Innovative Financing Sources and Financing Mechanisms: New Opportunities for Sustainable Land Management and UNCCD
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Acronyms
CBOs    Community Based Organisations
CSOs    Civil Society Organisations
GM      Global Mechanism
IFS     Integrated Financing Strategy
IIF     Integrated Investment Frameworks
NGOs    Non Governmental Organisations
PES     Payment for Environmental Services
SLM     Sustainable Land Management
UNCCD   United Nations Conventions to Combat Desertification
1. Rationale

The Ten Year Strategic Plan and Framework to Enhance Implementation of the UNCCD (2008-2018) was adopted in 2007 by the Conference of the Parties of the Convention. It outlines priorities, including the need to “increase the level and diversity of available funding for combating desertification/land degradation and mitigating the effects of drought.”\(^1\) Outcome 4 of Operational objective 5 of the Ten Year Strategy specifically indicates that innovative sources of finance and financing mechanisms should be identified.\(^2\)

With regards to financing sources, the Ten Year Strategy specifies that finance from new and untapped flows in the UNCCD context includes resources from a range of development actors and institutions, including private and public land users and organisations. In addition, tapping into financing flows and windows that are closely linked to land use is considered innovative finance as per the Strategy.

In terms of innovative mechanisms, economic and financial mechanisms that rely on regulation and markets to provide incentives for environmental stewardship are also relevant. These mechanisms include different types of regulations and direct or indirect payments schemes, for example tradable development rights, trading of emission reduction and payment for environmental services. Investment based mechanisms, like microfinance, are other types of mechanism that can provide financing for UNCCD and SLM practises.

Undoubtedly, official development aid and resources from affected country budgets are still the largest and most important sources of finance for land management. However, the call reflects the recognition that these are not sufficient to finance a full scale implementation of the UNCCD at the various levels. In addition, innovative finance, as outlined in the Ten Year Strategy, reflects the need to address the inter-sectoral nature of desertification and land degradation, and the often strong role of the private sector in land management.

While providing new opportunities, it is important to recognise that innovative financing is not a panacea for addressing the financial challenges of the UNCCD. Innovative resources often come in small pieces with high transaction costs, and co-financing may be needed. Innovative finance should therefore be regarded as complementary to more traditional sources of funding.

2. Definition of innovative finance

As per the Ten Year Strategic Plan Operational Objective 5.4, innovative financing sources and mechanisms for UNCCD implementation and SLM include “the private sector, market-based mechanisms, trade organizations, foundations, CSOs, and other financing mechanisms, for climate change adaptation and mitigation, biodiversity, conservation and sustainable use, and the fight against hunger and poverty.”

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1 Indicator S-8 under Strategic objective 4: To mobilize resources to support implementation of the Convention through building effective partnerships between national and international actors
2 Outcome 5.4 under Operational Objective 5: Financing and technology transfer.
Accordingly, the terminology ‘innovative financing for the UNCCD and sustainable land management (SLM)’ can be considered as an umbrella covering a range of sources, mechanisms and instruments, as well as related processes and thematic areas through which funding can be mobilised for UNCCD implementation and SLM. These includes i) actors and institutions, ii) investment based mechanisms, iii) incentive and market based mechanisms, and iv) thematic entry points for finance. Examples of mechanisms within these categories are illustrated in Annex I.

It is important to note that the different sub-groups of innovative financing sources and mechanisms are often linked. Private sector and CSOs are for example important partners and actors setting up market based mechanisms.

It is also understood that what is regarded “innovative” will vary from country to country. And more “innovative” or “new” opportunities for financing emerge from the ever changing international context. It is therefore important to be vigilant, monitor processes and seize opportunities when they arise.

**3. Objective**

As per the Ten Year Strategy, the Global Mechanism of the UNCCD (GM) has a “central responsibility” in identifying and exploring innovative sources of finance and financing mechanisms to combat desertification/land degradation and promote SLM.

The GM’s objective is therefore to **identify, explore and promote financing instruments, mechanisms and sources which are most relevant and innovative in the UNCCD context.**

GM’s approach is in line with its mandate and strategy to support affected countries, through financial services related to: (i) knowledge management, (ii) advisory and brokering services, and (iii) the development of partnerships and networks.

GM’s work on innovative finance will inform and contribute to the Integrated Financing Strategy (IFS) processes at country-level. The IFS is a process for mobilising a mix of financial resources, including domestic, external and innovative sources of finance to fund SLM-related projects and programmes. During the process, governmental institutions, the private sector, CSOs and development cooperation agencies build coalitions, conduct a baseline assessment of investments, carry out diagnostic work to identify priorities and match resource demand and supply.

As called for by the Ten Year strategy, through the IFS the stakeholders work together towards developing an integrated investment framework (IIF) for SLM, a set of programme and project which respond to the national development strategy. Important components of the IFS and the IIF include the establishment of enabling conditions and the development of initiatives, project and programmes.
4. Services provided on innovative financing by the Global Mechanism

The Global Mechanism has in the past years built up expertise and experience on innovative financing sources and mechanisms relevant for UNCCD and has specific programmes and initiatives for a range of innovative sources and mechanisms. These include climate change financing, market access and trade, Civil Society Organisations, forestry, and more recently, market based mechanisms, decentralised cooperation, private sector, and philanthropic foundations (Annex III provides more detail of GM’s existing programmes and initiatives on innovative financing).

The GM provides a range of services to partners at regional and national level for exploring financing sources and applying the mechanisms. The logical framework of GM approach to innovative financing is put forward in Annex II. It is aligned with Outcome 5.4 of the 10 Year strategy and reflected in GM’s multi-year workplan 2010-2013 which was adopted by the Parties at COP9.

The two expected accomplishments for the GM are:

(i) Country parties are enabled to identify innovative resources and potential entry points for innovative sources of finance and financing mechanisms related to SLM (EA 5.4.01), and

(ii) Resources are mobilised for SLM through the application of innovative sources of finance and financing mechanisms (EA 5.4.02).

These accomplishments are reached through the following three categories of services provided by the GM:

1. **Knowledge management.** The GM generates analytical and methodological tools to identify innovative financing sources and mechanisms for SLM, and shares the knowledge, including through capacity development workshops.

2. **Advisory and brokering services.** The GM provides advisory services to countries on exploring and mobilising innovative financing mechanisms and sources under the integrated financing strategies (IFS) process. The GM also assists affected countries in mobilising additional resources and investments for SLM by brokering partnerships between stakeholders as part of the development and implementation of the integrated investment frameworks (IIF).

3. **Networking and partnership building.** The GM supports the establishment of an enabling environment for the mobilization of innovative resources by strengthening its network of international and regional institutions and facilitating partnerships.
4.1 Service 1: Knowledge management

Knowledge is generated and shared on innovative sources of finance and financing mechanisms.³

a) Analytical and methodological tools developed to identify innovative financing mechanisms and sources. This work includes developing conceptual frameworks for identifying and exploring innovative financing which are most appropriate for UNCCD implementation and SLM. It also includes analysis and developing tools and methodologies for identifying, tapping, and promoting the mechanisms and sources identified.

Screenings and profiling of relevant innovative source of funding such as carbon funds, trade mechanisms, international NGOs, multinational companies and foundations are also part of this work. As is the elaboration of cost-benefit analyses and valuation techniques to develop arguments as to why stakeholders should invest in SLM.

b) Knowledge on innovative financing is shared with stakeholders. GM shares its knowledge on the range of sources and mechanisms with relevant stakeholders in a variety of ways, independently or in the context of developing integrated financing strategies (IFS) and integrated investment frameworks (IIF). Different methods are used, bilateral and multilateral consultations, as well as the organisation of specific capacity development sessions and workshops. Knowledge may also be shared through forums of international meetings, newsletters, and other media.

4.2 Service 2: Advisory and brokering services

Advisory and brokering services are provided to countries by GM for exploring innovative financing mechanisms under the IFS and the IIF and to promote investments in SLM.⁴

a) Feasibility studies and stakeholder analyses. Studies and analytical assessments are undertaken in cooperation with national partners to identify the most appropriate innovative financing sources and mechanisms in the country context and how to access them. Through rapid or in-depth mapping exercises, potential stakeholders, technical and financing partners and investors operating in the country or region are identified, including CSOs (local and international), foundations and private sector companies, as well as appropriate financing mechanisms. These activities are undertaken in cooperation with national partners.

b) Actors with the potential to invest in SLM/CCD are mobilised. The GM plays the role of a broker in engaging and mobilising stakeholders through bilateral and multilateral dialogues, consultations and awareness raising. For example, stakeholders such as CSOs, foundations and private sector actors may be important partners; they may also be facilitators and investors when setting up a market based mechanism. Decentralised cooperation is another example where the GM can play the role as a facilitator and broker partnerships between local governments.

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³ As per multi-year workplan 2010-2013 Outputs 5.4.01.01 and 5.4.01.02
⁴ As per multi-year workplan 2010-2013, Output 5.4.02.01 and 5.4.02.02
⁵ As per multi-year workplan 2010-2013 Output 5.4.02.02
c) **Programmes and projects developed in the context of the IIF.** The next step is to mobilise actors and partners to provide investments, donations, or in-kind contribution in order to develop and implement relevant projects and programmes. These initiatives are as result of the IFS process and part of the IIFs.

4.3 **Service 3: Networking and partnerships**

*Networks are developed and partnerships are established with international and regional institutions to facilitate mobilisation of innovative resources.*

a) **GM network strengthened.** GM monitors and participates in UNCCD and other SLM relevant international and regional policy dialogues and initiatives, with a view to promote relevant issues, explore funding opportunities, and identify and build relationships with potential partner organisations and networks.

b) **Partnerships developed.** Strategic partnerships may be established at international and regional level to explore jointly innovative finance opportunities and build expertise, undertake technical activities, or strategy— for example, to support innovative resource mobilisation at national level.

5. **Monitoring and evaluation**

The performance indicators for Outcome 5.4 of the 10 year strategic plan are:

1. Level of satisfaction of country Parties with information provided to them by the GM, and
2. Level of satisfaction of country Parties with experience gained with support of the GM.

The level of success will be measured by a survey of country Parties’ satisfaction that will be carried out by the GM. In addition to this the innovative financing approach by the GM should be monitored and evaluated based on the output quantifiers of the RBM system for Outcome 5.4, as put forward in annex I. This will be done with the help of a tracking system assessing the resources mobilised as a result of the approach, compared to the resource the GM has invested in implementing the approach.

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6 Refers to expected accomplishment 5.4.01: Country parties are enabled to identify innovative resources and potential entry points for innovative sources of finance and financing mechanisms related to SLM.

7 Refers to expected accomplishment 5.4.02: Resources are mobilised for SLM through the application of innovative sources of finance and financing mechanisms.
Annex I – Innovative financing sources and mechanisms for UNCCD/SLM

The following is an overview of what has been identified as promising innovative sources and mechanisms for UNCCD and SLM. The terminology “innovative financing for the UNCCD and SLM” can be regarded as an umbrella covering a range of sources, mechanisms and instruments as well as related processes and thematic areas.

The mechanisms and sources under the innovative umbrella have been clustered into four broad categories. The different groups are strongly interlinked; for example actors and institutions are being important partners and investor in the mechanisms and thematic areas.

1. **Actors** includes stakeholders that mobilise and channel resources and finance for SLM.
2. **Thematic entry points** for finance includes important processes and initiatives with high relevance for land use and is seen as an innovative approach to channel funding for SLM.
3. **Incentive and market based mechanisms** includes economic or financial mechanisms that provide economic incentives for SLM practices by transferring financial resources from those willing to pay for the sustainable generation of ecological goods and services, to those willing to provide these goods and services in turn.
4. **Investment based mechanisms** include instruments that are providing funding for UNCCD/SLM through credit or savings.

There is a wide range of actors and institutions that are not new and innovative as such, but which can be seen as innovative sources of finance, as well as technical and political partners, in the UNCCD context. Although of high importance, HIPC has not been included under innovative sources and mechanisms as it has become a regular instrument and is no longer seen as innovative finance.

The GM has established programmes and initiatives covering most of the sources and mechanisms presented, and is continuously identifying for new financing mechanism and sources.
Innova
tive financing sources and mechanisms

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<th>1. Actors</th>
<th>2. Thematic entry points</th>
<th>3. Incentive &amp; market based mechanisms</th>
<th>4. Investment based mechanisms</th>
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<td>▪ CSOs</td>
<td>▪ Climate Change</td>
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### Annex II - Logical Framework

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<th>GM EXPECTED ACCOMPLISHMENTS UNDER TEN YEAR STRATEGY OUTCOME 5.4&lt;sup&gt;a&lt;/sup&gt;</th>
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| **EA. 5.4.01** Country parties are enabled to identify innovative resources and potential entry points for innovative sources of finance and financing mechanisms related to SLM. | **Knowledge management:**  
5.4.01.01. Analytical and methodological tools developed to identify and tap innovative sources of finance, and identify and apply innovative financing mechanisms for SLM  
5.4.01.02. Capacity development workshops organized to identify and mobilize innovative sources of finance | # of tools developed  
# of workshops carried out |
| **Performance Indicator:** Sector-specific modules on innovative sources are developed and delivered in countries. | | |
| **EA. 5.4.02** Resources are mobilised for SLM through the application of innovative sources of finance and financing mechanisms. | **Advisory and brokering services:**  
5.4.02.02. Advisory and brokering services provided by the GM to promote investment in SLM by the private sector, foundations and CSOs in integrated investment frameworks | # of countries and sub-regions supported |
| **Performance Indicator:** Number of countries and sub-regions assisted by the GM in mobilizing innovative finance. | **Networking and partnerships:**  
5.4.02.03. Partnerships developed with international and regional institutions to facilitate the mobilization of innovative sources of finance and financing mechanisms | # strategic partnerships established |

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<sup>a</sup> As per GM Multi-year workplan 2010-2013 adopted by the Parties at COP9  
<sup>b</sup> As per GM 2010-2011 work programme
Annex II - Global Mechanism’s programmes and initiatives on innovative finance

The GM has developed specific programmes and initiatives on a number of innovative sources and mechanisms for financing SLM. The following gives a short overview of the existing programmes and initiatives on which the GM is working to mobilise innovative financing, their justification and approach.

1. Civil Society Organisations and Foundations

Over the course of the last two decades, structural adjustment programmes in developing countries have led to a significant reduction in state support. As a result, Civil Society Organisations (CSOs)\(^\text{10}\) have become important development actors in marginalised rural areas. They address land degradation issues and carry out programmes and campaigns supporting rural livelihoods, agriculture, forestry, water management, food security, climate change adaptation, and disaster risk mitigation.

CSOs and foundations mobilise significant resources from public and private sources for service delivery and advocacy.\(^\text{11}\) They are financial actors but also political and technical partners. CSOs leverage resources through awareness raising and advocacy. They can also improve the quality of interventions on the basis of their experience and links to communities. The GM promotes and facilitates the participation of national and international CSOs in the IFS process, and is increasingly engaging with foundations. Accordingly, CSOs link their activities to a national response to SLM and UNCCD and position themselves to directly engage in the IIF through partnerships, projects and programmes.

2. Climate Change Finance

Climate change is one of the most important issues facing the international community, and one that demands an urgent global response. Since land degradation, deforestation, climate variability and poverty are interconnected, the various sources of funding available need to be combined, as far as possible into a financial “package” to increase their impact.

The GM’s Climate Change Finance Programme supports the regional programmes in implementing integrated financing strategies (IFCs) at the request of country Parties. The programme is primarily concerned with accessing climate change financing mechanisms and integrating them into the GM’s broader IFS process, with the ultimate objective of ensuring adequate, sustained investment flows into SLM to the benefit of rural populations living in fragile and/or degraded landscapes.

3. Forestry Finance

Forestry is a cross-cutting issue for the UNCCD. The convention acknowledges the direct impact deforestation and land degradation have on soil and water and their indirect impact on climate change/variability and declining biodiversity. However, traditionally forestry has not been seen as a key sector in implementing the UNCCD and does not adequately feature in countries’ broader

\(^{10}\) Including Non Governmental Organisations (NGOs), Community Based Organisations (CBOs), Farmers’ and producers’ organisations, and Foundations

\(^{11}\) OECD-DAC estimates that Northern CSOs raised $20-25 billion of non-ODA funds in 2006, compared to $140 billion of ODA the same year. In addition, CSOs act as channels to 10% of ODA.
strategies for poverty reduction and development, especially in Sub-Saharan Africa, despite the strong correlation between sustainable forest management (SFM), sustainable land management (SLM) and poverty reduction. The GM’s forest finance programme is, therefore, a source of innovative finance per se in the context of UNCCD implementation. It offers an entry point to harness synergies, tap opportunities and is an efficient approach for attaining the multiple objectives of the Rio Conventions and related processes.

In addition to resources that can be mobilised at the national level through mainstreaming national forestry plans (NFPs) into poverty reduction strategy papers (PRSPs) and payment for ecosystem services (PES), there are considerable resources that can be accessed from multilateral and bilateral sources. In particular, there are resources that can be accessed from the World Bank under its Forestry Strategy, the BioCarbon Fund, Climate Investment Funds, especially the Forest Investment Fund (FIP, and International Finance Corporation (IFC). The European Commission also has a programme on “Environment and Sustainable Management of Natural Resources” and the “Cotonou Agreement”, which are sources of forest finance.

There are already considerable forest finance opportunities under the “Reduction of Emissions from Deforestation and Degradation” (REDD) mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) currently under discussion is another source of forest finance that should benefit UNCCD implementation. This is in addition to forest finance available under the Kyoto Protocol. The Convention on Biological Diversity (CBD) Programme of Work includes “rehabilitation of degraded and deforested ecosystems” and this is yet another source of forest finance relevant to UNCCD. The Global Environment Facility (GEF) has a “Strategic Objective” on Sustainable Forest Management” (SFM) with “Strategic Programmes” beneficial to SLM.

4. Gender and women’s empowerment

In rural areas, especially in developing countries, women are the main managers of essential household resources such as clean water, fuel for cooking and heating, and fodder for domestic animals. Not only do women depend on the surrounding environment for their livelihoods, but today they also account for more than half of the world's agricultural workforce. Their growing contribution to household income is therefore increasingly decisive for family survival. With their invaluable knowledge of natural resources, it is clear that women play an essential role in environmental management and in implementing the UNCCD. Women are proficient in managing natural resources when equipped with the right tools. However, lack of empowerment can make them extremely vulnerable to the effects of ecosystem degradation.

The GM has developed the Gender programme (GP) to enhance its impact at country level by strengthening the engagement of marginalized actors, particularly poor rural women, and by linking with sectors that have not traditionally been involved in UNCCD implementation, but that have significant potential for increasing investment flows for combating desertification and promoting sustainable land management (SLM). The GP is designed to increase the visibility of the links between environmental sustainability and gender equality, and to help integrate environmental policies into other sector policies such as education, water, and energy. Since gender is a cross-cutting issue, looking at SLM from a gender perspective creates links with other environmental issues, including climate change and biodiversity.
5. Market Access & Trade Finance

Trade has an undeniable impact on the environment and may contribute to land degradation in different ways. Natural resources are often regarded as ‘free inputs’ to production processes and this leads to their over-exploitation. The growth of trade and exports may also exacerbate environmental degradation by encouraging production techniques, such as mono-cropping, that put pressure on natural resources. Without adequate incentives and policies, environmental costs are not internalized into production systems, and industries do not adequately address the environmental degradation they cause.

The GM launched its Market Access & Trade (MAT) Programme in order to engage with trade processes in its efforts to promote investments in SLM. By making the linkages between trade processes and the way land is exploited and managed, it is possible to tap into trade-related sources of funding for SLM, such as ODA and budget support to trade. The programme is therefore engaged in the Aid for Trade process at the global and country level, and partners with trade organisations with a view to include trade resources and to activate trade financing mechanisms in the context of the IFS.
6. Incentive and marked based mechanisms

When land degrades, it sets off a series of impacts that go beyond its geographical location and the costs are borne by society in general. In order to avoid these costs, it is necessary for the society to provide incentives for land user to implementing measures to prevent land degradation. Market based mechanisms\textsuperscript{12} can be used to facilitate such incentives and compensations and payments and have been recognised as promising incentive systems to encourage the restoration of degraded land\textsuperscript{13}.

The GM has, in cooperation with CATIE\textsuperscript{14}, identified the most promising market based mechanisms for SLM that rely on public payments, open trading under regulation, self organised private deals, and ecolabeling and certification schemes. \textsuperscript{15} CATIE has also developed a methodology to evaluate the appropriateness of a market based mechanisms to prevent land degradation in a given context. On this basis, the GM identifies and mobilises potential stakeholders (buyers and providers of environmental services, as well as technical and financial facilitators) to explore and develop the mechanisms with the view to establish sustainable investment in sustainable land management practices.

7. Private Sector Financing

Land use and land management are to a large degree a private sector activity, taken up by a wide range of private sector actors from large corporations to small scale farmers. The private sector has the potential of playing an important role in combating desertification and land degradation, both as a potential source of funding and as a stakeholder investing directly in sustainable land management (SLM) practises and corporate responsibility schemes.

The private sector programme of the GM aims to engage more private sector stakeholders in the implementation of the Convention and to encourage more investments in SLM practices, by promoting the sector’s participation and investments into e.g. climate change mitigation activities, environmentally sustainable trade processes, investment in market based mechanisms, public private partnerships and through corporate socially responsibility programmes. The programme will also look at the role of microfinance for the private sector.

8. South South Cooperation

South-to-south cooperation is widely recognized as an effective tool for mobilizing additional resources and rationalizing the use of existing financial, technical and organizational resources through enhanced consultation and new partnerships at sub-regional, regional and international levels. For example, the 2009 Doha Declaration on Financing for Development “encourages developing countries in a position to do so to continue to make concrete efforts to increase and make more effective their South-South cooperation initiatives in accordance with the principles of

\textsuperscript{12} There are different definitions of market based mechanisms. Verweij (2002) defines them as: “...an institutional arrangement that results in the transfer of financial resources from those willing to pay for the sustainable generation of ecological goods and/or services, to those willing to provide these goods and services in turn.”

\textsuperscript{13} UNCCD Ten Year Strategy 2008-2017, Outcome 5.4, and recommendation from UNCCD High-Level Policy Dialogue, Bonn 2008.

\textsuperscript{14} Centro Agronómico Tropical de Investigación y Enseñanza (CATIE)

\textsuperscript{15} Adapted from Scherr, S. J., White, A. and Khare, A. (2004), For services rendered: the current status and future potential of markets for the ecosystem services provided by tropical forests, ITTO Technical Series No 21,International Timber Trade Organization
aid effectiveness”, and “acknowledge the role played by middle-income developing countries as providers and recipients of development cooperation”.

The GM’s South-to-south cooperation programme, SolArid, brings together the countries of the Sahel and the Sahara and aims to highlight the specific characteristics of these countries that must be taken into account by the international community when developing strategies to combat desertification and poverty. It also aims to establish a permanent network to exchange experiences on resource mobilization strategies, to develop financial partnering strategies and to foster partnerships.

9. Valuation of Land Resources and the Impacts of Land Degradation

Solid economic arguments are needed to mobilise financing, including innovative sources such as those originating from private sector investments, or for setting up market based mechanisms. In particular, there is a demand for a comprehensive methodological approach for assessing the value of land resources and the benefits of Sustainable Land Management (SLM) investments at national and global levels.

A programme to support the analysis of the economics of SLM to inform decision making at the national, regional and global level has been established as a partnership initiative between the GM and renowned research institutions, universities, and think tanks. The programme is expected to increase public and private investments in SLM through the generation of scientifically rigorous arguments that demonstrate the economic benefits of SLM as opposed to the costs of unsustainable business-as-usual practices. Particular attention will be paid to the poverty reduction potentials of SLM and the links between SLM and overall national development strategies and policies. In addition to catalyzing interest from a wide range of partner institutions who are willing to collaborate and share costs with the GM on developing and implementing the initiative, this initiative has the potential to attract voluntary contributions from traditional and non-traditional donors to finance GM operations.

The studies that will be undertaken under this initiative will generate concrete recommendations pinpointing opportunities for investments in the short, medium and long term, depending on the country context and the specificities of the study area. They will also identify the most appropriate financing instruments that may be used to materialize this investment potential.