



# **Toward a sound financial architecture for SFM: the role of NFFs**

**D. Andrew Wardell, Research Director, CIFOR-GOV**



# Toward a sound financial architecture for SFM



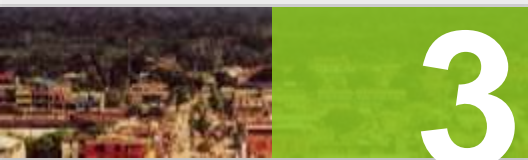
1

**Global context – what can we expect?**



2

**To fund, to market or migrate?**



3

**Financial globalization – retreat, reset or reversing roles?**



4

**The role of National Forests Funds, and other financing mechanisms**

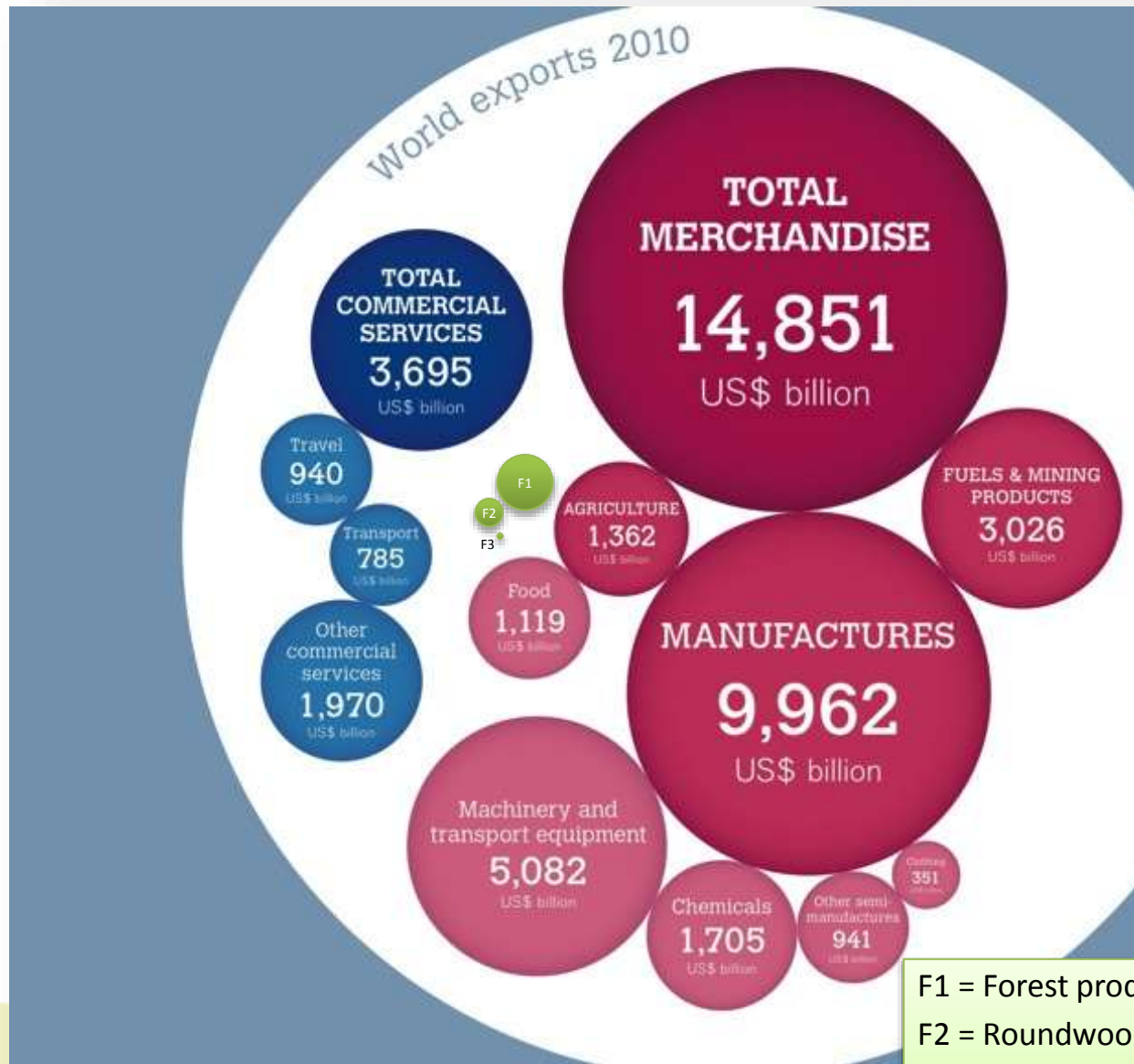
# Global context- what can we expect?

- 9.6 billion **people** in 2050
- Changing **consumption** patterns
- Continued economic **growth**
- Growing expectations of **justice and equity**
- Migrations to seek new **opportunities**
- Increased **climate variability**
- Growing demand for **food, fibre, fodder and fuel** (notably BRICS)
- **Continued deforestation** but at a lower rate





# Global context - WTO International Trade Statistics 2011



F1 = Forest products, world, 245 US\$ bn

F2 = Roundwood & sawnwood, world, 50 US\$ bn

F3 = Roundwood & sawnwood, Africa, 2 US\$ bn

Source: FAO Forest products yearbook 2011

# To fund, to market or migrate?

- A financing gap? – poor disbursement of public funds and low private sector investment in smallholder-based production systems
- Gol-Norway Lol signed in May 2011 – US\$1 billion pledge – disbursement to date US\$30m (3%).
- NICFI cumulative global disbursements to date ca. US\$1.4 billion but estimated 50% of Norwegian ODA for REDD+ not disbursed
- US\$ 1.8 billion loan from unspecified Chinese sources for a Sinar Mas subsidiary, PT OKI's (planned) pulp and paper mill in Sumatra (October 2013)
- US\$ 71 billion – estimated total remittances in 2012 (x 3 ODA)

# Financial globalization – retreat, reset or reversing roles?

- 60% decline in cross border capital flows since 2007
- 32% share of global capital flows to emerging economies in 2012 (cf. 5% in 2000)
- US\$1.9 trillion in “South-South” foreign investments between emerging economies
- Global financial markets at an inflection point...
- Balkanisation and dependence on domestic markets?...
- A sustainable approach to financial-market development and global integration? (role for NFFs and INARI?)
- ....and/or a BRICS bank?

Sources: Lund et al, 2013; Business Monitor International, 26 March 2013



# The role of National Forest Funds

- Need to link NFFs to the bigger picture (e.g. broader SDG goals, and national development plans such as MP3EI in Indonesia)
- Current public fund-based mechanisms have not performed well, often due to poor governance
- Risks of proliferation and fragmentation of financing modalities (e.g. climate change)
- CIFOR's research
  - Financial Governance and Indonesia's Reforestation Fund (OP #52, 2010 and InfoBrief # 20, 2009)
  - REDD+ Benefit Sharing (on-going)
  - INARI



# INARI

- Recent initiative by The Munden Project, CIFOR, ICRAF, Chatham House and ASOG
- Aims to develop a financing mechanism to promote investments  
- at scale - in sustainable land use by smallholders
- Preparatory studies funded using DFID Know For grant
- Improving our understanding of production, market, portfolio and pricing risks
- More efficient use of public money to leverage private capital
- Making the case for private investment in sustainable land use in developing countries
  - Performance of a long-term (10 year) portfolio of these practices can be profitable with IRRs of between 12-20%
  - US\$34-52 for each US\$1 of public money invested
- Simulation of sustainability verification for a micro-loan system for small-scale farmers







# THANK YOU

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PROGRAM ON  
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Agroforestry



CIFOR advances human wellbeing, environmental conservation and equity by conducting research to inform policies and practices that affect forests in developing countries. CIFOR is a CGIAR Consortium Research Center. CIFOR's headquarters are in Bogor, Indonesia and it also has offices in Asia, Africa and South America.



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