# BACKGROUND BRIEF

# THE FOREST ECONOMY & SYSTEMS THINKING



*This briefing note provides information on what a forest economy is, and what working with forests entails for MSD practitioners. It assumes that the reader is familiar with MSD. It was prepared by Clara García Parra, Principal Consultant at the Canopy Lab, for the Green Avengers Community of Practice. If you would like to join the Green Avengers, please complete this survey.*

# Overview of the forest economy and market systems development

## Let us challenge our perceptions

In many high-income countries, the world that surrounds humans, including forests, is understood and valued primarily through an economic lens: as sources of raw materials, commodities, or ecosystem services that can be commoditized and support human livelihoods and consumption. This framing tends to reducing complex, interdependent ecological systems to quantifiable outputs, where their worth is often measured only by their ability to generate market value. What cannot be priced, such as the intrinsic value of biodiversity, cultural significance of landscapes, or long-term ecological balance is frequently treated as an externality.

Figure 1 illustrates how the project is framing forest economies, presenting them as comprising two broad and interconnected components: wood products (e.g. timber, pulp) and non-wood forest products (e.g. fruits, resins, medicinal plants). While both are forms of provisioning ecosystem services, the diagram presents them as distinct categories for simplification. This framing helps highlight the different types of marketable outputs derived from forests, while also acknowledging that forest economies operate within a broader ecosystem services context—one that also includes regulating and supporting services such as biodiversity conservation and carbon sequestration.


**Figure 1: How the Sida-funded Sunreed project in Kosovo frames its understanding of the forest economy. Source: Sunreed**

This human-cantered worldview places people at the apex of natural systems, rather than as participants within them. By privileging short-term economic efficiency over ecological integrity, it reinforces extractive relationships with nature and marginalizes the rights, knowledge, and wellbeing of other species and ecosystems. This paradigm lies at the heart of the planetary crisis we now face: climate change, biodiversity loss, and ecosystem degradation are symptoms of a system that fails to recognize the full value of the living world.

To shift course, we must challenge the notion that nature exists primarily to serve human economies. Instead, we need frameworks that recognize ecological systems as foundational to life, with value beyond human use and economic systems as nested within, not separate

from, these planetary boundaries. This calls for transformative thinking that de-centers human dominance, reimagines value beyond markets, and embraces stewardship, reciprocity, and interdependence as guiding principles. Some MSD programs are taking steps in this direction, and this week's session will help us see how that can look in practice.

## So, what do we mean by a forest economy?

As MSD practitioners, we engage with the concept of a forest economy because we recognize that generating sustainable economic value from forests is essential to incentivize their protection and sustainable management. By linking livelihoods, enterprise opportunities, and market demand to forest resources, both timber and non-timber, we help align economic incentives with conservation outcomes, ensuring that forests are seen not as obstacles to development that must be cleared or exploited for short-term gains, but as vital assets worth sustaining. This applies not only to provisioning services but also to other forms of ecosystem services. For example, tourism can create market value for the cultural and aesthetic dimensions of forests, while many payment for ecosystem services (PES) schemes are tied to non-wood provisioning or regulatory services, such as hydrological regulation: in these cases, economic mechanisms reward upstream communities for maintaining forest cover that secures water flow for downstream settlements or industries, further reinforcing the economic rationale for forest stewardship.

***Did you know that***… Defining what constitutes a forest is surprisingly complex, as it depends on ecological, cultural, and institutional perspectives that vary widely across contexts. While some definitions emphasize canopy cover or tree height, others focus on land use, biodiversity, or ecosystem functions. The Food and Agriculture Organization (FAO), for instance, defines a forest as land spanning more than 0.5 hectares with trees higher than 5 meters and a canopy cover of more than 10 percent, which is not predominantly under agricultural or urban land use. However, this definition has its limitations—it may include monoculture plantations with limited ecological value while excluding ecologically important tree-dominated landscapes that fall below these thresholds. The challenge lies in balancing measurable criteria with the diverse ways forests are experienced, valued, and managed.

The forest economy encompasses a dynamic web of markets for forest-derived goods, both timber and non-timber, and the ecosystem services forests sustain, such as carbon capture, water regulation, and soil stability. These interconnected markets generate not only economic outputs and livelihoods but also broader societal and environmental benefits. Forest-based products are increasingly embedded across diverse value chains, from bioenergy and sustainable construction to packaging, chemicals, and textile industries, revealing strong interlinkages with multiple sectors of the economy.

Importantly, while depending on our background we may perceive the forest as a very specific ecosystem, there are many types of forests that sustain countless biodiversity – with some regions and countries boasting several types of forests at once:

| Forest type | Geographic distribution | Climate | Example services |
|---|---|---|---|
| **Tropical rainforests** | Equatorial regions (Amazon, Congo basin, Southeast Asia) | Hot and humid year-round | Carbon storage, biodiversity hotspots, water cycle regulation |

| Forest type | Geographic distribution | Climate | Example services |
|---|---|---|---|
| **Tropical dry forests** | India, parts of Africa and Latin America | Seasonal rainfall (wet and dry) | Wildlife habitat, fuelwood, grazing |
| **Savannah woodlands** | Sub-Saharan Africa, parts of Australia and south America | Seasonal (wet and dry); fire-prone | Grazing, fuelwood, fire regulation, carbon sink |
| **Temperate forests** | North America, Europe, East Asia | Four distinct seasons | Carbon cycling, timber production, recreation |
| **Boreal forests (taiga)** | Northern latitudes (Canada, Russia, Scandinavia) | Long, cold winters; short summers | Carbon sequestration, habitat for cold-adapted species, climate regulation |
| **Montane forests** | Mountain regions (Andes, Himalayas, east African highlands) | Varies with altitude | Water source for downstream users, biodiversity refugia |
| **Mangrove forests** | Tropical and subtropical coastlines | Tidal, saline conditions | Coastal protection, fish nurseries, carbon storage |

## Why care as an MSD practitioner?

The forest economy represents a complex, multi-functional system where core functions (e.g. production, processing, trade) and supporting functions (e.g. research, skills, finance) intersect with formal and informal rules (e.g. regulations, customary rights, sustainability standards). Improving performance and inclusivity in forest product markets means engaging with these functions and rules supporting local enterprises, strengthening value chains, and shaping incentives that align economic gains with long-term ecological stewardship. Globally, forest-linked markets are estimated to sustain over 45 million jobs and contribute more than $1 trillion to the global economy, underlining their importance for systemic change at the intersection of economic development and environmental sustainability.

## Additional reading and resources: some of our top picks

If you want to browse the Web for the latest thinking on forest economies, here are some good resources to check out:

- Hilton, T., Panton, A. and Stewart, A. (2024) Green Market Systems Development: Making markets work for people, climate, and nature. Working Paper v1.0, December 2024. (current version, for public review, available via this link)
- The State of the World's Forests – a flagship biennial report by the FAO containing extensive data on global forest resources and on humans' interaction with them
- Global Forest Watch – an online platform that provides data and tools for monitoring forests; displays data generated by the Global Land Analysis and Discovery (GLAD) laboratory at the University of Maryland
- Secretariat of the Convention on Biological Diversity (2024). *The Forest Factor: The role of protection, restoration and sustainable management of forests for the implementation of the Kunming-Montreal Global Biodiversity Framework*. (Available via this link).