Progress on the New York Declaration on Forests

Goal 9 Assessment

Technical Annex to the Five-Year Assessment Report

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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

- Nearly USD 4.7 billion of results-based finance for verified carbon emissions reductions has been committed by bilateral or multilateral sources.
- As of April 2019, payments of about one third (35 percent) of these commitments have been disbursed or announced — mostly by Norway to Brazil.
- Three countries – the Democratic Republic of the Congo, Mozambique, and Ghana — have signed Emission Reductions Payment Agreements (ERPAs) under the Forest Carbon Partnership Facility (FCPF) Carbon Fund.
- Discussions around forest carbon markets are regaining momentum; however, it is unclear what role they will play in supporting efforts to reduce deforestation and protect forests.

Overview of goal and indicators

Goal 9 calls for rewards for countries and jurisdictions that are reducing forest emissions. When the concept of REDD+[a] was first introduced in the international climate negotiations, it was largely conceived as a market mechanism and the expectation for mobilizing finance via private-sector demand for carbon credits was high. Over the last years, REDD+ has evolved into a mechanism relying largely on results-based REDD+ approaches supported by government-to-government transactions. Rather than paying directly for actions that lead to emission reductions, results-based forest finance payments incentivize countries and jurisdictions to take these actions (**Box 1**). Results-based payments are made through a number of funding pipelines to countries making achievements in the form of quantifiable and verifiable forest emission reductions.

In 2017, the New York Declaration on Forests (NYDF) Assessment Partners published an in-depth review of progress toward NYDF Goals 8 and 9. From 2018 on, we have continued to provide annual updates on progress towards these goals using the revised assessment frameworks. We use two criteria to assess progress on achieving Goal 9 (**Table 1**).

[a] Reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries

Box 1. Characteristics of results-based forest finance

There are certain features that are broadly similar across the different pilot initiatives for results-based forest and REDD+ finance.[1] By definition, payments for results are conditional upon verified emissions reductions, but some initiatives (e.g. Norway's International Climate and Forest Initiative in some bilateral agreements, the Green Climate Fund) also reward interim milestones such as the adoption of policies. To estimate emission reductions as a result of a REDD+ program, countries or jurisdictions are asked to define a reference level against which changes of forest cover and emissions are measured. In addition, initiatives require REDD+ safeguard policies to ensure they cause no environmental or social harm. Although requirements vary, initiatives also require a certain level of planning in a program document. They also require the development of a "benefit sharing plan" that directs forest and REDD+ finance, and financial mechanisms to set fiduciary standards and outline how finance will be spent. Initiatives also set requirements for dealing with uncertainty and risks in measuring emission reductions.

Table 1. Indicators to track Goal 9

Criteria	Indicator
1. Public payments for verified emission reductions	1.1 International payments 1.2 Domestic payments
2. Support for supply chain efforts to incentivize reduced forest emissions	2.1 Public- and private-sector support for jurisdictional-sourcing initiatives in the context of zero-deforestation commitments

Findings

Criterion 1: Public payments for verified emission reductions

Indicator 1.1: International payments

Forest finance for results-based payments have been made in the context of a number of multilateral and bilateral initiatives. The majority of results-based payments are made in the context of bilateral agreements with the Norwegian International Climate and Forest Initiative (NICFI) and the German REDD Early Movers (REM) program, the Green Climate Fund (GCF) through the World Banks' Forest Carbon Partnership Facility (FCPF) Carbon Fund and BioCarbon Fund (**Table 2**).

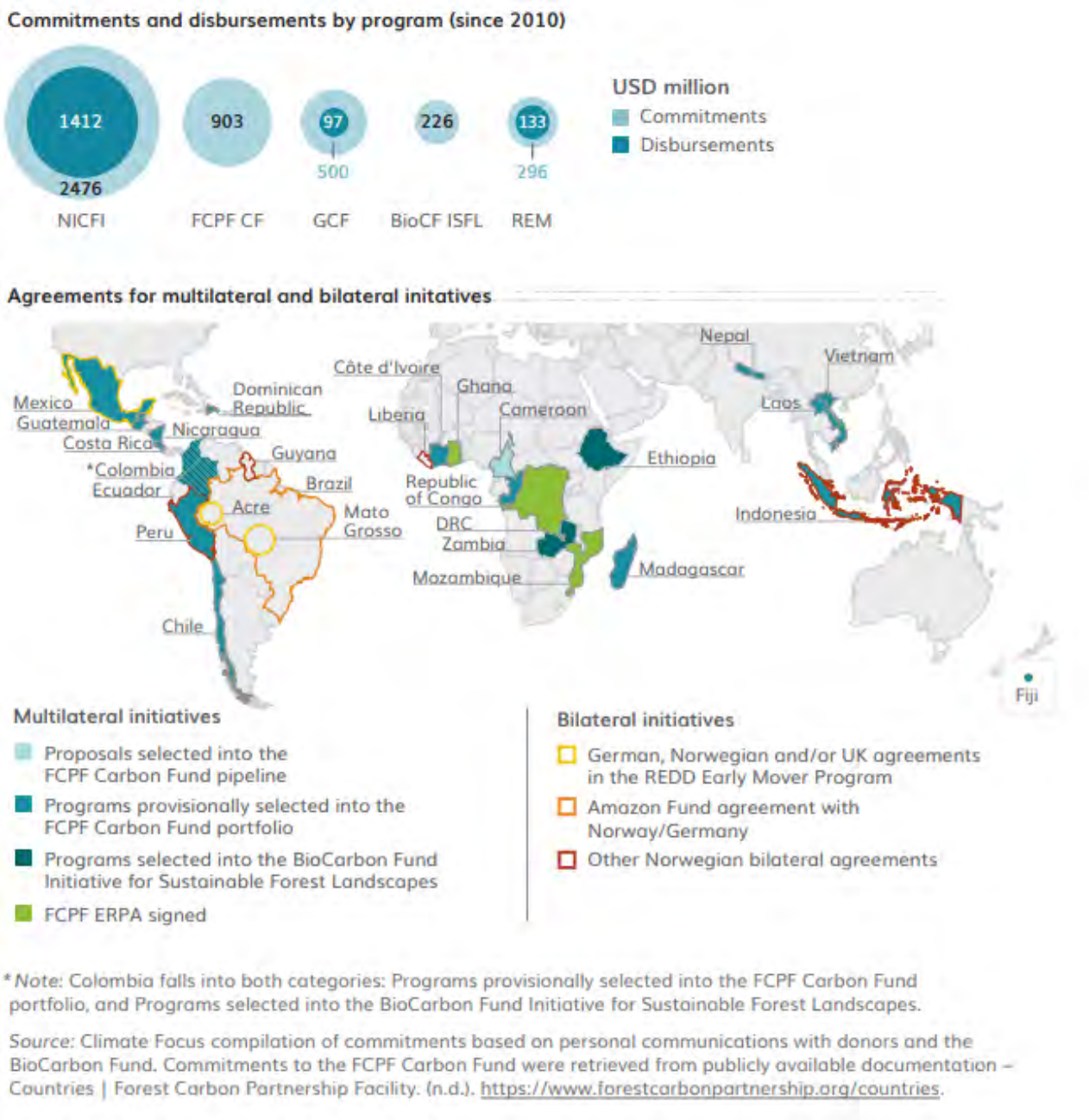
Commitments and disbursements of results-based finance increase

Nearly USD 4.7 billion of results-based finance for verified carbon emissions reductions has been committed by bilateral or multilateral sources since 2010 (**Figure 1**).[2] In the past year, however, almost no new results-based finance commitments have been made. As of April 2019, payments of about one third (35 percent) of these commitments have been disbursed or announced — mostly by Norway to Brazil.

Table 2. Major initiatives offering payments for verified emissions reductions

Initiative	Description
Forest Carbon Partnership Facility Carbon Fund	The Forest Carbon Partnership Facility Carbon Fund is designed to build on countries' readiness achievements, by remunerating countries through a strong performance-based payments framework for future REDD+ systems. The Carbon Fund is intended to incentivize recipient countries to achieve long-term goals on emissions reductions, forest conservation, biodiversity protection, and enhancement of indigenous peoples' and forest communities' livelihoods. It pilots payments for verified emissions reductions from REDD+ programs and aims to ensure that funding is disbursed among relevant stakeholders through an equitable benefit-sharing approach. The provision of funding is contingent on several requirements, including environmental and social safeguards, a formal application processes, the development of robust permanence, and leakage management.[3]
BioCarbon Fund Initiative for Sustainable Landscapes	Taking a landscape approach, the BioCarbon Fund's Initiative for Sustainable Landscapes (ISFL) seeks to incentivize emissions reduction from the land sector, from deforestation, forest degradation, sustainable agriculture and other land use policies. Through its multilateral fund, the initiative offers results-based payments to incentivize and sustain program activities. To promote sustainable and scalable models for land use, the ISFL seeks to promote public-private partnerships and has in the past organized stakeholder dialogue but also entered partnership agreements with sourcing companies.
Norway's International Climate and Forest Initiative	With its objectives to contribute to the international climate agreement under the UN Framework Convention on Climate Change and to promote the conservation of primary forests, Norway's International Climate and Forest Initiative (NICFI) provides funding via several channels, encompassing bilateral support to partner countries, contributions through multilateral organizations, and funding of civil societies and forest initiatives. Through bilateral support, NICFI encourages and rewards REDD+ partner countries that target quantifiable and verifiable emissions reduction in the forestry sector. As it does not operate as an implementing agency, NICFI channels its bilateral contributions through partner schemes such as Germany's REM programme.
REDD Early Movers Programme	The REDD Early Movers Programme (REM) is an initiative of German Official Development Assistance implemented by KfW on behalf of the German Ministry for Economic Cooperation and Development. It aims to promote forest conservation by providing financial support to close pre-2020 funding gap in the current REDD+ process and targets pioneer countries or regions that have already taken initiative to protect forests. As a results-based programme, REM supports emission reduction efforts undertaken at a national, subnational or biome level. REM has entered partnerships with Norway and the UK, and welcomes partnerships with other donors.
Green Climate Fund	The Green Climate Fund was set up in 2010 under the UNFCCC to assist developing countries in the mitigation of and adaptation to climate change. It serves as an operating entity of the financial mechanism of the Convention and is expected to serve as key conduit of climate finance. To catalyze international payments for emission reductions in the forest sector, GCF adopted a two-track finance approach. Track one is intended to cover payments based on important legislation and policy milestones, facilitating implementing countries' gradual transitions from REDD+ implementation to results. Via track two, GCF intends to channel results-based payments to countries making achievements in form of quantifiable and verifiable forest emission reductions.

Figure 1. Progress in results-based REDD+ finance



*Note: Colombia falls into both categories: Programs provisionally selected into the FCPF Carbon Fund portfolio, and Programs selected into the BioCarbon Fund Initiative for Sustainable Forest Landscapes.

Source: Climate Focus compilation of commitments based on personal communications with donors and the BioCarbon Fund. Commitments to the FCPF Carbon Fund were retrieved from publicly available documentation – Countries | Forest Carbon Partnership Facility. (n.d.). https://www.forestcarbonpartnership.org/countries.

Landmark payments for verified results announced

While deploying finance has generally been slow over the past five years, in February 2019 the first payment from the GCF for deforestation-related emissions reductions was confirmed. USD 96.5 million will be paid to Brazil for results achieved in the Amazon biome in 2014 and 2015, compared to a 1996-2010 baseline.[4] Under the GCF agreement, Brazil pledged to use the funds to strengthen REDD+ strategy implementation and develop a domestic payment for the environmental services program. While some argue that the payments send a signal that protecting forests pays off,[5] paying for historic reduction in deforestation amid an erosion of government commitment toward forest protection and sharply increasing deforestation in the Brazilian Amazon has drawn criticism from civil society.[6] In reaction to the

new Brazilian government's lack of will to continue policies to stop deforestation, Norway and Germany put payments to support Brazil for efforts related to slowing deforestation on hold in August 2019.[7]

Norway also announced that an initial results-based payment would be made to Indonesia for their reductions in carbons emissions from deforestation in 2017.[8] Norway, who pledged up to USD 1 billion to Indonesia in 2010, has spent about 13 percent of the total pledge so far in support of the Indonesian government's efforts to address deforestation.

Negotiating RBP agreements is a slow process

Many countries demonstrate interest in participating in results-based payment mechanisms, but reaching the final stage of acceptance is a lengthy procedure that is cumbersome and exceedingly challenging. One barrier is a lack of finance to support countries in moving from a readiness phase toward implementation (**Box 2**); other barriers are the institutional and political demands that come with committing to a results-based payment program for REDD+, which often fail to account for national circumstances. Just three countries — the Democratic Republic of the Congo, Mozambique, and Ghana — have signed Emission Reductions Payment Agreements (ERPAs) under the FCPF Carbon Fund. This number is anticipated to increase over the next couple of years. As of May 2019, nineteen countries were in the FCPF pipeline.

The number of countries – Ethiopia, Zambia, and Colombia – that have been formally included in the BioCarbon Fund's Initiative for Sustainable Forest Landscapes pipeline has not increased since 2017.

Box 2. Essential finance for REDD+ implementation is lacking

The implementation of REDD+ activities (Phase 2) is an important step for countries working to translate their plans to reduce deforestation and enhance forests into action. REDD+ donors are galvanizing finance for recipient countries in the readiness stage (Phase 1), as they prepare and build the capacity to enable successful program activities, and to ensure that funding is available to provide payments for results related to emission reductions (Phase 3). Yet, finance for Phase 2 is notably lagging behind the other phases.[9] At the same time, the implementation phase provides an obvious opportunity for private-sector engagement compared to the other phases, given the returns on investment through forest-friendly production as well as the generation of carbon credits. Furthermore, involving the private sector in REDD+ efforts has the potential to catalyze a wider scale of REDD+ activities due to their influence on landscapes through agriculture, forestry, mining, and other production.[10] Responding to this financing gap and the expressed need of countries hoping to move beyond the readiness phase, multilateral and bilateral funders have dedicated a portion of their REDD+ grants and low-interest loans to implementation.[11] Implementation pledges have come primarily from the Global Environment Facility, the Green Climate Fund, and the Forest Investment Program.[12] However, for the most part, these approaches are limited and insufficiently coordinated.

The re-emergence of the forest carbon markets

Through the trade of verified emission reductions (VERs), carbon credits, or offsets generated in the forestry sector, carbon markets provide platforms for economic actors to purchase credits to meet both voluntary and compliance targets for climate change mitigation.[13] The Paris Agreement could provide a stimulus for carbon trades once the rules for "internationally transferred mitigation outcomes" have been agreed. Until then, most carbon market trades come from voluntary markets. While the generation, trade, and use of offsets is controversial from a climate policy point of view, the generation of VERs allows projects and programs in the forest sector to access finance. Here we summarize recent trends in the forest carbon markets because they channel finance to forest conservation and restoration.

However, we do not judge the overall merits and drawbacks of offsets or of the projects and programs through which they are generated. To date, average annual volumes of all (forest and non-forest) carbon credits traded globally (excluding Australia) – roughly 6 megatons of CO_2 equivalent (CO_2e) in the compliance market[b] and 22 megatons of CO_2e in the voluntary market[c] – represent only a small fraction of global annual emissions from deforestation (2,270 $MtCO_2e$), demonstrating that demand is still relatively low and a carbon market cannot compensate for avoiding deforestation in the first place.[14] Still, emission reductions from forest projects are among the most demanded type of voluntary carbon credits (28 percent).[15] There are also signs of higher demand in the future as more companies announce ambitious emission reduction targets. In 2017, Eni started to compensate parts of its own emissions through carbon offset with a focus on forest, land-use management and preservation credits and targets zero net carbon emissions by 2030. Similarly, Shell announced that it would invest USD 300 million in natural ecosystems to contribute to their three-year target to reduce its Net Carbon Footprint by two to three percent. Furthermore, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) under the UN International Civil Aviation Organization could accept forest credits and stimulate investments into REDD+.[16]

Indicator 1.2: Domestic payments

Domestic finance reforms can benefit the environment and people

Due to a lack of aggregate and quantitative data, we report on notable domestic mechanisms that distribute payments to states or regions for emission reduction results to highlight progress toward the achievement of this indicator.

In Brazil, a federal program aims to create a consensus-based, decentralized arrangement for accessing and allocating results-based finance. The ICMS-Ecologicó (ICMS-E) is an ecological fiscal transfer scheme that redistributes a portion of the broad consumption-based value-added tax revenue from the sale of goods and services from state governments to municipal governments based on ecological indicators. It was first implemented in the state of Paraná in 1991 and has since been implemented in 17 out of 26 states in Brazil. The first scheme was designed to compensate municipalities in Paraná for lost opportunity costs due to forest land being protected from development.

In Colombia, an innovative measure allows high-quality carbon credits to be used by entities subject to its new carbon tax.[17] The new hybrid tax is anticipated to provide a direct transfer from polluting sectors of the economy to projects promoting sustainable development and protecting the environment. Such transfers are particularly significant for poor or marginalized communities that need resources for forest protection or reforestation projects.

In Costa Rica, work towards launching one of the first nationalized payment for ecosystem services (PES) scheme began in 1996 and ultimately formed Costa Rica's national forest fund, FONAFIFO. The PES approach has received some criticism and impact evaluations have yet to show that there has been positive impact on ecosystem services and halting of deforestation from PES itself, yet forest cover has increased since implementation, with progress attributed to a mixture of ecological policies in the country.[18] Forest cover has gone from 26 percent of land area in 1983, to over 51 percent by 2013.[19]

[b] Average for 2010–16, and excluding volumes traded in the Australian market which only started in 2015.
[c] Average for 2010–16. Note that annual volumes vary widely across the different markets.

Criterion 2: Support for supply-chain efforts to incentivize reduced forest emissions

Indicator 2.1: Public- and private-sector support for jurisdictional-sourcing initiatives in the context of zero-deforestation commitments

Support for jurisdictional initiatives comes in many forms

Actors from across sectors are increasingly turning to jurisdictional approaches to implement supply-chain commitments because they provide an opportunity for actors to come together to realize zero-deforestation commitments, avoid potential leakage, and efficiently scale implementation (see **Goal 2**).[d] **Table 3** shows examples of the types of support public and non-profit sectors can provide to increase the effectiveness of supply-chain commitments.

Table 3. Examples of Stakeholder Support for Forest Protection

Category	Type of support	Main actors	Examples
Institutional strengthening & forest governance	Demand-side measures	International and national governments	Partnerships between producer and importing governments to exclude illegal production and promote demand for certified products
	Strengthen law enforcement	National governments	Increasing funding and capacities of enforcement institutions, including law enforcement and public-private agreements that exclude "bad" producers
	Tenure reform	National governments	Land registration systems that enable tenure security, a key enabling factor for sustainable land use
	Monitoring and transparency	National and subnational governments, nongovernmental organizations (NGOs)	Transparency platforms and tracking initiatives by civil society that support accountability and help companies in monitoring efforts
	Advocacy and pressure	NGOs	Consumer campaigns to encourage demand for certification support, an essential condition for incentives through premiums and market access
Implementation support	Sectoral standards	National and subnational governments, NGOs, and private sector	Support certification schemes or moratoria that set forest requirements and provide a clear and recognized framework for implementation of commitments
	Training, capacity building, and technical assistance	National and subnational governments, NGOs	Agricultural extension programs to promote sustainable intensification, for example, in partnership with supply-chain companies
	Aggregation of smallholders	National and subnational governments, NGOs	Group certification schemes that allow smallholder producers to reduce transaction costs of compliance with forest and sustainability requirements

[d] For the purposes of this assessment, we define active jurisdictional approaches by the Environmental Defense Fund definition which states that programs should meet the following three conditions: (1) have government involvement/leadership; (2) are commodity specific or have a link to specific commodities of focus (cattle, soy, palm oil, cocoa, timber/pulp); and (3) have documented action to date (progress beyond the conceptualization phase).

Financial support	International support	International governments	Bilateral agreements for financial assistance programs that promote sustainable land use
	Public-private partnerships	National and subnational governments, international partners, companies	Public-private investment funds with risk mitigation instruments for private investors (e.g. guarantees)
	Domestic investments	National governments	"Green" loan programs in the agriculture sector that set mandatory environmental requirements and provide technical assistance
Landscape initiatives		Subnational governments, international partners, companies, NGOs	Jurisdictional approaches that pursue sustainability (including forest) goals in a collaborative manner

Endnotes

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