Progress on the New York Declaration on Forests

Finance for Forests

Executive Summary - Goals 8 and 9 Assessment Report

October 2017

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Executive Summary

In September 2014, the New York Declaration on Forests (NYDF) outlined 10 goals that provide endorsers – including countries, subnational governments, companies, indigenous groups, and NGOs – with ambitious global targets to protect forests and end natural forest loss by 2030. In 2015, the first edition of the NYDF Progress Assessment both proposed a framework and respective indicators for measuring progress toward all 10 goals and offered an initial assessment on the status of progress toward their achievement. Since then a coalition of 15 civil society and research organizations, the NYDF Assessment Partners, annually publishes updates on progress toward the NYDF goals. In addition to summarizing new data and findings around the established indicators, the Progress Assessment also provides an in-depth analysis of one or two selected goal(s).

This year's focus report is dedicated to an assessment of forest finance – Goals 8 and 9. The NYDF Assessment Partners have developed a framework to support this assessment.

Goal 8: Provide support for the development and implementation of strategies to reduce forest emissions

Goal 9: Reward countries and jurisdictions that, by taking action, reduce forest emissions – particularly through public policies to scale-up payments for verified emission reductions and private-sector sourcing of commodities

KEY MESSAGES

Support for the development and implementation of strategies to reduce forest emissions remains insufficient. The magnitude of finance is highly disproportionate to the investment needs and the mitigation potential of the forest sector. Finance for forests in deforestation countries accounts for just over one percent of global mitigation-related development funding. Yet, tropical forests can provide up to 30 percent of the climate change mitigation needed to meet the objectives of the Paris Agreement.

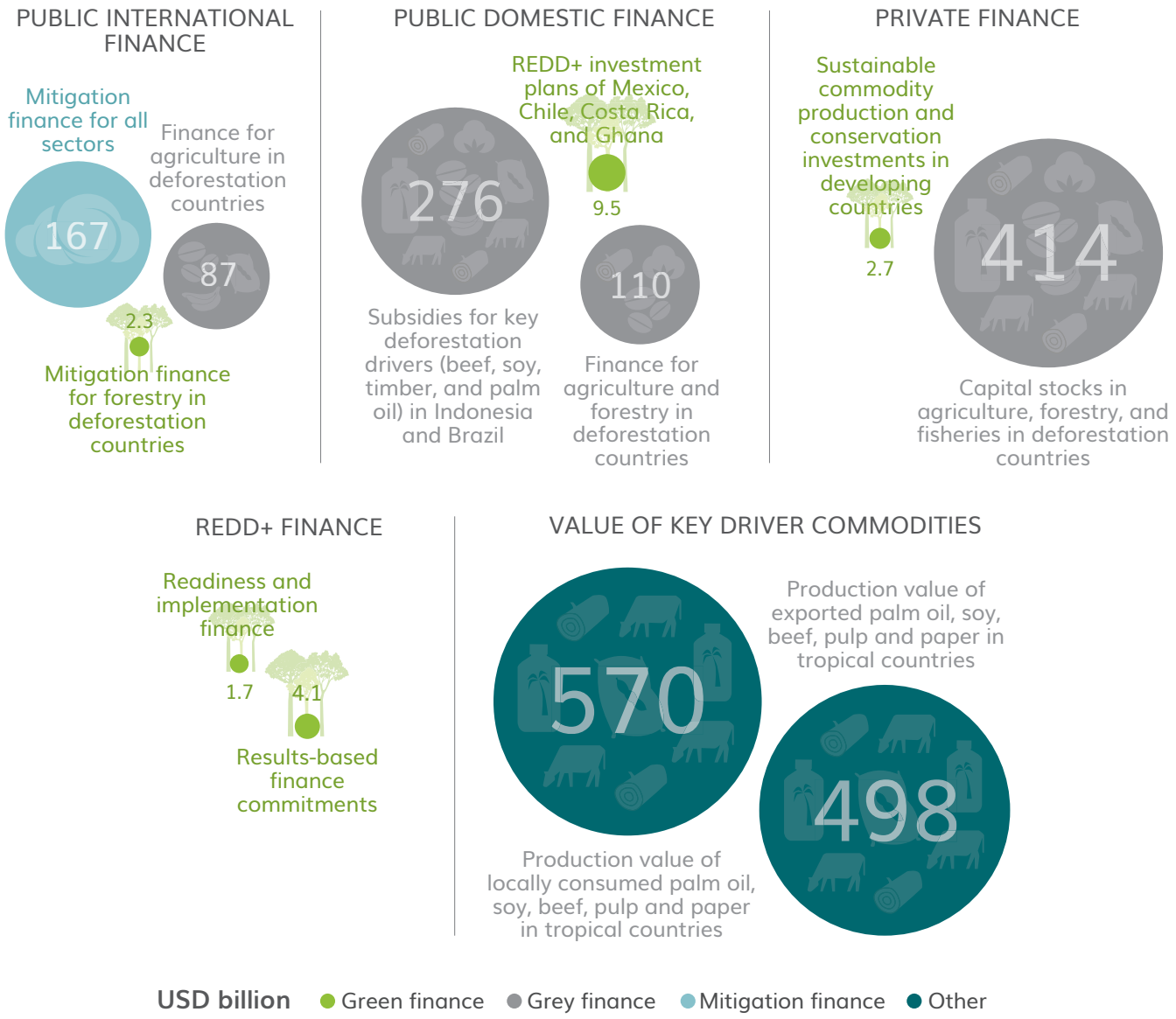
In our assessment, we captured the flows of "green finance" aligned with forest and climate goals, and compared them with "grey finance," which has an unclear but potentially negative impact on forests. The report provides a limited picture of the state of forest and climate finance, but despite data gaps, the message is clear:

While there are promising developments, total finance for Goals 8 and 9 - roughly USD 20 billion since 2010 - is insufficient and does not reflect the importance of forests as part of the climate solution. The amount is marginal compared to the USD 777 billion[1] in "grey finance" for the land sector that influences forests and is not clearly aligned with forest and climate goals. While not a measure of financial support or investment, the production value of the four key agricultural commodities in tropical countries exceeds USD 1 trillion, illustrating the large economic incentives in the sectors that drive deforestation. Figure 1 provides an overview of the various sources of finance captured and their relative magnitudes.

Our findings show that more finance is required and that the transition to zero deforestation can be achieved only with a dramatic shift away from traditional investments in the drivers of deforestation toward those in sustainable agriculture and forestry. Only the coordinated and strategic use of finance can enable this transition by targeting the vast existing flows of investment that have an influence on forests. Addressing deforestation and moving toward a sustainable land-use sector also offers significant benefits and can contribute to higher returns, rural economic development, and recaptured government revenues.

[1] This includes development finance to agriculture in deforestation countries, subsidies in key deforestation drivers in Indonesia and Brazil, and capital stocks in agriculture, forestry and fisheries in deforestation countries.

Figure 1: Total green and grey finance flows captured by this report (since 2010)



PUBLIC INTERNATIONAL FINANCE

- Mitigation finance for all sectors and for forestry in deforestation countries: Climate Focus analysis based on mitigation-related development finance commitments retrieved from the Organisation for Economic Co-operation and Development (OECD) website. Cumulative 2010-2015.
- Finance for agriculture in deforestation countries: Climate Focus analysis based on development finance commitments retrieved from the OECD Creditor Reporting System database. Cumulative 2010-2015.

PUBLIC DOMESTIC FINANCE

- Government investment plans of four REDD+ countries (Mexico, Costa Rica, Chile, and Ghana): based on Climate Focus analysis of Forest Carbon Partnership Facility (FCPF) Emission Reduction Program Documents. Investment plans cover different timeframes ranging from the next 4 to 10 years..
- Subsidies for deforestation drivers in Indonesia and Brazil: McFarland, W., Whitley, S., & Kissinger, G. (2015). *Subsidies to key commodities driving forest loss*. [Working paper]. London, United Kingdom: Overseas Development Institute; Annual estimate multiplied by 6.
- Finance for agriculture and forestry in deforestation countries: Climate Focus analysis of FAOSTAT data on government expenditure for the agriculture and forestry sectors retrieved from http://www.fao.org/faostat/en/#data/IG. Cumulative 2010-2015.

PRIVATE FINANCE

- Sustainable commodity production and conservation investments: Climate Focus compilation based on Hamrick, K. (2016). *State of private investment in conservation 2016. A landscape assessment of an emerging market*. Washington, DC: Ecosystem Marketplace. Cumulative since 2004, however financing prior to 2009 only makes up a minor share. This estimate includes capital commitments in Africa, Asia, and Latin America.

- Capital stocks in deforestation countries: Climate Focus analysis based on FAOSTAT data for gross capital stocks in agriculture, forestry and fishing, retrieved from http://www.fao.org/faostat/en/#data/CISP. Cumulative 2010-2014. Gross capital stocks are a proxy for private investment and provide an estimate of the value of assets held by the producer. See http://fenixservices.fao.org/faostat/static/documents/RM/CS_e.pdf for additional details.

REDD+ FINANCE

- Readiness and implementation finance: Estimate combines multilateral and bilateral finance. Multilateral: Climate Focus compilation based on *Climatefundsupdate.org* data. Cumulative commitments since 2010. Bilateral finance: Climate Focus analysis based on FCPF Annual Report (2017) presenting the results of a survey conducted in 2017 with countries participating in the FCPF readiness process. FCPF Carbon Fund Emission Reduction Program Documents retrieved from the FCPF website: https://www.forestcarbonpartnership.org/redd-countries-1. Assumed to be cumulative.
- Results-based finance commitments: Climate Focus analysis based on data shared by Norway's International Climate and Forest Initiative and the German REDD Early Mover Program, the BioCarbon Fund Initiative for Sustainable Forest Landscapes and the Forest Carbon Partnership Facility Carbon Fund commitments retrieved from funds' official websites. Cumulative since 2010.

VALUE OF KEY DRIVER COMMODITIES

- Climate Focus compilation based on estimates from Tropical Forest Alliance 2020. (2017). *The role of the financial sector in deforestation-free supply chains.* Geneva, Switzerland: World Economic Forum. Annual estimate for 2015 multiplied by 6.

GOAL 8: Provide support for the development and implementation of strategies to reduce forest emissions

CRITERION 8.1: Public support for the development and implementation of strategies to reduce forest emissions

- International public sources of green development finance remain small and have not grown over the last years. Out of USD 167 billion committed by developed countries and multilateral institutions for mitigation-related development finance, only USD 3.6 billion was allocated to the forestry sector. Of this, 65 percent – or USD 2.3 billion – went to key deforestation countries. The same deforestation countries received USD 87 billion in development finance for agriculture, the sector most responsible for tropical forest loss. Countries also received USD 1.7 billion in targeted finance for the preparation and implementation of REDD+.[2] This funding has helped to strengthen capacities, policy dialogue, and strategy development and supported implementation pilots. Funding is, however, widely dispersed, with many countries receiving small amounts of support.

- Several countries plan to invest substantial amounts of green finance in their REDD+ programs. In the case of several middle-income countries, planned investments exceed international contributions. We identified a total domestic commitment of USD 10 billion planned for the next 4 to 10 years, with the largest share being invested by Mexico and Costa Rica. As with international sources, green finance is, however, only a fraction of subsidies in the sectors that drive deforestation. Cumulative government expenditures in recent years in the agriculture and forestry sectors – grey finance – in deforestation countries amounts to over USD 110 billion. This is still much more than the planned green finance. As agriculture is the backbone of many developing country economies, governments also invest heavily in subsidies to the sector, including to key driver commodities. Indonesia and Brazil invest roughly USD 276 billion in subsidies for four commodities – soy, palm oil, beef, and timber.

CRITERION 8.2: Private investment targeted at reducing forest emissions

- There has been important growth in the impact investment market relevant to forests. Seeking environmental and social benefits in addition to returns, cumulative commitments by investors are estimated at USD 2.7 billion for Latin America, Asia, and Africa.

[2] REDD+ stands for efforts to reduce emissions from deforestation and forest degradation, and foster conservation, sustainable management of forests, and enhancements of forest carbon stocks.

- As with public sources, green private investment is only a fraction of grey finance in the sectors that drive deforestation. The UN Food and Agriculture Organization (FAO) estimates place the total value of private investment (capital stocks) in "business as usual" farming, forestry, and fisheries sectors in deforestation countries in recent years at a cumulative USD 414 billion.
- A number of financial institutions are adopting policies that address deforestation risks, but these policies need to be strengthened, as few of these are mandatory, consistently applied, or independently monitored.
- The public sector has a range of tools that can provide an attractive sustainable investment environment for the private sector. Blended finance instruments, for example, offer ways to catalyse new investments of private capital in sustainable activities. Pilot initiatives in the context of public-private partnerships prove the viability of sustainable land use investments.

GOAL 9: Reward countries and jurisdictions that, by taking action, reduce forest emissions – particularly through public policies to scale-up payments for verified emission reductions and private-sector sourcing of commodities

CRITERION 9.1: Public payments for verified emission reductions

- Rather than paying directly for actions that lead to emission reductions, results-based REDD+ payments incentivize countries and jurisdictions to take these actions. Such payments are only beginning to reward programs that reduce forest emissions. The current magnitude of incentives remains small compared to finance needs.
- Commitments by multilateral and bilateral institutions for results-based REDD+ finance amount to more than USD 4.1 billion. In a bilateral agreement with Brazil, Norway made the largest disbursement of results-based REDD+ finance – more than USD 1.1 billion out of USD 2.6 billion in commitments to Brazil and other countries. The German REDD Early Mover Program, funded by Germany, Norway, and the UK, has mobilized commitments of USD 306 million and already made disbursements to Colombia and the Brazilian state of Acre.
- The Forest Carbon Partnership Facility Carbon Fund has mobilized close to USD 686 million in results-based finance from eleven donors. No finance has been disbursed yet, but several countries are close to entering agreements. The donors of the BioCarbon Fund's Initiative for Sustainable Forest Landscapes earmarked USD 130 million for results-based REDD+ finance.
- For the future of result-based REDD+ payments, the Green Climate Fund (GCF) will play an important role. Based on a recent board decision, the GCF approved a new USD 500 million pilot program for results-based REDD+ finance.

CRITERION 9.2: Support for supply chain efforts to incentivize reduced forest emissions

- Though these approaches are still nascent, jurisdictional and preferential sourcing initiatives provide an opportunity to realize zero-deforestation commitments. By bringing actors from different sectors together, these initiatives avoid potential leakage and efficiently scale up implementation.
- Of the 34 jurisdictions with active programs, the geographical locations are spread quite evenly between Asia, Latin America, and Africa.
- Support for supply-chain efforts to incentivize reduced forest emissions is gaining traction. Various initiatives involving different stakeholders help facilitate jurisdictional and landscape approaches.

Please use the following citation:

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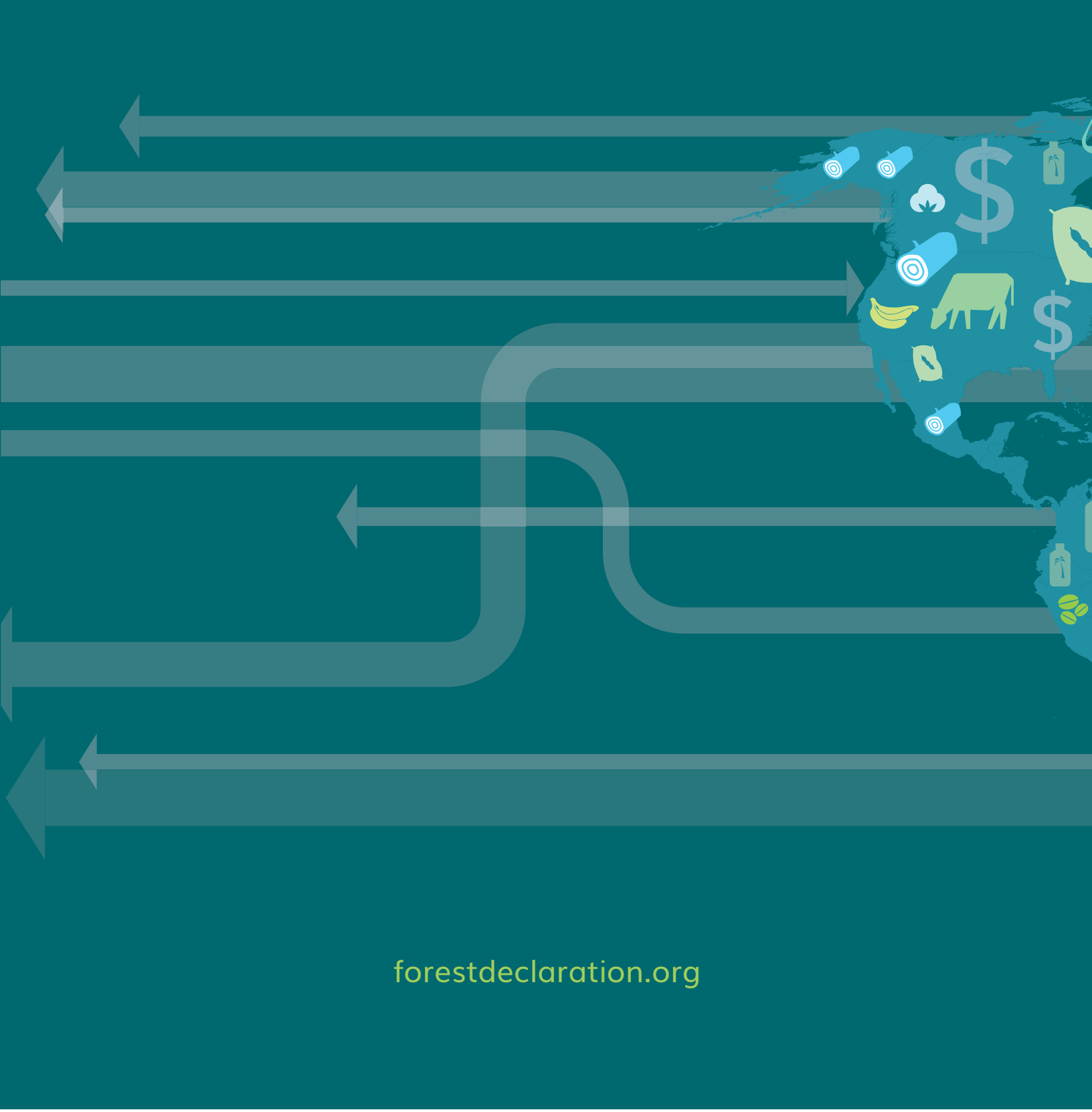

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