

TESTING A NEW FINANCIAL METHOD FOR SUSTAINABLE FOREST MANAGEMENT IN COLOMBIA

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Sustainable forest management does not only imply sustained yield forestry and sustaining a wider array of forest functions, but furthermore a high degree of economic feasibility and social acceptance. With this challenge in mind, the Swiss Federal Laboratories for Materials Testing and Research (EMPA) and the forest group of the Worldwide Fund for Nature developed a project idea in 1998 with the aim to explore options for long-term financing of sustainable forest management in tropical regions (Robledo, 2000).

1. ENVIRONMENTAL SHARE-ISSUING COMPANY

As a result, the project proposes the creation of a Sustainable Management Entity (SME) that operates as an environmental share-issuing company. Within its area of influence, the SME is responsible for the conservation of natural forests and for the sustainable management of degraded forests and forest plantations, as well as for improving the living conditions of the population. In order to address this goal the SME will implement an integrated financing method that combines three financing sources:

- Private investment in Environmental Shares;
- income derived from sustainable management of forest goods including timber and non-timber forest products; and
- payments for forest services, including carbon storage, watershed management and other forest services such as biodiversity conservation.

2. ENVIRONMENTAL SHARES

Environmental Shares are shares issued by the SME. A maximum of 49% of the shares are tradable at the international stock exchange. The remaining 51% of the shares represent the tenure rights and stay in the hands of the local landowners. The international business community and other interested parties can buy Environmental Shares. The acquisition of shares allows shareholders to obtain an "Environmental Acknowledgment" - issued by an internationally recognized organization - which can be used for advertising and promotional campaigns. At present it is advantageous for investors, especially from the industry community, to be committed to sustainable management of natural resources. The possibility of using an Environmental Acknowledgment in advertising is widely recognized as an excellent investment.

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Currently, there are various approaches to monetarise forest services. A new opportunity is provided by the recognition of forest sinks by the UN Convention on Climate Change. Afforestation and reforestation have been recognized as accountable for projects under the Clean Development Mechanism (CDM). The project includes Certified Emission Reductions (CER) as a core element in financing a SME. Other possible payments for forest services, such as those for watershed management or biodiversity conservation can be considered depending on the specific conditions of a SME.

3. PILOT PROJECT IN COLOMBIA

In early 1999, four partners engaged in the formulation of a pilot project: the World Bank's forest team, the International Tropical Timber Organization (ITTO), EMPA and CORNARE, a Colombian institution in charge of sustainable development at the regional level. The initial project of 18 months titled "Alternative Financing Model for the Sustainable Development of the Area of San Nicolás" was financed through the ITTO project cycle in November 1999 (ITTO, 1999). The main objective of this project is to further develop the concept and to test the feasibility of the financing method at field level.

The project is implemented in an Andean mountain area in Central Colombia. The total project area comprises 72,000 ha, including 30,000 ha for conservation and 42,000 ha of multiple-use forest areas, comprising pasture, agricultural crops and forest plantations. The pilot project has three specific objectives: (i) to develop an investment and financing plan for the SME; (ii) to formulate a forest management plan with participation of the local community; and (iii) to ensure the basic social and institutional conditions required for the implementation of the pilot project.

4. CURRENT SITUATION

The socio-economic conditions in the region are characterised by intensive land-use changes, deterioration of the living conditions of the local population and the existence of a violent conflict that has deeply affected civil society. These problems have also resulted in forest degradation and deforestation, as well as in a reduction of the hydrological potential in the region. In addition, a decline of prices has influenced wood processing and marketing of wood products in recent years. Local wood products, particularly boxes for banana export and handicrafts, have also been replaced by substitutes from other regions.

A positive factor is the high degree of organisation of the local community. Furthermore, a CORNARE (Corporación Autónoma Regional del Rio Negro-Nare) inventory indicated that there are important forest assets in the region, comprising areas with high potential for sustainable forestry and substantial water resources. With these assets in mind, SFM activities are planned, based on the participation of different sectors. The activities will include forest management (for conservation and multiple-use) and social development, for example through generation of local employment, and equitable distribution of benefits. In order to promote meaningful participation, a Regional Forum has been established. This Forum steers the creation of the SME and is composed of local stakeholder representatives, as well as national and international experts in charge of the technical aspects.

The pilot project relies on a number of technical, social and institutional conditions:

- The legislative resolution 016 of 1998, establishing forest conservation areas and multiple-use forestry areas;
- The opportunities offered by the Clean Development Mechanism considering afforestation and reforestation activities within the multiple-use forestry areas²;
- The implementation of a participatory and integrative Regional Forum; and
- The reputation of CORNARE and its international partners in terms of technical capacity and impartiality.

5. FUTURE DEVELOPMENT

The main output of the current project phase will be the business plan of the SME. This plan will include the results of a comprehensive forest inventory, a forest management plan, the definition of the baseline and the project scenario, a program in capacity building, a monitoring system (for both SFM and carbon forestry), as well as the identification of investment opportunities, costs and benefits. The project partners are optimistic about the implementation of the pilot project. A follow-up phase to further develop the investment plan is under consideration. The project welcomes new partners that are interested in the proposed innovative approach to put sustainable forest management into practice.

6. REFERENCES

- ITTO (1999). *Alternative financing model for Sustainable forest management in San Nicolás*. Project proposal to ITTO PD 54/99 Rev.2 (F), International Tropical Timber Organization (ITTO), Yokohama.
- Robledo A. C. (2000). *Environmental shares and carbon bonds for sustainable forest management in tropical regions*. EMPA, St. Galo, 35 pp.

² Due to the fact that the role of avoiding deforestation for following commitment periods is not yet clear, the potential emission reductions for conservation will be accounted separately in the pilot project.

