How national forest funds can support small-scale forest businesses to deliver ecosystem services?

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Introduction: what are national forest funds (NFFs)?

- Rosembaum & Lindsay (2001): National Forest Funds (NFFs) can have **diversified forms depending on objectives, capitalization, beneficiaries and spending approaches** and thus the term "national forest funds" rather corresponds to a "**constellation of approaches**";

- Matta/FAO (2015): NFFs are "**dedicated financing mechanisms** established with the main objective of supporting the **conservation and sustainable use of forest resources**" and they present four key **features** on : i)governance; ii)capitalization; iii)utilization; iv)monitoring & oversight

- It is estimated that NFFs hold or manage more than **USD 12–13 billion worldwide** (FAO, 2015, Rosenbaum & Lindsay, 2001);

- While many of these funds are state-driven and often support **public goods** types of projects with a focus on social and environmental benefits, some are supporting privately managed small-scale "**for profit**" enterprises related to wood and non-wood forest-based value chains;

- Even though FAO & GIZ (2013) consider that NFFs are different from **commercial forestry funds** which main objective is to provide returns to investors, the research nonetheless opens to some relevant forest impact investment funds, which may provide important lessons learned to NFFs.

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Background

- NFFs can be key instruments to help mobilizing funds from a variety of sources (domestic, international, private and public) as needed to achieve the **Bonn Challenge** and other national, regional and **global forest & landscape restoration (FLR) commitments** (*at least +40 USD Billion/year needed according to FAO-GM, 2015*).

- With support to **small-scale forestry businesses** and related value chains, NFFs can also unleash the creation of green jobs and incomes for rural territories which make FLR implementation more sustainable.

- More **private capital** is needed to achieve FLR implementation at scale which translates by a multiplication of impact funds instruments. Similarly NFFs may have a role to play if they can catalyze private financing for sustainable value chains, including through small-scale forest businesses.

=> **But how can NFFs also contribute to the provision of Ecosystem Services in this context?**

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Emerging needs

The proposed research thus addresses emerging needs regarding the role NFFs could play for the sustainable provision of Ecosystem Services (ES), in particular on :

Sustainable domestic Forest Financing mechanisms delivering Ecosystem Services	Understanding how the utilization feature of NFFs can be more effective in delivering ES
Policy and management recommendations for NFFs supporting small-scale businesses on how to unleash ES provision	A revised framework for monitoring the role of forest funds on ES

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Objectives of the research

The paper aims at describing the recent developments of selected NFFs and assess how **NFFs' funding targeting small-scale forest enterprises** can actually contribute to the effective provision of **forest ecosystem services**.

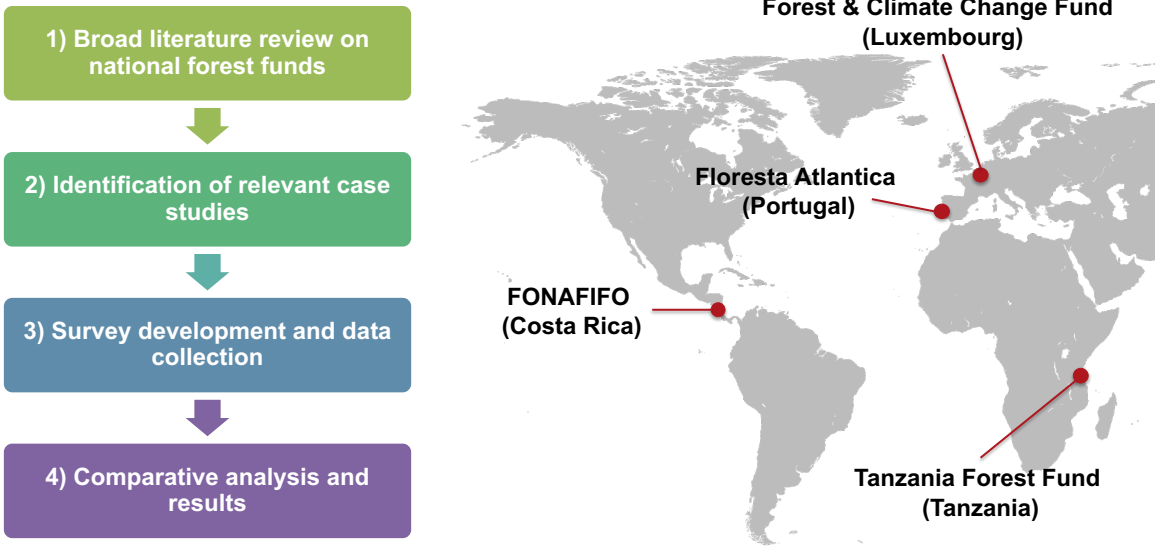**Key questions** addressed include:

i. How are **NFFs designed** and how are their operations structured? What type of funding windows are targeting **small-scale enterprises**?

ii. What is the **typology** of beneficiaries under the **small-scale enterprises funding windows** (incl. in terms of financing instruments used and underlying business models)?

iii. What are the **current practices of NFFs** supporting ES provision through small-scale forest businesses?

iv. What could be a **framework** for assessing how NFFs support small-scale enterprises in delivering **ecosystem services**?

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Methodology: building on case studies

1) Broad literature review on national forest funds

2) Identification of relevant case studies

3) Survey development and data collection

4) Comparative analysis and results

Forest & Climate Change Fund (Luxembourg)

Floresta Atlantica (Portugal)

FONAFIFO (Costa Rica)

Tanzania Forest Fund (Tanzania)

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Preliminary results (1)

Fund characteristics	FONAFIFO (Costa Rica)	FCCF (Luxembourg)	Floresta Atlantica (Portugal)	TaFF (Tanzania)
Fund type	Public fund	Impact investment fund (SICAV)	Public-private investment fund (real estate fund)	Public fund (Conservation trust fund)
Capitalization sources	Oil tax, water tariff, CSR sponsoring & offsets, International donors	State, CSR sponsoring, Banks	Public and private shareholders	Fees, levies, International & bilateral donors
Funding size (spending)	~ 25 M USD/year (1.6 M USD/year – Forest credit)	7.3 M USD (in the last 5 years)	20 M EUR (initial capitalization)	Not mentioned
Types of small-scale forest businesses supported	Wood forest businesses, incl. Plantations (upstream support)	Wood forest businesses, involved in different value chains steps of wood processing (downstream support)	Wood and non wood forest businesses, e.g. nut, beekeeping, etc	Wood and Non wood forest businesses, e.g. beekeeping
Financing instruments	Small loans (Credito forestal), Micro credit	Loans and equity financing	Concessions (fund remuneration with royalties) / land leasing	Grants (small, medium, large)

⇒ **Diversity of forest funds models, and types of financing support used for small-scale forest businesses**

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Preliminary results (2)

Fund characteristics	FONAFIFO (Costa Rica)	FCCF (Luxembourg)	Floresta Atlantica (Portugal)	TaFF (Tanzania)
Small scale business types	Private land owners, Individuals, SMEs	Companies, SMEs	SMEs	Individuals, SMEs, Cooperatives
Types of ES monitored (environmental)	Carbon, Water, Biodiversity	Carbon	Carbon, Biodiversity	Biodiversity
Social impacts	Indigenous groups support, Community benefits	Employment	Employment	Community benefits
ES valorization	Carbon, Water, Biodiversity (incl. local carbon market); PES scheme	Carbon (in development); FSC certification	Carbon (in development); FSC certification	Not mentioned
ES monitoring approaches	FSC framework	Environmental & Social Management System (ESMS); IFC PS, FSC	FSC framework	Not mentioned

⇒ **Heterogeneous ES types and monitoring approaches supported by NFFs**
⇒ **Among cases analysed only FONAFIFO has a well established PES approach in place**

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The way forward

Next steps will include:

i. Analyzing **additional NFFs**;

ii. Identifying how the NFFs utilization feature related to small-scale forestry businesses could be improved to unleash the NFFs potential to deliver ES;

iii. **Improving the current framework** for assessing how NFFs support small-scale enterprises in delivering ecosystem services;

iv. Identifying **policy and management orientations** to be considered by NFFs (when being designed or reformed) in a dynamic environment, taking into account **internal** drivers (considering key NFF features) and **external** drivers such as policy changes (bioeconomy, post-covid recovery, climate change, etc)

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Many thanks for your attention

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