

INTEGRATED
FINANCING
STRATEGIES

FOR
SUSTAINABLE
LAND
MANAGEMENT





**The Global Mechanism of the United Nations Convention
to Combat Desertification**

At the International Fund for Agricultural Development

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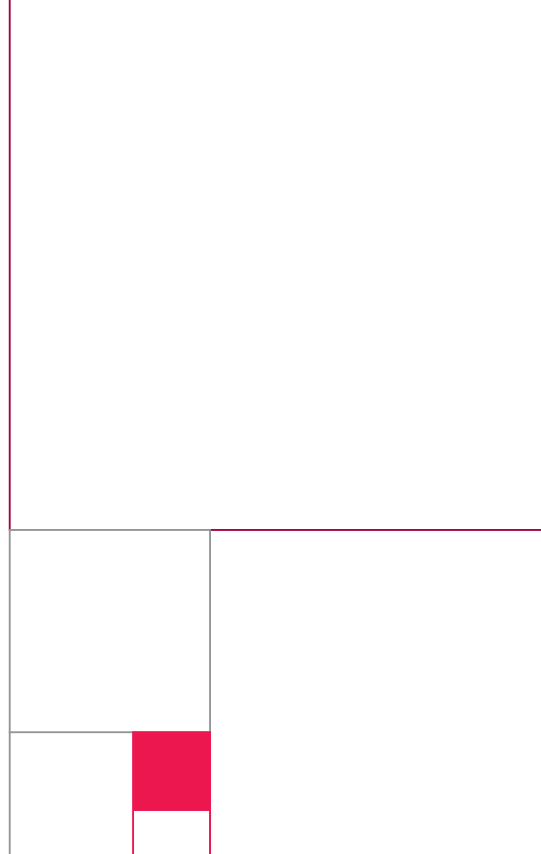
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ABBREVIATIONS

agriculture, forestry and other land-use	AFOLU
Country Assistance Strategy (World Bank)	CAS
Clean Development Mechanism	CDM
compensation for ecosystem services	CES
Conference of the Parties (UNCCD)	COP
Country Opportunities and Strategy Paper (IFAD)	COSOP
foreign direct investment	FDI
Global Mechanism (of the UNCCD)	GM
Global Environment Facility	GEF
heavily indebted poor countries	HIPC
International Development Association	IDA
International Fund for Agricultural Development	IFAD
integrated financing strategy (GM)	IFS
least developed country	LDC
monitoring and evaluation	M&E
Millennium Development Goal	MDG
Medium-term Expenditure Framework	MTEF
National Action Programme (of the UNCCD)	NAP
National Coordination Body	NCB
non-governmental organization	NGO
official development assistance	ODA
Organisation for Economic Co-operation and Development	OECD
public expenditure review	PER
poverty reduction strategy	PRS
Reducing Emissions from Deforestation and Degradation	REDD
small island developing state	SIDS
sustainable land management	SLM
Sector-Wide Approach	SWAp

United Nations	UN
United Nations Convention to Combat Desertification	UNCCD
United Nations Development Programme	UNDP
United Nations Environment Programme	UNEP
United Nations Framework Convention on Climate Change	UNFCCC

FOREWORD

The United Nations Convention to Combat Desertification (UNCCD) is at a critical moment in its history. The decision of the country Parties to the Convention to adopt the 10-year Strategic Plan and Framework to Enhance the Implementation of the Convention (2008-2018) represents a milestone in our collaborative quest for sustainable development. Its implementation will determine the impact the Convention will have on future generations.

Success in making the difference rests largely upon the ability of countries to mobilize the necessary human and financial resources. It is paramount that development priorities of country Parties to the Convention shift towards sustainable land management (SLM) in order to influence resource allocation processes at country level in the context of budgetary processes and private sector investments.

Equally, the emerging financing instruments and sources of finance that will be available for adapting to climate change and mitigating emissions, will drive priority setting and policy making in developing countries. Land management is clearly the most important issue at stake considering the scale of emissions from land-use change and the potential to reverse its negative effects.

The UNCCD is at the interface between rural development, sustainable livelihoods, food security and economic growth with climate change resilience and risk management as the driving forces for investment in SLM. The *Integrated Financing Strategy* (IFS) concept, designed by the Global Mechanism (GM) of the UNCCD, responds directly to this challenge.

The IFS follows a process-oriented approach to guiding resource mobilization efforts towards an investment framework that meets the specific, long-term needs of developing country Parties' to the UNCCD. The GM is working closely with the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) to assist countries in applying the IFS concept, and the TerrAfrica initiative has developed a similar strategy.

The *Integrated Financing Strategies for Sustainable Land Management Concept Note* has been developed with the intention of providing an overview of the key elements, principles and steps in designing and implementing integrated financing strategies. The GM team is looking forward to further refining the IFS concept with its partners as lessons are learnt from its practical implementation at country level.

Christian Mersmann
Managing Director
The Global Mechanism of the UNCCD

EXECUTIVE SUMMARY

Global consensus and changing resource allocation modalities for development and poverty reduction - as expressed in the Millennium Development Goals (MDGs), and outlined in the Monterrey Consensus on Financing for Development and the Paris Declaration on Aid Effectiveness - demand new approaches and strategies to support countries' resource mobilization for sustainable land management (SLM). The emerging processes and modalities for allocating financial resources require that country Parties to the United Nations Convention to Combat Desertification (UNCCD) develop effective approaches for mobilizing both domestic and international resources at the national level.

In response, the Global Mechanism (GM) has developed the concept of integrated financing strategies (IFSs) for UNCCD implementation. The ultimate goal of the IFS is to create an enabling environment for mobilizing internal, external and innovative resources to provide an investment framework for SLM. The development of a National Action Programme (NAP) under the UNCCD is central to the formulation of an IFS. The IFS is fully in line with the 10-year Strategic Plan and Framework to Enhance the Implementation of the UNCCD for 2008-18 (the 10-year Strategy), which provides additional momentum for countries to develop IFSs as part of their national alignment process with the Strategy.

This paper provides an overview of the IFS concept and outlines the key principles and main phases in designing and implementing an IFS for UNCCD implementation and SLM initiatives.

The IFS supports increased resource mobilization for SLM by broadening the scope of planning processes beyond specific sectors, increasing interaction with sectors that have not traditionally been part of the UNCCD agenda, and helping to ensure that SLM-related development policies receive adequate resource allocations in public budgets and expenditure frameworks. An IFS should be closely linked to the country's NAP process and well anchored in the national institutional setting and relevant programme and budgetary cycles.

The IFS identifies the distinct and complementary roles played by different sources of financing - domestic, foreign, public and private. It leverages these sources by articulating the synergies between them and providing the necessary enabling environment for resource mobilization. Sources of financing include bilateral and multilateral funding, national budgets and investments by households, communities and private sector entities.

The IFS brings together international development partners, government bodies, civil society organizations and the private sector. While helping to develop the appropriate blend of financial resources, the IFS also uncovers potential barriers to resource identification, allocation and disbursement. It highlights aspects in the policy, fiscal, legal, institutional and human resource environments that may impede the implementation of specific resource mobilization activities, and recommends actions for overcoming these barriers, thereby creating +an enabling environment.

INTRODUCTION

The Global Mechanism (GM) developed the integrated financing strategy (IFS) for United Nations Convention to Combat Desertification (UNCCD) implementation as a guiding framework for locating and mobilizing a range of financial resources to fund sustainable land management (SLM) programmes and projects.

This paper provides an overview of the concept of IFS for implementation of the UNCCD, as a tool for the development of an investment framework for SLM. It is based on the GM's experience in mobilizing resources for UNCCD implementation in affected countries over the past ten years. The GM has also produced a *Practical Guide to Designing Integrated Financing Strategies*¹ and a technical guide² to help build national capacities in mobilizing resources to combat land degradation. In addition, the GM has been working with the United Nations Development Programme (UNDP) to develop guidelines for designing IFSs for SLM in least developed countries (LDCs) and small island developing states (SIDS),³ which will be implemented in conjunction with the United Nations Environment Programme (UNEP). This paper also draws on *The Sustainable Development Strategy: A Resource Book* developed by the Organisation for Economic Co-operation and Development (OECD).⁴

Each country's approach to developing an IFS is different. In many countries it is likely to require the coordination of several processes, some existing and others new. Whatever its format, an IFS must fit the country's national environmental, political, economic and institutional conditions. A blueprint is inappropriate, and governments should engage with civil society, the private sector and development partners to establish the right process.

This paper is structured as follows:

- CHAPTER 1 introduces the current context for SLM financing, outlines the principles of the UNCCD and explains the GM's approach and strategy.
- CHAPTER 2 provides an overview of the IFS concept, including its main objectives and key elements.
- CHAPTER 3 provides guidance on developing and implementing an IFS. It outlines the main phases in an IFS process and summarizes the key principles in IFS formulation and implementation.

¹ GM (2007a).

² GM (2008).

³ UNDP, 2008.

⁴ OECD (2002).

1

UNCCD FINANCING: THE CONTEXT

1.1 The changing face of international development

Global consensus and changing resource allocation modalities for development and poverty reduction - as expressed in the Millennium Development Goals (MDGs), and outlined in the Monterrey Consensus on Financing for Development and in the Paris Declaration on Aid Effectiveness - demand new approaches and strategies to support affected country Parties' resource mobilization efforts.

Multilateral development institutions, including the World Bank and the International Fund for Agricultural Development (IFAD), regional development banks and bilateral donor agencies have developed new policies, modalities and instruments for allocating resources to promote the national development priorities defined in country development frameworks such as Poverty Reduction Strategies (PRSs). For example, the World Bank's Country Assistance Strategy (CAS), IFAD's Country Opportunities and Strategy Paper (COSOP), debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative and the International Development Association's (IDA's) new modalities for resource allocation are all aligned to and support implementation of PRSPs and other development programming processes.⁵

Because of changing financial conditions, international development cooperation is increasingly allocating resources at the national level, and this has major implications for UNCCD financing in terms of:

- the financial instruments involved (e.g. direct budget support, co-financing arrangements and sector-wide approaches);
- country leadership and country-driven identification of development priorities (decision-making on how budgets are allocated); and
- harmonization of aid and alignment of donors' and international finance institutions' priorities with those of recipient countries.

⁵ GM (2007b).

The call for country leadership and for the country-driven identification of development priorities through PRSs for instance, mirrors the changes in resource allocation procedures of international organizations and bilateral donor agencies. As a result, resource allocation is increasingly subject to national-level negotiations within the government as well as between the government and the international community.

The importance of domestic public budget allocations increases considerably with the adoption of instruments such as programme approaches and direct budget support. Consequently, the level of finance for UNCCD implementation depends increasingly on the political will of governments to identify land rehabilitation and sustainable land management as national priorities.

1.2 The UNCCD: objectives and principles

The international community concluded negotiations on 17 June 1994 on a global agenda for action to address land degradation and desertification. The UNCCD was born out of these negotiations, and entered into force on 26 December 1996.

The Convention pioneers a bottom-up approach in international environmental law. It is designed to 'forge a global partnership to reverse and prevent desertification/land degradation and to mitigate the effects of drought in affected areas in order to support poverty reduction and environmental sustainability'.⁶ The UNCCD is founded on the principle that solutions to desertification and drought should emanate from the affected populations, supported by partnerships with national and international stakeholders. These solutions and partnerships should be undertaken within the National Action Programme (NAP) process, since the NAP is the main instrument for implementing the UNCCD at the national level.

For the UNCCD, success depends on the specialized contribution the Convention can make at the national level to effective resource mobilization for rural development and sustainable natural resource management, and on the acknowledgement of this contribution in national development programming. The UNCCD's contribution to development priority setting, development programming and the achievement of global objectives such as the Millennium Development Goals (MDGs) depends on the extent to which UNCCD implementation can be integrated into these frameworks at the country level.

Today, the UNCCD and SLM concerns operate in a very different environment from when the Convention came into force. There is new awareness of the linkages between poverty and environmental degradation and of the UNCCD's importance and potential. This awareness is based on internationally-agreed development goals, the outcomes of various summits and conferences, developments in other multilateral environmental agreements, agricultural trade liberalization and recognition of how natural resource degradation can result in growing numbers of environmental refugees and migrants.

Concerns related to climate change are today an important locomotive for international cooperation. Land degradation will be one of the first phenomena many countries will

⁶ UNCCD (2007).

experience as a result of climate change. One of the measures for mitigation and adaptation to the effects of climate change is addressing land degradation and the international community already has one tool at its disposal designed to do just this, namely the UNCCD. The new focus on rural development, agriculture and forestry induced by climate change and food security offers the UNCCD the opportunity to position itself at the interface of various processes, as an effective promoter of comprehensive and programmatic implementation of sustainable land management.

Ten years after the Convention entered into force, the international community renewed its commitment to combating desertification and land degradation. At the most recent session of the Conference of Parties (COP) in Madrid in 2007, country Parties adopted a 10-year Strategy to enhance UNCCD implementation at all levels.⁷ The 10-year Strategy will seize opportunities to create revitalized common ground for all UNCCD stakeholders.

1.3 Defining SLM

The UNCCD provides a major opportunity for promoting the integration of cross-cutting SLM issues into the broad context of international policy processes and into sustainable development at the country level. Various definitions of SLM exist, and most countries develop their own definition to suit the country-specific context, its productive structure and the profile it gives to environmental and SLM issues. According to the Global Environment Facility (GEF), 'SLM may be defined as the use of land resources such as soils, forests, rangelands, water, animals and plants for the production of goods to meet changing human needs while assuring the long-term productive potential of these resources, and the maintenance of their environmental functions.'⁸ TerrAfrica⁹ defines SLM as 'the adoption of land use systems that, through appropriate management practices, enables land users to maximize the economic and social benefits from the land while maintaining or enhancing the ecological support functions of the land resources.'¹⁰

1.4 A strategic response to SLM financing: Why?

The UNCCD created the NAP as the main tool for addressing land degradation at the national level. However, although most NAPs have been able to capture the broad technical aspects of desertification and certain strategic elements, many of them have not effectively translated the principles of the Convention into a strategic and fundable programme of work aimed at mitigating land degradation. The strategy for financing a NAP has often been based on identifying funding gaps by comparing estimated resource needs with the actual funding

⁷ UNCCD (2007).

⁸ GEF (2007).

⁹ Launched in October 2005, TerrAfrica is a new strategic partnership that aims to provide a collective response to desertification and land degradation in sub-Saharan Africa by up-scaling country-driven SLM. www.terrafrica.org.

¹⁰ Terrafrica (2005).

levels. As thinking on aid delivery evolves, this approach is being replaced by an increased emphasis on the creation of enabling conditions that are conducive to investment. As donors are increasingly aligning their priorities with those of the recipient countries, articulating sustainable land management as one of the national development priorities becomes crucially important. Private investments, market-based instruments, and policy and legislative reforms are increasingly recognized as entry points.¹¹ Sustained financing for SLM requires a strategic approach that is both long term in its perspective and integrated, by linking various relevant development processes at the national level.¹² This is recognized in the 10-Year Strategy, which calls for affected countries to “revise their NAPs into strategic documents supported by biophysical and socio-economic baseline information and include them in integrated investment frameworks.”¹³

1.5 The GM: specialized advisory services on finance

The GM is a subsidiary body of the UNCCD, whose original functions as a broker and match-maker have evolved over its first ten years of operations, in response to the changing international financial architecture, its new modalities for resource allocation and the increasing importance of developing countries’ domestic policy and budgeting processes.

As a consequence, the GM is now specializing in providing a range of financial advisory services to country Parties to the UNCCD, in close cooperation with its partners. The GM is among the United Nations (UN) institutions that respond directly to the Monterrey Consensus and the Paris Declaration on Aid Effectiveness by supporting country Parties’ mobilization of financial resources to address the nexus between land and natural resource degradation, rural development and poverty reduction within domestic financial resource allocation frameworks.

As part of these efforts, the GM has adopted an innovative approach centred on mainstreaming UNCCD issues into development programming and budgetary processes and on supporting countries’ development and implementation of IFSs for SLM. This approach is founded on long-term collaboration with country partners to bring about positive, tangible changes for local communities through the development of a comprehensive response that tackles the root causes of land degradation.

The GM seeks to position the UNCCD in the broader context of national development programming, including in market and trade access for communities and households; education; policy processes that influence SLM and rural development; and institution-building and governance. The GM supports country Parties in setting up coordination and partnership platforms to facilitate the mobilization and allocation of national resources.

¹¹ Salmi (2001).

¹² OECD (2002).

¹³ Operational Objective 2: Policy frameworks.

2

INTEGRATED FINANCING STRATEGY: THE CONCEPT

2.1 Introducing the IFS concept

The IFS identifies the distinct and complementary roles of different sources of financing - domestic, foreign, public and private. It identifies potential synergies between these sources in order to establish the enabling environment required for resource mobilization for SLM. Sources of financing include bilateral and multilateral funding, national budgets and investments by households, communities and private sector entities.

While mobilizing an effective blend of financing sources, the IFS also identifies potential barriers to resource allocation and disbursement. It highlights aspects in the policy, fiscal, legal, institutional and human resource environments that may impede the implementation of specific actions related to resource mobilization or programme execution. The IFS recommends actions for overcoming these barriers in the enabling environment. The IFS should provide guidance to policy-makers and SLM stakeholders on how to finance planned activities for SLM in the short- and long term, taking into consideration the cross-cutting nature of SLM.

A country's IFS builds on its NAP and takes national development priorities into account. The recent adoption of the UNCCD 10-year Strategy provides additional momentum for countries to develop an IFS as part and parcel of the national alignment process to the Strategy. The IFS should create an optimal path for establishing an investment framework for SLM and UNCCD implementation, as called for by the 10-year Strategy.¹⁴ Important indicators of IFS success include the level of cooperation and coordination among the various stakeholders developing programmes and raising finances, and the resources that are mobilized.

¹⁴ Operational Objective 5: Financing and technology transfer.

2.2 IFS objectives and approach

2.2.1 Main goal and objectives

The ultimate goal of the IFS is to ensure adequate, predictable and sustainable financing for SLM. The immediate objectives are to use existing sources and instruments more efficiently and to mobilize new and additional resources, through the creation of an enabling environment.

The long-term objective of the IFS process is to support the development of a comprehensive investment framework to support the planning and delivery of SLM-related activities in the long term. The investment framework is defined by the government, with support from development partners. It is an agreement between the Government, development partners and, potentially, non-governmental organizations (NGOs) and the private sector to package investments from a blend of sources for implementing SLM programmes, including the NAP. The aim is to catalyze investments in SLM from such sources as public expenditure at the national and local levels, private sector investments (including by farmers and communities) and funds from international development partners. The investment framework should not run parallel to national development processes, but be part of the country's overall resource allocation. It should include dedicated SLM budget lines in the various processes within the country's overall development planning and budgeting. The investment framework can be summarized in a document, outlining priority interventions, expected outcomes/outputs/activities, lead responsibilities, financial resources required, sources of funding available (on- and off-budget resources, including contributions from development partners) and financial delivery mechanisms.

Wherever possible, the development of an SLM investment framework should build on existing (national or sectoral) processes and frameworks. For example, if a country already has a comprehensive sector programme for forestry or rural development, it could be more effective to mainstream SLM principles into this programme rather than establishing a SLM-specific framework.

2.2.2 The IFS approach

The GM believes that the IFS should not be viewed as a linear process with separate design, implementation and monitoring steps. IFS development and implementation need to function as a learning process resulting in continuous improvements. Lessons learned are shared and incorporated into the strategy, and stakeholders are given time to understand the need for adopting a range of approaches to increasing financing for SLM. The process and its outcomes (institutional change, policy and legal reform, specific initiatives, etc.) are monitored and evaluated to provide lessons and feedback for review and revision. The IFS thus operates through an iterative process, functioning as a knowledge system that coordinates information collection, analysis, monitoring and communication. Periodic revisions and adjustments should be made to incorporate learning from implementation and feedback from monitoring.¹⁵ The IFS should:

- be country led and nationally owned;

¹⁵ ODI (2005).

- build on existing strategies and processes, particularly the NAP; and
- be based on comprehensive and reliable analysis.

An IFS is country-specific, flexible and responsive. It should be closely linked to relevant policy and budget allocation processes, identifying and coordinating interventions in these processes and considering all stakeholders at the national and decentralized levels, in addition to the institutional landscape.

The development of an IFS is not a technical exercise, but rather induces change processes in governance and institutional coordination. It entails consultation, collaboration and coordination between relevant government institutions and partners to influence the national budget process and allocation. In order to ensure broad institutional support and facilitate trade-offs during budget allocation, the UNCCD National Focal Point and sector and non-sector ministries should be involved in the development and implementation of an IFS. The success of an IFS depends on effective partnership building and mainstreaming of SLM, to make rural development and land management a major national development priority and allow countries to tackle poverty effectively.

The IFS concept is not centred on producing a document with an accompanying suite of proposed projects, but instead follows a process-oriented approach. The IFS should take a broad view, based on agreement about the right course towards increased financing for SLM and on establishing key mechanisms. Governments should place less emphasis on financing project implementation and more on establishing frameworks or enabling activities, such as designing the necessary policy mechanisms or supporting certain groups (e.g. farmers) to adopt SLM practices.¹⁶

2.3 Key IFS elements

Although the IFS does not prescribe in detail all the elements to be included - as this will vary according to the country context - the IFS should:

- examine the environment for SLM financing, including assessing the current UNCCD financing situation and the limiting factors;
- develop and promote the coordination of arrangements among different potential financing sources (internal, external, public and private), financial instruments and mechanisms; and
- design enabling measures to support the process of change, particularly in relation to policy and legislative frameworks, stakeholders' capacity, governance mechanisms, coordination and organizational matters.

¹⁶ ODI (2005).

Figure 1: Results-based management analytical framework of the IFS process



The IFS therefore consists of the following key elements:

- examining the environment for SLM financing;
- identifying potential financing sources, instruments and mechanisms; and
- designing enabling measures for resource mobilization.

A sample outline of an IFS document can be found in the Appendix.

2.3.1 Examining the SLM financing environment

A comprehensive IFS is based on the national context and requires a detailed understanding of the policy, institutional, legislative and financial frameworks that are relevant to SLM. Analysis of the national context includes identifying the baseline conditions as a background to understanding the elements that influence resource mobilization. This analysis should expose the governance framework’s strengths, weaknesses and conduciveness to resource mobilization. It should also review:

- the UNCCD financing situation;
- the NAP and its priorities;
- the political and macroeconomic situation;
- the policy, legislative, institutional and coordination frameworks; and
- financial flows (internal, external and innovative sources, mechanisms and instruments).

The analysis should explore the environment in which the IFS is set, examine natural and human factors and existing frameworks, and propose solutions for improving the enabling environment for resource mobilization at the policy, legal, institutional and coordination levels. Once the constraints are identified, the steps needed to create an enabling environment become clearer. It is then possible to make recommendations regarding the identification of sources, instruments and mechanisms for increasing financing for UNCCD implementation.

The analysis should also determine the volume of financial resources from different sources (domestic, foreign, public and private) that are directed towards SLM activities, using these as a benchmark for future monitoring and evaluation (M&E) of progress in financing for UNCCD implementation. A cross-sectoral Public Expenditure Review (PER) can be a tool for analyzing the composition and level of SLM spending. An SLM PER can also shed light on the institutional arrangements for coordinating SLM issues, and provide credible empirical analysis for convincing policy-makers. However, attempts to conduct PERs for SLM have encountered a number of difficulties, largely because of data limitations and the lack of a clear methodological framework for undertaking an SLM PER.

2.3.2 Identifying potential financing sources, instruments and mechanisms

Financial sources include public and private sources - both external and internal. In practice, these sources tend to be mixed in a wide range of combinations.

Financial instruments (e.g. fiscal or policy incentives and disincentives) can directly generate or influence the flows of funds by attracting or redirecting them. Financial instruments are not limited to economic, market-based instruments, but also include policy/structural measures that facilitate investment and increase the profitability and sustainability of land management practices. The IFS may also involve **financial mechanisms**, such as the GEF and its co-financing modalities, ODA delivery mechanisms, national and international funds and implementation frameworks, and compensation for ecosystem services (CES) schemes.¹⁷

Financing sources, instruments and mechanisms can be divided into three categories: internal, external and innovative. Internal sources are those mobilized within the country itself, and include both public (through the national budget) and private ones (through investments). Internal instruments and mechanisms include taxes, subsidies and other fiscal instruments. External sources include development aid and foreign direct investment (FDI). Aid instruments and mechanisms for delivering development assistance are key external instruments. The term 'innovative' is used to describe financing sources, instruments and mechanisms that have not traditionally been deployed when mobilizing financing for SLM. What is considered innovative will depend on the country-specific context.

Internal financing sources, instruments and mechanisms

In many affected developing countries, an important percentage of financing for development projects has originated from international sources. However, countries increasingly need to rely on their internal sources, as external funds are not easily forthcoming and may be unpredictable. Developments in the aid architecture are changing not only the modalities for aid delivery, but also the allocation of resources at the national level. A good understanding of how the government pursues SLM priorities is therefore important for maximizing the financing flows allocated to SLM. The significance of domestic resource allocations has increased considerably with the emergence of programme aid approaches, including sector-specific and general budget support, which channel resources directly through the domestic budget.

¹⁷ Alirol and Salmi (2000).

A country's capacity to raise financial resources internally and the potential for improving the mobilization of these resources are thus crucial for the successful implementation of SLM activities. The main internal source of funding for SLM is the national budget. The IFS should consider key issues related to public budget processes at the national level, including:

- the ways in which the structure for decision-making within the budget process affects the allocation of public resources;
- the formal procedures necessary for final approval of the annual budget; and
- the institutional dynamics in negotiation processes.

Other internal sources of funding include local budgets (e.g. municipalities), national funds (e.g. the national environmental fund) and private investments from national companies, communities and households.

The IFS should also determine whether there are policy and fiscal instruments that directly or indirectly affect the portion of resources allocated to SLM activities and should explore ways of improving these allocations through fiscal instruments such as tax incentives and subsidies.

External financing sources, instruments and mechanisms

In many countries, external sources of funding - including from bilateral/multilateral donors and regional development banks, in particular, the World Bank - have been the main source of funding for SLM and environmental activities. The IFS should look at how donors pursue SLM priorities in the context of the changing aid architecture. It should analyze the potential use of aid instruments¹⁸ and mechanisms, including general budget support, sector support, Sector-Wide Approaches (SWAps), debt relief instruments, and common, pooled or basket funding arrangements.

The IFS should also consider the relative balance between the different aid modalities (project-based aid, SWAps, trust funds, etc.) and look for entry points for SLM financing within these mechanisms (e.g. within a SWAp for forestry).

The IFS should analyze the policies of major multilateral and bilateral donors, and explore innovative ways of accessing their funds. Recommendations on how to access aid instruments and modalities for financing SLM can then be based on information about donors' procedures and mechanisms.

It is, however, important to look beyond Official Development Assistance (ODA) when considering potential financing sources for SLM. Foreign Direct Investment (FDI) and other types of private foreign investment should also be considered, as should international foundations and NGOs. Multinational corporations are increasingly establishing corporate social responsibility schemes that benefit local communities in the areas where the corporations operate. South-to-South cooperation is gaining recognition as an effective tool for mobilizing additional, and rationalizing the use of existing, financial, technical and organizational resources, through enhanced consultation and new partnerships at the subregional, regional and international levels.

¹⁸ Aid instruments are the mechanisms and procedures through which donors channel resources.

Innovative financing sources, instruments and mechanisms

Political shifts and interests in donor and recipient countries can influence the flow of aid and make it unpredictable. Domestic public revenues may vary according to, for example, world market prices for the country's main products. There is a growing need to adopt approaches that increase and diversify countries' limited financial and human resources, while leveraging support from partners to advocate for SLM and UNCCD implementation.¹⁹ Opportunities for resource mobilization through, for instance, trade, foundations and civil society organizations should also be exploited.

Various non-traditional funding sources, instruments and mechanisms can also be tapped. Some of these are more applicable to SLM activities than others, and regional and national contexts will determine which are most suitable. These might include CES schemes, such as for watershed management, as well as ecotourism charges and insurance schemes. The challenges of climate change and land degradation are closely interlinked and therefore several climate change-related instruments and mechanisms can lead to SLM financing. These include adaptation funding, such as the Adaptation Fund of the United Nations Framework Convention for Climate Change (UNFCCC), the Least Developed Countries' Fund (LDC) and the Special Climate Change Fund (SCCF) managed by the GEF, and carbon finance, through the regulatory market of the Kyoto Protocol - such as the Clean Development Mechanism (CDM) - and the voluntary carbon market. The latter extends the possibilities for emissions reductions in the agriculture, forestry and other land-use (AFOLU) sector. Another emerging mechanism relevant to UNCCD implementation is Reducing Emissions from Deforestation and Forest Degradation (REDD), which also has significant potential for financing SLM and rural development.

New funds of potential relevance to SLM financing are emerging rapidly and should be investigated further. These include environmental funds, such as the United Kingdom's Environmental Transformation Fund, and climate change-related funds, such as the World Bank's Climate Investment Funds, the Bio-Carbon Fund and the Forest Carbon Partnership Facility.

Mobilizing funds from non-traditional sources requires knowledge of the mechanisms and instruments that are applied in the country, as well as the measures and financing required to implement them.

2.3.3 Designing enabling measures for resource mobilization

The existence of an effective enabling policy, legal, regulatory and institutional environment plays an important role in mobilizing resources for SLM. There are numerous policy and legal constraints and disincentives, and even when the policy and legal instruments themselves are supportive of SLM, their enforcement and implementation may be inadequate and inefficient. The IFS should examine how policies, laws and institutions contribute to an enabling environment for SLM. It should focus on four areas: policy, institutional, legislative and human capacities.

Policy and fiscal incentives that maximize the potential for investment in SLM should be explored. One example is tax exemption on activities that prevent land degradation and

¹⁹ IFAD (2007).

deforestation provides an incentive for investment in SLM. Potential barriers must also be identified. The structure of the national budget should be mapped to determine potential entry points at different stages of the budget cycle.

The mobilization of substantial finance flows is closely related to the integration of UNCCD and SLM issues in national policy, planning and budgetary processes, and overarching national development frameworks. Mainstreaming is part of this integration and involves a process of informed dialogue and national-level action focusing on the sustainable management of natural resources and poverty reduction, with the objective of engendering political commitment to making land degradation and desertification issues a national priority and to carrying out corollary actions to improve policy, legislative, institutional and planning frameworks. Mainstreaming is a continuous effort to integrate UNCCD priorities into government decision-making and the political culture. Government ownership of the process and support from development partners are fundamental to successful mainstreaming. A country's policy measures, as spelled out in its PRSP and related development frameworks, are often poorly prioritized and insufficiently linked to the availability of financial resources in the budget. To be effective, mainstreaming efforts must therefore target not only policy frameworks but also Medium-Term Expenditure Frameworks (MTEFs, or variations of them) and annual budgets at the national and decentralized levels.²⁰

Criteria indicating effective mainstreaming include: the integration of SLM priorities into overarching development frameworks such as PRSPs; the existence of an enabling sector policy environment comprising a legislative framework, particularly for land tenure and tenure rights; and the availability of investments, including through domestic budgets, international cooperation and the mobilization of local communities' and household resources.²¹

²⁰ ODI (2005).

²¹ Additional information on mainstreaming SLM can be found in "SLM Mainstreaming: Concept Development and Practice, A user guide", developed by the GM for TerrAfrica.

3

DEVELOPING AND IMPLEMENTING THE IFS

3.1 Phases in the IFS process

Developing and implementing the IFS is a long-term process. Although it should not be thought of as a linear process of separate design, implementation and monitoring steps, the IFS process usually has three phases:

1. setting the stage for the strategy process;
2. analysing key IFS elements; and
3. developing the IFS implementation plan.

3.1.1 Phase 1: Setting the stage for the strategy process

The IFS should ideally build on existing strategies (e.g. the NAP) or planning processes (e.g. the PRS) in the country and seek convergence with these. Key tasks in IFS design are: mapping existing strategic planning processes, and any past processes that provide important lessons; identifying the key features of the processes followed and the mechanisms used; and analyzing what has worked well and less well. This will help determine which processes and mechanisms can be built on, which are best avoided, and where there are potential synergies or gaps that need filling.²² The IFS should be anchored in overarching development frameworks (e.g. the PRSP), relevant sector strategies and programmes, and national budgeting processes, including the MTEF.

To be effective, an IFS should be a national initiative with broad support from government, the private sector and civil society. This might entail setting up or strengthening institutional structures such as the UNCCD National Coordination Body (NCB), a steering committee or a secretariat. To promote the IFS process, these will need a clear mandate to:²³

- engage with stakeholders, encouraging their support and involvement;
- organize analysis and consultations on major SLM topics;

²² OECD (2002).

²³ OECD (2002).

- make recommendations to high-level bodies (e.g. the Cabinet); and
- take certain decisions.

PHASE 1

Expected outputs:

- Process for IFS elaboration agreed among key stakeholders
- Consultation meetings with key stakeholders held
- Coordination structures strengthened (e.g. the NCB)

3.1.2 Phase 2: Analyzing key IFS elements

Sound analysis is essential for the IFS to tackle priority problems and produce useful recommendations for increasing financing for SLM. Such analysis includes identifying and applying relevant existing knowledge to the challenges of SLM, identifying gaps in knowledge, and filling these through research.

Analytical inputs related to the key elements of the IFS should be collected:

- examining the environment for SLM financing (Section 2.2.2);
- identifying potential financing sources, instruments and mechanisms (Section 2.2.3); and
- designing enabling measures for resource mobilization (Section 2.2.4).

Stakeholders should participate in the analysis to encourage broad ownership and obtain information from a broad range of perspectives.²⁴ The analysis should provide the basis for recommendations on undertaking enabling measures for UNCCD financing, and on identifying sources, instruments and mechanisms to increase this financing.

PHASE 2

Expected outputs:

- Current financial flows to SLM analyzed
- Analytical work carried out
- Key policy recommendations elaborated

3.1.3 Phase 3: Developing the IFS implementation plan

To catalyze IFS implementation, an implementation plan should be developed, with costed actions. The plan should be based on the findings of the analysis and the recommendations made in phase 2. It should summarize the main interventions needed to reach the IFS outputs and link the recommended activities for overcoming barriers in the enabling environment to those for facilitating the mobilization of the mix of financial resources. The plan should identify process-oriented interventions that facilitate inter-sectoral coordination,

²⁴ OECD (2002).

broaden stakeholder participation, establish formal partnerships and initiate policy dialogue. Through these processes, the IFS is translated into concrete activities that lead to the mobilization and channeling of substantial financial and other resources to support UNCCD implementation.

PHASE 3

Expected outputs:

- IFS document, including implementation plan, elaborated and validated

3.2 Key principles for a successful IFS

An IFS should identify the appropriate combination of financial sources, instruments and mechanisms for achieving SLM policy objectives, considering the country's political, environmental, economic and social situation. Interventions and arrangements that maximize the potential of the different sources, instruments and mechanisms (strategy implementation) are needed, and these require political commitment, institutional capacity, good communications and structured partnership arrangements between stakeholders. Inadequate knowledge, information, institutional capacity or partnership arrangements hamper the formulation and implementation of a financing strategy. A lack of catalytic finance for key strategic activities will impede success. Five elements are considered crucial for a successful IFS:

- ownership;
- partnership;
- communication;
- financing; and
- M&E.

3.2.1 Securing ownership

Because of the close interlinkages between SLM and such sectors as forestry, environment and agriculture, an IFS involves a broad range of stakeholders. Ensuring ownership of the process is therefore not a simple task. It implies that stakeholders from the private sector, civil society and government are involved in all stages of IFS development and implementation, including decision-making about the strategy's scope, process and outcomes.

Lead responsibility for UNCCD-related processes usually rests with the ministry of environment or agriculture. Early in the IFS development process, key figures from the focal point ministry should therefore be brought together with representatives from line ministries (finance, planning, etc.) and other relevant ministries (water, forestry, etc.) to assess their degree of ownership, express their aspirations, agree upon a shared vision, and consider how to ensure effective coordination. Maintaining the government's interest and commitment throughout the IFS process is a major challenge.

3.2.2 Building strong partnerships

Owing to the cross-sectoral nature of SLM, partnership building is vital to the successful mobilization of finance for the UNCCD. Partnerships bring together institutional capabilities and human resources (expertise, experience and ideas) to tackle common problems that are often beyond the capacity of a single organization or group.²⁵

Stakeholder analysis can be useful in identifying potential partners and their roles in the IFS process. Stakeholder analysis is a process of systematically gathering and analyzing qualitative information to determine whose interests should be taken into account when developing and implementing an IFS. Success depends on involving key stakeholders from the beginning of the IFS process, so stakeholder analysis should be undertaken at the outset to:

- identify the key stakeholders;
- identify stakeholders' interests and the IFS's potential impact on these;
- evaluate the extent and degree of stakeholders' influence;
- assess the need for building stakeholder capacities; and
- elaborate a strategy for stakeholder participation.²⁶

This allows more effective interaction by key stakeholders in the process and increases support for the IFS. Stakeholders can be grouped into categories: public (ministry of environment, environment agency, ministry of finance); development partners/donors; national political (legislators, governors); commercial/private for-profit; non-profit (NGOs, foundations); and civil society (including farmers and households).²⁷

Continuous participation of all stakeholders is imperative for the effective implementation of an IFS. Stakeholders should participate in the analytical stage, the drafting of the strategy, IFS implementation (according to the plan), revision, and M&E. In the first stage of the IFS process, considerable efforts are needed to secure stakeholders' commitment and to build ways of working together effectively. It is therefore important that civil society and others are invited to participate in all IFS tasks, and supported when necessary.²⁸

3.2.3 Communication and knowledge management

Communication is essential for ensuring stakeholders' participation in all phases of IFS development and implementation - mapping and analysis, development, financing, M&E, etc. Establishing a communication strategy that ensures the flow of information regarding the IFS process and SLM and that facilitates effective stakeholder dialogue is therefore a key step in the IFS process.²⁹ One of the main goals of an IFS communications' strategy is to obtain feedback from stakeholders (including technical and non-technical, government and non-governmental, development partners and the wider population). Systematic and timely

²⁵ FAO (2003).

²⁶ GM (2007a).

²⁷ OECD (2002).

²⁸ OECD (2002).

²⁹ OECD (2002).

collection of feedback helps drive IFS development and implementation. During IFS preparation, feedback helps establish ownership and partnerships; during implementation, it ensures transparency and accountability.³⁰ Knowledge management is the process of collecting, analyzing, packaging and sharing information among stakeholders.

3.2.4 Financing the IFS development process

A participatory, country-led IFS based on comprehensive and reliable analysis requires that financial resources are provided in the early stages for research, analysis, consultation, communications and the development and maintenance of M&E mechanisms. Resources will be needed to build strategy mechanisms such as participation and communications. IFS implementation also involves different types of financial activity. In spite of the shift to a process approach, some activities still require long-term funding and have limited potential for self-financing. Other activities may need financial support in their initial stages, but have the potential to become self-financing in the longer term.

3.2.5 Monitoring and evaluation

How can we measure the success of an IFS? Not only do IFSs have multiple objectives, but IFS activities change over time, as do the country-specific conditions, available financing, political priorities, etc. The IFS approach involves continuous learning and adaptation, and this makes M&E more complicated. Systematically tracking key variables and processes over time and seeing how they change as a result of IFS activities are key M&E elements.³¹

This entails:

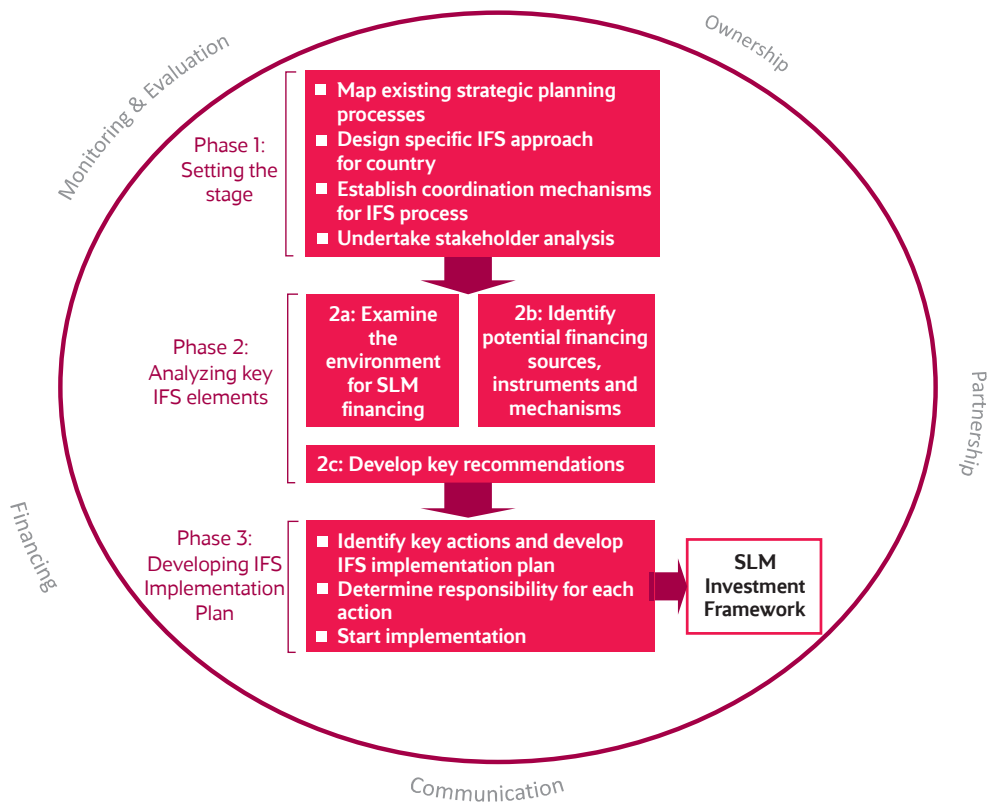
- **monitoring IFS implementation** to ensure oversight, transparency and accountability;
- **evaluating IFS results** to capture lessons and develop capacity through learning; and
- **reporting and disseminating** these findings to key stakeholder groups, enabling them to continue improving their own behaviour, the strategy and its component activities.

Assessment should commence at the outset of the IFS process to establish a baseline. As M&E is integral to the IFS approach, it should be a regular, rather than a sporadic, activity. M&E should help stakeholders to become more accountable, learn from experience and make more informed decisions.

³⁰ World Bank (2008).

³¹ OECD (2002).

Figure 2: Main phases and key principles in the IFS process



Conclusion

The GM aims to increase the specific contribution that the UNCCD can make to poverty reduction efforts, rural development and natural resource management, in particular, for adaptation for climate change.

In order to fulfill its mandate, the GM developed the integrated financing strategy concept as a practical interpretation of the Paris Declaration on Aid Effectiveness that can assist the GM's country partners in navigating the increasingly complex landscape of financing policies, modalities, instruments and procedures in country-level budgeting processes and international finance.

The GM therefore views the IFS as a key tool in its future engagement at country level because of its potential to support developing country Parties integrate the NAP and other relevant policy processes into overall development programming and to achieve substantive increases in financial flows through robust investment frameworks for SLM. The lessons learned to date through the practical application of the IFS in various national settings will be used to further refine the concept, thereby increasing the likelihood of successful UNCCD implementation.

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SAMPLE OUTLINE OF AN INTEGRATED FINANCING STRATEGY DOCUMENT

APPENDIX

1. BACKGROUND

- 1.1 Defining the concept and its elements
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- 2.1 Country brief: Status of the NAP and extent of land degradation
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- 4.1 Summary of key policy recommendations
- 4.2 Plan for implementing the IFS
- 4.3 Monitoring and implementation of the IFS



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