

The Paris Declaration and its implication on finance for natural resource management

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Abstract

The Paris Declaration and the recent Accra Agenda for Action set out a framework for improving the effectiveness of aid. The aim is to ensure that aid is provided in a way that supports government priorities and uses and strengthens government systems rather than undermining them through developing parallel institutions and channels for aid delivery. The changing resource allocation modalities for development and poverty reduction emerging from these processes demand new approaches and strategies for mobilising both domestic and international resources for sustainable forest management (SFM). Resources are increasingly being allocated at the national level, which has major implications for the financing instruments involved (e.g. sector-wide approaches and co-financing arrangements) and hence for the financing options for SFM. In this context, the integration of SFM into national development strategies and relevant sector plans should be a priority.

This article illustrates how the development of integrated financing strategies (IFS) - a guiding framework for identifying and mobilizing a range of financial resources designated for sustainable land management (SLM) - can contribute to effectively positioning forestry in this emerging development marketplace. It outlines the main elements and principles of a comprehensive, integrated financing strategy linked to overarching development strategies and relevant investment frameworks. It draws on the experience of the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD) in creating an enabling environment for mobilizing internal, external and innovative resources for SLM through the application of the IFS concept.

The Global Mechanism advocates a multifaceted and cross-sectoral approach that broadens the scope of SLM, and provides a framework for mobilising resources also for sustainable forest management. Private sector investments, trade and market access, and adaptation and mitigation for climate change are some of the instruments that the GM explores in order to advance the SLM agenda through a concrete financing strategy.

Introduction

In the consensus reached at the Monterrey Conference on Financing for Development (March 2002), the global community affirmed the importance of development for the world's well-being. The Monterrey Consensus calls upon developing countries to strengthen their commitment to policies and institutions that work to stimulate growth, reduce poverty and achieve the Millennium Development Goals (MDGs). It also calls upon developed countries to provide more and better aid and improve trade and debt policies.

Donors and recipient governments committed to taking action to improve the management and effectiveness of aid and to take stock of progress before meeting again in Paris in February 2005 for the High-Level Forum on Joint Progress towards Enhanced Development and Effectiveness: Harmonization, Alignment and Results. The Accra Agenda for Action agreed upon in 2008 contains new commitments by donors and developing countries to speed up the process of fulfilling the Paris Declaration's pledges.

The challenge facing donors and partner countries is to harmonize their operational policies, procedures and practices, and align their support with country-owned poverty reduction strategies or other development frameworks. This involves joint efforts to identify elements that all agree are good practices, followed by individual efforts on the part of the institutions or countries concerned to align their policies and procedures, as far as possible, with those good practices, enhancing country systems for all development expenditures. This practical reform agenda covers a broad range of activities: analytical work, technical assistance, country strategies and operations and regional and global activities. (Aid Harmonization, 2009)

Multilateral development institutions, including the World Bank and the International Fund for Agricultural Development (IFAD), regional development banks and bilateral donor agencies have in the wake of these developments adopted new policies, modalities and instruments for allocating resources to promote the national development priorities defined in country development frameworks such as Poverty Reduction Strategies (PRSs). For example, the World Bank's Country Assistance Strategy (CAS), IFAD's Country Opportunities and Strategy Paper (COSOP), debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative and the International Development Association's (IDA's) new modalities for resource allocation are all aligned to and support implementation of PRSs and other development programming processes.

Because of changing financial conditions, international development cooperation is increasingly allocating resources at the national level, and this has major implications for development financing in terms of:

- country leadership and country-driven identification of development priorities (decision-making on how budgets are allocated);
- the financial instruments involved (e.g. direct budget support, co-financing arrangements and sector-wide approaches); and
- harmonization of aid and alignment of donors' and international finance institutions' priorities with those of recipient countries (The GM, 2008a).

In cooperation with other development partners such as FAO, GEF and the TerrAfrica initiative, the Global Mechanism is promoting a more integrated approach to SLM both at the policy level and through the promotion of integrated investment frameworks (IFF) for SLM.

The twin challenge of sustainable forest management and sustainable land management

Land degradation, which includes both desertification and deforestation, is a worldwide phenomenon that severely affects the poorest rural communities. Land degradation can be defined as long-term decline in ecosystem function and productivity (FAO, 2008). One quarter of world's population are directly depended on degraded lands and many more are affected. Land degradation is increasing in severity and extent in many parts of the world, with more than 20 percent of all cultivated areas, 30 percent of forests and 10 percent of grasslands undergoing degradation (FAO, 2008).

SLM aims to reduce and reverse land degradation. It means managing land without damaging ecological processes or reducing biological diversity. The World Summit on Sustainable Development held in September 2002 called for action to 'address causes of desertification and land degradation in order to restore land, and to address poverty resulting from land degradation' (UN, 2002). Thus, combating desertification is essential for achieving a much broader objective: the sustainable development of countries affected by drought and desertification (FAO, 2007).

Recognising the linkages between poverty and environmental degradation, the United Nations Convention to Combat Desertification (UNCCD) was established following the 1992 Earth Summit in Rio de Janeiro. The Convention is referred to as one of the Multilateral Environmental Agreements; however it is also recognised as a global framework for sustainable development. Designed as an overarching and cross-sectoral legal instrument, the Convention is therefore well positioned to support countries achieving their national development objectives and to contribute significantly to the millennium development goals of halving the number of people living in poverty by 2015.

The Global Mechanism was established as a subsidiary body of the UNCCD in order to "increase the effectiveness and efficiency of existing financial mechanisms [and] to promote actions leading to the mobilization and channelling of substantial financial resources [for activities pursuant to relevant provisions of the UNCCD) (article 21 of the UNCCD). It is specialized in providing a range of financial advisory services to country Parties to the UNCCD, including

- support country Parties' actions to mobilize and improve the targeting and coordination of national, bilateral and multilateral financial and technological resources for SLM;
- contribute to advocacy and awareness raising to increase financing for SLM; and
- contribute to the financial and socio-economic drivers of SLM, ensuring that they are taken into account in relevant policy and planning processes at all levels as a foundation for increased flows and investments for SLM (Global Mechanism, 2008b).

Sustainable forest management (SFM) is an integrative part of SLM and therefore included in the activities supported by the Global Mechanism to mobilise financial

resources. In particular in countries where the forestry sector plays an important economic role, forestry can be considered as a main vehicle for mobilising additional financial resources for SLM, in particular for (semi) arid areas.

Promoting comprehensive approaches to financing

The Integrated Financing Strategy (IFS) concept, designed by the Global Mechanism (GM) of the UNCCD, seeks to use existing sources and instruments more efficiently and to mobilize new and additional resources, through the creation of an enabling environment. The driving factors for IFS development include, *inter alia* the:

- cross-sectoral nature of SLM, including forest-related issues
- fact that land degradation requires longer term engagement rather than individual short term projects
- weak institutional framework;
- need for harmonized and streamlined approach for SLM financing;
- emerging aid modalities, in particular budget support and programme based approaches; and
- need to upscale resource mobilization for SLM.

The IFS delivers a programmatic approach and integrated investment framework that responds to all items listed above. Although it does not prescribe in detail all the elements to be included - as this will vary according to the country context - the IFS:

- examines the environment for SLM financing, assessing the current UNCCD financing situation and the limiting factors, including related sectors such as agriculture, rural development and forestry;
- develops and promotes the coordination of arrangements among different potential financing sources (internal, external, public and private), financial instruments and mechanisms; and
- designs enabling measures to support the process of change, particularly in relation to policy and legislative frameworks, stakeholders' capacity, governance mechanisms, coordination and organizational matters.

Developing and implementing an IFS

Developing and implementing the IFS is a long-term process. Although it should not be thought of as a linear process of separate design, implementation and monitoring steps, the IFS process flow usually consists of the following:¹

1. Setting up the IFS process;
2. Stocktaking and analysis
3. Strategy setting and IFS implementation plan
4. Integrated investment framework

¹ The process flow is outlined in figure 1.

1. Setting up IFS process

The IFS should ideally build on existing strategies (e.g. the National Action Plan of the UNCCD) or planning processes (e.g. the PRS) in the country and seek convergence with these. Key tasks in IFS design are: mapping existing strategic planning processes, and any past processes that provide important lessons; identifying the key features of the processes followed and the mechanisms used; and analyzing what has worked well and less well. This will help determine which processes and mechanisms can be built on, which are best avoided, and where there are potential synergies or gaps that need filling. The IFS should be anchored in overarching development frameworks, relevant sector strategies and programmes, and national budgeting processes, including the mid-term expenditure frameworks (MTEF).

2. Stocktaking and analysis

Sound analysis is essential for the IFS to tackle priority problems and produce useful recommendations for increasing financing for SLM. Such analysis includes identifying and applying relevant existing knowledge to the challenges of SLM, identifying gaps in knowledge, and filling these through research. Main issues to be analysed include:

- *Examining the environment for SLM financing:*

The analysis should explore the environment in which the IFS is set, examine natural and human factors and existing frameworks, and propose solutions for improving the enabling environment for resource mobilization at the policy, legal, institutional and coordination levels. Once the constraints are identified, the steps needed to create an enabling environment become clearer. It is then possible to make recommendations regarding the identification of sources, instruments and mechanisms for increasing financing for UNCCD implementation.

The analysis should also determine the volume of financial resources from different sources (domestic, foreign, public and private) that are directed towards SLM activities, using these as a benchmark for future monitoring and evaluation (M&E) of progress in financing for UNCCD implementation.

- *Identifying potential financing sources, instruments and mechanisms:*

Financing sources, instruments and mechanisms can be divided into three categories: internal, external and innovative. Internal sources are those mobilized within the country itself, and include both public (through the national budget) and private ones (through investments). Internal instruments and mechanisms include taxes, subsidies and other fiscal instruments. External sources include development aid and foreign direct investment (FDI). Aid instruments and mechanisms for delivering development assistance are key external instruments. The term 'innovative' is used to describe financing sources, instruments and mechanisms that have not traditionally been deployed when mobilizing financing for SLM. What is considered innovative will depend on the country-specific context.

- *Designing enabling measures for resource mobilization:*

The existence of an effective enabling policy, legal, regulatory and institutional environment plays an important role in mobilizing resources for SLM. There are numerous policy and legal constraints and disincentives, and even when the policy and legal instruments themselves are supportive of SLM, their enforcement and implementation may be inadequate and inefficient. The IFS should examine how policies, laws and institutions contribute to an enabling environment for SLM. It should focus on four areas: policy, institutional, legislative and human capacities.

The mobilization of substantial finance flows is closely related to the integration of UNCCD and SLM issues in national policy, planning and budgetary processes, and overarching national development frameworks. Mainstreaming is part of this integration and involves a process of informed dialogue and national-level action focusing on the sustainable management of natural resources and poverty reduction, with the objective of engendering political commitment to making land degradation and desertification issues a national priority. A country's policy measures, as spelled out in its PRSP and related development frameworks, are often poorly prioritized and insufficiently linked to the availability of financial resources in the budget. To be effective, mainstreaming efforts must therefore target not only policy frameworks but also MTEFs (or variations of them) and annual budgets at the national and decentralized levels.

3. Strategy setting and IFS implementation plan

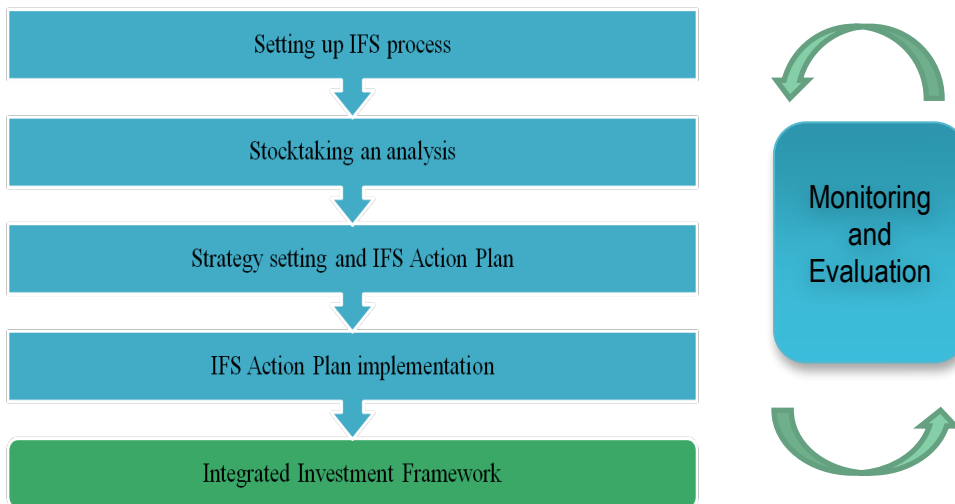
To catalyze IFS implementation, an implementation plan should be developed. The plan should be based on the findings of the analysis and the recommendations made in phase 2. The plan should identify process-oriented interventions that facilitate inter-sectoral coordination, broaden stakeholder participation, establish formal partnerships and initiate policy dialogue. Through these processes, the IFS is translated into concrete costed activities that lead to the mobilization and channelling of substantial financial and other resources to support UNCCD implementation.

4. The integrated investment framework

The investment framework is defined by the government, with support from development partners in order to catalyze investments in SLM from such sources as public expenditure at the national and local levels, private sector investments (including by farmers and communities) and funds from international development partners. The investment framework should not run parallel to national development processes, but be part of the country's overall resource allocation. It should include dedicated SLM budget lines in the various processes within the country's overall development planning and budgeting. The investment framework can be summarized in a document, outlining priority interventions, expected outcomes/outputs/activities, lead responsibilities, financial resources required, sources of funding available (on- and off-budget resources, including contributions from development partners) and financial delivery mechanisms.

Wherever possible, the development of an SLM investment framework should build on existing (national or sectoral) processes and frameworks. For example, if a country already has a comprehensive sector programme for forestry or rural development, it could be more effective to mainstream SLM principles into this programme rather than establishing a SLM specific framework. The TerrAfrica initiative promotes the establishment of "Comprehensive SLM Investment Frameworks (CSIF).

Figure 1: The IFS process flow



Key achievements from IFS development in selected countries

The Global Mechanism is applying the elaboration and implementation of IFS and integrated investment frameworks in some 10 countries in Latin America (e.g. Argentina, Guatemala), Africa (Cameroon, Ethiopia, Mali) and the Near East (Jordan, Lebanon). In 2010-2011, the GM is expected to devise the elaboration and adoption of IFS in more than 20 countries. On the sub-regional level, the Global Mechanism supported worldwide the organization of 14 workshops on the Designing Integrated Financing Strategies (DIFS) in 2009 in the context of its knowledge exchange and capacity building programme, most of them in cooperation with UNDP, UNEP and the GEF.²

Although the process of IFS is ongoing in most of the above-mentioned countries, some lessons-learnt can be shared based on the experiences made so far:

- In *Ethiopia*, the GM supported the mainstreaming of the NAP and SLM issues in the Plan for Accelerated and Sustained Development to end Poverty (PASDEP-PRSP), which led to the earmarking of an estimated USD 260 million investment in SLM. Following an initial support by the GM and partners, a number of development partners including the World Bank, the European Commission and DFID aligned their current country assistance strategies with government priorities, resulting in SLM becoming a key area of support.
- In the *Middle East*, the GM's partnership with the Ministry of Agriculture of Lebanon and the UNDP country office to develop and implement an IFS has led to the establishment of a SLM Umbrella Programme. The Integrated Investment Framework under this programme consists of a portfolio of projects financed by

² Within the framework of the UNDP/GEF project "Targeted Portfolio Project on Capacity Building and Mainstreaming of SLM for Least Developed Countries and Small Island Developing States"

Spain, Brazil, Sweden, Australia, GTZ, Finland, UNDP, DDC and IFAD amounting to approximately USD 26 million. In Jordan, the IFS was launched in March 2009 respectively by the Ministries of Planning and International Cooperation and Environment. The first project that comes under the IIF for Jordan is a USD 29 million project entitled 'Mainstreaming Sustainable Land and Water Management Practices' developed by IFAD and the GM and co-financed by the OPEC fund for International Development and the GEF under the MENARID Programme.

- In *Cameroon*, the Ministry of Environment has embarked on a process for the elaboration of an IFS for SLM. Preparatory studies have been initiated to assess i) the institutional framework and coordination mechanisms related to the UNCCD; ii) the opportunities for mainstreaming SLM/UNCCD in overarching policy processes; iii) the costs of land degradation; iv) the internal (e.g. national budget) and external resources (e.g. donor funding) devoted for SLM; and v) the potential of mobilizing innovative sources of funding for SLM. The draft results of above mentioned studies will be discussed during a national workshop scheduled for September 2009. Based on the outcomes of the workshop, a road map for the elaboration of an IFS will be defined; the final IFS is expected to be available by end 2009.

The IFS: a framework for triggering investments from innovative sources

Assessing opportunities for mobilising innovative financing is central to the IFS development and implementation process. Within the IFS process, finance from new and untapped sources in the UNCCD context, including private sector, international NGOs and foundation, is explored with a view to channel direct grants, loans and investments to support sustainable land management practices.

Economic and financial mechanisms which do not directly finance actions to prevent, mitigate and reverse land degradation, but rather rely on regulation and markets to provide incentives for environmental stewardship, should also be evaluated and promoted where applicable in the UNCCD context. There is increasing recognition that market based mechanisms are required to provide effective incentives for users of land and natural resource to adopt and invest in sustainable land management practises. The Global Mechanism is providing a range of services to partners at regional and national level on how to access relevant innovative financing sources and mechanisms for SLM. Below is an overview of some its experiences to date in exploring new instruments, mechanisms and sources of finance.

Market access and trade

The GM approach to resource mobilization through market access and trade is framed within the context of the WTO initiative on Aid for Trade (A4T). The aim of the GM is to channel trade-related resources towards Integrated Investment Frameworks for SLM. In 2008-2009 the GM focused on Least Developed Countries (LDCs) and on mainstreaming SLM in trade-related processes such as the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). Current initiatives in Mali (on gum arabic) and Uganda (on non-timber forest products) are assessing how to access resources under the IF in the context of SLM country programmes and related investment frameworks.

Market – based mechanisms

In collaboration with CATIE³, analytical and methodological work is being carried out to identify mechanisms which can provide incentives for land users to invest in SLM practices. The methodological framework is designed to assess what mechanisms are best suited for use in dry and degrading lands, including public payments, open trading schemes under regulation, self organized private deals and eco labelling schemes for forest and farm products. A more detailed description of the various mechanisms can be found in annex 1.

Private sector investments

The GM also seeks to increase both directly and indirectly, private investments in SLM activities. One example is the support provided to the Government of South Africa in the development of a public-private partnership (PPP) initiative. The PPP was launched by the Deputy Minister for Environment and Tourism Affairs during a ceremony where Shell Solar announced a contribution of 600 million rands (approx. 660 million USD) for the promotion of alternative energy by rural households, while several other companies pledged financial contributions towards the promotion of SLM in the country. Furthermore, the Development Bank of Southern Africa (DBSA) will host a special fund, to which it will also contribute, to finance initiatives on SLM pursuant to the PPP.

Climate Change

The Climate Change Programme of the Global Mechanism is facilitating access to new and additional financial resources from climate change related mechanisms in support of UNCCD implementation at the national and regional level. It provides technical and financial assistance for the identification, design, negotiation and implementation of climate change initiatives to promote SLM.

The Global Mechanism provides for example strategic support to the COMESA⁴ Climate Initiative and to the West and Central Africa, Latin America and the Caribbean regions and carried out studies and inventories of UNCCD relevant climate change mitigation and adaptation activities at African sub-regional level to improve access to climate change finance for SLM.

Conclusions

The experiences made by the Global Mechanism on the elaboration and implementation of IFS for SLM have shown that through enhanced capacities of SLM stakeholders, in particular the UNCCD Focal Point Institution (normally the Ministry of Environment), increased finance for SLM can be mobilised. However, mobilisation of financial resources is a long term process and the real impact can only be assessed after some years of IFS implementation. In addition, the IFS needs to become integrative part of NAPs or similar programming schemes (such as National Forest Plans, NFPs) to provide the operational framework and to ensure that the programmes do not remain theoretical / technical documents but are clearly linked to ongoing policy process and to both exiting and potential new financial sources.

³ Regional scientific knowledge centre for agriculture and management of natural resources, based in Costa Rica

⁴ Common Market for Eastern and Southern Africa

An increasing number of countries affected by desertification and land degradation have recently requested the support of the Global Mechanism⁵ in analysing the costs of land degradation, desertification and drought in order to support decision making and the mainstreaming of SLM within relevant national and international policy-making processes. In particular, there is a demand for a comprehensive methodological approach for assessing the costs of land degradation and the value of sustainable land management at national and global level.

The elaboration of IFS and integrated investment frameworks can be elaborated for various “sectors” related to natural resource management, including agriculture and forestry and concepts are advocated by various development partners. In order to avoid duplications and overlaps, IFS elaboration and implementation should be carried out under country leadership in order to avoid any parallel processes. Furthermore, it is suggested to elaborate, if possible, a joint integrated financing strategy for SLM and SFM. The specific country situation will define which ministry will be in the ‘driving seat’ coordinating the process – for example forestry in high forest countries and land/agriculture in low forest cover countries.

For the forestry sector, IFS can assess the needs for finance, the availability and sufficiency of sources of finance and help create a reliable framework for forest investment and payment for forest goods and services. An integrated approach to forest finance requires, as for SLM, mainstreaming of NFPs, or other strategies for SFM, into relevant national development strategies and plans in order to facilitate increased allocation of financial resources to SFM. The integrated financing strategy should contribute to developing and implementing new and emerging financing instruments including payments for ecosystem services, including climate change mitigation and adaptation.

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⁵ At most sub-regional DIFS workshops, co-organized by the Global Mechanism in 2009, participants adopted Declarations specifying their recommendations on IFS and SLM resource mobilisation efforts. These Declarations are available on the homepage of the Global Mechanism.

Annex 1: Overview of market based mechanisms for SLM (GM, 2009)

MECHANISM	DESCRIPTION
PUBLIC PAYMENTS	
A. Permanent conservation easements	A guarantee that a tract of land will not be used or farmed. It usually involves an annotation in the property title or at the Land Registry Office
B. Contract farmland set-asides	Landowners give up the right to use part or all of their farmland, in exchange for payments.
C. Co finance investments	Government pays part of the investments needed in order to achieve a certain land use (afforestation, sustainable forest management, SLM practices)
D. Payments for proven investments in land conservation	Government provides a payment based upon realized investments, per unit of area
E. Subsidies	The government may provide direct subsidies to those who implement SLM practices or other environmental technologies (e.g. water treatment plants, energy efficient light bulbs, soil conservation equipment).
F. Taxes, tax breaks (inputs, practices)	Environmental or green taxes levied on “bads” that are then used to correct or modify existing land use practices.
OPEN TRADING UNDER REGULATION	
G. Tradable development rights	Would allow for the development of certain amount of land, on the condition of restoring a similar type and quality as a compensation measure.
H. Trading of emission reductions or removals (or other environmental benefit)	Consists of setting a pollution goal (or a reduction) and then distributing that amount of pollution permits. Parties could either use their own, buy or sell permits, which in the beginning could be given up for free or sold.
SELF ORGANIZED PRIVATE DEALS	
I. Purchase of development rights	An interested party buys the development rights of a given piece of land to dedicate to a particular use, such as forest management or conservation. A hydropower generator could.
J. Conservation Banks	Parcels used for conservation purposes managed by the bank that sells credits to projects that will impact the environment. Each bank uses the money to protect the natural resources, for example water, endangered species, farmlands, natural beauty, forest lands, historical and

	archaeological sites.
K. Direct payments for environmental services	Environmental services' users pay providers directly for the services they provide. For example, a hydropower generator interested in minimizing erosion and siltation pays farmers upstream who implement SLMP.
L. Conservation concession	One party provides another with a concession to "use" the territory for conservation processes.
ECO LABELING OF FOREST OR FARM PRODUCTS	
M. Payment is embedded in the product	Product surcharges by certificates and special product seals
N. Market access and trade	Goods and services produced in a sustainable way gain preferential treatment and access to certain markets.
