key suggestions, actions and recommendations that came out of the interactive discussions on the above questions are reflected in section II above.

J. Item 4 (iii) — New developments in forest financing

Plenary session (20 September)

56. The participants in the plenary received a summary of the discussions in Working Groups 1 and 2 on Wednesday afternoon. The Co-Chair then invited Ms. McAlpine to moderate the panel on new developments in forest financing. Then the plenary considered agenda item 4 (iii): New developments in forest financing.

Panel on new developments in forest financing

57. Ms. McAlpine highlighted the importance of the work of the facilitative process to help in improving understanding on forest financing. In particular, she emphasized the enthusiasm of both the donor and recipient countries for the projects on forest financing in small island developing States, low forest cover countries and least developed countries in Africa and provided an overview of the key lessons that the first four workshops of the facilitative process had provided in terms of identifying gaps, obstacles and opportunities to forest financing. In less than three years of existence, the facilitative process had raised \$2.4 million for the small island developing States-low forest cover countries and the least developed countries of Africa, to enable participation by countries and major group representatives. The facilitative process had not only helped identify existing opportunities for forest financing by taking a cross-sectoral approach, it had also revealed a range of new opportunities such as agrobiodiversity, ecotourism, the ridge-to-reef concept, which acknowledged the close connection between forests and seascapes, the landscape approach, which opened the door to forest landscape restoration, and that included trees outside forests, into sustainable forest management. These opportunities and concepts would not have been highlighted had the workshops focused only on the forest sector. Ms. McAlpine also referred to the ongoing work by the Forum on forests and economic development and the significance of this work in highlighting the cash and non-cash values and the cross-sectoral values of forests. She then invited Ms. Lele to make her presentation on this matter.

Presentation of Uma Lele on the overview of “Forests and economic development”

58. Ms. Lele presented an overview of three background papers on forests and economic development being prepared for the tenth session of the Forum. In her presentation, she stressed the importance of an integrated and cross-sectoral approach to forests that was built upon cross-institutional collaboration.

59. The first paper, on economic contributions of forests (authored by Arun Agrawal), showed that the formal cash contributions from forests were estimated at \$200 billion per year for the developing world. That figure was nearly double the total ODA flows to forests. Non-cash values from forests were estimated to be three to six times the cash contribution for countries where research data were available.

60. It was also estimated that 1.2 billion to 1.6 billion people lived in and near forests and were directly reliant on forests for their livelihoods. She noted that, forest products were vital for urban populations as well, providing fuel wood, charcoal, and medicine. Mr. Agrawal's analysis showed that there was a strong correlation between the location of poor populations and forests.

61. The second paper, on cross-sectoral linkages (authored by Ms. Lele), highlighted the direct impact that cross-sectoral developments had on long-term land use trends and as drivers of deforestation and afforestation. These included the forest impact of biofuels, food security, population growth, urbanization, consumption patterns, land grab and climate change, among others. Looking at the transport sector, she pointed out that roads were major triggers for deforestation, but they also served as a market driver for the timber market.

62. Fuel wood and charcoal remained the primary source of energy for the poor, with 90 per cent of this traditional biomass being utilized by 2.7 billion people. The

use of fuel wood was geographically concentrated in Asia and Africa — with demand remaining stable in Asia and increasing in Africa. She also noted the trend of increasing investment in hydropower in countries with large forested areas, which was being driven partly by concerns relating to food security.

63. Noting the rising popularity of the landscape approach and payment for environmental services for forests and other land use, Ms. Lele highlighted the difficulties in developing reliable valuation of the benefits of such payments. On REDD and forest financing, she noted that while there were numerous REDD projects, they tended to be small and provided insufficient financial resources for tackling the deforestation that was driven by high-value industrial cash crops. In addition, these projects could divert attention from larger issues such as policy reforms, and did not address agriculture and other structural issues relating to deforestation.

Presentation by Gillian Shepherd, Visiting Senior Fellow, London School of Economics, on the topic “Non-cash values of forests”

64. Ms. Shepherd presented trends and data relating to the non-cash values of forests, and their importance in the context of the economic contributions of forests. Non-cash income from forests is defined as the forest products which households collect but consume/use in the home rather than selling, and this income tends to be particularly invisible when looking at the economic values of forests. She highlighted findings based on a comparative study of forest reliance conducted by the International Union for Conservation of Nature and Natural Resources (IUCN) in 23 countries over the past four years. The study found that levels of forest dependence could be clustered into three categories: low reliance (9-18 per cent of income), medium (25-35 per cent of income) and — much rarer — forest peoples with reliance levels of 50 per cent or more.

65. Ms. Shepherd pointed out that the extent to which people drew income from forests depended on the opportunities available to them; forests were generally the source of income of the last resort. Populations in remote locations had lower possibilities of off-farm employment and less access to markets; this resulted in a higher dependence on forests. However, dependence on the non-cash uses of forests was observed even in cases where there was access to markets and where there were no cash sales of forest products.

66. She pointed out that while agricultural production and consumption data are captured, non-wood forest products data were significantly undercollected, and had simply gone under the radar. As a result, the breadth of reliance on forests by local people had been underobserved and was profoundly undervalued. Ms. Shepherd stressed the need for more data on non-wood forest products to enable an understanding of the role of forests for rural people.

Presentation by Ibro Adamou on the forest financing workshop for low forest cover countries

67. Mr. Adamou summarized the main findings of the facilitative process project on forest financing in small island developing States and low forest cover countries, with a focus on low forest cover countries. Mr. Adamou explained the three-part structure of the project, starting with the 11 studies (including seven national case studies), proceeding with the four interregional workshops (Tehran, 12-17 November

2011; Niamey, 30 January-3 February 2012; Port of Spain, 23-27 April 2012; and Nadi, Fiji, 23-27 July 2012) and finishing with a series of policy briefs, publications and a forest financing strategy for small island developing States and low forest cover countries. Mr. Adamou explained that it was only by taking a cross-sectoral perspective that new opportunities could be highlighted, such as capitalizing on non-timber forest products, forest landscape restoration and ecotourism.

Presentation by Marilyn Headley, Chief Executive Officer and Conservator of Forests, Forestry Department, Jamaica

68. Ms. Headley gave a brief background on the two forest financing workshops for small island developing States that were organized by the Forum secretariat. She informed the meeting that the workshops were interregional in nature with both Caribbean and Pacific island representatives. The workshops were held in Trinidad and Tobago and Fiji. In Trinidad and Tobago, participants discussed the Green Fund, a national funding mechanism for promoting forest management by small holders that is financed from taxes. She noted that a major recommendation of the Fiji workshop was the need to promote regional approaches to financing for sustainable forest management. In particular, there was a need to strengthen regional organizations to enable them to support member countries and facilitate South-South cooperation. This would help in addressing the problem of lack of capacity in individual countries. Other recommendations included conducting forest-focused economic valuation in a cross-sectoral context, emphasizing the value of forests and contributions to other sectors. She called on the Forum to pay particular attention to the vulnerability of small island developing States in terms of forest financing and to consider the possibility of providing a platform for those States at the tenth session of the Forum to discuss not just forest financing but also other aspects affecting them.

Presentation by Hossein Moeini-Meybodi

69. Mr. Moeini-Meybodi summarized the three main upcoming intersessional activities on forest financing of the Forum, namely the facilitative process project on forest financing in Africa and least developed countries, the study on the REDD-plus impacts on forest financing and the project on the impact of climate change financing for forests. The first project aims to identify the gaps, obstacles and opportunities for forest financing in Africa and least developed countries. It is funded by the Government of Germany and will produce a series of studies (four thematic and four country case studies) to be discussed in two workshops (in Dakar in December 2012 and in Nairobi in January 2013). The initiative on the impact of REDD-plus on forest financing, funded by the Forum secretariat and the Government of Norway, consists of two studies (the implications of REDD-plus on broader financing, and the implications of forest carbon pricing on forest financing). These studies will be reviewed and discussed at an expert meeting with the participation of members of the Advisory Group on Finance at the end of October 2012 in New York. They will be provided to the second meeting of the Ad Hoc Expert Group. Finally, the last initiative which aims to study the impact of climate change funding on forest finance, is funded by the Department of Economic and Social Affairs and will consist of a study followed by two interregional workshops in 2013. Results from this project will feed into discussions at the eleventh session of the Forum, in 2015.

Announcement by the representative of the Russian Federation

70. The representative of the Russian Federation emphasized that owing to the importance of forests in his country, the Russian Federation also recognized the need to improve data collection and information that would facilitate making informed decisions. He said that Russia also recognized the added value of the Forum and the input that it has provided on this subject and other areas. The Russian Federation, along with other donor countries, had been grappling with how to contribute to the United Nations Forum on Forests Trust Fund to continue its work. In this regard, the Russian Federation had made a decision to provide \$300,000 annually to the Trust Fund, starting from 2014.

71. Following this announcement, the Co-Chair invited Eva Muller, Director, FAO, to moderate the panel discussions on new developments in forest financing.

Panel on new developments in forest financing

Presentation by Marco Boscolo, Forestry Officer, FAO

72. Mr. Boscolo presented the experiences and lessons learned from national forest financing strategies. He noted that the major challenges to be addressed were the disconnect between the forest and finance sectors and the lack of financing strategies targeting small holders and local communities. Some of the key lessons learned were the need to understand existing financing sources, mechanisms and enabling conditions in a country. Enabling conditions such as good governance, knowledge-sharing, the development of expertise and improved capacities were critical. National forest financing strategies should therefore focus on leveraging factors, including strengthening institutional capacity, strengthening sector governance and participation and developing financing instruments, especially for small holders, and facilitating information-generation and sharing.

Presentation by Jerker Thunberg, Manager National Forest Programme Facility, FAO

73. Mr. Thunberg started by highlighting the impact of the National Forest Programme Facility in a number of areas: country leadership has been important; stakeholder participation has been working but there are still some gaps; collaboration across sectors is still limited. He then presented the change from the National Forest Programme Facility to the Forests and Farm Facility. The purpose of the Facility is “to promote sustainable forest and farm management by supporting local, national, and regional organizations and platforms for effective engagement in policies and investments that meet the needs of local people”. The Forests and Farm Facility will focus on supporting smallholder, women’s, community and indigenous peoples’ groups that depend on forests and farms in policy dialogue engagement and access to financing and investment; multisectoral stakeholder policy platforms at the local and national levels for improved Government coordination; and communication and dissemination of key information and learning.

Presentation by David Cooper, Director, Scientific, Technical and Technological Matters, secretariat of the Convention on Biological Diversity

74. Mr. Cooper emphasized the close relationship and links between sustainable forest management and biodiversity conservation. This is reflected in Convention on

Biological Diversity targets for the period, which include reversing the loss of natural habitats by half; the need to manage areas under agriculture, forests and aquaculture sustainably; and enhancing ecosystem resilience and the contribution of biodiversity to carbon stocks through conservation and restoration, including the restoration of at least 15 per cent of the degraded ecosystem. The strategies for mobilizing financing for biodiversity conservation are the same as those for forest financing including new and innovative financial mechanisms (payment for environmental services; offsets; fiscal reforms; green markets; and climate finance). He indicated that investment of about \$31 billion per year from 2013 to 2020 was required to meet the financing needs of the forest elements. He also noted that public domestic financing would remain the dominant source, but remained beyond biodiversity budgets and environment ministries.

Presentation by Tim Christophersen, Forest Engineer, United Nations Environment Programme

75. Mr. Christophersen presented on REDD-plus as a catalyst for the green economy. He defined green economy as “a low-carbon, resource-efficient and socially inclusive economy that maintains and enhances natural capital”. He noted that many countries that were investing in green growth were investing in forests, for example, Germany and the Republic of Korea. He also highlighted that there were emerging changes in the wider economy that could benefit forests, and could be accelerated by investments into sustainable forest management/REDD-plus. It was recognized that REDD-plus could only succeed on the basis of sufficient greenhouse gas mitigation, and would work best in the context of wider sustainable development objectives. Furthermore REDD-plus investments and experiences could be an important catalyst for a green economy transition. He also emphasized that the drivers of deforestation were unlikely to be impacted by REDD-plus incentives alone but there was a need for links to wider development goals, especially sustainable land-use planning. In this regard, there was a need to align REDD-plus strategies with national development strategies; establish enabling conditions and foster cross-sectoral coordination; link safeguards and multiple benefits of REDD-plus; develop an incentive/disincentive mix within countries; and forge public-private partnerships.

Presentation by Amha Bin Buang, Assistant Director, for Economic Information and Market Intelligence, International Tropical Timber Organization

76. Mr. Bin Buang pointed out that tropical forests remained most vulnerable to deforestation, degradation, encroachment, overharvesting and illegal harvesting and key forest financing gaps in the tropics remained real and pressing owing principally to the rising costs of ensuring the legality and sustainability of these forests. Since its establishment in 1986, the International Tropical Timber Organization (ITTO) has mobilized \$370 million in forest financing covering 1,000 projects, pre-projects and activities implemented mainly in its recipient member countries. He cited the unfavourable global economic conditions, the narrow funding base of ITTO and the increased number of ITTO recipient member countries as the main factors for the declining trend in ITTO financing, particularly in respect of the Bali Partnership Fund, which requires immediate replenishment and the Thematic Programme Sub-account, which was below its initial targeted level of funding. In keeping with the need to be more strategic, creative and proactive, ITTO is redoubling efforts in

forest financing through its thematic programmes, tropical forest investment forums, collaborative programmes, strategic partnerships and participation in relevant calls for proposals. As ITTO enters a new phase under the International Tropical Timber Agreement, 2006, it will strive to do more with less resources and work towards improving the enabling conditions and donor commitment for forest financing.

Working Group 1: panel on gaps, needs and opportunities in forest financing at the national level

77. Under agenda item 4 (iii), Working Group 1 held a panel discussion on 20 September on the gaps, needs and opportunities in forest financing at the national level. The session was chaired by Mr. Juricic.

Presentation by Tony Simons, Director-General, World Agroforestry Centre

78. Mr. Simons began by pointing out that action and investment is usually the culmination of a process that begins with awareness and moves to understanding, then recognition, and eventually reaches a state of appreciation. A major challenge in the context of forests is that greater awareness is needed at this stage.

79. He highlighted the degree of variance in what is defined as a forest, depending on the percentage of crown cover chosen and how this affects the potential for the clean development mechanism. He also emphasized the need for an integrated view of both forests and trees outside of forests (farm forestry, agroforestry). Mr. Simons also stressed the opportunities associated with land tenure in attracting forest investment.

80. He identified that markets alone were not the solution for REDD and that carbon was only one part of the bigger picture of forests. He proposed that REDD should be financed equally by markets and by ODA, with the measuring, reporting and verification independent of Governments. He pointed out that there were multiple actors in REDD financing, including Governments, brokers, measuring, reporting and verification, managers and communities. Lastly, he stated that the financing opportunities for forests in the water and hydrological cycle were far greater than the financing potential in REDD.

Presentation by Herman Savenije, Programme Coordinator, Tropenbos International

81. Mr. Savenije provided some insights on financing strategies for sustainable forest management based on a partnership initiative in Latin America. He highlighted the importance of strategic multi-actor collaborative processes, which could lead to high levels of engagement and create new insights, policies and partnerships.

82. He stressed the need for building connections and familiarity between forestry, business and finance institutions and that both “carrots and sticks”, namely incentives and a level regulatory playing field, were needed.

83. Mr. Savenije noted that the lack of understanding on local financing was a challenge given that the bulk of forest producers were small scale. In this context, strategies to connect small-scale producers to large-scale financing were a major challenge.

84. He pointed out that international cooperation could facilitate and scale up forest financing at the national level by providing enabling investment which could

be put towards capacity-building and knowledge-sharing and in creating risk mitigation and guarantee systems.

85. He emphasized that there was no one-size-fits-all solution to forest financing. However, the lessons learned from facilitative processes such as the Forum and the National Forest Programme Facility could be pooled together to create a practical guide or reference document.

Presentation by Paul Lane, Principal Adviser, Sector Policy, Ministry for Primary Industries, New Zealand

86. Mr. Lane provided a perspective on national-level forest financing based on the forest financing of New Zealand in the Pacific region. New Zealand provides funding for economic development projects in the region. Forests and forestry play an indirect but key role.

87. He noted that forest extent and scale greatly varied in the Pacific islands — Papua New Guinea, Solomon Islands and Fiji accounted for 95 per cent of the forest area. These countries receive much of the international support in the region. The dilemma is that the other countries that have less forest area also have forestry issues. Forests are an important source of timber and fuel wood; they improve water quality, reduce soil erosion, provide habitat and produce a wide range of non-wood forest products.

88. Major challenges include: a lack of capacity to develop and enact forest-related policy and governance; the multiple demands for land; a lack of information on forest resources; and the fact that the countries receive relatively little international attention because of their small size.

89. Primary needs include leadership to build partnerships across land and natural resources sectors within countries, effective participation of land owners and communities; and more support for education and training in policy and technical areas.

90. He noted that organizations such as GIZ provided assistance to countries in the region and that because many of the countries in the region were small in size, regional institutions, such as the Secretariat of the Pacific Community, were important in fostering and helping to coordinate programmes and activities.

Presentation by Joseph Cobbinah, Coordinator of the Forestry Research Network of Sub-Saharan Africa and alternate focal point of the scientific and technological major group, United Nations Forum on Forests

91. Mr. Cobbinah noted that only 22 per cent of tropical forests in Africa remained, and the region had the highest loss of forest cover, estimated at 4 million to 5 million hectares annually. The region also had the fastest population growth and had rural communities that depended largely on forest resources. He pointed out that forests in the region had been largely associated with fibre extraction, and domestic investment had consisted largely of capital deepening in wood processing.

92. Forest financing in Africa is mostly from Government appropriations. Mr. Cobbinah stated that investment in forestry had been low owing to low domestic public investment, low collection of user fees, low private sector investment, and low ODA inflows. Underlying reasons for this, according to Mr. Cobbinah, were

political instability, unclear tenure and property rights and high rates of illegal forest activities.

93. On the issue of gaps, he highlighted four key areas: financing gaps; data gaps; the lack of an enabling environment for investment; and the lack of forest resource accounting. The key needs he identified included the need for pilot studies, the need to streamline tenure and the need to establish cross-sectoral and cross-institutional platforms. One of the key opportunities, according to Mr. Cobbinah, was the potential to learn from countries that had developed financing for environmental services, such as water and bioprospecting.

94. In closing, he noted that investment in forests was related to the general economic performance at the national level and with GDP growth of 6-8 per cent, economic growth was already significant in many regions in Africa and would likely stay so. This should translate into opportunities to develop innovative financing mechanisms for forests in Africa.

Presentation by Gillian Shepherd

95. Ms. Shepherd stressed the need for the forest sector to see itself — and to be seen — in a wider set of contexts, including both the direct and indirect role that forests could provide to production, livelihoods and to food security. She provided data on research conducted as part of a study conducted for FAO in Uganda, which produced results that could be used to demonstrate the substantial contribution of forests in a variety of contexts.

96. She highlighted that in Uganda, the total value of forests to rural people was over \$4 billion; energy from forest products is worth \$1.6 billion — three times as much as the country's total energy budget (\$514 million). In Uganda, 97 per cent of housing is based on forest products. Every rural Ugandan gets \$27 worth of protein, vitamins and minerals and \$7 worth of herbal medicine annually from forests — which has helped Uganda to move closer to attaining some of the Millennium Development Goals. Thus, in most parts of Uganda, the livelihood needs drawn from forests are far more important than forest timber values. She pointed out that for many least developed countries, agriculture and natural resources in general, including forests, made the largest contributions to economic growth and poverty reduction. Ms. Shepherd proposed that forest authorities and aid agencies could give forests a stronger role in economic development by finding ways to support better data capture on the role of forests and other natural resources in poverty reduction, food security and energy. She suggested that socioeconomic data relating to forests could be generated from the household economy side through instruments such as household living standards surveys. She also noted the need for policy measures to include forests resources in national economic accounting by aligning forest policy and agricultural policy.

97. Following the presentations by the panellists, the Chair of Working Group 1 put forward the following questions and invited participants to engage in interactive discussions, focusing on responding to those questions:

(1) What gaps currently exist in sustainable forest management financing (geographical gap, data gap, thematic gap), and what are the obstacles to the flow of financing at the national level and what are the ways to address them?

(2) What could be done to improve knowledge of and information on national financing flows?

(3) What could be done to use informal activities and finance to promote sustainable forest management?

(4) Where are the “low hanging fruits” (opportunities) to further mobilize domestic finance?

Summary of key points

98. The key suggestions, actions and recommendations that came out of the interactive discussions on the above questions are reflected in section II above.

Working Group 2: panel on gaps, needs and opportunities in forest financing at the international level

99. Under agenda item 4 (iii), Working Group 2 held a panel discussion on 20 September on the gaps, needs and opportunities in forest financing at the international level. The session was chaired by Ms. Davidovich.

Presentation by Alisher Shukurov, Chief Expert for Monitoring International Projects, Department of Forestry, Ministry of Agriculture and Water Resources Uzbekistan

100. Mr. Shukurov indicated the main sources of forest financing in Uzbekistan included internal sources, namely State budget and revenues from seedlings and agricultural activities; and external sources, namely multilateral and bilateral donors in the form of grants. Internal sources have remained almost the same, while in recent years external sources have increased, focusing on land degradation and forest policy support. In the regional context, he presented the outcomes of first workshop on low forest cover countries, organized by the Forum. The main gaps and obstacles in forest financing included institutional obstacles, gaps in legal framework, the lack of communication across sectors and insufficient capacities. While no single solution can address the need for forest finance development and the implementation of national forest programmes and national forest financing strategies; countries could target a mix of projects that include payment for environmental services, the clean development mechanism, REDD-plus, ecotourism, joint forest management and a national forestry fund. He also recommended strengthening existing regional networks, initiatives and programmes.

Presentation by Liubov Poliakova, Senior Officer, State Forest Resources Agency, Ukraine

101. Ms. Poliakova presented the current state of forest financing in Ukraine, focusing on the contribution of the forestry sector in particular. Forest cover in Ukraine is 15.9 per cent; despite this relatively low level, Ukraine is eighth among European forest countries. More than 50 ministries, agencies and organizations manage the country's forests, the largest being the State Forest Resources Agency. Forest financing comes from State and local budgets and the proceeds from the sale of wood, non-wood products and services. Public budgets account for up to 30 per cent of forest-related expenditures and have grown significantly in recent years. At

the same time, international aid for Ukraine's forests has dropped, from three to five projects throughout the 2000s to just one in 2012.

Presentation by Hubertus Samangun, Regional Coordinator, International Alliance of Indigenous and Tribal Peoples of the Tropical Forests

102. Mr. Samangun presented on the experiences of indigenous peoples with forest financing. He highlighted a number of obstacles to accessing forest finance for the small holders, including complex application procedures and the need for co-financing, which most small holders do not have. He recommended funding mechanisms that are designed to provide small funds, such as the GEF small-grants programme. He also highlighted that one of the challenges faced by indigenous peoples is the non-recognition of their rights, which at times resulted in Governments making decisions on forest use without consulting the people living in and around the forests, for example, the granting of concessions without consulting the indigenous peoples.

Presentation by Sim Heok-Choh, focal point of the scientific and technical community major group, Asia Pacific Association of Forestry Research Institutions

103. Mr. Sim Heok-Choh identified the poor recognition of forests' multiple benefits; the low priority of forest and forestry in some international and regional forums; complicated and lengthy application procedures and high transaction costs as key obstacles, while the main gaps to forest financing at the international level were in low forest cover countries, small island developing States, small forest areas and trees outside forests, which are inadequately addressed. He recommended strengthening and improving capacity to access funds; expanding sustainable forest management/REDD-plus beyond tropical rainforests; promoting and enhancing regional cooperation; mainstreaming the discussion on sustainable forest management; having coherent outcomes from the various forums on forest financing; strengthening science and policy linkages to forest financing; and enhancing capacity and capability.

104. Following the presentations by the panellists, there were some questions to the panellists. The Chair of Working Group 2 then put forward the following questions and invited participants to engage in interactive discussions, focusing on responding to those questions:

(1) What are the critical gaps in and obstacles to sustainable forest management financing at the international level?

(2) How will the newly established Green Climate Fund and voluntary carbon markets impact the future of sustainable forest management financing? How can these opportunities be used to maximum advantage in addressing sustainable forest management financing needs?

(3) How can international forest-related financing mechanisms be strengthened to address countries' needs in all aspects of sustainable forest management?

(4) How can a dedicated fund or funds at the international level for sustainable forest management improve the current financing situation for forests?

Summary of key points

105. The key suggestions, actions and recommendations that came out of the interactive discussions on the above questions are reflected in section II above.

K. Item 4 (iv) — Key issues, suggestions and options on forest financing**Plenary session, 21 September**

106. At the request of the Co-Chair, the Chairs of Working Groups 1 and 2 provided a brief summary of the discussion of their respective groups to the plenary. This was followed by a video message from Rachel Kyte, Vice-President for Sustainable Development of the World Bank. The video message was followed by a panel discussion on actions and options on forest finance for the future.

Keynote address

107. The Co-Chairs invited the meeting to view a video of the keynote address on the theme “Forests across sectors” by Ms. Kyte.

108. Ms. Kyte observed that financing issues were similar across sectors. She observed that sustainable forest management could be financed through public money alone. Opportunities for forest finance existed if both the efficiency and the effectiveness of public funding were improved by backing transparent and accountable service-oriented institutions. It was important to look at how financing outside the forest sector was shaping the landscape; and adopt smart policies that would attract good long-term private investment. The work of the World Bank in public financing had been aimed at strengthening the governance of forest finance by increasing the transparency of revenue collection, improving public expenditure management, and rationalizing the allocation of forest concessions.

Panel on actions and options on forest finance**Presentation by Jan L. McAlpine**

109. In her presentation, Ms. McAlpine observed that the world had changed dramatically; the attention paid to forests had increased exponentially over the past two decades. In April 2013, the Forum would have to take a decision on the future of forest financing. She stressed the need to avoid rhetorical and theoretical debates but rather urged participants to focus on getting a win-win solution for forest financing. She emphasized that no single solution existed for forest financing, and a combination of measures at all levels was needed. Financing forests was primarily the national responsibility of Governments; however, international assistance was still an important catalyst in many countries. For that reason it was important to have bilateral and multilateral approaches to forest financing as both played a catalytic role in international financing in the long-term while still enabling near-term actions.

110. Forest financing options should address data, geographic and thematic gaps. Highlighting the influence of the Collaborative Partnership on Forests in forest financing, Ms. McAlpine noted that the Partnership played a major steering role and should focus on addressing data gaps, which was one major area whose improvement required funding and where no one organization could effectively

work alone. Funding needs in developing countries to address this data gap was critical and should be included in any future forest financing options. In addressing thematic gaps, due consideration should be given to an equitable recognition of all seven thematic elements of sustainable forest management so as to realize the full potential of forests. She stressed that specific funding should be made available to address the geographic gaps in forest financing. She also welcomed the World Bank's offer to contribute to work of the Collaborative Partnership of Forests on analysing financial flows to forests. Finally, Ms. McAlpine noted that the forest instrument had building blocks that addressed the full suite of forest-related issues, including biodiversity and carbon. For that reason, it should be the centrepiece of any forest financing options both nationally and internationally.

**Presentation by Penny Davies, Senior Forestry Adviser, United Kingdom
Department for International Development**

111. Ms. Davies highlighted priority actions on forest finance the Government of the United Kingdom was advocating, which included, inter alia, reviewing forest policy, strategy and finance regularly; collecting data on how much was invested annually; providing accurate data on how much the forest finance was giving back in both cash and non-cash; the need to make the case for the contribution of forests to people's livelihoods, nature and the economy; and creating the enabling conditions. She highlighted that there was no single solution to forest financing, hence the need to use mixed measures by drawing from a wide range of investors (banks, insurance companies, etc.) and getting the finance packaging right. She concluded by emphasizing the need to give forests a human face and improve governance with a view to reducing risks for investors.

Presentation by Ian Gray

112. Mr. Gray emphasized the need to raise the political profile of forests at the national and international levels through highlighting the contribution of forests to a wide range of sectors. This would require that members of the Collaborative Partnership on Forests and other international organizations collaborate in data collection on forest finance and the contribution of forests. He also noted the importance and growing roles of the private sector and the need to broaden the view of what constituted the private sector. The private sector also included the private sector entities outside the forest sector, for example, in agriculture and water. He also noted the need to integrate forests into the wider and broader national development plans, including health, water and agriculture. He highlighted that GEF was focusing on using the existing resources in a transformative manner, including using the fifth replenishment cycle as a springboard for forest financing.

Presentation by Eva Muller

113. Ms. Muller presented on the perspectives of FAO on actions and options for future action in forest financing. She noted that in the past, FAO had concentrated in national forest financing strategies. FAO had also contributed through the Collaborative Partnership on Forests sourcebook on forest financing and the 2012 study on forest financing by the Advisory Group on Finance. She informed the meeting that future FAO actions and options would include updating the sourcebook on forest financing. At the national level, the focus will be on addressing financing gaps in accordance with the FAO mandate, including through capacity-building and

knowledge-sharing. FAO will also work on mobilizing by domestic resources for forest financing focusing on small holders and local communities; and in developing guidance material and best practices on lessons learned in forest financing. At the global level, FAO will continue to contribute to the work of the Advisory Group on Finance of the Collaborative Partnership on Forests (including the sourcebook); improving the availability of data on the socioeconomic contributions of forestry (livelihoods, poverty, food security); developing guidance on the establishment of national forest funds; promoting payment for environmental services schemes; and sharing of information, best practices and lessons learned, including South-South learning. At the country level, FAO will continue to work on improving forest governance and strengthening national forest programmes; strengthening institutional capacity; providing technical assistance to countries to access international finance (GEF, REDD); improving governance through building the capacity of stakeholders for improved access to financing and enterprise development; and supporting forest producer organizations for improved access to finance and investment through the Forests and Farm Facility.

Presentation by Peter Dewees

114. Mr. Dewees noted that some of the key challenges that should be addressed included how to catalyse new investments in trees and forests in the future and how to address the fragmentation on forest financing. He informed the meetings that some of the actions being considered by the World Bank included streamlining access to the different forest funds, scaling up the landscape approach, since forests and trees were an integral part of the landscape; supporting systems for strengthening sustainable forest management, such as certification and creating timber and fibre stocks from planted forests; protecting and managing critical forest habitats; developing markets for environmental services, especially biodiversity protection, and carbon sequestration; and supporting policy and institutional reform.

115. The key suggestions, actions and recommendations that came out of the interactive discussions with the panellists are reflected in section II above.

L. Item 5 — Co-Chairs' summary

Plenary session, 21 September

116. The Co-Chairs invited the participants to provide their comments on section II of the Co-Chairs' summary, in which they addressed the key actions, recommendations and suggestions on forest financing. All participants who took the floor thanked the Co-Chairs for preparing the summary, which captured the key elements of the discussions during the Organization-Led Initiative and had been prepared in a very short period of time. Those participants also provided their comments on section II. The Co-Chairs invited participants to provide their suggestions on section II to the United Nations Forum on Forests secretariat in writing by the end of the closing plenary. They announced that they would do their best to include the additional points raised by participants in the summary. The Co-Chairs also invited the participants to provide their comments, if any, on section III of the summary by 28 September 2012.

Announcement by the representative of China

117. The representative of China informed the plenary that China would provide a financial contribution to the United Nations Forum on Forests Trust Fund in 2012 to support the activities of the Forum and the implementation of the forest instrument. He also added that China would consider continuing the contribution of 2012.

M. Item 6 — Closing plenary session

118. At the closing session, the Co-Chairs thanked all participants for their active involvement in the discussions during the meeting. The Co-Chairs then announced the closure of the Organization-Led Initiative.

119. In his closing remarks, Mr. Ruales Carranza applauded the participants of the meeting for having allowed a straight and frank exchange of knowledge on many different aspects of forest finance, enabling a diversity of participants to interact and engage in a constructive dialogue. Mr. Ruales thanked the participants for their commitment and emphasized the contributions of this meeting to the second meeting of the Ad Hoc Expert Group on Forest Financing and the tenth session of the United Nations Forum on Forests.

120. The Organization-Led Initiative closed at 5.30 p.m. on 21 September 2012.

IV. List of documents

1. Annotated provisional agenda
2. Organization of work
3. Concept note
4. 2012 Advisory Group on Finance study on forest financing (English)
5. Key points and executive summary of the 2012 Advisory Group on Finance study on forest financing (in English, French and Spanish)

V. List of participants

The list of participants is contained in document E/CN.18/AHG/2013/INF/1, available at www.un.org/esa/forests/pdf/aheg/aheg2/OLI%20participants%20list.pdf.