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Business risk and biodiversity loss
A new report, *Biodiversity and Business Risk*, by PricewaterhouseCoopers for the World Economic Forum, examines whether the risk of biodiversity loss is becoming 'material' for mainstream businesses, or alternatively, if biodiversity-related opportunities will capture the imagination of business leaders. Of the 1200 CEOs consulted globally for this report, 27 per cent were either extremely or somewhat concerned about biodiversity loss as a threat to their business growth prospects. Hidden within this figure are stark regional variations. Some 53 per cent of CEOs in Latin America and 45 per cent in Africa are concerned that biodiversity loss will adversely impact their business growth prospects, compared to just 11 per cent in Central and Eastern Europe.

The report can be downloaded at www.pwc.co.uk/eng/issues/biodiversity_risk.html

Buitenlandse Zaken
Ontwikkelings samenwerking

DGIS is the Development Agency of the Ministry of Foreign Affairs of the Netherlands

Editorial

In this issue's feature article Pavan Sukhdev states that the "cornucopian assumption of abundant and unfettered availability of forests' public goods does not reflect the harsh reality". Perhaps this is a good thing: for too long many in the forest community have shied away from putting a value on the priceless. The problem is that without a price, a payment cannot be made.

This issue of **arbor**_vitae_ focuses on forest finance, a topic that some in the conservation community might still view with suspicion. Isn't it all about funding commercial forestry operations? What has it got to do with conserving biodiversity or supporting community forestry? The answer is everything – for as the UNFF's Jan McAlpine points out forest funding arrangements urgently need a 360-degree perspective.

The huge windfall of US$3.5 billion that came out of Copenhagen for kick-starting efforts to reduce greenhouse gas emissions from deforestation and forest degradation (REDD-plus) is a great boost for financing sustainable forest management. Indeed, as Hans Brattskar points out in his article, REDD-plus could go a long way to tackling the age-old problem of the undervaluation of the world's forests. Yet we can't get fixated on this one pot of money that inevitably focuses attention primarily on only one forest value. Single commodity approaches to sustainable forest financing have a poor track record. We need to bear in mind that a multi-functional asset such as forests probably requires multiple sources of financing. As Hosny El-Lakany and Michael Jenkins proposed a couple of years ago, we need to embrace a portfolio approach to forest finance, i.e. one that mobilizes and fairly and efficiently allocates a combination of public and private funding sources for the full range of forest activities.

Finally we must take care to avoid one of the most commonly repeated failures from the past. As several of our contributors highlight, it will be crucially important to ensure that local communities, indigenous peoples and family forest owners – groups that are all too often excluded from forest investment opportunities – can fully participate in and benefit from new sources of forest finance. In this context, the work currently underway by The Forests Dialogue and Growing Forest Partnerships provides a useful and innovative illustration of how the voices of forest rights-holders can be mobilised to make the case for investing in locally controlled forests. Moreover, the recent decision to include a Local Communities Dedicated Initiative in the Forest Investment Programme (FIP) is clearly an encouraging step in the right direction.

***Stewart Maginnis*. Head of IUCN's Forest Conservation Programme**

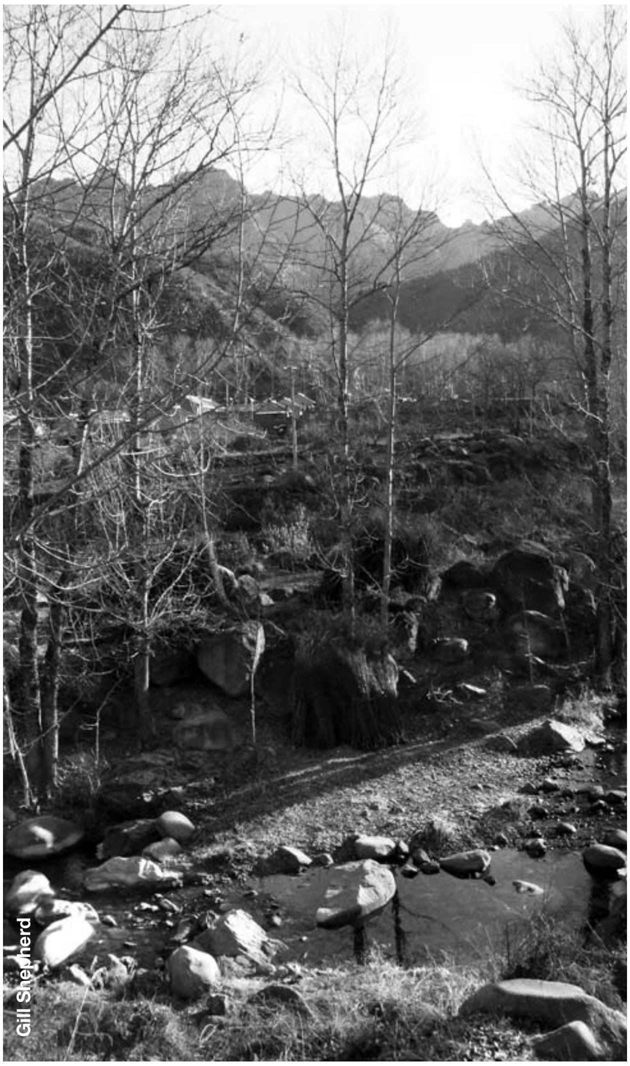
news in brief

Roundtable on point of collapse? An article in the UK's Independent newspaper claims that the Roundtable on Sustainable Palm Oil (RSPO) is in danger of collapse as demand for certified palm oil is much lower than had been hoped. According to WWF, manufacturers bought only 27 per cent of the 1.27 million tons of certified palm oil available last year. There are now fears that palm-oil producers may quit the RSPO, in response to this low demand. Dato' Azhar Abdul Hamid, plantations managing director of the world's biggest palm-oil producer, Sime Darby, said: "The rate of take up is very, very slow. The industry is producing more supply of certified palm oil than the market is buying. It's disappointing to see that. We were always hoping demand would always be ahead of supply, because that is what the world wanted."
Source: www.independent.co.uk, 25 January 2010.

Ivory sale off: A controversial proposal by Tanzania and Zambia to sell off their ivory stocks was defeated at the CITES CoP meeting in March. The proposal, to auction the two countries' stocks of legally acquired ivory (from culling, or from elephants which have died naturally) amounted to over 100 tons of ivory, worth a total of US$16m. This would have been the third 'one-off' sale of ivory; when CITES sanctioned the last ivory auction in 2007 it was agreed that there would be no more such sales for at least nine years. The current debate in CITES has once again divided Africa. Nearly two dozen central and east African countries opposed the sale proposal, and environmentalists argued that the resumption of any trading creates a market into which illegal poached ivory can be laundered, thus boosting demand for it.
Source: www.independent.co.uk, 25 January 2010 and www.guardian.co.uk, 23 March 2010.

Integrating markets for water and carbon in landscapes

David Huberman, **Gill Shepherd** and **Lucy Emerton** of IUCN reflect on some of the lessons learned from experiences with PES through IUCN's Livelihoods and Landscapes Strategy.



Huayuan, one of the villages in the Miyun water catchment, is being compensated for protecting the forests which secure Beijing's water supply

Scoping out the PES potential in landscapes

Over the last decade, payments for ecosystem services (PES) have become an increasingly popular form of conservation incentive. Nevertheless, there still is no clear consensus on what the real potential of PES is – either to improve the livelihoods of ecosystem service providers or to generate effective incentives for conservation. A particular – and hotly debated – bone of contention is the extent to which PES can act as a tool for rural poverty alleviation.

Globally, it is the market for forest-based carbon credits that is currently dominating the PES portfolio. Locally, most examples of PES schemes relate to downstream beneficiaries rewarding upstream land users for the sustainable management of watersheds. While both forms of PES involve payments being made to ensure the regulation of critical natural cycles (i.e. carbon and water), they have little more than that in common.

So far the expectations of PES as a market-based solution for conservation and development have not been met. Generating enough revenues to actually make a difference has proved hard, and has failed to provide sufficient incentives to stimulate both ecosystem conservation and livelihood development.

By concentrating on the landscape as opposed to a specific production system or ecosystem service, IUCN's Livelihoods and Landscapes Strategy (LLS) focuses on the economic trade-offs that people face in real life. It recognizes that ecosystems generate multiple services, not all of them compatible, and that people's livelihoods are composed of many different elements. Consequently, PES should not be implemented in isolation, and needs to be integrated into a landscape approach which addresses the risks associated with introducing economic incentives for conservation.

One strategy consists of directing carbon payments towards areas where water-related ecosystem services are already being delivered, but which, by themselves, are not sufficient to ensure conservation. This approach is attractive in places such as the Lachuá eco-region in Guatemala, a forest landscape that is also an internationally important Ramsar Convention wetland. The Lachuá LLS landscape project builds on long experience of community-owned ecosystem management. In China's Miyun Watershed, LLS is working on upgrading the payments that are made to upstream communities in recognition of the ecosystem services they provide to water users in Beijing. Payments are motivated by local concerns relating to water quality and supplies, but also contribute to the conservation and enhancement of carbon stocks in forests. Getting successful local institutional integration into carbon markets will be critical to successful implementation of any post-Copenhagen agreement. Building on existing watershed-based PES models may be a key to early success.

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The Global Environment Facility: harnessing the multiple benefits of forests

Gustavo A. B. da Fonseca of the Global Environment Facility outlines some recent achievements and the future direction of GEF's work on forests.

Forest management and conservation have been central components of GEF's mandate for the past 18 years. Acting as an operating entity of the financial mechanisms of the UNFCCC, the CBD and the UNCCD, the GEF has allocated approximately US$1.5 billion to forest initiatives, supplemented by more than US$4.5 billion in cofinancing, amassing a body of experience in financing forests unmatched by any multilateral institution. Resources for forests are allocated from the GEF focal areas of biodiversity, climate change mitigation and land degradation.

...it is estimated that close to US$1 billion in GEF grant resources could be programmed for activities in SFM and REDD-plus during the next four years...

Recent examples of GEF's financing of high priority forests are to be found in the Brazilian Amazon and in the Congo Basin. In Brazil, the GEF has invested US$48 million in the world's largest-ever effort to protect tropical forests, the ARPA Program (Protected Areas of the Amazon). Designed to increase the coverage of parks, reserves and areas of forest under sustainable use, ARPA has already expanded forest protection by some 25 million hectares. GEF's investments in ARPA were triggered primarily by biodiversity and sustainable land management considerations, but up to 3 GT of carbon emissions may also be prevented by the protected areas established with ARPA's support. This is one of the most compelling examples of GEF's approach of capturing the multiple global environmental benefits from forests in areas of very high biodiversity and significant carbon stocks, while preserving the key functions of forests for local communities.

In the Congo Basin, GEF has brought US$50 million of its resources to a strategic program on Sustainable Forest Management (SFM) for the region. The program, involving 13 coordinated projects, aims to reinforce the protection and sustainable management of forest ecosystems in the Congo Basin by strengthening the regional network of priority protected areas for biodiversity, managing and using natural resources in the production landscape, and strengthening the institutional and sustainable financing framework for ecosystem conservation. Equally importantly, the program will also contribute to the long-term innovative finance architecture for sustainable forest management in the region by supporting payment schemes for ecosystem services, including carbon stocks and other co-benefits of sustainable forest management, and those associated with livelihoods. By addressing the forests of the Congo from multiple dimensions, the GEF has been able to funnel significantly more resources to central Africa than would be justified by the REDD agenda alone.

The successful experience accumulated in GEF-4 has triggered the expansion of the GEF forest program into the next replenishment cycle, which starts in July 2010. The SFM/REDD-plus program in GEF-5 will reinforce council guidance to foster a convergence of investments; it is estimated that close to US$1 billion in GEF grant resources could be programmed for activities in SFM and REDD-plus during the next four years, leveraging between US$3 and US$4 billion in cofinancing. In sum, SFM/REDD-plus program resources will be used as an incentive to coalesce and augment multi-sectoral and multi-focal area investments in transformative initiatives in forests to be identified and brought forward by developing countries. This might become one of the most significant examples of concrete action on forests to significantly address the deliberations emerging from the recent UNFCCC COP in Copenhagen on REDD-plus.

Finally, the GEF is looking forward to introducing additional reforms in its policies and project management cycle for the next replenishment period. Among the most relevant reforms are those aimed at improving country ownership of project concepts, greater equity and predictability in accessing resources by developing countries, greater transparency over the entire project development process, and simplification of the overall project cycle. For certain types of projects, the GEF council is also exploring the possibility of expanding the breadth of GEF agencies accredited with the possibility of accessing GEF resources directly, including those from developing countries. These and other reforms are helping to consolidate a scenario which looks very promising for a robust replenishment of the GEF trust fund for the period 2010-2013. The final figures of the replenishment should be forthcoming by May 2010.

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A 360-degree perspective on forests

The big picture: financing for sustainable forest management needs to take into account the complexities of the forest sector

Jan McAlpine and **Benjamin Singer** of UNFF outline the details emerging from discussions on the financing of sustainable forest management.

After 17 years of debate, the Member States of the United Nations reached a landmark agreement on 30 October 2009 with the adoption of a resolution on financing Sustainable Forest Management (hereafter called the "Financing Resolution").[1]

This agreement is crucial for forests, which have always been a complex issue whether at the international or the national level. Forests are eminently cross-disciplinary, cross-institutional and intersectoral with important implications well beyond the environmental and timber sectors. In many cases, connected sectors such as agriculture and transport have a greater impact on forest cover and management than do the environmental and timber sectors themselves. Debates in international fora have recognized these linkages for well over a decade, yet institutional structures underlying forest governance at national and international levels continue to remain sectoral. This discrepancy, whilst identified for many years by UNFF, continues to pose a huge challenge to SFM, notably in terms of finance.

The Non-Legally Binding Instrument on All Types of Forests adopted in 2007 (the "Forest Instrument") and the current Multi-Year Programme of Work provide the United Nations Forum on Forests (UNFF) with the ability to look beyond sectoral boundaries. The Financing Resolution will further build on this holistic view, thus enabling UNFF to pinpoint financing gaps in all areas of SFM, especially as it enables the creation of:

- An open-ended *ad hoc* expert group composed of government representatives as members and which will welcome other stakeholders, whether non-governmental, academic or private, as observers;
- A Facilitative Process which will leverage an active programme to assist in mobilizing and supporting new and additional financial resources from all sources for SFM (including payments for environmental services and the REDD-plus mechanism), and to identify obstacles, gaps and opportunities to financing SFM, among other objectives.

The first phase of the Facilitative Process will consist of a project to study financing and financing gaps in SFM in two categories of countries that suffer from a major gap in donor financing: Small Island Developing States and Low Forest Cover Countries. This first phase has received initial funding from the British Department for International Development. During a second phase funded by the GEF, the UNFF Secretariat will conduct a series of in-depth consultations through workshops with a large number of country representatives over the results of this study in order to share ownership of the project and findings with stakeholders of the countries concerned. These consultations will also be an opportunity to provide local knowledge and expertise in drawing up practical recommendations on how to improve financing for SFM. These activities will then be expanded to the other five priority categories of countries identified in the Resolution that have suffered from a decline in forest-related funding in the past 20 years, namely Least Developed Countries, High Forest Cover Countries, Medium Forest Cover Countries, High Forest Cover Low Deforestation Countries, and Africa as a region.

This process will enable us to learn more about current patterns and additional opportunities for financing SFM, and will also help us identify what we do not yet know. By recognizing all the functions of forests and linkages with other sectors, it will strongly contribute to implementing REDD-plus both at national and international levels. Above all, the value of the process lies in the dialogue it will generate, which in turn will further highlight SFM as a financing priority, enabling funds to be made available from a 360-degree perspective.

[1] The full title of the resolution is 'Resolution on the Means of Implementation of the Non-Legally Binding Instrument on All Types of Forests, adopted at the Special Session of UNFF-9 on 30 September 2009. This document is available at www.un.org/desa/forests.

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Forest Investment Program: implementing REDD-plus readiness reforms

Patrick Verkooijen of the World Bank provides an update on the Forest Investment Program.

While the international architecture on implementing REDD-plus is still under discussion, countries are already investing resources in addressing the challenges of the REDD-plus agenda in their national and regional contexts. There is a wide range of institutions at different levels that have a specific mandate to support REDD-plus activities, such as the World Bank's Forest Carbon Partnership Facility (FCPF) and the UN-REDD program. As developing countries face an increasingly urgent need to sustainably manage their forests to reduce greenhouse gas (GHG) emissions caused by deforestation and forest degradation – a particularly complex problem in the face of competing development priorities – the recently established Forest Investment Program (FIP) is a pilot program within the Climate Investment Funds (CIF) designed to offer a critical financing bridge. Within the broader REDD-plus financing architecture, FIP financing will demonstrate how the five Multilateral Development Banks can work with countries to address direct and underlying drivers of deforestation and forest degradation.

Up-front bridge funding

The main purpose of the FIP is to support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and public and private investments identified through national REDD-plus readiness strategy building efforts, while taking into account opportunities to help them adapt to the impacts of climate change on forests. In addition, the FIP will contribute to generating multiple benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, poverty reduction and rural livelihoods enhancements.

An important element of the FIP is to promote transformational change by strengthening multi-stakeholder ownership at national and local levels, and providing scaled-up forest financing to catalyze shifts from business-as-usual policies and development paths. The FIP is particularly designed to help finance large-scale investments and leverage additional financial resources, including from the private sector.

Institutional collaboration

As a relatively new financing mechanism, the FIP complements and cooperates closely with other REDD-plus demonstration and implementation initiatives and ongoing REDD-plus efforts. Where applicable the FIP builds upon the 'readiness work' funded by the FCPF, UN-REDD programme and other initiatives and should generate lessons for, and be informed by, other REDD-plus initiatives on how to achieve scale and transformational impact in the implementation of REDD-plus activities.

Under the CIF, the FIP is designed to implement a relative small number of country-led and –owned programs to ensure transformation and to support:

- Investments which build institutional capacity, forest governance and information;
- Investments in forest mitigation efforts, including forest ecosystem services; and
- Investments outside the forest sector necessary to reduce the pressure on forests.

It is critical that support must be built from the ground-up.

As of February this year, six contributor countries have pledged US$406 million to the FIP. Based on this amount, the governing body of the FIP agreed to finance, as a first step, five country and regional pilots. FIP-financed activities are expected to contribute in each pilot to significant reductions in greenhouse gas emissions from deforestation and forest degradation, the sustainable management of forests and the enhancement of carbon stocks. The countries selected for the country-level pilots are Indonesia, Ghana, Burkina Faso, Lao PDR and Peru. Taking into account the level of financing currently available for the FIP , the Sub-Committee invited the FIP Expert Group to recommend six additional pilots, in priority order, to the Sub-Committee before its next meeting.

To be effective in the realm of REDD-plus, it is also critical that support must be built from the ground-up, incorporating forest communities, indigenous peoples and other local communities. Their participation depends on strengthening their capacity to play an active role in national REDD-plus and FIP processes, and on recognizing and supporting their tenure rights, forest stewardship roles, and traditional forest management systems. The FIP Indigenous Peoples and Local Communities Dedicated Initiative is currently being established in close collaboration with indigenous peoples' and local communities' representatives as a window within the FIP to provide these communities grants in country or regional pilots to support their participation in development and implementation of FIP investment strategies, programs and projects. At the implementation stage grants to indigenous peoples and local communities will be an integral component of each pilot.

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Sharing monetary benefits from forests – conflict or cooperation?

Henrik Lindhjem of the Norwegian Institute of Nature Research and Vista discusses the importance of sharing monetary benefits from forests.

This canopy walk in Ghana's Kakum National Park is an income earner for conservation activities and local communities

Revenues from forests have for centuries been the source of disagreement and conflict and have undermined sensible resource management. Much can be gained therefore from considering more appropriate benefit sharing between national stakeholders.

Why share benefits?

Benefit sharing mechanisms are local or national agreements between stakeholders (such as private sector, local communities and non-profit organizations) about the sharing of benefits from the commercialization of forest products or services. In principle, there are two main objectives of sharing benefits: to reward individuals for behaviour which is in society's wider interest (e.g. support for sustainable resource use and conservation) and to strengthen the legitimacy of forest management and revenue generation activities.

There is typically a trade-off between these two objectives. The higher the number of people receiving benefits, the more diluted the incentives will be for those whose activities are the most important to change. However, to achieve broad legitimacy and support for forest conservation and management activities, benefits should be shared more widely than a strict focus on effective incentives would prescribe.

A wide range of benefit sharing experiences

A recent review of benefit sharing experiences in the forest sector and other areas conducted by the author and colleagues shows a diversity of experiences.[1] One common benefit sharing mechanism is the tax system, whereby for example revenues from timber concessions are shared with the state (and via regular budgets to a wider population) and affected local communities. In other situations, new, dedicated mechanisms such as trust funds or community development institutions are set up for example in integrated conservation and development projects (see photo) or community forestry arrangements. Benefits may be delivered in different forms, from cash payments to individuals to contributions to schools and social development projects or some combination of these. Some problems are common to many of the benefit sharing mechanisms reviewed. These include issues of governance, transparency and accountability in management and disbursement of funds, unclear links between monetary rewards and the actions agreed or expected from stakeholders, need for clarity and stability in the benefit sharing rules, and marginalization of poor and vulnerable groups in decision-making. Five characteristics of well-functioning benefit sharing systems emerge. Such systems typically:

- engage the right stakeholders;
- determine the right forms, levels and timing of benefit delivery (incentives);
- create legitimate mechanisms for management of benefits;
- enforce effective transparency provisions; and
- develop effective dispute settlement mechanisms.

Well-functioning systems manage to create strong monetary signals to relevant stakeholders to change forest practices, while also fostering broader cooperation, support and legitimacy for forest management objectives.

REDD – case in point

Achieving these two goals through appropriate national benefit sharing is also key to the success of any mechanism for reduced emissions from deforestation and forest degradation (REDD). Clear and direct monetary incentives are needed to achieve the scale of land-use change required. However, if specific population groups, REDD actions or geographical areas are favoured over others, the crucial national (and international) legitimacy and support for REDD may be undermined. National benefit sharing systems should build on existing experiences, avoid well-known pitfalls and strive towards the five characteristics of good benefit sharing systems. This should spur cooperation and support for REDD, rather than conflict.

[1]Information about this review and the report can be found at: www.iucn.org/knowledge/news/focus/2009_redd/?4359/Sharing-the-benefits-under-REDD

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TEEB,
public goods and forests

Pavan Sukhdev, Special Advisor to the United Nations Environment Programme's Green Economy Initiative, outlines the plans for the TEEB project and the hopeful trends in gaining better recognition of biodiversity values.

A central concern of our project TEEB (The Economics of Ecosystems and Biodiversity) is the economic invisibility of natural capital – the inability of our dominant economic model to recognize economic value delivered by nature to society. Biodiversity and ecosystem services have conventionally been seen as public goods: enough for everyone and available to everyone. These include clean air, fresh water, species richness, and numerous other ecosystem services that come to us from forests, but many of these forests and their goods and services are now threatened with losses or scarcities. The cornucopian assumption of abundant and unfettered availability of these 'public goods' simply does not reflect the harsh reality. Ongoing losses of natural areas are significant, and their impact on human welfare benefits is palpable.

TEEB has estimated that 'business as usual' deforestation and land use change would cause annual losses of 'natural capital' valued at between EUR 1.3 trillion and EUR 3.1 trillion, a sum exceeding the total financial capital lost to Wall Street and City banks during 2008, their worst year in history.

From common people to national governments, there is a lack of understanding of the finite nature of natural 'public goods', of their contribution to the economy, and of their larger significance in maintaining human wellbeing. TEEB explains that the problems often lie with open access to natural resources, coupled with unclear property rights and the lack applicable national laws or effective international treaties. Together, these effects lead to depletion of biodiversity and ecosystem services, in a race to the bottom called "the tragedy of the commons". Within this exploitative and unsustainable framework, it is the poor who suffer most as their livelihoods depend heavily on environmental resources.

The long-term purpose of TEEB is to bring together and communicate the best available scientific and economic analysis on the economics of ecosystems and biodiversity. Through this exercise, our goal is to help policy-makers, administrators, businesses and citizens to formulate responses to address the losses we see all around us. These actions collectively have the power to halt and reverse the losses of natural capital and to improve well-being for humanity, especially the poor.

The message is starting to get through.

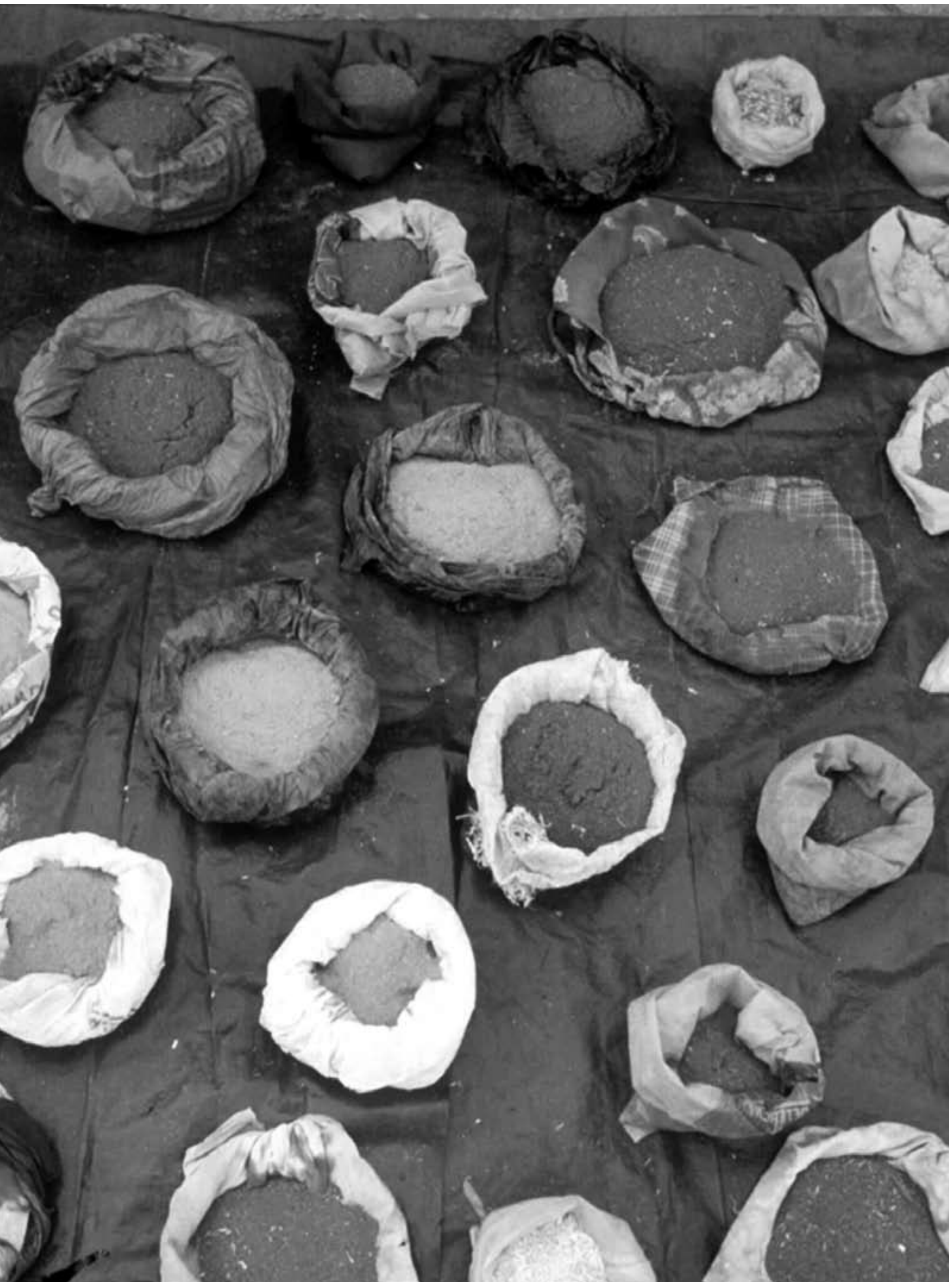
TEEB has released a number of reports on the subject, starting May 2008 (see www.teebweb.org). We have a busy year ahead of us and in the lead-up to the CBD COP10 in Nagoya, with planned reports for a range of decision-makers or 'end-users'. Our reports for policy-makers and administrators analyze many examples of successful incentive structures, subsidy reforms, community-based conservation schemes, effective protected areas, payments for ecosystem services, and new market mechanisms for rewarding ecosystem benefits. We are also working closely with the business world to identify their main opportunities, risks, and disclosure requirements, which will be condensed into a report for business. These sets of reports and their outreach will be strong steps towards reducing the economic invisibility of ecosystems and biodiversity.

The message is starting to get through. As an example, biodiversity was on the agenda at this year's World Economic Forum in Davos, Switzerland. Over half of the World Economic Forum's 75 Global Agenda

Wide variety of traditional medicines from forest plants

Councils evaluating global risks (e.g. freshwater scarcity, food scarcity, migration, nutrition, pandemics, catastrophic events, illicit trade, etc.) recognized ecosystem and biodiversity losses as key underlying drivers. As this awareness outside the conservation sector grows, change will come.

Considering the rapid loss of biodiversity and ecosystems and the ensuing effects on the welfare of the poor in particular, the question of whether we have any choice in the characterization of global public goods becomes important. Do public goods always have to remain public? This is largely



in a market, Burkina Faso. Local people know well the value of biodiversity

The cornucopian assumption of abundant and unfettered availability of these 'public goods' simply does not reflect the harsh reality.

dependent on the policy choices that we make, which determine whether a good is private or public.

There are numerous examples where policy initiatives of national governments and investments by the private sector are changing this dynamic by rewarding unrecognized benefits. In Costa Rica for example, payments for environmental services are virtually a country-wide strategy for forest and biodiversity conservation as well as sustainable development. Private corporations are increasingly seeing value in biodiversity preservation and recognizing the interconnectivity with long-term business durability. Insurance firms and shipping companies are financing the reforestation of the Panama Canal to restore freshwater flow and avoid increased shipping premiums caused by canal closures. In Guyana, a private equity firm has bought the rights to 20 per cent of the value of environmental services from a 370,000 hectare rainforest reserve anticipating that its carbon storage, water storage, biodiversity maintenance, and rainfall regulation services will only become more valuable and be recognized.

Tropical forests will be key to implementing this paradigm shift.

Strong opportunities exist for governments to capture the worth of biodiversity, generate revenue streams internally and through international agreements, and create appropriate domestic institutional arrangements to protect it. National governments have the responsibility to effectively integrate conservation of resources into environmental and forestry policies and beyond, into finance and planning agendas of the country. Governments should further provide fiscal or other incentives for people to encourage participation from a diverse set of stakeholders that can change the common property exploitative design of public goods and inspire innovation in the environmental sector.

Tropical forests will be key to implementing this paradigm shift. Internationally, REDD-plus is a game-changing mechanism seeking to compensate developing countries for the global carbon mitigation benefits of tropical forests. With these forests being mostly located in developing countries, forest carbon becomes a prime opportunity to spearhead new international payments for ecosystem services (IPES). TEEB is not alone in stressing that a key priority is to develop eligibility and performance criteria for forest carbon initiatives that reflect not only their carbon capture or emission reduction potential, but also a range of ecological, socioeconomic and biodiversity criteria that more fully reflect the true economic value and development role of forests. If agreement can be reached on these issues, and we are hopeful that this will happen expeditiously, then we can collectively start to recognize the real value of our public goods, and address biodiversity loss and the tragedy of the commons.

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Financing REDD-plus: promising progress

Hans Brattskar, Ambassador and director of the Norwegian Government's International Climate and Forest Initiative, looks at the growing momentum behind efforts to finance REDD-plus.

Efforts to reward developing countries for reduced emissions from the forest sector (REDD-plus) have progressed impressively since the idea was launched in 2005 and formally included in the negotiations under the UNFCCC two years ago in Bali. It was in Bali that our Prime Minister Stoltenberg announced the establishment of the Norwegian Government's International Climate and Forest Initiative, with annual funding of up to US$500 million to promote REDD; Brazil announced its Amazon Fund; and the World Bank launched the Forest Carbon Partnership Facility. Since then several other multilateral initiatives have followed – including the UN REDD Program, the Forest Investment Program and the Congo Basin Forest Fund – and other donors have scaled up their efforts. Most importantly, some 40 developing countries are in the process of preparing for a re-orientation of their economies in a more sustainable direction. All in anticipation of a full-scale REDD mechanism being established under the Convention, either at COP15 in Copenhagen or shortly thereafter.

Last year Norway had the privilege of being selected to host the Secretariat of the Informal Working Group on Interim Finance for REDD-plus (IWG IFR) of 38 countries.[1] Established at the margins of the G20 meeting in London in April 2009, the group was established to inform and be informed by the UNFCCC negotiations and discuss options for scaling up financing for REDD-plus. The group concluded that if €15-25 billion were made available in 2010-2015, the global deforestation rate could be reduced by 25 per cent, thereby avoiding some 7 billion tons of CO_2 emissions, a figure comparable to China's annual emissions. This would constitute the world's largest and most cost-effective mitigation opportunity during this time period, while protecting invaluable biodiversity, contributing to climate adaptation and protecting and promoting livelihoods for millions of people. All developing forest countries would receive funding for needed "REDD readiness" reforms, but 90 per cent of the money would go to pay for results. The IWG-IFR proposed a true partnership effort of developed and developing countries ready and willing to take action on REDD-plus and to advance the negotiations under the UNFCCC.

Copenhagen delivered on REDD-plus. While a UNFCCC REDD mechanism was not established, the REDD negotiations progressed to the point where it could have been adopted were it not for the lack of progress on the broader 'climate deal'. An important decision on methodologies and capacity building was adopted, allowing in-country preparations for a REDD mechanism to continue. Most impressively, the Copenhagen Accord calls for the "immediate" establishment of a mechanism for REDD-plus. Six donors – Australia, France, Japan, Norway, the UK and the US – came together and dedicated US$3.5 billion over the next three years as an "initial investment" to slow, halt and eventually reverse deforestation and forest degradation in developing countries. Given the highly significant commitments of self-financing from important REDD countries such as Brazil and Indonesia being submitted under the Copenhagen Accord, and adding a few more prospective donor countries, we could in fact approach the funding levels recommended by the IWG-IFR for 2010-12. Such levels of funding must be properly coordinated if we are to succeed in promoting a systemic change to the valuation of forest resources and their related climate services.

Copenhagen delivered on REDD-plus.

Shortly after Copenhagen, two meetings were announced to follow up on the REDD element of the Copenhagen Accord, one by the French President Sarkozy and the other by the Norwegian Prime Minister Stoltenberg. France and Norway are currently working together to establish an inclusive process around these two meetings that will allow committed countries to move forward on establishing an interim REDD arrangement in late spring or summer. The process must necessarily progress rapidly and effectively, yet be completely transparent, open and inclusive for any country to participate, and for civil society to provide critical inputs. The Interim REDD-plus Arrangement being established must be brought under the Convention as soon as possible. But with all the political commitment being built up over the last years, and with developed and developing countries coming together in a true spirit of partnership, we cannot wait to act on REDD-plus. We trust IUCN and its partners will welcome the initiative and join us in creating the first large-scale partnership between developed and developing countries in mitigating climate change.

[1] The full IWG-IFR report, along with summaries in French and Spanish, is available at www.miljo.no/iwg.

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REDD-plus finance: generating consensus through dialogue

Stewart Maginnis (IUCN) and **James Griffiths** (WBCSD), co-chairs of the Forests Dialogue, and **Jan Willem den Besten** of IUCN report on recent progress in thinking on the financial architecture of REDD-plus.

In 2009, The Forests Dialogue (TFD) organized a set of dialogues focusing on the financial architecture of REDD-plus. The meetings produced recommendations that directly informed policy-makers and anchored the voices of forest stakeholders into the global REDD-plus debate. TFD is an informal but influential platform for forest stakeholders to address challenges in the forest sector.

The inclusion of the broad scope of forest mitigation options as listed in the Bali Action Plan is now widely recognized as essential for the international community to achieve atmospheric stability with a fast-track pathway towards 2020. REDD-plus should ensure reduced emissions from deforestation and forest degradation through forest conservation and restoration, and the sustainable management of forests. While the terms of reference of a REDD-plus agreement are still under negotiation at the UNFCCC, continuing debates indicate the persistence of considerable areas of disagreement.

Given the complexity of forest issues and interests, TFD's accomplishments in generating consensus language amongst disparate forest stakeholders are remarkable. The widely acclaimed "Beyond REDD-plus" report, which was the outcome of a stream of dialogues in which over 275 forest stakeholders took part during 2008 stands witness to this. The 2009 TFD discussions on REDD-plus finance brought together stakeholders from the business, environmental and scientific sectors, as well as indigenous peoples and forest-based communities. The dialogues culminated in recommendations for policy-makers that were published in October at the UNFCCC meetings in Bangkok.

Participants stressed the need for REDD-plus to generate demonstrable emissions reductions in an efficient, effective and equitable way, while safeguarding atmospheric, social and environmental integrity. There was strong support for a phased approach, which allows countries to embark on early-day preparatory activities that focus on building country-specific frameworks to identify and tackle the drivers of deforestation. These REDD-readiness phases should focus on governance reforms and capacity-building. The clarification of land, carbon and tenure rights, capacity-building and the strengthening of forest law enforcement are essential components. The rights of indigenous peoples and local communities must be recognized and developed in all phases.

The REDD finance dialogue created an operational framework in the form of a matrix with requirements for

Discussions at the third TFD dialogue on REDD-plus finance

key outcomes, safeguards and financial arrangements for each of the three stages of the phased approach: readiness, policies and measures, and performance-based payments. The phased approach allows financial arrangements that move beyond the 'funds-versus-markets' discussions when countries develop portfolios for funding. Early readiness phases could be supported through bilateral and multilateral funds, while later phases could gradually link to voluntary or compliance markets for performance-based payments. The idea of 'triggers' was developed in this context with performance-based proxies that can facilitate the progress of countries from one phase to the next.

The importance for policy-makers of recommendations and consensus language from forest stakeholders on REDD-plus can't be underestimated. The TFD process to date is a reminder of the importance of good forest governance. Without this, we won't conserve let alone enhance the critical ecosystem benefits that forests deliver – climate regulation, food, fibre, energy and water. So the starting point in any REDD-plus process needs to be sustained upfront investment in governance capacity-building, based around good stakeholder engagement processes and shared decision-making.

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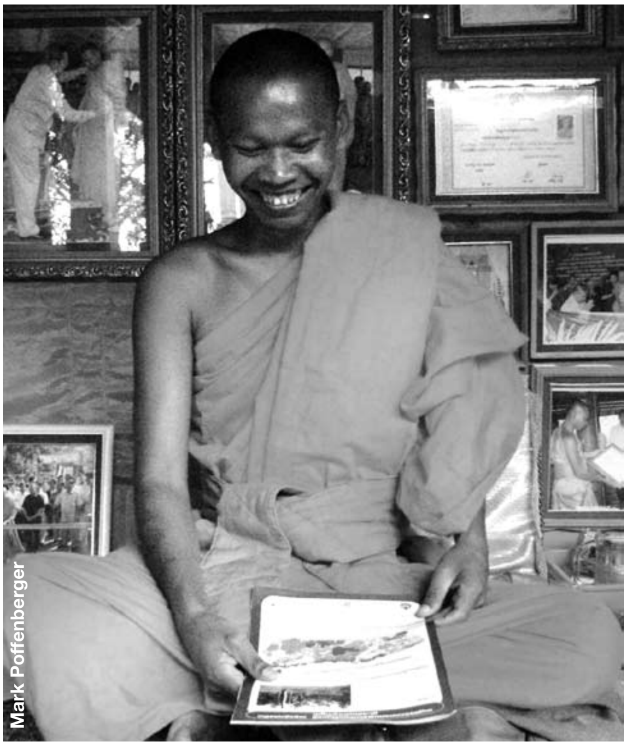
Supporting community forestry in Cambodia through **REDD**



Venerable Bun Saluth with Oddar Meanchey REDD project document. This energetic Buddhist Monk has mobilized his fellow monks and neighbouring villages to protect over 18,000 hectares of forest that still retains leopards and bears.

Mark Poffenberger of Community Forestry International presents emerging experiences with REDD project design in Cambodia.

Over the past eighteen months, the Royal Government of Cambodia and the Forestry Administration, along with Community Forestry International (CFI) and Terra Global Capital (TGC) have been developing Cambodia's first project to Reduce Emissions from Deforestation and Degradation (REDD). The project involves 13 community forestry (CF) groups, comprising 58 villages and protecting 67,783 hectares of forest land in the Northwestern province of Oddar Meanchey. The project may be the world's first REDD methodology and project design document to be approved by the Voluntary Carbon Standard (VCS), and will also seek certification under the Climate Community and Biodiversity Alliance (CCBA) guidelines. The project is expected to sequester 7.1 million metric tons of CO_2 over 30 years, demonstrating how forest dependent communities can generate income from carbon markets and positively impact climate change.[1]

Oddar Meanchey province provides an ideal site for developing a REDD project. The province's forests have been under intense pressure from commercial and illegal loggers, forest fire, economic land concessions and encroachment. A growing number of communities in the province have been protecting the remaining natural forests as community forestry areas, representing some of the largest community managed forests in the country. The project will conserve 13 forest blocks including some of the best closed canopy evergreen and dry deciduous forest ecosystems in the area, and will also restore areas of degraded forest.

This REDD projects seeks to support sustainable forest management and livelihood development activities for participating communities, with financing through carbon credits generated through forest protection and restoration. The project will assist rural people to gain legal tenure rights over local forests under 15-year renewable CF agreements, while establishing a 30-year income stream that will significantly enhance household livelihoods and natural resource management capacity. The project will attempt to retain and increase carbon stocks in the CF areas, enhancing the hydrology in the upland watersheds of the Tonle Sap Basin, as well as conserving endangered biodiversity. Carbon financing will be used to support rural communities to develop a range of livelihood activities including non-timber forest product enterprises, community-based ecotourism infrastructure, and water resource development. The project would also work with the Forest Administration and commune, district and provincial governments to formulate long-term plans for sustainable natural resource management to foster economic growth. Key activities supported under the project include, for example, strengthening of CF groups, creating financial incentives for forest protection, developing annual carbon stock monitoring systems, and introducing fuel efficient cookers.

If successful, the Oddar Meanchey project could provide a long-term source of financing for community forest management and conservation in Northwest Cambodia. Further, it could be replicated in other parts of the country to support an ongoing forest sector transition under the National Community Forestry Program. To succeed, the national and sub-national REDD strategies will require initial grant financing for design and early implementation, followed by performance-based carbon sales. This in turn necessitates a strong and transparent alliance of national government and community groups, supported by NGOs, donor agencies, certification agencies, and private sector firms.

[1] The calculation of the amount of carbon expected to be sequestered may change, after the findings of VCS-accredited verifiers.

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Investing in local forest enterprises

Duncan Macqueen of IIED looks at what it would take to attract investment in local forest enterprises.

In many developing country forest sectors, small and medium forest enterprises account for more than 90 per cent of enterprise numbers, 50 per cent of employment and, despite widespread informality, often more than half of government revenue collection (Mayers, 2006). Local forest enterprises come in different shapes and sizes, each with particular management aims. Ownership structure and management aims are now known to be more important determinants than the size of the forest business, in terms of its impacts on the forest and forest-dependent people. Since almost all of these enterprises are locally owned, profits end up in local hands. Globally the gross value added from small and medium forest enterprises amounts to US$130 billion – substantially more than all aid budgets combined (Mayers, 2006). Estimates that US$2.5 billion is invested in conservation by tropical forest communities suggest that at least some of this value added is ploughed back into maintaining the resource. Yet since the FAO initially highlighted their importance (FAO, 1987) little external investment has flowed to locally controlled enterprises.

Why, despite their global significance, has so little external investment flowed to local forest enterprises – especially in the South? The answer lies at least partially in the lack of organization both within and between geographically dispersed enterprise units. At the enterprise level, basic business registration, management and record keeping are often insufficient to inspire investor confidence. At the regional level, local forest enterprises are isolated from each other, from markets, from financial and business service providers and from policy and decision-makers (Macqueen, 2007). Better organization is important for a number of reasons. First, better organization can pave the way to greater political voice in the pursuit of land and forest rights which are the foundation for secure business. Second, better organized enterprise associations can help to increase visibility of products and services to customers and service providers. Finally, better organization can help to attract external investment by reducing perceptions of risk, lowering the transaction costs of dealing with multiple separate enterprise units and increasing the scale of returns to investors.

Few hard commercial investors would reject investment proposals that offered substantial high returns on eco-friendly production systems at low risk. But a number of stumbling blocks exist: (i) investment proposals are often beyond the capacity of the local forest enterprise to prepare; (ii) the scale of proposals is too small to cover the transaction costs of setting up the investment; and (iii) the risk of dealing with inadequately managed business ventures with little collateral is too high to bear. Addressing these stumbling blocks requires an alternative to hard commercial investment. Complementary but prior soft donor investment in enterprise organization and 'investment-preparedness' is also needed. Investment in association building and business capacity development are essential to create the credibility, scale and returns in investment proposals that might then be attractive to hard commercial investors.

Few hard commercial investors would reject investment proposals that offered substantial high returns on eco-friendly production systems at low risk.

Unsurprisingly, exactly this sort of soft donor investment has been proposed by the three global representative alliances of local forest 'right holders' – the International Family Forest Alliance (IFFA), the Global Alliance for Community Forestry (GACF) and the International Alliance of Indigenous and Tribal Peoples of Tropical Forests (IAITPTF). In recent meetings of The Forest Dialogue (TFD) supported by the Growing Forest Partnership (GFP) initiative these three alliances have proposed a flexible global fund, to be controlled by the 'right holders' alliances in pursuit of these aims (e.g. TFD, 2009). The intention is that this fund would build the types of organization and investment-preparedness that will secure rights, reduce investor transaction costs and risk and ultimately reduce poverty and avoid deforestation. Given the scale of forest resources and the number of forest-dependent people that these alliances represent, it is to be hoped that enlightened donors will respond to their suggestion.

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Improving investment in locally controlled forests

Financing for local forest enterprises has been limited

Chris Buss of IUCN relays the views of three forest rights-holders groups on the need for investment in local forests.

Local forest 'rights holders' – the people who live in, depend on and are the traditional owners and guardians of many of the world's forests – have often been marginalized from investment opportunities and discussions. A process is now underway, supported by The Forests Dialogue and Growing Forest Partnerships, to explore the opportunities and constraints to investing in locally controlled forests. Among those participating in this process are members of three important rights-holders groups: the International Alliance for Indigenous and Tribal Peoples of Tropical Forests (IAITPTF), the International Family Forest Alliance (IFFA), and the Global Alliance for Community Forests (GACF). Together these alliances control more than a quarter of the planet's forests. Here, representatives of these three groups give their views on what investment means in their context and what is required for them to fulfill their investment potential.

Estebancio Castro Diaz (IAITPTF)

Historically, indigenous peoples, governments, non-governmental organizations and commercial forest interests have often been in conflict. Therefore, there is a need to understand indigenous communities' points of view about development. It is our experience that there can be no sustainable development, and no proper investment in the forests and the future of our peoples until our full and effective participation is realised. All investment initiatives should be preceded by social, cultural, health and environmental impact assessments. All such studies and projects should be open to public scrutiny and debate by the indigenous peoples affected. Investing in locally controlled forestry must respect the rights of indigenous peoples to use and own their territories and the resources on which they depend. No biodiversity conservation programmes or climate change initiatives should be promoted on our territories without our free, prior and informed consent and without the recognition and implementation of the United Nations Declaration on the Rights of Indigenous Peoples as expressed through our indigenous organizations.

Peter de Marsh (IIFA)

Family forests throughout the world offer enormous possibilities for new investments in intensive forest management and processing of forest products. The people who depend on these forests also have an urgent need for new investment to build community capacity and improve livelihoods. Past interest by the financial sector in community-scale investments has been limited. One reason is the unconventional nature of many of the assets and risks that would be associated with these investments. Assets such as standing timber, environmental benefits of forests, local and traditional forest knowledge, and local capacity to protect the forest fall outside normal methods of evaluation. Business models that may combine several activities, subsistence and commercial production, family and paid labour, and may insist on hiring policies that place a high emphasis on community cohesion fall well outside the comfort zone of the financial sector. Some of the barriers that result are problems of perception and understanding and may be reduced through dialogue. Such dialogue may be helpful in linking the interests of both communities and investors through the opportunities that are emerging.

Ghan Shyam Pandey (GACF)

Most of the world's natural resources are controlled by the state. Local communities are left behind in the control over, and management of, the natural resources. There are many histories of struggle by local communities to obtain forest ownership rights, but few cases where ownership rights have been given back by the state. This leads to limited investment opportunities for local communities. Community-led interventions to address environmental, economic and social issues should be linked to the emerging opportunities and challenges linked to wider sectoral drivers, such as climate change. Communities managing local forests have tremendous potential to combine livelihood and environmental benefits but this requires a fundamental rethinking of policy and legal reform, sectoral and local governance of natural resources, and improved service. These would need to attract public investment from state agencies and donor funds in order to provide a platform for private investments reflecting effective community management of forest resources.

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Thoughts on the economics of FLR

Patrick Hardcastle and **Deborah Davenport** take a critical look at how economics can play a role in forest restoration decision-making.

There is no doubt that the area of forest land in need of restoration far exceeds the resources available to restore it. Some rational system for allocating resources is required, and allocating scarce resources is the basis of economics.

However, the use of standard economic tools to decide between forestry and non-forestry alternatives has led to disastrous decisions and widespread forest destruction. Forestry has lost out from the application of high discount rates, the omission of externalities and the failure to take account of the long time period in forestry, the frequent peculiarities of cost and benefit flow, and the failure to account for the full range of forest services.

An extreme example of the potential outcome of this type of decision-making is the decision to mine in a forested landscape because the short-term rate of return to mining is frequently many times higher than that of preserving the land as forest and the costs of cleaning up the damage caused by deeply destructive mining practices are historically externalized. This has led to large-scale forest loss in many less developed countries. One alternative to looking at future returns from investment in forest restoration would be, therefore, simply to charge the cost of restoring forest to those who benefited from its earlier devastation, under the "polluter pays" principle. Finding the parties responsible for and beneficiaries from such earlier forest destruction and then securing recompense from them would be challenging, although destructive mining companies would be an obvious place to start.

In some parts of the world, because economic decision-making produces such perverse outcomes, the decision between forestry and non-forestry alternatives on a given piece of land is taken out of the hands of economic analysts altogether, leaving investors to decide simply between alternatives within forestry. For example, Germany's forest cover is constitutionally protected. This in effect eliminates the opportunity costs that would be involved in a decision to maintain forest cover, forcing decision-makers to focus on internal decisions about forestry. This system does not bring as much private economic benefit as forest conversion, but the public benefits of maintaining that forest are enormous.

This raises the issue of equity, however: who pays and who benefits? There is a strong suspicion that in conservation forestry, for example, poor rural dwellers bear the costs while the wider community accrues the benefits. Forest Landscape Restoration (FLR) should avoid such inequity. If government policy takes choice away from forest landholders, then government policy should include compensation to them for these imposed opportunity costs. The German Government thus compensates for setting limits on choice of land use in its comprehensive system of grants and fiscal benefits to forest owners.

The current economic study of FLR is not designed to try to prove simply that FLR is a "good thing" but to aid identification of the best places to intervene first and the most equitable options for specific beneficiaries.

There is still great danger that the ill-considered application of investment theory to forestry will continue if decisions on forest restoration are left in the hands of powerful economic decision-makers. Similarly, there is now also a danger that substituting carbon for money, as the single numéraire on which to focus decision-making, could do likewise.

Our current economic study of FLR is designed to address these dangers and to make explicit the costs and returns of forest landscape restoration, accounting for true values as well as prices. It is not designed to try to prove simply that FLR is a "good thing" but to aid identification of the best places to intervene first and the most equitable options for specific beneficiaries.

FLR should be a broad church. Land that is degraded can be improved for conservation, for livelihoods, for service values and for production. High-production plantations may even have a role if they are well designed and applied on the right scale. Commercial investors could also be included if the range of pursuable outcomes is controlled so as to exclude the possibility of expecting excessive and overly rapid returns on investment (in any land use). This requires effective legislation.

To provide guidance, it is essential that FLR takes account of the flow of resources in the system and ensures that any system is equitable and sustainable. Properly applied – within forestry, as opposed to between forestry and other land uses – economic analysis can assist with this.

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Pat and **Deborah** are consultants on forestry development and global environmental policy-making, respectively. Pat is currently coordinating a detailed economic study for the GPFLR.

Sustainable forest finance toolkit now available

Chris Knight of PricewaterhouseCoopers (PwC) and **James Griffiths** of World Business Council for Sustainable Development (WBCSD) present a new web-based toolkit for forest investors.

The toolkit homepage

Despite disappointment in the outcomes of the recent climate change summit, the Copenhagen Accord opened significant opportunities for the finance sector in financing forest carbon, sustainable forest management and other sustainable approaches.

This is particularly important and timely as the finance sector faces considerable challenges in progressing its portfolio towards sustainable financing of industries impacting forests. Getting the balance right between economic development and deforestation has proven difficult, and the expansion of certified sustainable forestry has been slow. This is an issue for all companies involved in the supply chain, from forest producers, to traders, processors, end buyers and the banks that finance forestry.

At the same time, the financiers of forest sector activities are having to deal with additional pressures and risks, including:

- Increasing regulatory and market focus on the forestry sector due to the substantial contribution of land use change and forestry activities to greenhouse gas emissions;
- Material financial and reputational risks where the procedures of financial institutions fail to identify and address their clients' sustainability issues;
- Stakeholder expectations that financial institutions meet industry standards such as the Equator Principles; and
- Significant opportunities for the finance sector in financing forest carbon, sustainable forest management and other sustainable approaches.

The bottom line is that financial institutions have made, or are under growing pressure to make, commitments to sustainable forestry financing. However, few have effective policies and procedures to deliver on these commitments.

Responding to these issues, PwC and WBCSD have jointly developed a web-based decision-support tool to help financial institutions manage risk and support sustainable forest management through their investments in forestry operations and industries that impact forests.

The toolkit, launched in February, has undergone an extensive review by stakeholders – including a range of finance and asset management institutions, forestry companies, non-government organizations and intergovernmental bodies. It draws on a wide range of existing information resources, guidelines and tools relating to sustainable finance and sustainable forestry. It pulls these resources together into an easy-to-use interactive PDF that allows users to navigate the document and access external information using embedded links.

The toolkit comprises four key sections arranged in a practical, interactive format, and targeted at specific user groups within a financial institution:

1. New application – guidance for assessing prospective forestry sector clients on sustainability performance;
2. Portfolio management – an illustrative approach for evaluating legacy clients within the bank's forestry portfolio;
3. Policy development – guidance on the design of a clear and pragmatic forestry policy; and
4. Procurement – an illustrative forestry procurement policy and links to key additional resources.

This resource will be regularly updated to accommodate changing circumstances, such as developments associated with REDD-plus.

The toolkit is available for download as a complimentary resource at: www.pwc.co.uk/forestfinancetoolkit

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arbor*vitae*

The next issue of **arbor***vitae* will be produced in June 2010 (copy deadline mid May) and will look at communicating forest values. If you have any material to send or comments please contact:

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Back issues of **arbor***vitae* can be found on: www.iucn.org/forest/av

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