KEY POINTS OF THE 2012 AGF STUDY ON FOREST FINANCING

1. Information continues to be more limited on domestic public and private forest finance than that of the external sources.

2. The global need for funding for sustainable forest management is estimated to be between USD 70 and USD 160 billion per year. Globally, resources remain insufficient to address all seven thematic elements of SFM in a balanced way, as defined in the forest instrument.

3. Most countries are unable to raise adequate public funds for the forest sector, and re-investment of revenues in forest management has been minimal.

4. Conversion of public forest institutions into semi-autonomous commercial enterprises has been used to improve self-financing from the forest sector. Another trend is establishment of national forest funds for the mobilization of additional funds from other sources.

5. ODA disbursements increased by an average of 125% between the periods 2002-2004 and 2008-2010, largely due to REDD+ related financing. Thus, the fourth Global Objective on Forests, to the extent that it deals with ODA, has been achieved.

6. High forest cover countries (HFCCs) have received the majority of forestry ODA. But most HFCCs with lower rates of deforestation, low forest cover countries (LFCCs) and small island developing states (SIDS), trees outside forests, and plantations do not receive adequate funding. LFCCs and SIDS continue to experience decreases in forestry ODA.

7. The private sector including forest communities, smallholders, industry and other investors is a key source of finance for forests, mostly through investments in forests managed for wood production. New private investors generally come from outside the forest industry, and seek suitable combinations of financial returns and risk levels.

8. Smallholders have limited access to finance compared to large producers. Sustainable management of natural forests receives limited financing compared to that of planted forests and protected areas.

9. Existing, new and emerging forest related financing mechanisms have provided significant resources that are linked mainly to climate change, and to a lesser extent to biodiversity.

10. The potential for REDD+ to contribute to forest financing is large, estimated at as much as USD 6.2 billion per year in 2020. Around USD 4 billion was pledged for the period 2010–2012. Apart from REDD+, however, many of the other carbon-related initiatives have no or negligible activities on forests.

11. PES schemes are not yet broadly applied and require enabling policy frameworks as well as development of market and non-market financing mechanisms.

12. Obstacles to the mobilization of forest finance also include inadequate enabling conditions, insufficient capacities, donor and investor concerns about governance, insecure tenure, illegal activities, problems associated with eligibility and complex procedures to access to external resources. Sometimes inefficient use of the existing resources has further exacerbated the problem.

13. No single solution can address the need for forest financing. A mixture of measures should be undertaken at all levels simultaneously.

14. Success in forest finance stems mainly from strong political support; good systems of governance; efficient, robust and flexible implementation; and involvement of forest communities and other stakeholders.

15. National forest financing strategies should target raising additional financing and more efficient use of resources as well as connecting with relevant sectors and programme objectives with the forest sector.

16. Improving statistics and data collection on financing flows to sustainable forest management and related issues at all levels is essential for making systematic progress. Multiple mechanisms under the NFPF, UNFF, CCD, CBD, FAO/PROFOR and others, as well as the CPF online sourcebook, should be strengthened to improve data collection and access.

17. Implementation of the forest instrument has to be strengthened at all levels. To enhance transparency of international public financing for forests, a "Rio marker" for funding addressing the forest instrument and its four Global Objectives on Forests should be established.

18. International and regional organizations and processes should enhance inter-regional and intra-regional cooperation on forest financing by sharing relevant experience, knowledge and expertise.

19. The GEF6 replenishment (2014-2018) could further expand the GEF SFM/REDD+ Strategy to include a new GEF focal area specifically on forests.

20. Access to resources of the existing forest-related financing mechanisms can be further improved by adjusting public sector financing criteria and streamlining the relevant procedures.

21. Consideration could be also given to strengthening existing forest-related financing mechanisms and devoting a new fund or funds for SFM to address the needs and gaps that are not yet addressed by the existing mechanisms.

EXECUTIVE SUMMARY

1. Forests are highly significant for addressing multiple global challenges and contribute to the sustainable development of all countries, even those without significant forest area. Forests contribute approximately USD 468 billion or 1% of global gross value added to GDP. The livelihoods of over 1.6 billion people depend on forest goods and services for subsistence. The provision of adequate and sustained financing for forests is, therefore, of utmost importance to ensure a continued supply of the wide array of forest products and services to societies, while reducing ecological degradation including reducing effluents, emissions and waste.

2. The 2012 Study on Forest Financing expands and updates the 2008 study and provides a systematic and objective analysis of funding sources and gaps among and within thematic areas, geographic regions, country groups and individual countries, through a review of existing, emerging and evolving funding sources and mechanisms.

3. As was the case in 2008, the available information on domestic flows for forest financing continues to be more limited than that of external sources. Few analyses exist on aggregate national trends in forest financing. This is mainly due to differences in reporting and analyses, varying national priorities given to domestic forest resources, outdated data and surveys, and the fact that the information collected is often lumped together with flows to other related sectors.

4. Lack of data is also exacerbated by the fact that forest services and non-wood forest products are often not included in the calculations, as their values are often not factored in the market while sales values of timber are factored in. In addition, identifying and following finance flows in some countries, such as low forest cover countries (LFCCs), can be extremely difficult as there are no clearly defined structures for financing mechanisms, even in countries with operational national forest departments.

5. In this context, it is more feasible to examine trends in data on forests that have been consistently and systematically collected and reported, though they are largely external and not domestic sources of financing. These include official development assistance (ODA) flows and to a lesser extent national information, national forest programmes and other similar sources.

6. Forest ownership structures, forest quality, the extent of forest cover and designated functions of forests impact the domestic and external flows of finance to forests. In general, where governments own forests and thus are required to provide related finance, revenues are generally not sufficient due to the small budgets allocated to state forest agencies. Where forests are owned by the private sector, public support is needed for investments in activities that would not otherwise be financed by the private owners/investors due to low profitability or distant cash flows. Smallholders in particular face difficulties in this respect, due to the size of their properties and the reliability of revenue flows combined with more limited networks and knowledge of the various regulations and opportunities.

7. Countries in Africa and Asia tend toward predominantly public ownership of forestlands, whereas countries in Europe and North and South America are characterized by more private owners. Oceania, as well as many countries in the Caribbean, tends towards predominantly private ownership of forestlands.

8. High forest cover countries tend to exhibit forest landscapes with less fragmented forest cover, resulting oftentimes in more productive forests as measured by biodiversity, ecosystem services, carbon sequestration, and so forth. Those high forest cover countries with high deforestation rates have greater potential to benefit from funding opportunities for REDD+, PES, A/R, and more.

9. As of 2010, the primary designated functions of forests tended toward production activities, with the notable exception of the Caribbean whose primary forest functions were soil and water protection. Biodiversity conservation was a significant function in all regions, particularly in Central America, and the importance of soil and water protection varied among regions, in particular in Asia and the Caribbean. Notably, social services did not report strongly as a primary designated function.

National Financing Flows

10. Forest financing is heavily reliant on internal cash flows, and therefore is a predominantly domestic phenomenon in many countries. Domestic public sector financing is the major source of financing for forest-related activities in many countries, and is generally derived from general government revenue and revenues generated from state owned forests. The status and type of funding for forests vary among countries, as do funding structures and supported activities.

11. The public sector contribution plays an important role in forest financing, as it is often the only source of funding for forestry activities focused on social and environmental benefits. With close to 80% of the world's forests publicly owned, funds garnered through political means can also serve an important leveraging function to boost private sector investments.

12. However most countries are unable to raise adequate domestic public funds for the forest sector, as forests have been treated as quick sources of revenue with minimal re-investment into the management of forests.

13. In many countries forestry activities also receive funds through ministries which host a range of other portfolios including rural development, wildlife, fisheries, tourism, water, nature conservation and monuments, which may overshadow the role that the forest sector can play in contributing to these portfolios. Low allocations to the forest sector may be partly due to the competition for funds among the various sectors.

14. Converting public forest institutions into semi-autonomous commercial enterprises that are empowered to retain all the revenues they generate, and establishing

national forest funds as part of national forest programmes or as windows under national environment funds, are among several measures some countries have taken to enable public forest institutions to retain and manage funds effectively.

International Public Financing

15. This study has relied almost exclusively on data provided by the Organisation for Economic Co-Operation and Development (OECD), which provides only a partial view of the funding directed towards forests due to more stringent guidelines in reporting, including the tracking of flows to "forestry" rather than to "forests" in general. The OECD data, however, are highly useful and informative due to the regularity and consistency of data collection over time.

16. Accordingly, ODA disbursements are characterized by an overall 125% increase between the averaged periods 2002-2004 and 2008-2010. While the percentage of multilateral disbursements compared to bilateral disbursements remains at approximately 75% for both averaged periods, the increase in multilateral disbursements is slightly larger than that of the bilateral counterpart (138% increase for multilateral disbursements compared to 117% for bilateral).

17. This significant increase in both bilateral and multilateral commitments and disbursements is due in large part to REDD+ readiness activities, as well as its pilot programmes including fast-start funding. This indicates that the Global Objective on Forests Goal 4, to the extent that it deals with ODA, has been achieved.

18. The majority of the top recipients of forestry ODA are middle-income countries. In fact, 83% of these countries are within the range of lower-middle income, upper-middle income and even high-income classifications. Some 17% of top recipients are low-income countries.

19. Overall, the majority of forestry ODA goes to middle-income countries and high forest cover countries (42%), or to medium forest cover countries. This trend further exacerbates difficulties in financing forests in many low-income and/or low forest cover countries.

20. Analysis of ODA for LFCCs and SIDS shows no major change compared to what was reported in the 2008 study. These countries continue to experience decreases in forestry ODA. In addition, distribution of the limited ODA flows among these countries is highly uneven. Despite the level of forest cover, forestry ODA in these countries plays a catalytic role, in particular in promoting markets for non-wood forest products (NWFPs).

Private Sector Financing

21. Private sector investments are mainly directed toward forests managed for wood production from both natural forests and plantations. In a few cases private sector

investments made in timberlands for wood production are later converted into conservation areas for protection or ecosystem services, or to other land uses. There are also private investments in non-wood forest production, but they are less significant.

22. New investors are oftentimes institutional investors such as pension funds and others, Timber Investment and Management Organizations (TIMOs) and other private investors. The new investors generally come from outside the forest industry, and have little connection with the forest sector. TIMOs invest mostly in pine, eucalypt and teak plantations to sell wood in the open market. These investments are relatively easily identified and quantified, given the magnitude of resources involved, but few comprehensive analyses have been undertaken to date.

23. Systematic studies related to finance flows in the private sector have begun to emerge in recent years, particularly those related to carbon markets and other mechanisms related to the value of the services forests provide. There is still a need for extensive coordinated efforts to collect and extract national data on the private sector's investments, as such data are not easily identified in a comprehensive manner.

24. At the regional level, private investments contributed 64% of the total identified sources of forest financing in the Latin America and the Caribbean region and totaled an average of almost USD 4.4 billion per year between 2006 and 2011. The main private investors in forestry are pulp and paper companies planting predominantly eucalypt and pine for their own industrial supplies. In places like Africa and Asia there is a growing trade, most of which occurs in the informal sector and thus is rarely captured in national trade statistics.

25. In Africa, large private sector companies are mostly active in integrated processing industries and plantation forests. Despite the adoption of economic liberalization polices, many countries in Africa have limited domestic, large-scale, formal private sector participation in forestry, particularly in the areas meaningful to sustainable forest management.

26. Investments in small to medium scale forest enterprises have been promoted and directed more towards harvesting indigenous forest concessions and related timber value chains, small scale saw milling from plantation and indigenous forest ecotourism in forest protected areas.

27. A variety of microfinance institutions (MFIs) have emerged over time in Africa. It is estimated that there are now over 970 MFIs serving 27 million microfinance client accounts in Africa, representing about 4% of the population.

28. Small and medium forest enterprises and forest smallholders face additional challenges with regard to accessing private sector finance because of their remote and rural locations. This makes it more costly to provide services to these stakeholders and isolates them from one another and from the marketplace. The findings of this study confirm that smallholders have limited access to finance compared to large producers.

Sustainable management of natural forests receives limited financing compared to planted forests and protected areas.

29. The associated Community-Based Forest Groups (CBFGs) have the capacity to increase their contribution to forestry development. There is evidence that, with a little support and improved security of tenure, smallholder farmers can mobilize massive investment into forestry, especially regarding plantations and trees outside forests. This has already been amply demonstrated by some smallholder farmers who are investing in woodlots and small plantations, especially in east Africa.

30. These investments are made possible by the adoption of favorable policies and legislation that allow smallholder farmers to benefit from the forests and trees that they plant and manage. Favorable trade and industrial policies that allow for the growth of forest industries and markets for forestry products are also critical. In addition, it is important to improve access to finance, especially credit, for the smallholder farmers to be able to augment their own savings and invest in forestry activities.

31. Philanthropic funding represents a significant source of forest financing in some countries and regions. For example, during the period 2001-2010 the investments of the main philanthropic organizations in forest programmes/projects achieved an average of USD 47 million per year in LAC.

32. The sustainability and predictability of philanthropic grants from the private sector are difficult to estimate and downturns in the global economy will likely impact the level of investment from philanthropy negatively. Although private philanthropy is unlikely to deliver finance at the same scale as other sources of private finance, it can be used for activities that offer no or low returns on investment. Most NGOs rely mostly on international donors and philanthropic organizations for funding.

Existing, New and Emerging Forest Related Financing

33. Significant resources have been made available through existing, new and emerging mechanisms to issues that are closely connected to forests, across and within different countries and regions in recent years.

34. The Rio Conventions have relevant forest activities and financing initiatives, limited to the objectives and activities within those conventions. A large part of new financing initiatives that have some relation with forest-related projects, outside the private sector, are linked mainly to climate change, and then to biodiversity.

35. Forest carbon and forests' contribution to climate change mitigation and adaptation has been one of the main driving forces behind financing climate change forest-based activities during recent years. The potential for REDD+ to contribute to forest financing is large, estimated at as much as USD 6.2 billion in 2020, and has led to unprecedented attention to the carbon potential of forests, in particular through REDD+ schemes. Around USD 4 billion were pledged for the period 2010–2012 for measures to

reduce greenhouse gas emissions from deforestation and forest degradation in developing countries. At the global level, institutions such as GEF, World Bank, UN-REDD, and REDD+ Partnership are active in this field.

36. Apart from REDD+, whose focus is on the carbon content of forests, many of the national, regional and international carbon initiatives have no or negligible activities related to forests, although activities related to efficiency and electrification within these initiatives might have positive impacts on forests.

37. Forest-based carbon markets and trading schemes are still relatively new and are not yet well established. There is however broad optimism regarding the potential for carbon trading schemes to provide a new revenue source for forest landowners and rights-holders, and employment opportunities for those involved in carbon market related projects. REDD+ related initiatives are credited with much of the voluntary carbon market growth in 2009 and 2010. The majority of suppliers in voluntary carbon markets are from the private sector, followed by non-profit organizations and the public sector.

38. The contribution of forests to combating land degradation and desertification also offers an important financing opportunity for many countries. The investment in these areas is attractive to national governments due to the support of sustainable production systems that in turn benefit a large number of land users. These efforts are often at the nexus of current land use decisions where forests are vulnerable to loss and degradation but have the potential to enhance sustainability and resilience of ecosystem service flows.

39. New developments within the three Rio Conventions have undoubtedly created new resources for forests, with much of the additional funding directed to or in support of meeting the overall objectives of the these Conventions, namely: UNFCCC, CBD and UNCCD. These resources are of direct or significant relevance to forests and address the range of services and benefits derived from forests. This increases overall recognition of the significance of forests for tackling a number of global challenges, and for the success of other sectoral and cross-sectoral policies and actions at the national and global levels.

40. However, this has also led to an unintended situation in which mostly carbon, biodiversity and land services of forests are taken into account while other aspects of sustainable forest management receive limited or no funding. There is still a lack of recognition of the significance of the multiple functions and dimensions of sustainable forest management as a standalone issue at the global level as well as national levels. The significant flow of finance that targets the carbon content of forests has led to a focus on predominantly high forest cover countries with high rates of deforestation, leaving out those high forest cover countries with lower rates of deforestation, low forest cover countries and SIDS, trees outside forests, and plantations from receiving proper funding under the relevant schemes.

41. New and innovative market-based sources of finance are being developed in many countries, including for example PES schemes, bioprospecting, eco-tourism, greening commodities and complementary biodiversity payments in REDD+. Many of

the innovative financing mechanisms require policies that recognize and valuate the vital environmental services forests provide. These financing mechanisms also require broader enabling frameworks that ensure reinvestment of monetary benefits back into the forest sector. Socio-economic valuation of forests is also needed make it possible to determine economic returns and to include them in the investment agreements and political decision-making.

42. Reviews caution against the assumption of the global applicability of PES mechanisms. The most important source of payments for services is still international governmental and non-governmental support. Due to various national legislative frameworks and laws, the way PES is approached and executed varies from one country to another. Moreover, further analyses are necessary to explore the wide range of potential services and consumers of PES for forests.

Needs and Gaps in Forest Financing

43. Despite various initiatives and efforts to increase financial resources available for SFM, especially in developing countries where the bulk of natural forests are found (and where there are high rates of deforestation), the resources remain insufficient. Both developed and developing countries face multiple challenges that have increased the pressures to address multiple competing priorities, with limited resources. For developing countries, the situation is more serious.

44. Financial resources are often insufficient to properly manage vast forest areas. Those forest areas not used for production are rarely self-financing, and subsidies and/or direct action by governments are required to manage these areas properly. Inefficient use of the existing resources has further exacerbated these problems.

45. It has been estimated that globally the required funding for sustainable forest management is between USD 70 and USD 160 billion per year. Estimates of the amounts required to halve deforestation alone range from USD 20 to USD 40 billion per annum by 2020. Between USD 4 and USD 7 billion per annum would be needed by 2015 to reduce deforestation by 25%.

46. These are only estimates but they are useful in highlighting the fact that the funding available for forests from all sources falls far short of even the most conservative estimated needs. This is especially true if we go beyond the carbon value of forests and consider financing all seven thematic elements of SFM, and financing SFM as defined in the forest instrument.

47. The lack of forest finance also stems from countries' inability to quantify and capture the full revenue-generating potential of forests and the considerable forest-related financing flows in other sectors. Continued effort is needed to ensure that the full value of

forests is recognized and integrated into the work of various conventions, international organizations and countries.

48. There is a lack of reliable data on forest funding. The lack of information is a major barrier to improved understanding of the true costs associated with the management of all types of forests and the potential for forests to contribute to local, national and regional development. Appropriate guidelines and templates should be also developed to help countries to report more clearly on forest financing. This also requires strengthening technical and technological capacities of countries.

49. In relation to global forest finance, good forest governance and law enforcement are important factors. Funding associated with forest law enforcement and trade remains relatively limited. There remains a general lack of awareness among legislators and policy makers about the role of forest law enforcement and governance in national development, resulting in a lack of political will to support the sector. Poor governance and limited law enforcement are likely to make the forest sector less attractive to investments by the private sector by posing unacceptable levels of risk. In many countries, clear policies for allocating public funding to forests are lacking, and when policies exist these are weak and unreliable, resulting in significant gaps between estimated resource needs and actual funding allocated. In many cases the limited allocation of budget resources to the forest sector can be attributed – at least in part – to the sector's failure to make a convincing case for an increased share of resources. Expenditures on forests are largely pegged at a holding or maintenance level and do not provide for forest development, conservation and management.

50. There is also a strong need for improving the capacity of different stakeholders and for promoting technology cooperation at different levels. This will strengthen the ability of various stakeholders to take advantage of the existing opportunities for forest financing.

51. Improving forest financing in LFCCs and SIDS requires a strategic approach to the full potential of forests for these countries and inclusion of cross-sectoral, cross-institutional policies that embrace all values of forests, including land management, agriculture, water, energy, climate and the environment.

Barriers

52. There are several key barriers that hinder access to and mobilization of additional financing for forests from all sources. An inadequate enabling environment is generally considered to be the primary underlying obstacle to the mobilization of finance. Such enabling conditions are necessary for both private investment and public sector funding, in particular for attracting external funding. The elements include (1) policy and legislative frameworks, (2) knowledge, (3) national capacity development and institutions and (4) markets and private sector mechanisms and instruments.

53. A high level of technical and technological capacity and knowledge is a critical component of enabling environments. Communication and financial capacities are also essential to the ability to articulate the importance of forests to those outside the sector, and particularly to those in the business and finance sectors. In many countries however, sufficient capacities are lacking in a range of categories. This may result in a low level of priority given to forests by national level governments, funders and others due to a lack of understanding about the significant contribution of forests to achieving sustainable development.

54. The forest sector is not widely understood as being relevant to achieving sustainable development goals despite forests' integral role in safeguarding overall landscape multi-functionality. The forest sector in some countries continues to struggle with developing and implementing coherent strategies for sector planning, leading to forest policy priorities that are poorly aligned with other sector's priorities and broader sustainable development strategies. Significant forest governance and legality challenges continue to undermine financing mobilization efforts due to donor and investor concerns about insecure tenure, illegal activities and a variety of other risk factors.

55. A lack of effective public sector laws, such as those providing tax incentives or clarifying forest tenure and safeguarding the resource access rights of local people, can discourage private sector investment and may drive unsustainable forest management practices. Additionally, if existing legal mechanisms are poorly designed, implemented and/or enforced, this can also act as a barrier to forest financing.

56. Local and sub-national forest stakeholders are a critical element in determining the health and condition of forests and the resources therein, yet they are frequently unable to access and secure the financing needed for SFM, enterprise development and capacity building activities. Problems associated with eligibility, extensive procedural requirements and coordination of priorities to access to external resources can create barriers to forest financing.

57. There is no single solution that can eliminate all the existing barriers. Instead, a multi-pronged approach is needed that focuses on (1) undertaking a thorough examination of the needs and contexts of an area and its people, (2) developing a 'long view' strategy that is context appropriate and politically viable, and (3) continuing and improving step-by-step actions to establish a strong enabling environment within countries, regions and at the global level.

Success Stories

58. Some regions and countries are paying increasing attention to the fact that investing in forests in creative ways can help to achieve sustainable development goals. These innovative ways include, for example, combating land degradation through massive afforestation in China; mitigating climate change through reduced deforestation in Indonesia; encouraging conservation through payments for ecosystem services in Brazil and Mexico; and formulating joint resource management strategies with

communities in Africa. In all these cases, countries have wisely articulated how forests could contribute to a wide array of broader development objectives and priorities: from poverty alleviation and provision of safe drinking water to climate change mitigation and adaptation. Across many countries, forests now have become a key part of securing a sustainable future for them.

59. Work to rebuild the natural resource base in rural areas is seen by many countries as a major step in moving towards greener, more equitable, and sustainable economies. Payments to protect watersheds, biodiversity, and landscape beauty are becoming more widespread. Many countries have also started to help shape new markets and investments though mechanisms such as insurance support, price and purchase guarantees, and promoting public-private and private-private partnerships.

60. Case studies reveal positive and successful accounts of leadership, dedication, and innovation – initiatives that can inspire and motivate others. Underlying factors of motivation and success include strong political support; good systems of governance; efficient, robust and flexible implementation capacities; and well-defined community involvement. Good governance is observed to improve the efficiency and effectiveness of implementing a broader policy initiative, including ensuring opportunities for justice and fairness at each stage of the process.

61. Inherent in these examples is also the message that opening up the forest sector to a wider range of actors and stakeholders benefits it in the long run. A shared vision among different actors on the roles, functions and methods of forest financing is particularly needed at the national level. The examples also demonstrate that funding for forests can increase when forest policies are aligned with other political priorities.

62. The case studies also indicate that it is essential to actively involve the poor, marginalized people, indigenous communities, and local governments in resource management and share with them the benefits of increased investments and incomes. Local communities need strong incentives to assume greater responsibilities and make stronger commitments. Proactive policy incentives and institutional measures such as formation of forest cooperatives and self-help groups, and development of small and medium local enterprises, are essential to providing a true incremental benefit to these groups.

The Way Forward

63. Significant progress has been made at the national, regional and international levels in enhancing the contribution of forests to long-term sustainable development. There is better and wider understanding of sustainable forest management, and there is now agreement on the forest instrument as a comprehensive instrument on forests containing the four global forest objectives. In addition forests have been integrated into the work of several multilateral environmental agreements.

64. Progress has also been made in terms of forest law enforcement, governance and related trade as well as in applying voluntary market based mechanisms. The importance of forests in mitigating and adapting to climate change and in hosting the vast majority of terrestrial biodiversity, among other major functions, is increasingly acknowledged. Some countries provide good examples of how forests can become a centrepiece in this transition.

65. The full range of forest goods and services needs to be better recognized, including through payments for ecosystem services, so that they may be internalized in GDP figures. This would strongly contribute to raising the visibility of forests and including them in the political agenda. Sustainable forest management outside protected areas also generates global public goods that need to be compensated.

66. In some cases the term “sustainable” in SFM has come to be interpreted as a focus on only the environmental benefits of forests since Rio. By developing more substantive data on the economic and social functions of forests in the landscape, there is a stronger likelihood that the payments for those goods and services will be more effectively addressed in country budgets, and in leveraging both public and private financing.

67. To strengthen and mobilize resources for forests at the national level, actions have to be taken to improve policy, legislative and institutional frameworks. It is also necessary to provide a platform for engagement of various stakeholders including the private sector, and to cooperate on strengthening technical and technological capacities of countries.

68. National forest financing strategies should work in a holistic fashion in two ways: (1) by capitalizing on the linkages with connected sectors and programme objectives (agriculture, water, energy and climate change for example), and (2) by recognizing the importance of trees outside forests and the reciprocal relationship between those trees and forests.

69. The development and incorporation of national forest funds into national forest financing strategies as instruments of forest policy is another effective option for addressing sector financing needs.

70. Regional organizations and processes have significant potential in leveraging and mobilizing funds for forests, and can help countries to address sustainable forest management challenges in general, and financing of forests in particular. They should help countries to catalyze the preparation of national forest financing strategies, explore forest financing opportunities, bridge gaps and help countries to ensure consistency between national and global polices on forest financing, and enhance inter-regional and intra-regional cooperation on forest financing by sharing relevant experience, knowledge and expertise.

71. Implementation of the forest instrument, as the only globally agreed framework on forests that provides a comprehensive set of actions to promote the sustainable

management of all types of forests at all levels, has to be strengthened at all levels. Implementation of this instrument should be also mainstreamed into the programme of work of various forest-related financing mechanisms, organizations and initiatives at national and international levels.

72. At the international level, for example, the GEF SFM/REDD+ Strategy recognizes the seven thematic elements of the SFM, as stipulated in the forest instrument, and also refers to the forest instrument and the four global objectives on forests. This programme has the potential to be further developed to specifically contribute to the implementation of the forest instrument and its national reporting. The next GEF replenishment (GEF6, 2014-2018) is a good opportunity to further expand this programme and agree on it as a new GEF focal area, specifically on forests.

73. There is a clear need to strengthen mechanisms and processes with a focus on collecting national data on forest financing, including in the implementation of the forest instrument. A number of programmes, frameworks and tools are emerging as a basis for gathering much needed information. These would also allow a means through which analyses of gaps and opportunities within the forest sector can be identified and addressed at local and national levels. However, support and leadership are required to ensure wide uptake.

74. Given the importance of forests to achieving the objectives of all three of the Rio Conventions, consideration should be given to establishing a "Rio marker" for forest funding addressing the forest instrument and its four Global Objectives on Forests.

75. The reporting mechanisms under the UNFF and NFPF as well as data collection mechanisms under UNCCD and CBD can be extremely beneficial to improving access to accurate and missing data. Similarly, the Convention on Biological Diversity has an online sourcebook with information on funds related to forest biodiversity.

76. The Collaborative Partnership on Forest’s online Sourcebook also provides a searchable database of funding sources, policies and delivery mechanisms. More effective coordination of these efforts across the UN system would help countries to access this information, including by moving to innovative social and technological mediums to communicate this data. CPF member organizations could be instrumental in collecting data on forest finance by designating lead agencies to collect specific data, according to the mandate of each member. It is equally important to also gather data on cross-sectoral financing that goes to forests.

77. The Framework for Assessing and Monitoring Forest Governance developed by FAO/PROFOR and PROFOR’s guidance on the execution of forest sector public expenditure reviews also provide a sound source of basic information. These can also allow a means through which analyses of gaps and opportunities for forests can be identified and addressed at the local and national levels.

78. Countries have struggled for a long time to find a suitable solution to address the challenge of forest financing at the global level. The debate has centered around two main mutually non-exclusive options: (1) strengthening existing forest financing related mechanisms and (2) the establishment of a voluntary global forest fund.

79. Strengthening of the existing forest related financing mechanisms would involve a wide range of actions including increasing their resources as well as human and technical capacities on forests, as well as improving access to their resources by a larger number of countries and potential beneficiaries by adjusting their financing criteria and simplifying the relevant procedures.

80. Regarding establishing a voluntary global forest fund, it should be recognized that a single global fund on forests may or may not be the answer to the problem that countries are facing. A number of potential advantages and disadvantages can be identified for this option. The modus operandi of a voluntary global forest fund has not yet been established. One possible approach identified during AHEG1 was to use the voluntary global forest fund as a source for funding for national forest funds or similar entities.

81. The response to whether or not to establish a voluntary global forest fund is ultimately a matter of a political decision by governments. Nevertheless, it is important to look for a mixture of measures at all levels and seek for a win-win solution by putting all the options as complementary. In this context, while the international community should strive to strengthen existing forest-related financing mechanisms, it can also consider devoting a fund or funds to address the SFM needs and gaps that are not yet addressed by the existing mechanisms This solution can bring benefits for all countries and stakeholders.