





Forests

Investing in natural capital



Acknowledgements

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List of acronyms

ABS	Access and benefit-sharing	IOE	International Organisation of Employers
AIDS	Acquired immune deficiency syndrome	IRR	Internal rate of return
AIJ	Activities implemented jointly	ITTO	International Tropical Timber Organization
BAU	Business-as-usual	ITUC	International Trade Union Confederation
BNDES	Brazilian National Development Bank	IUCN	International Union for Conservation of Nature
BOD	Biological oxygen demand	LDCs	Least Developed Countries
CDM	Clean Development Mechanism	LPG	Liquefied petroleum gas
CI	Confidence interval	NGO	Non-governmental organisation
CO ₂	Carbon dioxide	NPA	Natural Protected Areas
CPET	Central Point of Expertise on Timber	NPV	Net Present Value
EMBRAPA	Brazilian Government Agricultural Research Agency	NWFPs	Non-wood forest products
ESC	Environmental Services Certificate	OECD	Organisation for Economic Co-operation and Development
EU	European Union	PEFC	Programme for the Endorsement of Forest Certification
FAO	Food and Agriculture Organization of the United Nations	PES	Payment for Ecosystem Services
FLEG	Forest Law Enforcement and Governance	PFE	Permanent Forest Estate
FLEGT	Forest Law Enforcement Governance and Trade	REDD	Reducing Emissions from Deforestation and Forest Degradation
FONAFIFO	Costa Rica's National Forestry Financing Fund	RIL	Reduced impact logging
FSC	Forest Stewardship Council	RUPES	Rewarding the Upland Poor in Asia for Environmental Services
G2	Green Scenario 2	SFM	Sustainable forestry management
G8	Group of Eight	SIEF	Solomon Islands Eco-Forestry
GDP	Gross Domestic Product	SSA	Sub-Saharan Africa
GEF	Global Environment Facility	UNEP	United Nations Environment Programme
GHG	Greenhouse gas	UNFCCC	United Nations Framework Convention on Climate Change
GIS	Geographic Information Systems	VETE	Village Eco-Timber Enterprises (Solomon Islands)
GPGs	Global public goods	VPAs	Voluntary Partnership Agreements
HIV	Human immunodeficiency virus	WRM	World Rainforest Movement
ICRAF	International Center for Research in Agroforestry		
IEA	International Energy Agency		
IFC	International Finance Corporation		
IIED	International Institute for Environment and Development		
ILO	International Labour Organization		

Key messages

1. Forests are a foundation of the green economy, sustaining a wide range of sectors and livelihoods. Forest goods and services support the economic livelihoods of over 1 billion people, most of whom are in developing countries and are poor. While timber, paper and fibre products yield only a small fraction of global GDP, public goods derived from forest ecosystems have substantial economic value estimated in the trillions of dollars. Forests sustain more than 50 per cent of terrestrial species, they regulate global climate through carbon storage and protect watersheds. The products of forest industries are valuable, not least because they are renewable, recyclable and biodegradable. Thus, forests are a fundamental part of the earth's ecological infrastructure and forest goods and services are important components of a green economy.

2. Short-term liquidation of forest assets for limited private gains threatens this foundation and needs to be halted. Deforestation, although showing signs of decline, is still alarmingly high at 13 million hectares per year. Although net forest area loss amounts to five million hectares per year, this is a result of new plantations that provide fewer ecosystem services than natural forests. High rates of deforestation and forest degradation are driven by demand for wood products and pressure from other land uses, in particular cash crops and cattle ranching. This "frontier" approach to natural resources – as opposed to an investment approach – means that valuable forest ecosystem services and economic opportunities are being lost. Stopping deforestation can therefore be a good investment: one study has estimated that, on average, the global climate regulation benefits of reducing deforestation by 50 per cent exceed the costs by a factor of three.

3. International and national negotiations of a REDD+ regime may be the best opportunity to protect forests and ensure their contribution to a green economy. To date, there has been no clear and stable global regime to attract investment in public goods that derive from forests and to assure their equitable and sustainable production. Such a regime promises to tip the finance and governance balance in favour of longer-term sustainable forest management (SFM)¹ – which would be a real breakthrough where the viability of SFM has been elusive in many countries. Management for forest public goods would then open up the prospect of new types of forest-related jobs, livelihoods and revenues – where local people can be guardians of forests and forest ecosystem services. It will require REDD+ standards as well as effective systems for local control of forests, and transfer of revenue, to ensure these livelihood benefits are realised.

1. Sustainable forest management may be defined as "the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national, and global levels, and that does not cause damage to other ecosystems" (FAO 2005b).

4. *Tried and tested economic mechanisms and markets exist which can be replicated and scaled up.*

There are enough existing glimpses of green-economy forestry to warrant more serious policy attention, including certified timber schemes, certification for rainforest products, payments for ecosystem services, benefit-sharing schemes and community based partnerships. They need to be catalogued, assessed for the ecosystem services they offer, promoted widely and scaled up. We contribute to that process in this chapter.

5. *Investments in natural forests and plantations can deliver economic benefits.* Modelling for the Green Economy Report (GER) suggests that an investment of just US\$ 40 billion per year over 2010 to 2050 in reforestation and paying landholders to conserve forests could raise value added in the forest industry by 20 per cent, compared to business-as-usual (BAU). In addition, it could increase carbon stored in forests by 28 per cent, compared with BAU. Provided investments are also made in sustainable productivity-enhancing improvements in agriculture (see Agriculture chapter), this expansion in forest plantations need not threaten food production. However, tree planting would have to be carefully targeted to ensure that it does not displace poor farmers, who have ill-defined tenure; tree planting should also provide another livelihood option in rural areas.

6. *Legal and governance changes are needed to tip the balance towards sustainable forestry, which is not yet at scale, and away from unsustainable practice, which is entrenched in both the forest sector and competing sectors.* Well-managed forests are the cornerstone of ecological infrastructure; as such, they need to be recognised as an “asset class” to be optimised for its returns. These returns are largely public goods and services, such as carbon storage, biodiversity and water conservation and need to be better reflected in national accounting systems. Private forest goods can also have significant economic and social benefits if sustainably produced. Yet, expansion of SFM and green investment face competition from unsustainable and illegally-sourced wood and fibre products, as well as policy biases towards competing land uses such as pasture, agriculture and mining. Both carrots (support for skills training, independent verification of SFM and preferential government procurement) and sticks (tightening up laws and enforcement against illegal logging and marketing) are needed. Also necessary is a revision of policies favouring other sectors, which can erode forest benefits, notably the costs and benefits of agricultural subsidies.

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