

CLIMATE INVESTMENT FUNDS

CIF/DMFIP.2/Inf.5
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ILLUSTRATIVE EXAMPLES OF POTENTIAL INVESTMENTS UNDER THE FIP

I. BACKGROUND

1. This information note provides some illustrative examples of potential types of investments of the FIP, taking into account objectives and purposes of the FIP as proposed in the preliminary design document. The information note builds upon the working group recommendation that the very wide spectrum of potential areas for FIP investments highlights the importance of encouraging governments to prioritize requests for FIP support.
2. The FIP offers a unique opportunity to promote both public and private sector investments to achieve sustainable forest management and contributes to the mitigation of climate change. Public sector investments should help create a favorable investment climate and build capacities to enable sustainable forest management. The FIP should also provide opportunities to leverage substantial private sector investment in climate relevant operations, such as REDD, afforestation, reforestation, restoration of degraded landscapes and sustainable forest management. Civil society organizations and indigenous peoples can play an important role in both public sector and private sector operations.
3. The meeting's attention is also called to the other information notes before the meeting, including "Engagement of the Private Sector in the FIP" (CIF/DMFIP.2/Inf.6) and "FIP complementarity with FCPF and UN-REDD" (CIF/DMFIP.2/Inf.3).

II. ILLUSTRATIVE INVESTMENTS

4. The FIP is to support actions that pilot and demonstrate new approaches to forest management and that are transformative and set the stage for major impacts in reducing greenhouse gases from forests.
5. The following types of investments illustrate activities that might be co-financed by the FIP.

(a) Investments in institutional capacity, forest governance and information

The ongoing dialogue on REDD and SFM often points to the reality that such transformation in the forest sector requires reduction or elimination of the direct and underlying causes of deforestation. Such investments require enabling legal, regulatory and institutional frameworks and a conducive investment climate. In this context demand-side market transformation is another key catalyst. Often, the greatest barrier is the governance framework needed to sustain government or community initiatives (whether forest protection, management, forest community development, etc) and leverage follow-up actions by the private sector, forest communities and smallholders. Examples of the types of programs which could be supported are:

- i. Investments in improving forest governance and forest sector transparency and control (e.g. adjustment of legal framework, forest inventory, information and monitoring systems, log tracking systems, certification, supervision and control).

- ii. Investments in land use zoning, cadastre and planning in forest areas and respective assessment and monitoring systems.
- iii. Investments in building institutional, legal and technical capacities of governments and private and communal forest stakeholders to effectively protect and manage forests as well as to undertake strategic and management planning and control of their forest resources.
- iv. Investments in analysis and processes to clarify and where desirable change negative impacts of taxing patterns and government subsidies on forest related climate change mitigation efforts.
- v. Where not (fully) completed through previous readiness work: Assessment of drivers of deforestation and forest degradation (like large scale agriculture, infrastructure, logging and extraction of other natural resources – as well as the impact of commodity prices, government subsidies, currency manipulations, and ownership and tenure arrangements on deforestation and forest degradation), and development and implementation of plans to tackle such drivers.

6. *Example:* Building forest management information systems (FMIS) in public and private forest management creates an information management system to aid planning and monitoring of forest management activities. Investments are made in software and hardware in combination with training and enhancing human resources and skills. It will also establish advanced-technology based remote forest management units. FMIS enhance the effectiveness of gathering and storing data and then transforming it into useful information for sustainable management and conservation of forests. It also aids decentralization of forest management.

(b) Increasing forest benefit yields by forest resource investments

Conservation (of high conservation value or pristine forests)

- i. Investments in protection of forests against fires, pests and diseases, invasive alien species and other external threats.

7. *Example:* Forest fires are a major source of forest lost and carbon emissions and threat to local livelihoods. Investments in prevention of forest fires consist of building risk assessment and fire prevention system both in community and state-owned forests. These include physical investments like building firelines, state-of-the-art firefighting equipment, and soft investments in training and dissemination. Fire prevention investments include education and awareness to prevent arson and ill practices in and around forests. This also includes the use of land cover cartography, satellite images and weather forecasts to enable preventive measures. Return on the investment would consist of reduced carbon emissions and loss of livelihoods and biodiversity. Also direct fire related human and economic loss would be reduced. These investments need to be made both in high forests and dry woodlands.

Improved forest management (in production forests), including restoration of degraded forests

- ii. Investments in SFM-based production of timber and non-timber forest products in secondary forests that will create sustainable livelihood opportunities for forest-adjacent, low-income rural families that currently depend on subsistence agriculture and income from illegal logging.
- iii. Investments in measures to protect intact forest landscapes, based on support to the livelihoods of forest-dependent communities and protection of biodiversity, while avoiding large scale extractive economic activity.
- iv. Investments in restructuring and improvement of forest-based industries for efficient production and procurement of sustainably produced raw materials, engagement of farm forest owners and other smallholders through company/community/smallholder partnerships, and transfer of technology.
- v. Investments in improved forest management practices, including support for certification of forests and chain of custody.
- vi. Investments in restoration of degraded forest ecosystems, including watershed rehabilitation, enrichment planting for carbon sequestration, wood production and conservation, including by engaging local communities and smallholders.
- vii. Investments in payments for ecological services-schemes, to contribute to alternative development models, in particular in intact forest areas.

8. *Example:* Investments in certification of sustainable forest management consist of upfront investment in building certification systems. The main elements are assisting i) in standard development process, ii) in building local certification capacity, iii) small, individual operations in pursuing certification and iv) in developing chain-of-custody methods in the private processing industry. Ideally the recurrent operating costs of certification should be borne by the revenues from certified timber. The return from the investment would come from improved market access, and more sustainable wood production economically, socially and ecologically. Associated benefits include improved conflict resolution methods in forests, supplementing government forest surveillance, providing role model for the wider industry.

Afforestation and reforestation

- viii. Investments in plantations and creation of woodlots on non-forested and previously forested land for carbon sequestration and wood production and conservation, including by engaging local communities and smallholders. Plantations should be based on a diverse use of native species. Safeguards must be included to insure against clearing of (degraded) primary forests for plantation purposes.

9. *Example:* Globally, fuel-wood consumption accounts more than 60% of the energy needs for rural households, especially of the poor. While demand has been constantly increasing, supply has become scarcer because of increasing conversion of forest lands and loss of the commons. Development of fuel-wood plantations would include the preparation of abandoned and degraded lands around villages for tree-planting, identification of appropriate fast growing fuel trees, development of seedling nurseries, and establishment of local organizations to handle supply of inputs and marketing of outputs, and training of local forest dependent populations in

the sustainable management of these woodlots. The global potential for such investments easily runs to several hundreds of million dollars. The benefits include enhancement of carbon stocks, a reduction in the pressure to degraded standing forests, the stabilization of fuel supply for poor rural households and household time-savings (especially for rural women) from gathering fuel-wood.

(c) Investments outside the forests sector

The following types of investments outside the forests sector could – when clear causal chains to effects on the forest sector can be established – be engaged in:

- ix. Investments to support a shift by agribusiness companies and landowners away from clearing of rain forests towards planting on non-forest lands including improvement of agricultural productivity and fertility of soils (e.g. BioChar investments).
- x. Investments in rural development, social services, as well as administration and management skills of forest communities.
- xi. Complementary investments in non-forest sector programs (agriculture, infrastructure, mining, energy, etc.) to ensure inclusion of specific provisions for forest protection.

10. *Example:* Forest encroachment by low income rural families living adjacent to natural forest have been widely recognized as one of the major drivers of deforestation. Investments in poverty alleviation and especially in provision of inputs and extension services aimed at increasing crop yields and incomes are crucial elements of effective mitigation strategy. There is much past experience on which to build and many well documented examples of successes and failures that can provide a basis for designing future Investment Programs.