

FINANCING FOREST REHABILITATION

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INTRODUCTION

- Resource mobilization remains a major issue for most rehabilitation programmes.
- Invariably the scale of the problem is so huge that resources available are far from adequate. There is a large gap between the need for funds and what is actually available.
- Investment requirements for rehabilitation depends on the scale and intensity of interventions. Rehabilitation of highly degraded forests are extremely demanding in resources.
- Irrespective of the different sources of funding, the overall willingness and ability of society to set aside resources for rehabilitation remain the most important.
- Better economic situation also means relatively less pressure on land and forests.

STRUCTURE OF THE PRESENTATION

- An overview of the possible sources of financing forest rehabilitation/ restoration
- Pros and cons of the different sources of funding.
- Important take home messages.

SOURCES OF REHABILITATION FUNDING

SOURCES OF FUNDING

PUBLIC FUNDS

DOMESTIC

Government
Local communities
Civil society organizations

EXTERNAL

Multilateral and bilateral donors
International NGOs
Other international systems (for example GEF)

PRIVATE FUNDS

Market driven

Payment for environmental services
Private investment for production of wood

Non - market driven support

Private funds in support of environmental conservation
Funds in support of fulfilling CSR obligations

PUBLIC SECTOR FUNDING

- Most forest rehabilitation/ restoration programs have been / are funded directly or indirectly by governments or bilateral and multilateral agencies.
- All assessments relating to rehabilitation/ restoration efforts hitherto indicates the critical role of public funding.
- Even the majority of the so called PES now are subsidies provided by governments.
- But for substantial allocation of public resources (domestic and external), many of the rehabilitation programmes would not have materialized:

RATIONALE OF PUBLIC SECTOR FUNDING

- 1. Preponderance of public ownership of degraded forests implies the critical role of public funding in the rehabilitation/ restoration of these lands.**
- 2. A significant share of benefits from rehabilitation/ restoration is of public goods nature, accruing to the public at large including future generations. Seldom this is financially attractive to private investors and hence the main responsibility for providing such services vests with the governments.**
- 3. Governments are in a better position to mobilise resources for rehabilitation/ restoration, especially when the scale of such efforts is large.**

INSTRUMENTS OF PUBLIC FUNDING

There are different means of funding rehabilitation/ restoration from public resources:

- 1. Annual budgetary allocation:**
- 2. Dedicated funds, set aside exclusively to support forest management including rehabilitation and restoration.**

Annual budgetary allocation has serious limitations especially on account of its uncertainty and often rehabilitation/ restoration gets a lower priority in the context of other urgent demands like education, healthcare, infrastructure development, etc.

Consequently most countries are opting to establish dedicated funds to ensure long term support for rehabilitation/ restoration.

FINANCING THROUGH DEDICATED FUNDS

Realizing the limitations of annual budgetary support many governments have established dedicated funds to support rehabilitation and conservation efforts.:

1. According to a recent assessment there are over 80 National Forest Funds that support a wide array of activities including rehabilitation of degraded forests.
2. Some of the examples of long term dedicated public funds in support of rehabilitation are:
 - Tree Farming Fund in Bangladesh
 - Reforestation Fund in Indonesia;
 - Climate Change Trust Fund – Indonesia.
 - Vietnam Forest Protection and Development Fund
 - Compensatory Afforestation Fund in India
 - Bhutan Trust Fund for Environmental Conservation



GOVERNMENT INCENTIVES FOR PRIVATE SECTOR REFORESTATION

Many governments have developed systems to provide financial support to boost private and community initiatives: These include:

- Direct subsidies (grants and payments to private sector, communities and civil society organizations, etc.)
- Tax policies (tax credits, exemptions, allowances).
- Cost subsidies (loans, debt forgiveness)
- Public provision of goods and services below market costs.

EXTERNAL PUBLIC FUNDING

Funding by bilateral and multilateral agencies have played a major role in rehabilitation/ restoration efforts.

In several instances such funding combined with government funding has catalyzed large scale rehabilitation efforts, especially through facilitating capacity building, technology transfer, policy analysis and institutional reform.

Limitations of external funding:

- Changes in policies of donors and possible uncertainties.**
- High transaction costs.**
- Often there are strings attached to external funding**

PRIVATE SECTOR INVESTMENT

Increasingly private sector is playing an important role in rehabilitation/ restoration of degraded forests. Some of the examples of private sector funding include:

1. Wood industries raising captive plantations for meeting raw material needs.
2. Industry-farmer partnership through contract farming, industry providing technical support, credit and marketing support to local communities.
3. Timber Management Organizations (TIMOs) mobilizing funds from diverse sources for investing in plantations.

Generally private sector investment is largely focused on wood production and there are very few instances of private investment for multipurpose rehabilitation.

CSR DRIVEN PRIVATE SECTOR INVESTMENT

Increasing pressure to comply with corporate social responsibility (CSR) is expected to enhance private sector finance for rehabilitation/ restoration of degraded forests.

CSR is primarily voluntary but this is undergoing changes and CSR requirements could become stringent and mandatory.

- A recent example of this is the changes in the India Companies Act making it mandatory to those earning net profits of over USD1 million to set aside 2% of the net profit for CSR compliance.**
- A wide array of activities including activities aimed to accomplish environmental sustainability are included to be funded using the CSR funds.**
- Governance of CSR funds has also been outlined.**

PES AND FINANCING REFORESTATION

Making users of environmental services to cover the costs of rehabilitation/ restoration through payment for environmental services.

- Growing interest in PES, especially in the context of the growth of carbon markets.
- Possible areas for PES: watershed protection, carbon sequestration, biodiversity conservation and scenic values.
- Rehabilitation/ restoration requires upfront investment and there is a long time lag before environmental services become available.

Investment in watershed protection is probably one area better amenable to PES, enabling utility providers to invest in rehabilitation/ restoration of uplands. But

Resource mobilisation through PES will continue to face many challenges

FINANCING – KEY CHALLENGES

Unfavourable investment climate persists due to:

- Absence of secure tenure and/or property rights;
- Ineffective or inadequate institutional mechanisms to promote collaboration among different agencies and organizations;

- Cumbersome and restrictive regulatory frameworks;
- Ineffective and inefficient forest revenue systems;

- Small and fragmented value chains;
- Low levels of processing, value addition and marketing; and
- Weak governance and organizational capacities.

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TAKE HOME MESSAGES

- Adoption of a landscape approach to rehabilitation of degraded lands/ forests will require a major shift in financing strategies.
- People are willing to contribute to environmental rehabilitation provided they have a say in decision-making and are convinced that they will be gainers.
- A lot of the changes are to be made in the realm of policies and legislation which continue to discourage investment by communities, private sector and other non-state actors.
- Transparency, accountability and efficiency will remain the most important areas to attract support from diverse sources.



TAKE HOME MESSAGES

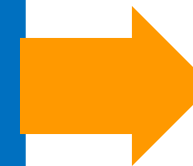
- ❑ There is a lot of potential to diversify sources of funding and tap multiple sources.
- ❑ Need for a paradigm shift from one objective – one institution-one source of funding to multiple objectives – multiple institutions - multiple sources of funding.
- ❑ Building strong social commitments and associated mobilization of efforts form the foundation of successful rehabilitation efforts.

One or a few objectives

One dominant institution

One main source of funding

Rigidity



Multiple objectives

Multiple institutions

Multiple sources of funding

Flexibility

FINAL QUESTIONS

- How do we facilitate genuine commitment of people other than through carrots and or sticks? Are there any other “out-of-box” solutions?
- What about the option of community mobilization through social movements?
- What should be done to encourage social movements to take a lead role in managing natural resources, including rehabilitation/ restoration?

Thank You



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