



# Forest financing at the international level

## Options for improving synergies and coherence in a diverse landscape

*André Brasser & Herman Savenije*

### Key messages

1. *Policy makers are increasingly demanding improved coordination and coherence between international forest financing mechanisms.*
2. *The general attitude of, "coordination OK, being coordinated no way", is a major obstacle in designing an effective approach in order to improve international coordination and coherence.*
3. *Rather than establishing formal coordination mechanisms, which would entail further bureaucracy, the response should instead be found in smarter and more strategic use of already existing e-networking and knowledge platforms.*
4. *To improve coordination, collaboration and coherence between forest financing mechanisms, six key steps should be considered:*
  - a. *The release of a periodic assessment of "The State of the World's Forest Financing".*
  - b. *All forest financing mechanisms should conduct a periodic "coordination SWOT".*
  - c. *Develop a "your way to forest financing" facility.*
  - d. *Strengthen national forest financing strategies and country coordination platforms.*
  - e. *Capitalize on existing platforms for knowledge exchange and discussion*
  - f. *Enhance "e-networking" to use the power of electronic networks to connect people.*

### Why this study

#### Context

The current levels of finance available for sustainable forest management (SFM) are falling considerably short of even the most conservative estimates of what is needed to secure the future of the world's forest ecosystems.<sup>1</sup> There is a growing recognition that in order to address this situation, it has become a key priority to mobilize new and additional finance for SFM, enhance access and effective use of existing sources, and create synergies amongst different initiatives in the various intergovernmental fora dealing with forests at the international level. Yet, efforts to drive this agenda forward have been undermined somewhat by diverging roadmaps in these fora where visions, objectives, stakeholders and approaches have often pursued very different paths. Consequently, it has often been difficult for policy makers to get a clear overview of the full spectrum of forest related financing initiatives. At the same time, there has been a lack of clarity on how different mechanisms have been put in place to mobilize new and additional SFM financing and how synergies and coherence can be enhanced amongst them.

#### Purpose

This scoping study was carried out by Tropenbos International and commissioned by the Ministry of Economic Affairs of the Netherlands, with



<sup>1</sup> Conclusion from the study on forest financing from Advisory Group on Finance under the Collaborative Partnerships on Forests, published September 2012 at the OLI in Rome.





the intention of providing a clearer picture on the current state of coherence and coordination in the forest finance arena. This will contribute towards a more coherent international vision and implementation strategy to enhance financing for SFM from all sources.

The study aims to (i) provide an inventory of the key activities, approaches and underlying assumptions and principles in the major intergovernmental fora; (ii) map the differences and similarities in strategies and actions; and (iii) identify opportunities for improved alignment. It is hoped that the results of this survey will provide food for thought for policy makers on how to enhance synergies at the international level through improved coordination, coherence and collaboration.

### Approach and scope

To better understand how the many intergovernmental fora relate to each other, the survey decided on an approach focusing primarily on multilateral initiatives established and funded by public sources that (partly) contribute to international SFM finance. It was also agreed to include fora which, although in themselves did not directly generate SFM financing, provided a platform for knowledge exchange and discussion for international forest policy makers and other relevant stakeholders. Given the focus on multilateral financing, it should be noted that bilateral ODA, private sources and NGO initiatives were not taken into account.

In order to gather the relevant data for the survey, the following activities were undertaken:

- i. internet research on selected international forest related fora;
- ii. a literature search on the backgrounds of selected fora and the general drivers of coordination;
- iii. interviews with 12 prominent experts in the forest finance arena.

The resulting data that was gathered was then used to formulate preliminary findings. Based on reviews collected from 21 international policy makers and experts involved in forest finance dialogues, the main findings were compiled while the final report of the scoping survey was being completed.

With the data collected, it was possible to conduct a general scoping. The inventory of forest related fora includes the most important fora, but does not purport to be fully comprehensive.

## Main findings

### Findings from the inventory and categorization of the SFM financing landscape (based on internet and literature research):

- a. SFM financing is a discussion topic in 22 different intergovernmental fora: six UN Conventions, five UN agencies, four Multilateral Banks and seven Regional Governmental Initiatives.
- b. These fora are difficult to compare and different in nature. However, they all have one thing in common; they put in place SFM financing mechanisms, 48 in total.



- c. Most of the SFM mechanisms developed – 28 out of 48 – are specific funds and programmes designed to be effective for a limited period only. In addition, there are seven funds with a long-term time horizon and 13 platforms for knowledge exchange and discussion.
- d. The World Bank Group stands out as the major organisation working on SFM financing. Its 5 agencies have together developed 10 different SFM financing mechanisms. From the UN Conventions, UNFCCC (4) CBD and GEF (all with 3) have put in place the most mechanisms. From the UN agencies, FAO (5) and ITTO (3) have been most active in creating SFM-financing mechanisms. As for the Regional Governmental initiatives, the EU has been the most active (3).
- e. The overall visions behind the 48 SFM financing mechanisms show many commonalities. Although specific mechanisms target particular results, four of the key shared ambitions are: reverse of forest loss, unlocking the potential of forest products and services, capacity building and good governance.
- f. Shared goals are largely absent at the operational level. There are substantial gaps and overlaps in addressing the 7 themes of SFM<sup>2</sup>. Most attention is focused on the

productive functions of forest resources, due to the strong emphasis of many mechanisms on forest carbon, including REDD+. Socio economic functions and legal, policy and the institutional framework themes are also well represented. By contrast, the extent of forest cover, forest health and vitality and protective functions of forest resources are not covered at all.

- g. The policy objectives of the SFM financing mechanisms are not coherent, indicating gaps and overlaps. The primary focus is on capacity building and generating general support in implementation of forest policies and projects, which is in line with the emphasis on forest carbon. By contrast, there is far less attention on issues such as market development.

#### **Findings from the interviews on coordination and coherence of SFM financing landscape:**

- a. At present, the World Bank and GEF are considered to be the most relevant fora for SFM financing. However, the Green Climate Fund (including REDD+), which is under discussion through the UNFCCC, is recognized as potentially an even greater opportunity for SFM financing.
- b. SFM financing mechanisms tend to follow their own implementation logics based on their own mandate, objectives and procedures. Donor interests often decide on thematic or geographical focus, where they tend to prioritize high-forested countries above low-forested countries and climate themes above sustainable forest management.

<sup>2</sup> Sustainable forest management (SFM) under UNFF is described as a dynamic and evolving concept that aims to maintain the economic, social and environmental value of all types of forests, for the benefit of present and future generations. SFM is characterized by seven thematic elements: 1. Extent of forest resources; 2. Forest biological diversity; 3. Forest health and vitality; 4. Productive functions of forest resources; 5. Protective functions of forest resources; 6. Socio-economic functions; 7. Legal, policy and institutional framework (UNFF 2009).







- c. SFM financing mechanisms operate from different governmental departments. Mechanisms are “owned” by different governmental departments and have specific counterparts in recipient countries. This creates separate implementation chains, which generates competition between implementing organizations and thereby often undermines a coordinated approach between international donors. In implementing countries, this is further frustrated by different implementation formats and procedures the mechanisms put in place.
- d. The platforms for knowledge exchange and discussion can function as the incubator for new collaborations. Several cases of improved coordination and coherence started as discussion topics in one of these platforms.
- e. “E-networking” has the potential to further enhance the role of platforms. Policy makers and other stakeholders are increasingly connected via web platforms and social media. This facilitates improved communication and cooperation.

## Discussion

### The call for more coordination and coherence

The inventory of the SFM financing mechanisms indicated a complex landscape of many different mechanisms working in parallel. Feedback from international policy makers and experts reveals that there is a consensus on the need to improve coherence and coordination to enhance synergies among the various SFM financing mechanisms.

Although the UNFF is regarded as the global forum for forest affairs, a coordinating role on forest finance is for many not obvious. Many organizations are eager to promote improved coherence and are willing to take on such a role, yet are reluctant themselves to be coordinated by somebody else. The general approach as indicated by many interviewees is “coordination ok, being coordinated no way.”

The different priorities, reporting systems, types of projects and funding cycles of the spectrum of SFM financing mechanisms, make it very difficult to standardize projects/programmes in a way that makes coordination functional. Real coordination implies a certain level of collaboration, which may well require financing initiatives to adapt programmes to fit in with others.

Lack of coordination and coherence is not unique to international forest finance, of course. It exists also in the context of many other global issues where players with different agendas meet on overlapping issues. The call for different organizations to coordinate their efforts is at the heart of the Paris Declaration on Aid Effectiveness, which is also applicable to SFM financing. This is a comprehensive attempt to change the way donor and developing countries do business together, based on the principles of partnership, namely 1. Ownership (the recipient country leading the process) 2. Alignment (donors aligning with priorities defined by recipient countries) 3. Harmonization (donors coordinating their efforts amongst themselves) 4. Managing for results 5. Mutual accountability. Principles 2 and 3 directly refer to coherence enhancement.

Putting the Paris Principles into practice is not easy, however. Organizing joint activities with too many donors quickly encounters diminishing returns, with donors spending too much time talking to each other. It was for this reason that harmonization of this kind was subsequently downplayed, in favour of achieving a better division of labour amongst donors. To reduce the transaction costs of aid, donors have been developing a range of new approaches, including programme-based approaches, pooled funding arrangements, joint country plans and other common arrangements. The OECD review on the 2005-2010 achievements however concluded that the results, including those for the forest sector, were so far “sobering”.

## The drivers of improved coordination and coherence

Organisations working in the same field could consider increasing their efficiency by streamlining their operations and creating a coherent approach. But such coordination is usually not regarded as a management priority<sup>3</sup>. In management literature, coordination is usually described in terms of the orderly arrangement of group efforts aiming to

<sup>3</sup> This is one of the findings of a study on how coherence has been evaluated in different fields (including SFM related financing). The study concludes that evaluation of coherence is still at an **early and nascent stage**, especially when compared with ‘main stream’ development evaluation in relation to other criteria such as effectiveness, efficiency and impact. The authors argue that this is not surprising considering the limited amount of investment that has been made to evaluate coherence in international cooperation. Keijzer. *N en Oppewal J. (2012) Learn to walk before you run, review of methodological approaches for evaluating coherence in the field of international cooperation. European Center for Development Policy management, ECDPM.*

provide unity of action in the pursuit of common goals. It gives proper direction to organisations and enhances proper use of resources. The basic theory defined by Mary Parket Follet<sup>4</sup> says that for coordination to be successful, four classical principles of coordination - have to be in place: 1. **Early stage**: coordinate already in the planning phase, 2. **Continuity**: not only in the planning stage but also in organizing, directing, controlling, 3. **Direct contact**: between managers and subordinates; 4. **Reciprocal relations**: decision of one affects all others in the organization. Based on these principles a list of drivers can be compiled that enhance coordination and coherence.

### 1. High priority

The need to put self-interest aside for the sake of broader coordination efforts: non-coordination has to have serious consequences so that organizations have a genuine incentive to coordinate among themselves voluntarily. Countries should regard it as their priority to lead this process as agreed in the Paris Declaration.

### 2. General agreement

There must be general agreement on the overall problem assessment, strategy and approach. Bring to light policies that are at odds with each other. When such contradicting policies actually share the same overall

<sup>4</sup> Mary Parker Follett (1868-1933) is a classical management theorist that stressed the importance of coordination in labour situation of different individuals doing portions of the task. She gave four main Principles of co-ordination the so-called Follett's Principles of Coordination. These four principles must be followed to make co-ordination effective. Atkinson M. (2007) *Better at working together, interagency collaboration, part 1, Literature review.*







objective, it is clear that the incoherence needs to be resolved. If the contradicting policies have very different objectives, it is important to properly evaluate their respective impacts as a basis for trade-off decision at the political level.

**3. *Limited scope***

The scope must be manageable and the number of issues limited to ensure that clear outcomes can be reached.

**4. *Role division***

Organizations must understand and recognize each other's mandate and position. Work programmes should be put next to each other to decide on the "who does what, when". This was the case in the example of UNREDD/FIP/FCPF, where the issue was limited to REDD readiness and organizations have been able to define a division of roles among themselves and to pool complementary indifferent specific expertise on carbon crediting (World Bank) and field assistance (FAO) respectively.

**5. *Resources***

Political agreement on the improvement of coordination procedures needs to be translated into a priority issue in work programmes, with clear objectives and sufficient resources made available to enable implementation. This would require some kind of a coordinating body being in place.

**6. *Attitude***

Those involved need to be skilled in negotiating; know how to take full advantage of modern communication technologies and facilities (such as the Internet, electronic networks, mobile phones etc.); be effective

in eliciting knowledge and expertise from a broader constituency; and capable of building up wider support.

## Good practices in coordinating SFM financing

Although the forest finance arena is currently not well-equipped to enhance coordination and coherence, the scoping study did reveal some good practices of coordination already taking place at both international and national levels.

- 1. International level:** A number of multilateral organisations have set in motion initiatives - including knowledge sharing, role division and joint policymaking - to promote cooperation with like-minded organisations or countries. Some examples include:
  - **UNREDD Programme/Forest Carbon Partnership Facility (FCPF):** these two SFM financing mechanisms for REDD+ were simultaneously developed under the UN and World Bank. In part due to pressure from various donors, they started to better coordinate their activities resulting in new procedures that are now better aligned and easier to implement for recipient countries
  - **EU FLEGT/UN REDD:** as a result of an informal discussion initiated during the Chatham House platform for knowledge exchange, the two mechanisms decided to improve coordination between REDD readiness and FLEGT processes, resulting in a better aligned approach in countries for improved forest governance.



- **ITTO/REDDES:** The small scale ITTO-REDDES Programme deliberately aims to be complementary to other international initiatives related to REDD and tries to address thematic or geographic gaps. It has established links and cooperation with UN-REDD, FCPF, as well as various bilateral programmes.

2. **National Level:** Multinational organisations have tried to develop more coherent approaches between themselves in specific countries or regions to link up or support national policy and implementation frameworks for more efficient results. This has included streamlining procedures and aligning instruments leading to closer cooperation at the national level.

- **Development of National Forest Programmes**

This is an approach supported by FAO and others to strengthen country capacities to develop and implement their forest policy frameworks. Central to this, is support to the development of strategies which target greater access and mobilization of resources from SFM financing mechanisms

- **Establishment of country coordination platforms**

In Ghana, Vietnam and Mexico, different types of national platforms are in operation to coordinate the application and implementation of international donor funding. This has contributed to a better role division of the various ministries involved and more coherent programming.

- **Establishment of Regional Funds**

The Congo Basin Fund enhances collaboration among Central African governments, regional institutions and supports activities which align with the Central African Forests Commission (COMIFAC) Convergence Plan, a common regional strategy adopted by the Head of States of Central Africa in 2005. It seeks to harmonize the forest sector legal and regulatory frameworks in Congo Basin Countries.

## Avenues for improving coherence, coordination and collaboration

The limited but varied set of good practices in coordination illustrates that not all drivers necessarily need to be in place to improve coherence and coordination of SFM financing. Once coordination is considered to be some kind of priority, there are different avenues to enhance coherence in the forest finance arena.

We consider four avenues for improved coordination:

1. International coordination (generally top down)
2. Coordination at the country level (generally bottom up)
3. Brokering
4. Spontaneous coordination through an "invisible hand".



### Avenue 1: International coordination

Under this approach, SFM financing mechanisms would work with very similar procedures to one another and create a logical role division by types of mechanisms and regions. This would provide an easy to understand and logical palette of mechanisms for recipient countries.

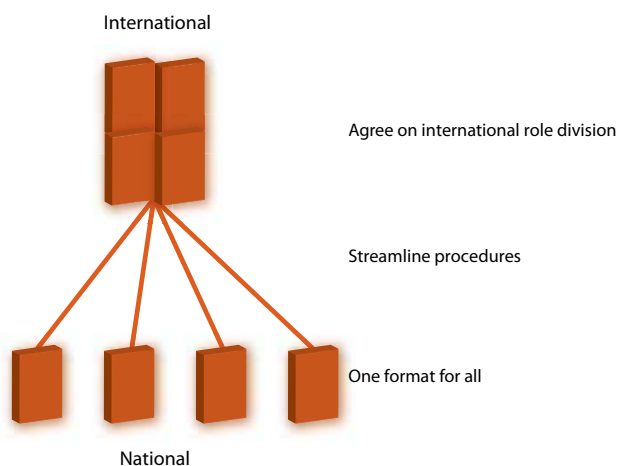


Figure 1. Focus on international alignment

### Avenue 2: National alignment

In this model, there is no attempt to coordinate SFM financing mechanisms by international donors. The focus is rather on the creation of national platforms in recipient countries. Depending on their needs, countries “pick and choose” from the financing mechanisms that are most appropriate. Such a country-led approach is a viable option in countries with an already well-established forest sector that assumes national leadership.

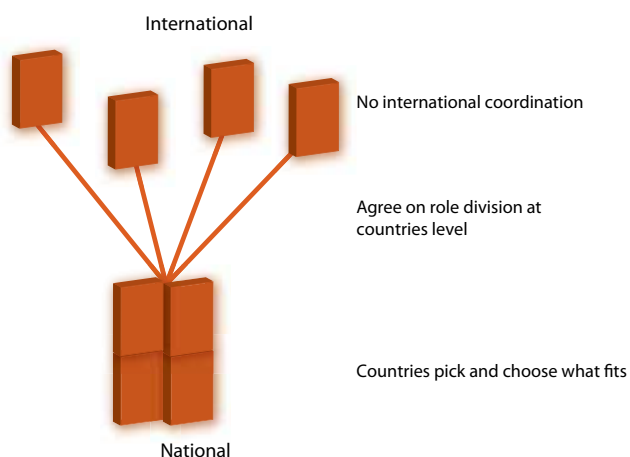


Figure 2. Focus on national alignment

### Avenue 3: Brokering

In this option, no coordination would be required between different organizations either at the national or international level. Instead, intermediary organizations would provide brokering services to national governments to link them with the most appropriate SFM financing mechanisms. The potential pitfall of this could be that the intermediaries involved might select countries that best fit their priorities and requirements.

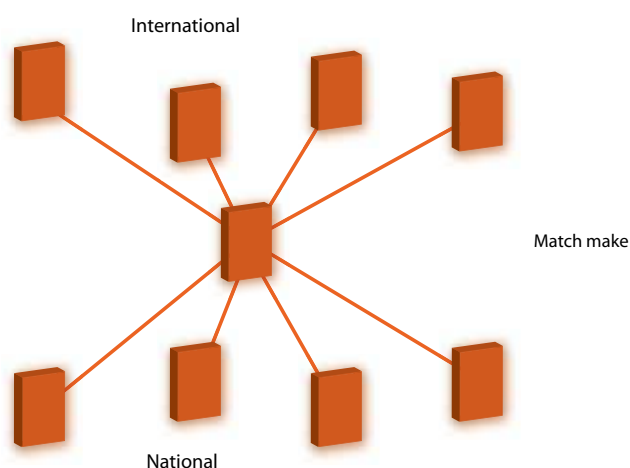


Figure 3. Brokering

### Avenue 4: The invisible hand

In this model no coordination is envisaged whatsoever. The international forest finance arena would instead operate as a “market place”, with a continuous stream of SFM financing mechanisms introduced into the market. The most successful operating mechanisms would remain, whilst the less successful mechanisms would disappear entirely.

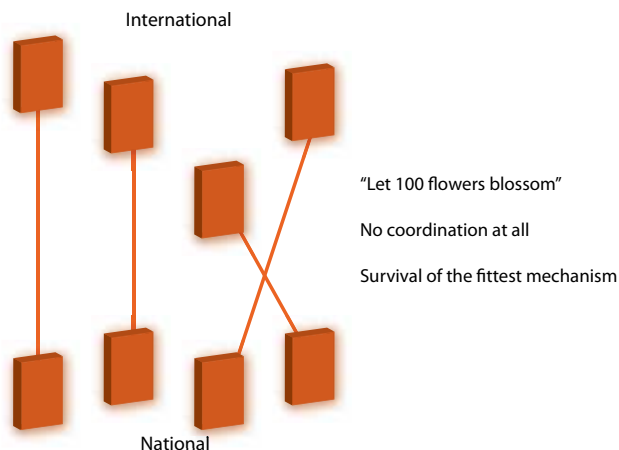


Figure 4. The invisible hand



The invisible hand model probably most closely resembles the situation as it currently is. The benefit of this model is the freedom of organizations to launch SFM financing mechanisms they think work the best for their specific purpose. It creates a learning space for policy makers and other stakeholders. As a result the quality of the mechanisms improves in an iterative process of learning by doing, with inefficient mechanisms disappearing over time. From this perspective the forest finance landscape is not “fragmented” but “diverse”, with initiatives complementing each other.

The downside of this model however are the inefficiencies, gaps and overlaps, as observed in this scoping survey. This is compounded by the far too limited budgets available for sustainable forest management, hence making this a far from preferred scenario.

### Building strategies

The conclusion of this study is that there is no single “best avenue” to enhance coordination and coherence. The various avenues are complementary to each other and strategies will change over time depending on the context forest policy makers have to work with.

Based on the interview responses, it is clear that the current “invisible hand” model is not deemed effective and a new path must be pursued. However, the scoping study has revealed many obstacles to creating the conditions for enhanced coordination at the international level.

Though the process might be just as complex, a focus on improving national level coordination

seems to be the most beneficial path. At the country level, it is easier to identify and involve stakeholders than at the international level. The same holds true in terms of setting and dividing priorities, scope and roles and responsibilities.

Moreover, there is also a legal rationale: countries are sovereign states. This implies for international SFM financing mechanisms that they should particularly aim to strengthen national forest financing processes in line with the Paris Declaration on Aid Effectiveness. The national coordination platforms that are being established in various countries are just one of the initiatives that could enhance this process. However, a sole focus on this pathway is not desirable as it fails to resolve the observed inefficiencies at the international level.

Therefore, the models presented here do not exclude one another. The current “invisible hand” model might well be complementary to a national alignment model. If it could be combined with the brokering model, the conditions for “matchmaking” improve, which of course would require some coordination at both the national and international level. A first step in coordination at the international level is simplification and harmonization of procedures as illustrated by the UNREDD/ FCPF coordination case. Such international alignment could substantially improve access to existing SFM financing mechanisms. Brokering by intermediary institutions could further enhance accessibility. One option could be to establish a brokering facility that supports countries to find their way to appropriate SFM financing mechanisms.





In theory, the strength of the “invisible hand” is its ability to generate a variety of different SFM financing mechanisms at the international level. This could be beneficial at the national level as it generates a variety of options to pick and choose from. Countries with a better-organized forest sector can take a more independent position in attracting international forest finance and decide on which mechanisms are appropriate and which are not. Intermediaries with a brokering function can help towards developing such a model as identified in the broker model.

The coexistence of different avenues towards increased coherence and coordination illustrates that there is no simple top down regime available to enhance coherence. This will only be achieved by a series of small steps such as streamlining procedures, complementary work planning and other forms of coordination on the technical level, where necessary secured by governmental approvals. The increased connectedness through the internet and associated opportunities for coalition building makes this almost a natural process that has taken off already. The bottom line for any strategy is that coordination and coherence must be given a higher priority in SFM financing management than it has today.

## The Way Forward

The response to the widespread understanding that there must be improved coordination between SFM financing mechanisms, should not be “more coordination”. This would most probably entail more bureaucracy. The response should rather be found in a smarter and more efficient

use of the opportunities that exist already. In the diverse landscape of forest related financing there are several processes underway to increase coordination and coherence for synergies. Though some mechanisms may be terminated because funding streams dry up, new mechanisms will arise responding to new issues creating new challenges for coherence. International policy makers do have possibilities to make this more manageable by further building on best cases and gradually improving conditions for coordination in an incremental way. Elements of such an approach could include:

1. **A periodic assessment of “The State of the World’s Forest Financing”**

A biannual report on the “The State of the World’s Forest Financing” would increase awareness and help to shape a sense of urgency to enhance coherence and coordination. The report would monitor the evolving SFM financing landscape, identify gaps and opportunities and support policy makers and experts in developing appropriate strategies. It would also provoke discussion on how to make further improvements, for example by introducing a scorecard system that systematically ranks the different SFM financing mechanisms according to their progress on improving coherence and coordination in the SFM landscape.

2. **A periodic “coordination SWOT” as a systematic part in the management of every SFM financing mechanism**

Coordination should become an integral part of the management of SFM financing



mechanisms. This would mean that opportunities for collaboration with other mechanisms would be identified at both the design phase and periodic evaluation of SFM financing mechanisms. Such an initiative would help identify gaps and overlaps in coordination from a wider perspective and help to adapt specific practices and increase the efficiency of implementation, including through an enhanced division of roles and responsibilities.

**3. A “your way to SFM financing” facility**

Establish an intermediary facility that helps countries to find their way in the complex SFM financing landscapes. The facility provides support in the formulation and operationalization of financing proposals at the national level and supports organisation at the international level to simplify and harmonize their procedures to improve access to their SFM financing mechanisms.

**4. A concerted drive towards strengthening national forest financing strategies and country coordination platforms**

A clear policy and implementation structure at the national level needs to be in place for efficient SFM financing mechanisms. Country needs and possibilities should be leading for SFM financing mechanisms. International policy makers should use the existing national forest policy structure as an entry point to deliver SFM mechanisms and support the development of such entry points in cases where these are not well developed through for example the development of national coordination platforms. These interventions have higher impacts once different

international mechanisms are aware of each other's presence and look for ways to work in a complementary manner.

**5. Capitalizing on existing platforms for knowledge exchange and discussion**

A number of existing platforms for knowledge exchange and discussion have proven effective in enhancing coordination between different organisations. Examples of these include the EU FLEGT/ UN REDD cooperation as well as the REDD platform under the UNFCCC. International policy makers and other forest financing stakeholders should use these platforms more strategically to realize their full potential. This might include lobbying for concrete actions to improve coordination and coherence or test new approaches.

**6. Enhancing “e-networking” to use the power of electronic networks to connect people**

E-networking” can be a hugely effective tool in enhancing coherence and shaping policy debates. Participants in learning platforms on the internet and members of professional social media communities on Facebook, twitter or linked-in can develop coordination in an informal way and jointly develop alternatives that can be translated into policy. An early example of this was the worldwide participation in the Rio+20 conference via the Internet.





This publication summarizes the main findings of the scoping study “Forest financing at the international level. Options for improving synergies and coherence in a diverse landscape”. The full report can be downloaded from:  
<http://www.tropenbos.org/publications/>

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**The authors:**

André Brasser, Beagle Sustainable Solutions  
([andre@beaglesolutions.nl](mailto:andre@beaglesolutions.nl))

Herman Savenije, Tropenbos International  
([herman.savenije@tropenbos.org](mailto:herman.savenije@tropenbos.org))

Final Editing: Alex Asen

**Available from:**

Tropenbos International

P.O.Box 232

6700 AE Wageningen

the Netherlands

tel. +31 317 481 416

[tropenbos@tropenbos.org](mailto:tropenbos@tropenbos.org)

[www.tropenbos.org/publications/](http://www.tropenbos.org/publications/)



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