PROGRESS ON THE NEW YORK DECLARATION ON FORESTS

Accelerating finance to reduce forest emissions

February 2022

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Forest Finance

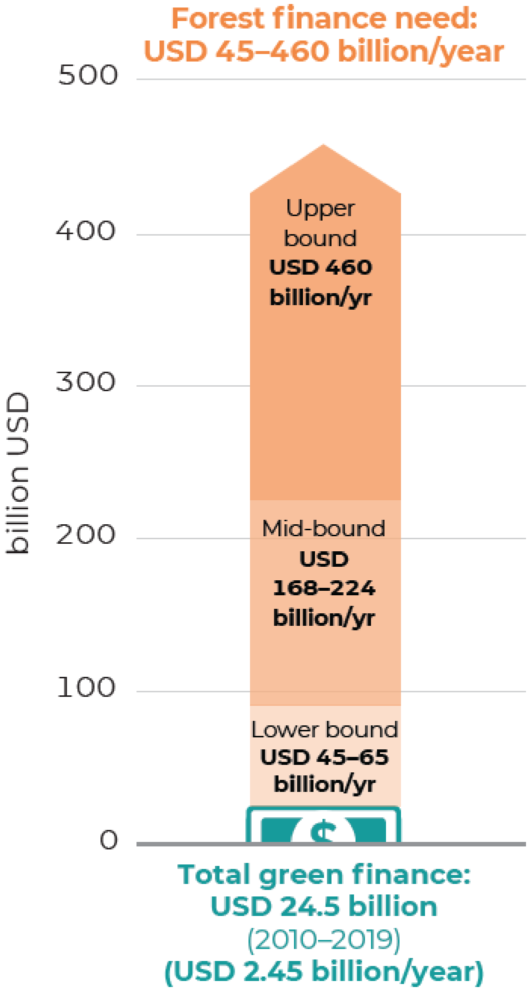
Goal 8

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

Ending natural forest loss will require significant new sources of finance as well as the greening of existing flows.

Goal 8 of the NYDF calls for the global community to provide support – specifically financial support – for concerted efforts to reduce greenhouse gas emissions from forests.

Estimates of finance needed to **protect, restore and enhance forests globally range from USD 45 to 460 billion per year**. Current international and domestic funding averages only USD 2.4 billion - **0.5-5% of the need** - per year. This compares to over USD 10 billion per year that has been spent on agriculture and forestry subsidies by deforestation countries since 2010.

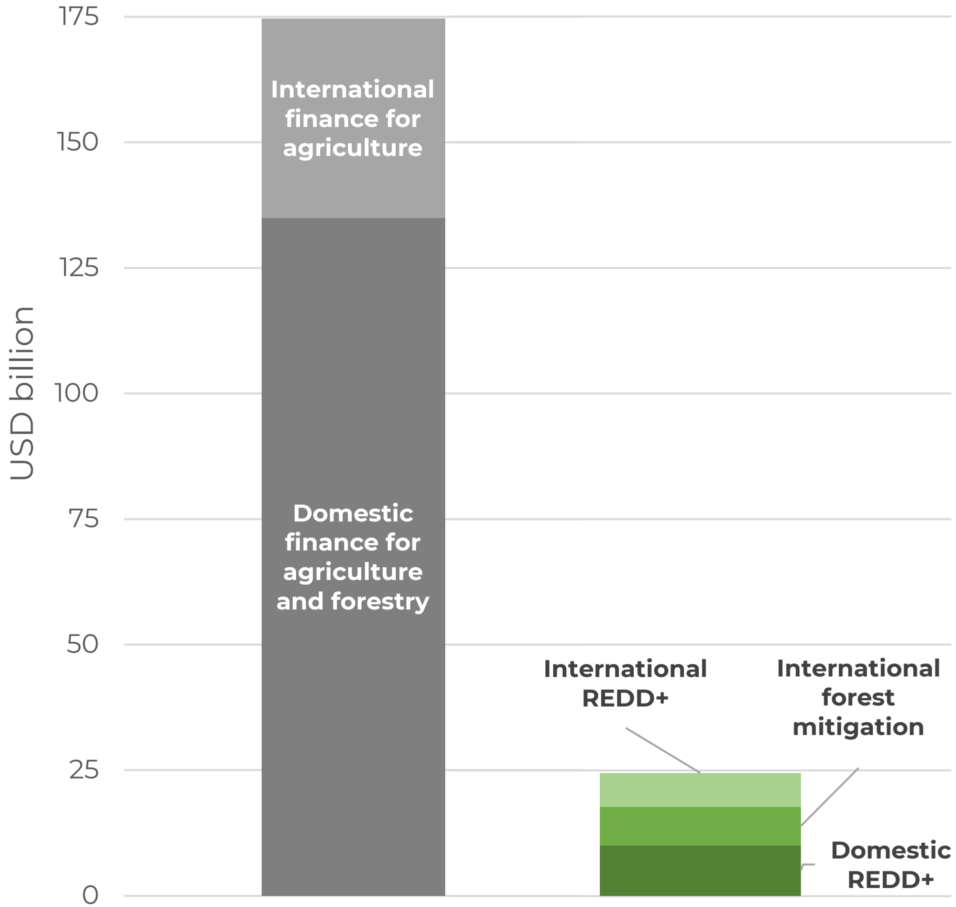


Seven years after the NYDF was launched, there remains a pressing need to redirect harmful “grey” investments into forest-positive activities.

Around the world, vast quantities of money remain invested in activities that have potential to drive deforestation and forest degradation (**grey finance**).

Green finance, on the other hand, refers to investments aligned with objectives for the conservation, protection, or sustainable use of forests.

Grey finance can be ‘greened’, through the **introduction of safeguards and zero-deforestation investment policies**, but systemic barriers that must first be overcome include perverse economic incentives, weak governance of forest resources, and limited transparency in the finance sector.



Grey vs. green international and domestic finance for forests between 2010-2019

But there are some signs of progress, with the amount of green finance channeled to forests and the availability of tools for finance sector both increasing in the last seven years.

Public investment	**2015**: <1 billion committed to REDD+ **2021**: >6.7 billion committed to REDD+
Private investment	**2015**: <USD 50 million in private finance channeled into forest protection and restoration from voluntary carbon market activities **2021**: >USD 159 million private finance channeled into forest protection and restoration from voluntary carbon market activities
Guidance for finance sector to address deforestation risk	**2015**: Only a handful of finance sector tools or frameworks available for guiding investment decision-making to avoid forest-risks in finance **2021**: Rapidly growing landscape of investment tools, including the *Task Force on Climate-related Financial Disclosures, Task Force on Nature-related Financial Disclosures, Climate Action 100+*, and *Trase*. [However – financial institution uptake of these tools is difficult to track.]
Assets under management In ESG funds	**2015**: USD 655 billion (2012) **2021**: USD 1,048 billion (2018) [The US in particular has seen a dramatic rise in recent years, from USD 5.4 billion in 2018 to USD 51.1 billion in 2021.]

**Of the 350 companies and 150 financial institutions assessed by Global Canopy's annual Forest 500 assessment.*

Finance is increasingly **recognized as a key lever** for meeting global climate goals… but commitments must be met with **real action**.

At COP26 in November 2021, **30 financial institutions** covering more than USD 8.7 trillion in assets under management pledged to eliminate investment in commodity-driven deforestation in the beef, soy, palm oil, pulp and paper sectors by 2025.

Also at COP26, 12 countries collectively committed to provide **USD 12 billion in forest-related climate finance** between 2021 and 2025.

In recent years, several major investors have **publicly divested** from deforestation-linked activities or **implemented safeguards** to this end. Nonetheless, the COVID-19 pandemic may have negatively impacted progress, with one report finding that during the early months of the COVID-19 pandemic, a group of the world's largest financial institutions actually **increased their investments to deforestation-linked companies**, by USD 8 billion.

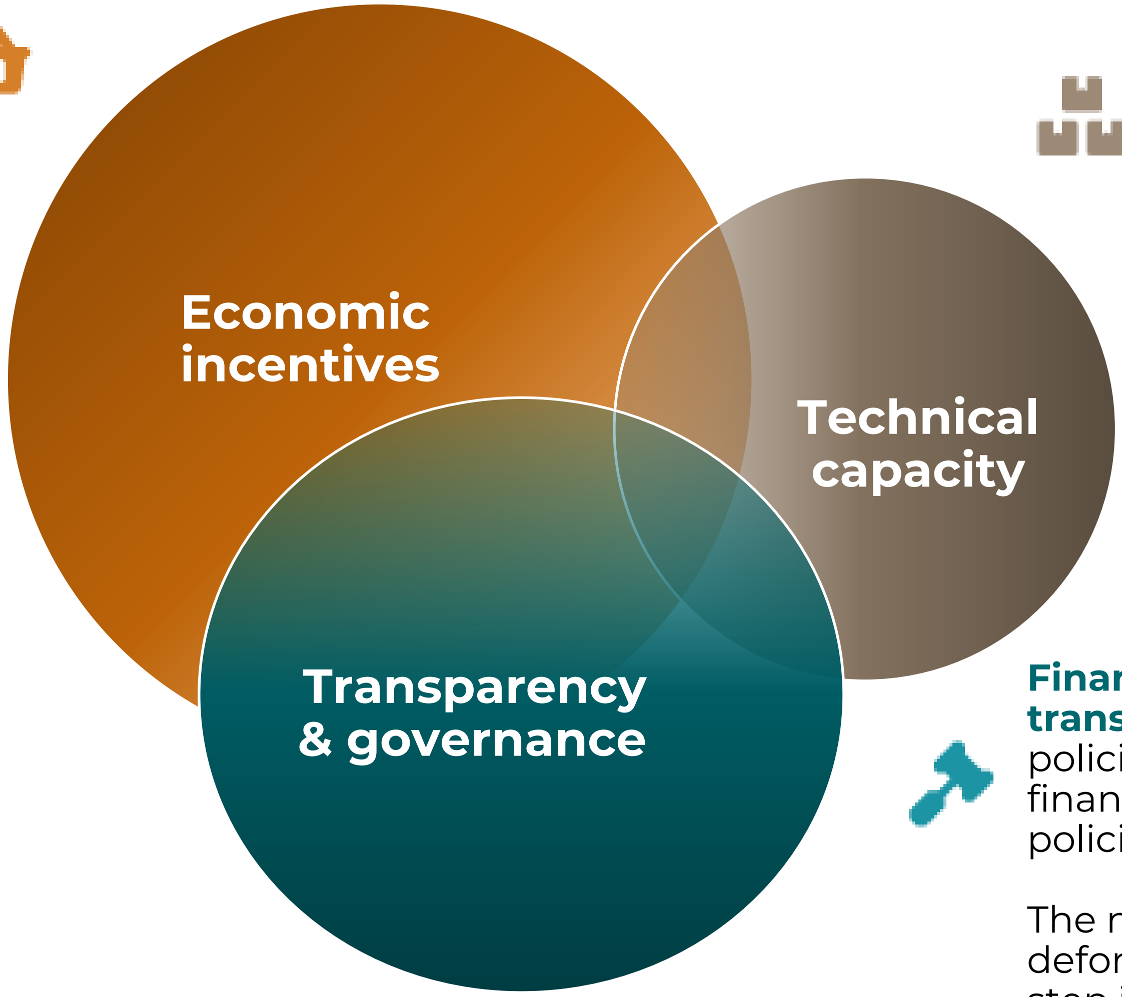
Of the financial institutions with a deforestation policy in place, **only 40%** are reporting on policy implementation, suggesting that high-level commitments must be accompanied with implementation transparency.

Serious challenges in achieving transformational change remain.

The forest-risk commodity industry is as lucrative and destructive today as in 2015, while forests are still not valued for the essential services they provide.

Public and private finance for drivers of forest loss – such as **agricultural investments and subsidies** – greatly exceed forest positive investments.

REDD+ finance is still **falling short**: all forest countries face financial barriers to fully implement their REDD+ strategies.



The entry bar for REDD+ remains high. The complexity of the application and approval stages tends to increase with project size, limiting countries with ambitious project plans.

Even where donor finance is available, **a lack of technical capacity at project level** can limit the channels through which funds can be directed.

Financial institutions are still lagging on transparency in implementation of forest policies, principles, and safeguards. 62% of financial institutions do not have any policies on deforestation.

The necessary capacity to combat illegal deforestation and conversion – an essential step in **stemming illicit and grey financial flows** – is lacking in many forest countries.

More action is needed to align forest finance with its mitigation potential.

Governments must:

- **Align public budgets and fiscal policies** with objectives to halt deforestation. Reform subsidies to provide benefits for forests and other sustainable development goals and include environmental and social safeguards.
- **Mobilize private-sector funding** to leverage the growing interest in carbon markets, carbon pricing mechanisms, and other sustainable investments in conservation or sustainable forest use.
- **Consider the use of border measures for carbon** to generate revenues to invest in forest mitigation goals.
- **Create dialogues** between results-based REDD+ donors and forest countries to **harmonize and simplify requirements,** making them more applicable to individual country contexts.
- **Develop new up-front financing mechanisms** that can complement results-based REDD+ programs.

Private sector must:

- **Improve the transparency of investments** by assessing and disclosing the risks and benefits they pose to forests for activities such as infrastructure, mining developments, and the production of forest-risk commodities.
- **End investments into deforestation-linked practices** to accelerate global progress towards deforestation-free supply chains.
- **Explore opportunities to invest in jurisdictional forest programs** to strengthen governance and support participation in results-based payments and carbon markets,.