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# »» Materials on Development Financing



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## Lessons from German Financial Cooperation Projects for Forest Landscape Restoration

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### Key points

- German financial cooperation forest projects provide many lessons for implementing and upscaling FLR.
- Tangible economic benefits for the target group are crucial to ensure the long-term success; FLR business models should pay more attention to markets and value chains.
- In-depth cost-benefit analyses can inform decision makers on FLR options at project level.
- In order to have a baseline for monitoring impacts key performance indicators should be assessed prior to project start.

### From Policy to Implementation of FLR on the ground – the role of financial cooperation

Forest Landscape Restoration (FLR) has emerged as one of the most important global environmental policy objectives and plays a key role for achieving the Sustainable Development Goals (SDG). Furthermore, FLR is part in key agreements of the Rio Conventions and promoted through voluntary initiatives such as the Bonn Challenge and the African Forest Landscape Restoration Initiative (AFR100) for restoring forested landscapes in Africa. This approach complements the target to address effectively the drivers and underlying causes of deforestation and forest degradation.

FLR seeks to restore the functionality of forests and to enhance the ecosystem services they provide – with a particular emphasis on improving local livelihoods. The approach is broad and includes afforestation, reforestation, assisted natural regeneration, agro-forestry and silvo-pastoral systems. In line with its technical and financial support for forests, the government of Germany actively promotes the main global and regional FLR initiatives.

Currently, stakeholders discuss how to upscale successfully FLR models to reach the targets of the Bonn Challenge, AFR100 and the UN New York Declaration on Forests (NYDF). AFR 100 alone aims to bring 100 mn ha under restoration across Africa by 2030 as a contribution to the Bonn Challenge and the NYDF. These policy targets are very ambitious and their implementation faces various hurdles. German development cooperation projects provide a wealth of lessons learned that could inform policy makers and stakeholders about the prerequisites and factors for successful implementation.

### Study objective and approach

The study systematically analyzed the impact evaluation reports of 42 pre-selected financial cooperation grant and concessional loan projects implemented between 1990 and 2014 in 20 African, Latin American and Asian countries. All projects aimed at regaining the ecological functionality of forests while also improving the livelihood conditions of local communities and landowners. Most projects focused on afforestation / reforestation (including agro-forestry). Many of the analyzed projects also supported the rehabilitation of degraded natural forests.

Except for one project, main target groups were smallholders, communities and indigenous peoples. The specific measures were heterogeneous and included

- forest conservation and rehabilitation
- sustainable forest management
- afforestation / reforestation
- enhancing agricultural production

To enhance the consistency among the available impact studies KfW technical experts and project managers provided additional information and helped putting findings into perspective.

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## Findings

The study identified a number of success factors for the feasibility of financial cooperation projects. Recognizing the importance of the project context, some observations can be generalized, in particular concerning

- project design and natural pre-conditions
- socio-economic and institutional context (sector policies, governance, enforcement)
- incentive mechanisms
- land tenure and land use rights

### Project design

**The project design needs to adequately reflect natural site conditions, forest types, topography, soil-related and climatic factors.** Aspects such as remaining forest cover, pressures on forests, and degree of (soil) degradation and water availability determine the technical feasibility with the available resources. Most projects were implemented with accompanying technical support through technical assistance.

**Generally, forest protection and FLR projects of financial cooperation should run over long periods.** Forests take time to be established – in particular if the measures aim at re-establishing forests on degraded soils. Projects need to have sufficient flexibility in order to adapt measures to the often dynamic contexts and conditions, as well as existing capacities. Structuring long-running projects into phases is a useful approach, and allows for aligning technical and financial support.

**In-depth cost-benefit analyses of related value chain investments should be carried out during the planning stage of FLR projects.** Economic success of smallholders and communities allows for private sector integration and increases the likelihood for enduring project success and desired impacts (employment, mitigation of climate change, biodiversity) – beyond the project's lifetime. Such analyses should strive to collate up-to-date information of all relevant cost blocks. They can inform public and private investors alike on the costs for different forest interventions, and the FLR discourse on the needed investment for meeting the formulated policy objectives.

**In projects with an emphasis on sustainable production, a “site-species-market approach” is recommended.** While site-species matching is widely applied, the link of the production areas to markets (timber, non-timber forest products and other sustainably produced commodities) are often not adequately reflected and budgeted in the project design. As a result, the connectivity of producers to markets remains insufficient, thus putting the project sustainability at risk. An example for an approach is building producer organizations and supporting their capacity development for the aggregation of products and application of standards. Such measures again require long-running project durations.

**Monitoring project progress and impacts remains a challenge for assessing the success of projects.** For future FLR projects, it would thus be useful to carry out baseline analyses at the beginning of the project. This should include an assessment of key performance indicators (e.g. employment, mitigation), based on standardized procedures to allow for comparability.

**The reports emphasize that well-coordinated technical and financial cooperation can be an important success factor but requires mutual understanding and additional planning.**

### Socio-economic and institutional context

Socio-economic aspects are success factors for financial cooperation projects. Key aspects include political stability and political will (for forest protection and transition towards sustainable land uses), governance and law enforcement, technical and financial capacities of partners, demographics and culture.

**Project developers should analyze thoroughly the specific national and local circumstances.** When designing the conceptual approach, it is necessary to take into account the ecological conditions and the socio-economic context. Introducing sustainable management of natural forests depends more than other measures on the existing preconditions and national circumstances. Such investments require effective law enforcement (especially concerning illegal logging), low pressure on forests and laws that allow for long-term management and legal trade of timber. In this context, well-aligned technical cooperation support can be an important success factor.

### Incentive mechanisms

**It is crucial to secure stable interest and to build the needed capacities of the target groups.** It is wide consensus (and current practice) that the target groups need to significantly benefit through improved livelihoods and income. Opportunity costs of the investments need to be understood. For this, ensuring market access and, if needed, implementing complementary measures focusing on enhancing value chains are important measures, also with a view to the project sustainability.

Incentive mechanisms can be categorized in those that are directly provided by the project and those that are intentionally generated by the project. Paying communities for ensuring the provision of ecosystem services can create a broad acceptance for the measure during the project implementation phase. Smart subsidies are suitable for bridging liquidity gaps during periods of investment and transition. However, unless governments (e.g. of emerging economies) are committed to provide continued financing they are only suitable for overcoming investment barriers for forest restoration. A risk is that stakeholder groups without land use rights will not benefit. **Compensation payments** are particularly suitable for protecting natural resources; however, often it is a challenge to ensure continued funding beyond the project's lifetime.

## Land tenure and land use rights

**Generally, clearly regulated land ownership and/ or use rights are an important factor.** However, the analysis showed mixed experiences regarding the importance and feasibility of ensuring land titles. Land titles *in sensu strictu* are not necessarily essential for the success of a project, e.g. if widely accepted and functioning customary rights or individual land use certificates are in place.

**In some cases it was considered a useful complementary measure to support processes on formalizing land use and tenure rights – in particular, where such processes were already ongoing.** Here it is crucial to pay heed to potential unintended negative side effects (eg overriding established and well-functioning customary rights), and to support participatory approaches for land use planning. A detailed analysis prior to the project start should be the basis for a decision if land titles and tenure rights are sufficient for implementing a project.

## Costs for forest projects

The specific project context determines the wide range of potential restoration measures and related costs. There are significant differences resulting from local and regional differences in la-

bor costs, currency developments and required cost blocks. This heterogeneity makes a comparison difficult and allows only for indicative ranges of costs.

Generally, resources that should be accounted for in forest projects include planning and inventories, capacity building, silviculture and maintenance, (reduced impact) logging, infrastructure, processing and marketing. In addition, resources are needed for technical advisory services accompanying the implementation and supporting the capacity development of partners and the target group.

Most of the costs for FLR, apart from certification, are proportionate to the scale of the project. However, the information on costs provided by the ex-post evaluations was not sufficient to make realistic statements concerning costs for future FLR projects. In addition, the data is partly outdated and not complete. Further research could provide ranges of indicative costs for the main cost blocks. They largely depend on conceptual, geographic and site-specific conditions. The ranges are large, and consequently, the costs for similar measures can vary considerably.

## Conclusions

The Government of Germany has taken a lead in promoting FLR globally, and financial cooperation will be crucial as a catalytic investment and to leverage local public and private sector support for upscaling. This support is in line with Germany's long lasting support for partner countries that seek to transform their forest sector. Together with the voluntary pledges by FLR countries to the Bonn Challenge / AFR100 and NYDF<sup>1</sup>, this has created an unprecedented momentum for effectively protecting and restoring forest resources.

The analysis has identified prerequisites and success factors for future forest and FLR projects supported by German financial development cooperation. **Generally, restoring forests at scale is challenging, takes time and is investment-intensive.** As a consequence, future support through financial cooperation is crucial for progressing towards the ambitious policy objectives – in particular with regard to upscaling successful pilot measures.

Many success factors directly relate to the project design. Limited resources and project sustainability imply that future FLR projects should carefully consider the cost-efficiency of different options, as well as entry points to integrate the private sector.

Focusing management interventions on future crop trees and close-to-nature management systems can significantly increase the project efficiency, biodiversity and mitigate risks (e.g. site-adapted marketable tree species or natural regeneration). Addressing gaps in commodity value chains and ensuring market connectivity are further aspects that should be included early on in the design phase of new projects.

If the circumstances allow working at the landscape level project developers should seek to integrate different production systems through different measures, and thus support the diversity and multi-functionality of landscapes. Benefits of successful projects accrue not only for local beneficiaries but also globally as successful FLR contributes significantly to mitigating climate change and curbing the loss of biodiversity.

<sup>1</sup>As participation in the named initiatives is voluntary, countries can pledge their contributions under any of the mentioned initiatives. However, countries who pledge under regional initiatives as the ARF100 are also counted for under the Bonn Challenge ([www.bonnchallenge.org](http://www.bonnchallenge.org)) and the NYDF.

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