



Economic and Social Council

Distr.: General
16 June 2010

Original: English

United Nations Forum on Forests
Open-ended Intergovernmental Ad Hoc Expert Group
on Forest Financing
Nairobi, 13-17 September 2010
Item 4 of the provisional agenda*
Tasks of the Expert Group

Strategies to mobilize resources from all sources to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests, including, inter alia, strengthening and improving access to funds and establishing a voluntary global forest fund

Note by the Secretariat

Summary

At the special session of its ninth session, the United Nations Forum on Forests decided to establish the Open-ended Intergovernmental Ad Hoc Expert Group on Forest Financing to make proposals on strategies to mobilize resources from all sources to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests, including, inter alia, strengthening and improving access to funds and establishing a voluntary global forest fund. The present note is submitted to facilitate the work of the Expert Group during its first meeting. The note includes an update on major developments on forest financing and outlines important issues to be considered by the Group.

* E/CN.18/2010/1.

I. Introduction

1. At the special session of its ninth session, held on 30 October 2009, the United Nations Forum on Forests adopted a resolution on means of implementation for sustainable forest management (see E/2009/118-E/CN.18/SS/2009/2, para. 3), by which the Forum established an open-ended intergovernmental ad hoc expert group and a facilitative process. In its decision 2009/268, the Economic and Social Council took note of the report of the special session. The mandate of the Expert Group, contained in paragraph 1 of the resolution, is to make proposals on strategies to mobilize resources from all sources to support the implementation of sustainable forest management, the achievement of the global objectives on forests and the implementation of the non-legally binding instrument on all types of forests, including, inter alia, strengthening and improving access to funds and establishing a voluntary global forest fund, taking into account, inter alia, the results of the Forum's review of the performance of the facilitative process, views of Member States, and review of sustainable forest management-related financing instruments and processes.

2. Pursuant to paragraph 2 of the resolution and in fulfillment of its mandate, the Expert Group will hold two meetings, one before the ninth session and one before the tenth session of the United Nations Forum on Forests. The Expert Group will submit a preliminary report at the ninth session and final recommendations at the tenth session for the Forum's consideration and decision.

3. This present note aims to pave the way for the Expert Group to start performing its substantive role effectively during its first meeting. To provide a substantive context, the note also reviews the history of forest financing discussions before and after the inception of the United Nations Forum on Forests. The note also highlights major forest-related financing activities and developments, including reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks (REDD-plus), progress made and the remaining unsolved issues. The note also includes an overview of other issues that require more focused discussion within the Expert Group process, including suggestions for intersessional activities.

II. Brief history of multilateral discussion on forest financing

A. Intergovernmental Panel on Forests and Intergovernmental Forum on Forests

4. The discussions in the United Nations Forum on Forests on forest financing have built on the contributions of the Intergovernmental Panel on Forests and the Intergovernmental Forum on Forests, as both bodies worked intensively on the issue. Three specific, country-led initiatives have supported the discussion on forest financing.¹

5. At its fourth meeting (see E/CN.17/1997/12), the Intergovernmental Panel on Forests emphasized the cross-cutting and critical nature of issues related to

¹ International workshops were held in Pretoria (1996), Croydon, United Kingdom of Great Britain and Northern Ireland (1999) and Oslo (2001).

financing and recognized that in developing countries, domestic resources for financing the management, conservation and sustainable development of all types of forest were scarce and that international financial sources remained vital. However, the Panel concluded that financing needs for sustainable forest management at the national level should, as far as possible, be generated by the forest sector itself.

6. The Panel highlighted the need to examine ways to enhance international cooperation and to explore innovative financing mechanisms. The importance of in-country coordination and cooperation among donors was deemed crucial.

7. In its proposals for action, the Panel, *inter alia*, urged recipient countries to prioritize forest activities and to use national forest programmes as a framework for assessing financing needs and providing support to sustainable forest management. Measures aimed at solutions to external debt problems were called for, including innovative mechanisms such as debt-for-nature swaps. The Panel also discussed a proposal for the establishment of an international fund for the management, conservation and sustainable development of all types of forests, but reached no consensus on the actions to be taken. The report of the Panel also contained specific action proposals to enhance private sector investment, national capacity, national coordination and international cooperation.

8. At its fourth meeting (see E/CN.17/2000/14), the Intergovernmental Forum on Forests concluded that a substantial increase in financing from all sources was required, but it was equally important to increase efficiency and effectiveness of available resources and existing mechanisms. The complementary roles of public and private sector financing were highlighted, but they were not considered substitutes for each other. Innovative strategies were felt important for mobilizing additional financial resources and private sector investment in sustainable forest management, but deemed to be inhibited by policy and market imperfections. The importance of information on financial flows and the limited availability of data were also recognized. A proposal for an international fund for forests was considered and a set of criteria for its characteristics was identified.² The proposals for action touched on many of the same areas as those of the Intergovernmental Panel on Forests, but also included exploration of the feasibility of operationalizing an investment promotion entity.

B. Progress in the United Nations Forum on Forests on forest financing

9. One of the principal functions of the United Nations Forum on Forests, in accordance with Economic and Social Council resolution 2000/35, paragraph 2 (a), is to agree on actions to catalyse, mobilize and generate financial resources to promote implementation of the Intergovernmental Panel on Forests/Intergovernmental Forum on Forests proposals for action. In addition, the resolution, in paragraph 3 (c) (ii), provided a mandate to the Forum to take steps to devise approaches towards

² The criteria included: (a) to involve participating donors and beneficiaries in relevant decision-making; (b) to respond to national needs and support national forest programmes; (c) to facilitate internalizing externalities of forests in promoting sustainable forest management; (d) to build on or link with national financing mechanisms; (e) to be transparent and administratively efficient; (f) to complement the financing mechanisms of relevant multilateral agreements; and (g) to have secure and sustained funding sources (E/CN.17/2000/14, para. 27).

appropriate financial and technology transfer to enable the implementation of sustainable forest management.

10. At its first session, the United Nations Forum on Forests decided to address means of implementation, including financing, as cross-cutting issues in the multi-year programme of work and during each session of the Forum (see E/2001/42/Rev.1-E/CN.18/2001/3/Rev.1, resolution 1/1). The ministerial declaration adopted by the Forum at its second session (E/2002/42-E/CN.18/2002/14, resolution 2/1, annex) underlined the importance for the international community to strengthen cooperation in the area of finance, and urged the fulfilment of the official development assistance (ODA) commitment as well as its efficient use. The need for innovative financing mechanisms was also highlighted.

11. At its third session, the Forum on Forests agreed on the terms of reference and composition of the Ad Hoc Expert Group on the Finance and Transfer of Environmentally Sound Technologies (see E/2003/42-E/CN.18/2003/13, para. 2, draft decision III, and Economic and Social Council decision 2003/299). The Group met after the session of the Forum, in December 2003, and came up with an extensive set of recommendations (see E/CN.18/2004/5).³

12. At its fourth session, the Forum took note of the recommendations of the Expert Group on Finance and decided to give further consideration in its programme of work to the issues of finance and transfer of environmentally sound technologies, including the recommendations of that Group (E/2004/42-E/CN.18/2004/17 and Corr.1, decision 4/2).

13. Following the debate during the high-level ministerial segment of the Forum at its fifth session (see E/2005/42-E/CN.18/2005/18, chap. VIII) and the discussion of the Forum at its sixth session on elements related to finance as part of elements of an understanding/instrument for forests at the international level (see E/2006/42-E/CN.18/2006/18 and Corr.2), the Economic and Social Council adopted resolution 2006/49, in which the Council urged countries to promote sustainable forest management through actions set out in that resolution.

14. In a major development, at its seventh session the Forum adopted the non-legally binding instrument on all types of forests and the four global objectives on forests (see E/2007/42-E/CN.18/2007/8 and Corr.1, chap. I.A). Finance received remarkable political attention in the non-legally binding instrument, although it does not include a concrete delivery mechanism. Moreover, in the first ever globally agreed objectives on forests, finance received particular recognition as the fourth global objective on forests specifically addresses mobilization of significantly increased, new and additional financial resources from all sources.

15. At the seventh session of the Forum, a background paper on means of implementation commissioned by the Program on Forests⁴ was introduced to the participants in a side event. The paper attempted to elaborate innovative approaches to mobilize new and additional financial resources.

³ To support the work of the United Nations Forum on Forests on financing, an international expert meeting on innovative financial mechanisms was held as a country-led initiative in Costa Rica in March-April 2005.

⁴ Hosny El Lakany, Michael Jenkins and Michael Richards, "Background paper on means of implementation (Contribution by PROFOR to discussions at UNFF-7, April 2007)", (Washington, D.C., Program on Forests (PROFOR) at the World Bank, 2007).

16. Subsequently, in its resolution 2007/40, the Economic and Social Council decided to establish an ad hoc expert group to develop proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework for all types of forests. To support the work of the group, a country-led initiative was organized in September 2008.⁵ The Collaborative Partnership on Forests launched an Advisory Group on Finance in December 2007 to support the preparations for the ad hoc expert group.

17. The Advisory Group on Finance conducted two analyses: (a) an update of the Collaborative Partnership on Forests Sourcebook on funding for sustainable forest management along the lines of the non-legally binding instrument; and (b) an analysis of financial flows and needs to implement the non-legally binding instrument, including identifying gaps (also referred to as a mapping exercise). The mapping exercise provided updated information on financial flows to forests and revealed serious gaps in ODA and external private sector financial flows to forests, both geographically and thematically.⁶ It also highlighted the fact that addressing those gaps and dedicating specific means and resources to sustainable forest management would be necessary to implement the non-legally binding instrument, especially by developing countries.⁶

18. The expert group met in November 2008 in Vienna and considered proposals for the development of a voluntary global financial mechanism/portfolio approach/forest financing framework, which to many were not mutually exclusive proposals. The group generally recognized that the current state of affairs on forest financing in developing countries was not satisfactory and that improvements were essential. However, views differed about how to achieve the improvements. There was no consensus on a dedicated fund for sustainable forest management. A facilitative mechanism was also discussed. There was, however, consensus to continue the work on this matter.⁷

19. The report of the Secretary-General to the United Nations Forum on Forests at its eighth session noted that effective implementation of the non-legally binding instrument required new thinking and bold decisions on forest finance and other means of implementation through a step-by-step approach. In that connection, the Secretary-General proposed to catalyse financing sustainable forest management through establishment of a facilitative mechanism while working on a longer term and lasting solution to financing sustainable forest management within the United Nations Forum on Forests.

20. The report of the Secretary-General triggered extensive discussion among countries and concrete ideas and suggestions were made by various countries and groups. At some points, countries were close to final agreement. Owing to differences in views on a number of issues, however, including lack of consensus on referring to “terms of reference of a voluntary global forest fund” in the draft decision, the Forum did not agree on the text at its eighth session and decided to transmit the bracketed negotiating text to the Forum at its ninth session, in 2011.

⁵ Financing sustainable forest management, Paramaribo, September 2008.

⁶ Markku Simula, “Financing flows and needs to implement the non-legally binding instrument on all types of forests” (Washington, D.C., Program on Forests (PROFOR) at the World Bank, 2008).

⁷ Summary report by the Chair, available from <http://www.un.org/esa/forests/adhoc-SFMfinance.html>.

21. The eighth session negotiations on forest financing, and agreement on many important issues in the bracketed negotiating text, generated huge energy and enthusiasm among countries, which led to agreement among them to advance the debate and to conclude the negotiations in 2009. Based on that agreement, Member States engaged in a series of informal consultations, which successfully concluded with the adoption of a milestone resolution at the special session of the ninth session of the Forum on 30 October 2009 (see E/2009/118-E/CN.18/SS/2009/2). The resolution set up two major processes: the facilitative process and the Ad Hoc Expert Group on Forest Financing.

22. Within the United Nations Forum on Forests, there has been significant progress in clarifying and increasing understanding on key issues surrounding forest financing and in building consensus among countries. Adjustments in the strategic approach have been made incrementally in parallel with the consensus-building process. For instance, there has been a shift from a sectoral approach, building on national forest programmes and associated national forest financing strategies, towards a broader approach that embraces all forest-related socio-economic and environmental services and their contribution to the development agenda of all countries.

23. Based on the work and findings of the United Nations Forum on Forests, there is little or no doubt that achieving sustainable forest management requires adequate resources from all sources, and that the limitations in access to funding must be overcome. Similarly, creating an enabling environment, engaging all stakeholders (including non-forest sectors) in forest financing and addressing the identified gaps in the necessary financial flows⁶ are among the issues of consensus.

III. Moving from a sector-centred towards a people-centred approach

A. Forests and the global development agenda

24. The pace towards achieving the internationally agreed development goals, including the Millennium Development Goals, has been slow, and in fact the global community has already missed meeting some of the goals. Achieving the internationally agreed development goals is feasible if the right policies target priority policy areas, supported by sufficient resources.

25. In recent years, there has been an increasing tendency to look at the forest and its potential beyond the needs of the forest sector. Major global challenges facing the world community, including the energy, food, climate change and financial crises around the globe have led to increased recognition of the potential of forests to diminish the impacts of those challenges. Forests provide a number of goods and services that are essential for civilizations and are crucial for economic development, access to water, agricultural productivity, soil conservation and flood control. Forests are home to at least 80 per cent of terrestrial biodiversity, and are a major carbon sink for regulating global climate. Forests contribute intensively to poverty eradication, as over 1.6 billion people worldwide depend on forest resources for their livelihoods.

26. The non-legally binding instrument and its global objectives on forests in particular have played important roles in devising a comprehensive approach to

forests and clearly define the contribution of forests to the internationally agreed development goals. The instrument and its four objectives are major achievements of the international community adopted by the General Assembly (resolution 62/98, annex) after the Millennium Summit of 2000 and the World Summit of 2005. The instrument symbolizes the culmination of 15 years of global forest negotiations and the beginning of a new era of international cooperation on forests, not as a sector but rather as a vital cross-cutting issue that advances the global development agenda.

27. The global objectives on forests contained in the non-legally binding instrument are an illustration of the evolution from a sector-centred to a people-centred approach on forests and their financing. The value added of the instrument derives, inter alia, from its holistic approach to addressing forests in sustainable development and its role in harnessing synergies between various forest-related conventions and other instruments.

28. In light of the above, it is of utmost importance to further pursue such a vision on forests and to integrate the global objectives on forests in the outcomes of the upcoming major events, in particular the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals in September 2010 and the United Nations Conference on Sustainable Development in 2012.

B. Recognition of a people-centred approach in the resolution adopted by the United Nations Forum on Forests at the special session of its ninth session

29. By adopting at the special session of its ninth session its resolution on means of implementation, the United Nations Forum on Forests set up a new vision in which financing sustainable forest management was recognized as a critical action for advancing the global development agenda. This new vision requires a departure from traditional ways of addressing the financing issue, where discussions were kept internal to the forest sector and agreed measures were often far beyond the forest community's control. It is only through a multisectoral approach that the Forum will be able to take a solid decision at its tenth session that positively affects forest financing.

30. The resolution adopted at the special session of the Forum's ninth session set a sound framework that can help countries to avoid a repetition of the debate on concepts and measures that have already been agreed, and assist them to narrow down the scope of their differences and approaches, looking at forest financing in a very strategic manner. In that resolution, the Forum reaffirmed that financing for forests was not adequate and that forest financing strategies should be inclusive of all types of resources, from all sources.

31. The resolution places cooperation, participation and responsiveness as the bedrock for any eventual solution to forest financing. It frames forest financing in the context of global development goals, and not in the context of a political confrontation between South and North or national versus international resources. The gaps in and needs for forest financing in developing countries, in particular in those countries with special needs, are recognized.

IV. Major forest-related financing developments

A. National and regional activities

32. To overcome lack of financing for forests, many countries are now exploring innovative sources for forest financing. For example, several countries in Latin America have used innovative approaches to public-sector financing of forestry, including ring-fencing budget allocations for forestry (in Guatemala), earmarking taxes for forestry (in Brazil), and public-private partnerships or revenue sharing arrangements. In addition to the traditional sources of finance described above, several countries have recently been experimenting with payments for environmental services, new indirect investment products (such as forest-backed securities) and forest funds.⁸

33. The work of the United Nations Forum on Forests on forest financing has triggered huge enthusiasm and concrete analysis and studies have been done on forest financing at the national and regional levels. One major work is a publication, entitled *Towards National Financing Strategies for Sustainable Forest Management in Latin America*,⁹ which presents an overview of the current situation and the experience in selected countries on forest financing. The main purpose of the work described was to inventorize and analyse financing instruments and mechanisms, both traditional and innovative, in 19 Latin American countries, assessing their strong and weak points and their effectiveness, and to promote knowledge-sharing and capacity-building among the countries. A total of 19 national studies were carried out and in addition a few regional syntheses were produced, based on an overall analysis of the country studies.

34. In the Plurinational State of Bolivia, public revenue from forest activities includes a system of forest licences. According to Government statistics, in the period 1997 to 2005, the State collected a total of 395.8 million bolivianos (approximately \$50 million) from area licence fees (31 per cent), volume licence fees (22 per cent), clearing licence fees (21 per cent), flat fees (3 per cent), fines and auction sales (7 per cent), application forms (7 per cent) and miscellaneous sources (9 per cent). In Ecuador, there are various types of public revenue from indigenous forests collected by the Government; in 2003, \$1,469,109 was collected for permits and licences, \$1,360 was collected in the form of fines for infringements of forest law and \$3,202 was collected for various types of registration.

⁸ Food and Agriculture Organization of the United Nations, "Financing sustainable forest management", available from <http://www.fao.org/forestry/16559-1-0.pdf>.

⁹ Kees van Dijk and Herman Savenije, *Towards National Financing Strategies for Sustainable Forest Management in Latin America: Overview of the Present Situation in Selected Countries*, Forestry Policy and Institutions Working Paper 21 (Rome, Food and Agriculture Organization of the United Nations, 2009). This work was carried out by the Food and Agriculture Organization and the Amazon Cooperation Treaty Organization, acting in association with the Ministry of Agriculture, Nature and Food Quality of the Netherlands, the Central American Commission on Environment and Development, the International Union for Conservation of Nature and the German Agency for Technical Cooperation, and with the support of the National Forest Programme Facility, the Federal Ministry for Economic Cooperation and Development of Germany, the Ministry of Foreign Affairs of the Netherlands and Tropenbos International. Detailed information on this work and related studies can be found at <http://www.fao.org/forestry/finance/en/>.

35. Establishment of the Congo Basin Forest Fund is another important development related to forest financing. The Fund is a multi-donor fund set up to take early action to protect the forests in the Congo Basin region, which cover 200 million hectares and include approximately one fifth of the world's remaining closed canopy tropical forests. The Fund was launched in June 2008 to complement existing activities, to support transformative and innovative proposals to develop the capacity of the people and institutions of the Congo Basin to enable them to manage their forests, to help local communities find livelihoods consistent with the conservation of forests, and to reduce the rate of deforestation. The Fund is initially being financed by a grant of £100 million from the Governments of Norway and the United Kingdom of Great Britain and Northern Ireland, and is managed by the African Development Bank.

B. REDD-plus

1. Importance of REDD-plus

36. Very relevant to the work of the United Nations Forum on Forests on forest financing, the international financing landscape has been under constant change during the past few years. The international architecture of financing for forests has undergone major changes. Significant expectations have emerged concerning the potential of forest carbon financing to mobilize unprecedented additional resources and, to a lesser extent, concerning other payment schemes for environmental services to support sustainable forest management. If properly designed, REDD-plus financing could be a catalyst for broader and transformative sustainable forest management investment, including public and private investment.

37. Reducing emissions from deforestation and forest degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions and unlock the potential contribution of forests to a low-carbon, sustainable development path.

38. As an agenda item, REDD was first addressed at the eleventh session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in Montreal in 2005. Two years later, the Conference adopted the Bali Action Plan (decision 1/CP.13), in which the parties agreed, within the context of enhancing national and international action to mitigate climate change, to consider policy approaches and positive incentives on issues related to reducing emissions from deforestation and forest degradation in developing countries, as well as the role of REDD-plus in developing countries.

39. Further progress was made on REDD-plus prior to and at the fifteenth session of the Conference of the Parties, including the adoption of decision 4/CP.15 on methodologies for activities relating to REDD-plus, the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention on REDD-plus and the Copenhagen Accord (decision 2/CP.15). While there are technical and political issues related to REDD-plus that have yet to be agreed upon within the climate change negotiation process, substantial financial resources have already been committed to REDD and REDD-plus since the thirteenth session of the Conference of the Parties.

40. These developments are of importance to the United Nations Forum on Forests owing to the substantive link between forest-based climate change mitigation and adaptation measures, and the implementation of sustainable forest management, the non-legally binding instrument and the achievement of the global objectives on forests. Moreover, the accumulating experience from the REDD-plus related programmes and processes, such as the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, the Forest Carbon Partnership Facility, the Forest Investment Programme, the Global Environment Facility (GEF) and several bilateral and regional initiatives¹⁰ will provide valuable input for the Forum's work on forest financing, including for the Ad Hoc Expert Group on Forest Financing.

2. Global Environment Facility, United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, Forest Carbon Partnership Facility and Forest Investment Programme

41. In 2007, GEF launched the tropical forest account, a pilot initiative in the area of REDD-plus. This initiative focused on the three regions of large and mainly intact tropical forests (Amazonia, the Congo Basin and Papua New Guinea/Borneo) and gave rise to comprehensive projects and programmes, such as the GEF strategic programme for sustainable forest management in the Congo Basin (\$50 million GEF funding, leveraging \$160 million from other sources). For its next replenishment cycle (2010-2014), GEF will in particular strengthen its sustainable forest management efforts in the field of REDD-plus.

42. The accumulated portfolio of GEF encompasses over 300 projects related to sustainable forest management, totalling \$1.6 billion in grants, including \$450 million during the past three years. Co-financing brought these investments to approximately \$5 billion. Moreover, in its fifth replenishment period (2010-2014), GEF will expand its activities in forest financing through a dedicated sustainable forest management and REDD-plus investment programme with a separate funding envelope of \$250 million. This significant new cross-cutting window for funding sustainable forest management is largely a response to the resolution adopted by the Forum at its eighth session. The total GEF investment in sustainable forest management and REDD-plus during the period 2010-2014 is expected to be up to \$1 billion by the end of the next funding cycle, before co-financing leveraging is considered.

43. Under the leadership of the Secretary-General of the United Nations, the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and FAO established the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries. This initiative aims in the short term to work with countries in the development of national strategies to build initial REDD-plus readiness. Quick start actions for nine pilot developing countries — three each in Africa, Asia and Latin America — have been initiated under the Programme. The Programme is

¹⁰ For example, the recent collective commitment of the Governments of Australia, France, Japan, Norway, the United Kingdom and the United States of America to dedicate a total of \$3.5 billion of fast-start climate change financing for REDD-plus as initial public financing over the 2010 to 2012 period, to initiate an effort to slow, halt and eventually reverse deforestation and forest degradation in developing countries, in line with opportunities and the delivery of results.

also partnering with a further 13 countries, which have access to the entire Programme network and knowledge base (see <http://www.un-redd.org>).

44. Since the fifteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, in Copenhagen, the United Nations Collaborative Programme and the World Bank, which facilitates the Forest Carbon Partnership Facility and partners with other multilateral development banks in managing the Forest Investment Programme, are working together to respond to calls by their respective governing bodies to explore options for enhancing cooperation and coordination among these initiatives. This includes an effort by the Facility Management Team of the Partnership Facility and the Collaborative Programme secretariat to develop a joint delivery platform for REDD-plus readiness, which would encompass an agreed set of operating principles and common standards, including a shared readiness template. To this end, a brainstorming meeting on enhancing cooperation and seeking coherence between REDD-plus institutions to support countries' REDD-plus efforts was held on 3 and 4 May 2010 in Washington, D.C.

3. REDD-plus partnership (Paris-Oslo process)

45. At a ministerial meeting in Paris in March 2010, about 50 countries called for a REDD-plus partnership to be formalized at the Oslo Climate and Forest Conference in 2010.¹¹ The REDD-plus partnership aims to provide a voluntary, non-legally binding framework for its partners to develop and undertake collaborative REDD-plus efforts. The core objective of the partnership is to serve as an interim platform for the partners to scale up REDD-plus actions and finance, and to that end to take immediate action, including improving the effectiveness, transparency and coordination of existing initiatives and financial instruments to increase knowledge transfer and enhance capacity.

46. The partnership will draw on the knowledge and expertise of the Facility Management Team of the Forest Carbon Partnership Facility and the United Nations Collaborative Programme secretariat for the provision of secretariat services for the partnership. In response, the Programme and the Facility secretariats on 12 May 2010 in a joint letter expressed their readiness to provide the services envisaged in the partnership document in an effective and efficient manner.¹²

47. To support the partnership, Australia, France and Papua New Guinea volunteered to survey countries and international bodies about their REDD-plus activities and financial arrangements. The survey was sent to developing countries, developed countries and international organizations that provide support for REDD-plus activities. Based on 33 responses to the survey, including 15 from developing countries, 10 from developed countries and 8 from organizations and multilateral institutions, a synthesis report prepared by an intergovernmental task force was presented on 27 May 2010 at the Oslo Conference. During the Conference, a pledge of \$4.5 billion was made to finance REDD-plus activities for the period 2010-2012.

¹¹ See <http://www.oslocfc2010.no>.

¹² UN-REDD programme, Newsletter No. 8, May 2010, available from <http://www.un-redd.org>.

4. Pending issues

48. While REDD-plus is specifically mentioned as a mechanism to be established immediately,¹³ lack of agreement on concrete measures for the post-Kyoto Protocol scheme in Copenhagen and the fact that several policy and implementation issues on REDD-plus have only been discussed on a general level or supported by a subset of countries, indicate that uncertainties remain on when such a full-scale agreement will be in place. Even if there is an agreement on REDD-plus soon, the carbon potential of forests and related financing is only a partial reflection of the benefits forests provide. Many experts believe that in order to achieve reduced deforestation and forest degradation for climate change, these initiatives have to cover the wider scope of sustainable forest management, with implementation of the non-legally binding instrument and financing of the global objectives on forests as a prerequisite for effective achievement of all the goals.

49. In fact, a look at the history of discussions on forests within the climate change context reveals that there has been a gradual expansion of the initial narrow concept. The evolution of the discussion from reducing emissions from deforestation to REDD and now to REDD-plus is firm evidence of the fact that countries have always aimed at utilizing the full potential of forests to address climate change mitigation and adaptation, as well as ensuring that forest benefits go beyond their carbon stock value. For these reasons, even though discussion on REDD-plus has gained momentum, it is still not clear for many whether the future REDD-plus programme will constitute the same comprehensive framework that encompasses the full potential of forests, or address only the carbon benefits.

50. Further negotiations will be needed before the structure of REDD-plus and its financing mechanisms finally take form, which is expected to happen during the sixteenth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change in Cancun, Mexico. Determining the market value of REDD-plus credits versus the opportunity costs of other land uses and forest management systems will be complicated.¹⁴ In addition to technical, methodological and policy issues, to make a REDD-plus mechanism effective in emission reduction and cost efficient, there are other sets of issues that need to be addressed, including the rights of indigenous people, co-benefits and benefit sharing. It is also not clear how an eventual REDD-plus agreement avoids putting at a disadvantage those countries that have already taken steps to eliminate or reduce deforestation and to manage their forests sustainably, including through conserving carbon held in forests. This particularly applies to plantations and whether those generally monoculture afforestation activities would be eligible to receive financing under the REDD-plus agreement.

51. There are also concerns that REDD-plus activities in developing countries may substitute greenhouse gas mitigation commitments by developed countries. While REDD-plus should complement those commitments, agreement on REDD-plus in a post-Kyoto regime must not jeopardize the commitment of annex I parties to the United Nations Framework Convention on Climate Change to reduce their own emissions.

¹³ See FCCC/CP/2009/11/Add.1, decision 2/CP.15.

¹⁴ Ben Vickers, "REDD: a steep learning curve", *Financing Sustainable Forest Management*, European Tropical Forest Research Network News, No. 49 (Wageningen, the Netherlands, Tropenbos International, September 2008), p. 137.

52. Financing mechanisms related to climate change are at different levels of development and applicability for different countries. In spite of their huge potential, REDD-plus financing flows are highly unlikely to address all the gaps and constraints of financing for the implementation of the non-legally binding instrument. In addition, various definitions of sustainable forest management, different interpretations of that concept and a lack of consensus among countries and organizations to agree on a specific definition would diminish countries' ability to have a full comparison of what has been done for forests and what else should be done.

53. As indicated above, the development of a REDD carbon market mechanism must be based on sound methodologies for estimating and monitoring changes in forest cover and associated carbon stocks and greenhouse gas emissions, incremental changes due to sustainable management of forests and reduction of emissions from deforestation and forest degradation. While such a methodological challenge is relatively less complicated in respect of emissions from deforestation, it has proved to be much more difficult for forest degradation. Participants at the workshop on methodological issues related to REDD in developing countries held in Tokyo in 2008 agreed that addressing emissions from forest degradation was more difficult than addressing emissions from deforestation. It was also noted that there were different types of forest degradation and some might be easier to measure than others (FCCC/SBSTA/2008/11).

54. Greater clarity is needed to understand the implications of REDD and REDD-plus on forest financing for Member States, and the extent to which REDD-plus financing would cover the broader needs for forest financing: how financing is spread across countries and sectors, what are the potential gaps, obstacles and opportunities, and the additionality of REDD-plus funding, needs to be much better understood. How to improve the effectiveness and transparency of existing REDD-plus initiatives is another key area to be addressed.

55. While there are considerable efforts under way to coordinate the work of the REDD and REDD-plus initiatives and partnerships in order to advance a comprehensive approach for the provision of REDD-plus services to address country needs in a timely and collaborative manner, it is still not clear what all the component parts of the strategy would include. Moreover, enhanced coordination among financing mechanisms and partnerships related to REDD and REDD-plus will be a challenging task owing to different governing structures and priorities of various processes. In addition, it is important to find ways to integrate the work of other forest policymaking bodies such as the United Nations Forum on Forests in policy and implementation discussions of REDD-plus in a meaningful manner. This will ensure that ongoing efforts on REDD-plus become a vital part of setting policy on forest financing, consistent with setting overall global policy on sustainable forest management.

C. Facilitative process and the Ad Hoc Expert Group

56. It is of crucial importance to understand the relationship between the Ad Hoc Expert Group and the facilitative process, as they are complementary in terms of both the substance of their mandates and their processes. The work of these processes will be closely interrelated throughout the four-year period from 2010 to

2013. The cumulative results of the Ad Hoc Expert Group and the facilitative process should eventually provide a solid foundation for the crucial decision at the tenth session of the Forum on forest financing, and a critical input to the 2015 review of the international arrangement on forests.

57. The main objective of the facilitative process is to catalyse the implementation of sustainable forest management, including the implementation of the non-legally binding instrument and the achievement of its global objectives on forests, in particular for countries with special needs and circumstances, including through the functions specified in the resolution adopted at the special session of the ninth session of the Forum.

58. The facilitative process is already under way, with the objective of addressing these priority areas in forest financing as a forensic task. It is an implementation advisory process, and not a funding mechanism. The facilitative process works in partnership with other financing and funding processes, in a mutually beneficial programme of work. The United Nations Forum on Forests secretariat initiated the facilitative process immediately after the adoption of the resolution at the special session of the ninth session of the Forum.

59. The resolution requires that the facilitative process focus on developing countries with special needs and circumstances, and that it should increase cooperation and coordination among key stakeholders. In doing so, in the first tranche of work under the facilitative process and through a project funded by the Department for International Development (DFID) of the United Kingdom and GEF, a clear picture on the financing needs and constraints of low forest cover countries and small island developing States started to emerge. During the period 2010 to 2013, all sources of financing for sustainable forest management in categories of countries that have suffered significantly from a decline in forest financing will be reviewed under the facilitative process.

60. Within this project, four macro-level papers and seven country case studies containing in-depth analysis and assessment of current financial flows, gaps and governance structures for financing sustainable forest management in small island developing States and low forest cover countries are under preparation. These studies will be discussed and validated in workshops specific to the demographics and governance structures of the Member States and, as a first step, in interregional workshops on bridging the gaps in financing for sustainable forest management and fostering new innovative approaches for small island developing States and low forest cover countries.

61. At the final stage of the project, Member State representatives from the concerned small island developing States in one process and low forest cover countries in another will review the initial findings, along with other experts and donors through a critical review of the papers emanating from the first analyses, in workshops focused on the findings and key recommendations of the initial studies. The workshops will be expected to recommend further follow-up actions to donors and to the United Nations Forum on Forests.

62. The initial findings emanating from the facilitative process and through the DFID/GEF funded project will be provided to the Ad Hoc Expert Group at its first meeting and, later, to the United Nations Forum on Forests at its ninth session. As the findings from the facilitative process will provide valuable substantive input to

the deliberations during the four-year process within the Expert Group, it is also possible for the Expert Group at its first session to request, through the United Nations Forum on Forests at its ninth session, future specific input through the facilitative process.

63. The facilitative process, based on possible guidance provided by the Forum at its ninth session and the provision of the necessary resources, will adjust its workplan, including by expanding its work to cover similar projects for the remaining categories of countries identified in the resolution adopted at the special session of the ninth session of the Forum, areas of importance for the work of the Ad Hoc Expert Group and other potential areas of interest.

D. Other developments

1. Collaborative Partnership on Forests

64. The Collaborative Partnership on Forests provides a unique opportunity to support the work of the United Nations Forum on Forests on forest financing. Several members of the Partnership already have very large portfolios of activities relevant to forest financing, including GEF, the World Bank, FAO, UNEP, UNDP and the International Tropical Timber Organization (ITTO). These organizations are already receiving substantial funds in preparation for implementing REDD and REDD-plus activities. Previously, the Partnership, through its Advisory Group on Finance, supported the work of the Forum on forest financing. This valuable input provided an important element for the work of the Forum at its eighth session.

65. Owing to their important role, the resolution adopted at the special session of the ninth session of the Forum specifically requested that the decision on forest financing at the tenth session of the Forum should take into account the work of forest-related financing mechanisms and processes. This, to a large extent, refers to the activities of some of the members of the Collaborative Partnership on Forests, and to a potential second contribution by the Advisory Group on Finance to the United Nations Forum on Forests forest-financing process. The first concrete activity within the facilitative process is being implemented in cooperation with GEF and UNEP as members of the Partnership, and other members are likely to join the process.

66. At its most recent meeting, in February 2010 in Rome, the Collaborative Partnership on Forests agreed to take a major step in supporting the Forum's work on forest financing. In essence, the Partnership invited the Advisory Group on Finance to examine and identify existing funding for forests coming from donors and private and philanthropic sources and to develop a list of information gaps, obstacles and barriers. The Group was also invited to prepare an analysis of the financing landscape for forests, including the silos and funding challenges. The analysis will focus on the entire landscape of forest financing, including critical gaps, opportunities and areas requiring further attention. The secretariat of the United Nations Forum on Forests will facilitate the work of the Group in carrying out those tasks.¹⁵

¹⁵ See <http://www.fao.org/forestry/21330-1-0.pdf>, pp. 8 and 9.

2. High-level Advisory Group on Climate Change Financing

67. In February 2010, the Secretary-General established the High-level Advisory Group on Climate Change Financing to mobilize resources following the United Nations Climate Change Conference in Copenhagen in December 2009. The Advisory Group is expected to produce a final report containing recommendations before the next Conference of the Parties to the United Nations Framework Convention on Climate Change, in Mexico in December 2010. The Group will focus in particular on the need for new and innovative long-term sources of finance, in order to fill the gap in international climate financing. The work of this Group is particularly relevant to REDD-plus financing processes.

3. Thematic programmes of the International Tropical Timber Organization

68. Following the decision taken by the International Tropical Timber Council at its forty-fourth session, in November 2008, to establish the thematic programmes sub-account as an additional financial mechanism under the ITTO special account, four thematic programmes covering forest law enforcement, governance and trade, reducing deforestation and forest degradation and enhancing environmental services in tropical forests, community forest management and enterprises, and trade and market transparency have been launched on a pilot basis. With an initial target of raising \$58 million, the ITTO thematic programmes have thus far attracted pledges amounting to \$12.3 million, of which \$8.3 million has been allocated to 24 projects currently being implemented under the first and second thematic programmes mentioned above. The ITTO thematic programmes are expected to play an increasing role in securing the much-needed new and additional financing for the world's tropical forests.

V. Issues of interest for the Ad Hoc Expert Group at its first meeting

A. Main tasks

69. The United Nations Forum on Forests has made a significant contribution to the development of common views on substantive elements related to forest financing and options for action in this field. At the same time, discussions on the major issues have been mostly at a fairly general level and clarity on what the key concepts mean in practice has not yet been achieved. These concepts include a variety of technical, institutional, financial and political issues, including a suitable delivery mechanism to reach targeted beneficiaries.

70. To address this, the resolution adopted at the special session of the ninth session of the Forum specifically mandates the Ad Hoc Expert Group to propose ways and means to promote sustainable forest management financing for the implementation of the non-legally binding instrument and the achievement of its four global objectives on forests, and in that regard to make proposals on strategies to mobilize resources from all sources; strengthening and improving access to funds; and the best vehicle or vehicles for undertaking such strategies, including, inter alia, establishing a voluntary global forest fund.

71. In this context, the Ad Hoc Expert Group needs to translate the guidance provided in the resolution on forest financing into action. The Expert Group should make clear, feasible and practical recommendations on issues introduced in the resolution, including the components and elements for a comprehensive strategy or strategies that prevent a piecemeal approach to forest financing, improve the enabling environment, catalyse use of resources from all sources, consider the cross-cutting nature of forest financing, promote resource realignment and enhance resource efficiency, promote coordination on forest financing at all levels, make national, regional and international actions mutually supportive, strengthen and improve access to forest financing, and mobilize adequate resources for the implementation of sustainable forest management, the non-legally binding instrument and the achievement of the global objectives on forests.

72. In light of the above, at its first meeting the Ad Hoc Expert Group should attempt to include in its outcome document: (a) actions that have been taken by countries, regional processes, international organizations, major groups and others on forest financing and the problems, challenges and successes they have faced, as well as the next steps in their planning for forest financing; (b) specific areas for further work and study; and (c) recommendations to the United Nations Forum on Forests at its ninth session for its consideration of necessary intersessional work leading up to the second meeting of the Expert Group.

73. The preliminary report by the Expert Group may consist of a summary by the Co-Chairs of discussions on the first two issues and the Expert Group's conclusions on the third issue, set out in paragraph 72 above, for submission to the Forum at its ninth session.

B. Areas where additional information is required

74. The work of the Ad Hoc Expert Group should be based on sound analyses and an open and transparent exchange of views among all key players. The Expert Group needs to be well informed on what is happening outside the United Nations Forum on Forests related to forest financing, and to have solid assessments of those developments and other information and data that is necessary to fulfil its mandate. The Expert Group needs to discover what actions and strategies countries, organizations and other relevant key players have taken to improve forest financing at the national, regional and international levels and their suggestions to improve the financing situation. Such analytical work and information are crucial for the entire Expert Group process. These analyses can be provided under the facilitative process and by the Advisory Group on Finance, as well as from other internal and external credible studies.

75. One contentious issue throughout the 17-year forest-financing discussions has been how the need for new and additional resources can be addressed. Currently, substantive new and additional resources have been mobilized on forest-based actions related to climate change, and more specifically on REDD-plus. However, the fundamental question that still remains is to what extent the REDD-plus programme and financing mechanisms cover the entire scope of the implementation of sustainable forest management, the non-legally binding instrument and the global objectives on forests, as envisaged in the resolution adopted at the special session of

the ninth session of the Forum, and what other areas have to be covered, by which entities and to what end.

76. While allocation of specific resources for sustainable forest management and for REDD-plus are not necessarily mutually exclusive, the response to the above question is the key to resolving all the other important questions, including how to mobilize and arrange new and additional financing for forests, and whether there should be a voluntary global forest fund, expanding the use of the existing mechanisms, and a review of other options.

77. The Ad Hoc Expert Group will integrate the input from the facilitative process into its work on an ongoing basis and through the Forum may request additional input and analyses under the facilitative process. Moreover, the Expert Group, in line with its mandate, may also recommend that the Forum expand the mandate of the facilitative process to support and facilitate the work of the Expert Group.

78. In this context, the Ad Hoc Expert Group could recommend that the Forum at its ninth session should establish a mandate that substantive work on REDD-plus and forest financing should be undertaken within the facilitative process, in close collaboration with other key actors and processes (including the United Nations Framework Convention on Climate Change, the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, the Forest Carbon Partnership Facility, the Forest Investment Programme, GEF and the Paris-Oslo conference process). This will help greatly the Expert Group to make a sound judgement on remaining issues on REDD-plus so as to better dovetail REDD-plus developments into the United Nations Forum on Forests forest-financing process, to improve and strengthen access to REDD-plus funding and to fill the remaining gaps in forest financing.

C. Recommendations by the Ad Hoc Expert Group to the United Nations Forum on Forests on intersessional work

79. **In line with the comprehensive approach set by the resolution adopted at the special session of the United Nations Forum on Forests at its ninth session, the forest-financing process is not limited to two official Ad Hoc Expert Group meetings and the facilitative process work. Rather that work should be supported and preceded by a set of preparatory actions and events. The forest-financing process within the United Nations Forum on Forests comprises the work under the facilitative process and two meetings of the Ad Hoc Expert Group and the intersessional periods, leading to the tenth session of the Forum, in 2013. This process should provide opportunities for multidisciplinary discussions and input on forest financing, with the direct involvement of Member States, independent experts, member organizations of the Collaborative Partnership on Forests and its Advisory Group on Finance, regional processes, donors, major groups, forest-related financial mechanisms and processes, as well as the facilitative process.**

80. **It is important to tap the potential of all these key players in order to support development of a successful financing decision at the tenth session of the United Nations Forum on Forests. This should help, in turn, to avoid competition between any resulting decision by the Forum and existing financing mechanisms and processes. With the mandate for the United Nations**

to work as one, the Forum has an ideal opportunity to create a solid platform that serves all Member States, supports the role of all multilateral organizations and provides a clear understanding of the needs and avenues to achieve support.

81. The intersessional period between the first and second meetings of the Ad Hoc Expert Group will provide the necessary time and space for the Expert Group process to include the necessary ingredients for its second meeting and to engage in substantive discussion on its final recommendations to the Forum at its tenth session. This period also provides sufficient time for ensuring submission of concrete input, in particular by Member States.

82. The Co-Chairs of the Ad Hoc Expert Group will report to the United Nations Forum on Forests at its ninth session on the discussions and outcome of the first meeting of the Expert Group. Assuming that the second meeting of the Expert Group will be held in the fourth quarter of 2012, it is necessary for the first meeting of the Expert Group to recommend to the Forum at its ninth session, among other possible actions, the following:

(a) That the Forum should give its support for further intersessional activities;

(b) That the Forum should adopt a procedural decision on intersessional activities, based on the recommendations of the Ad Hoc Expert Group, which:

(i) Invites submission of concrete forest-financing proposals and strategies by Governments, in particular Governments that are advocating specific options to the secretariat of the United Nations Forum on Forests, for example, on advantages and disadvantages of a voluntary global forest fund, including consideration of a portfolio approach;

(ii) Invites the member organizations of the Collaborative Partnership on Forests to provide their input on future actions and strategies on forest financing;

(iii) Invites the Advisory Group on Finance, through the secretariat of the United Nations Forum on Forests, to prepare for the second meeting of the Ad Hoc Expert Group:

a. An update of its 2008 input (mapping exercise) including thorough analyses on financing flows and needs to implement the non-legally binding instrument and to achieve its global objectives on forests at all levels;

b. Its proposals on how to strengthen existing forest-related financing mechanisms, enhance coordination among them, improve access to their resources and identify how they fit into the broader forest-financing strategies;

(iv) Requests that substantive work on REDD-plus and forest financing be undertaken within the facilitative process in close collaboration with other key actors and processes;

(v) Invites regional processes and major groups to provide their suggestions on forest financing to the secretariat of the United Nations Forum on Forests;

(vi) **Requests the United Nations Forum on Forests secretariat, based on all of these submissions, to prepare a note for the Ad Hoc Expert Group at its second meeting, presenting practical options on forest-financing strategies;**

(vii) **Requests the Co-Chairs to facilitate the work of the Ad Hoc Expert Group between its first and second meetings, including through the convening of intersessional meetings, voluntarily financed and as appropriate.**
