UN-REDD PROGRAMME

Food and Agriculture Organization of the United Nations | UNDP | UN environment programme

KEY MESSAGES

- Private sector engagement, in the context of action taken under the REDD+ mechanism, is essential to meeting the goal of the Paris Agreement under the United Nations Framework Convention on Climate Change of keeping the global temperature rise this century below 2 degrees Celsius above pre-industrial levels; to pursuing efforts to limit the temperature increase even further, to 1.5 degrees Celsius above pre-industrial levels; and to adapting to climate change.
- Economic activities that do not lead to deforestation and forest degradation need to become the norm in the twenty-first century rather than the exception.
- In previous years, the UN-REDD Programme has provided a variety of types of technical support to its partner countries, including building the economic case through valuation studies, undertaking business case analysis and identifying options to mobilize private finance.
- Private capital has been leveraged for novel blended finance funds (such as the &Green Fund and the AGRI3 Fund). In addition, a $95 million "landscape bond" was issued by the Tropical Landscapes Finance Facility, the proceeds of which were used to finance a sustainable natural rubber plantation in Indonesia through a long-term loan. This financial arrangement will lead to forest protection and reforestation, thereby delivering net emissions reductions.
- Learning from the barriers identified in the present paper is key to ensuring a greater contribution from the private sector to REDD+ results and forest conservation in general, both at the jurisdiction and national levels.

UN-REDD PROGRAMME

INFO BRIEF

GLOBAL

LESSONS LEARNED FROM TECHNICAL ASSISTANCE ON ECONOMIC VALUATION, BUSINESS ANALYTICS AND MOBILIZING PUBLIC AND PRIVATE FINANCE

A SUMMARY OF TECHNICAL ASSISTANCE ON ECONOMIC VALUATION, BUSINESS ANALYTICS AND MOBILIZING PUBLIC AND PRIVATE FINANCE

This resource is made possible through support from Denmark, Japan, Luxembourg, Norway, Spain, Switzerland and the European Union.

INTRODUCTION

The UN-REDD Programme has supported many partner countries by conducting analyses that highlight the ways in which protecting, restoring and sustainably using forests contributes to the transition towards a green economy. A second area of work is centred on supporting partner countries through private sector engagement and the ways in which actions can be financed under the REDD+ mechanism in practice. The cross-cutting topic of private sector engagement in the UN-REDD Programme is of particular relevance, given that most tropical deforestation and forest degradation is directly or indirectly caused by private individuals and entities, including farmers and companies of all sizes that produce, process and trade timber and agricultural commodities such as soy, palm oil, coffee, rubber, cocoa and beef cattle. Charcoal production and slash-and-burn activities to meet subsistence needs also contribute to deforestation and forest degradation.

It should be recognized that, at present, neoclassical economic theory – which is dominant and which focuses on supply and demand as the driving forces behind the production, pricing and consumption of goods and services – barely accounts for the negative externalities, such as deforestation and biodiversity loss, caused by economic activities. That is the result of a failure to include what are often considered intangible environmental benefits in cost-benefit analyses, or the failure, to date, to include or represent the value added by ecosystems in gross domestic product (GDP) or in gross national product.[1] Market failure leads to a lack of internalising in prices the positive economic values associated with carbon sequestration, biodiversity preservation, clean air and other ecosystem services. Deforestation however can also be driven by policies implemented in other economic systems, such as in "planned economies", when production targets to accelerate a growth in the output of certain goods or commodities do not account for negative impact on forests, freshwater and other ecosystem services.

As a result of a systematic failure to include the environment in economic planning and business decision-making, an estimated 420 million hectares of forest have been lost worldwide through deforestation since 1990, although the rate of forest loss has declined substantially.[2] Palm oil, soy, beef and timber are four major commodities whose production was responsible for some 113 million hectares of forest loss in tropical regions between 2000 and 2012.[3]

The UN-REDD Programme has sought to work with partner countries to highlight the economic benefits of forest ecosystems and identify policies to engage with a range of private sector actors to make them part of the solution, rather than part of the problem, by addressing the direct and underlying drivers of deforestation and forest degradation. Governments can put in place policies and measures that disincentivize the economic activities that lead to deforestation and forest degradation – activities which, over the long term, have a negative impact on a country's economy and people. Simultaneously, governments need to provide economic incentives through legislation and regulation – including the reform of agricultural fiscal policies – to stimulate sustainable land use, where deforestation is decoupled from the production of commodities such as palm oil, beef, timber and soy or other economic activities, and where the restoration of degraded land and conservation is better stimulated.

The present brief begins by examining good practices implemented or promoted over the past five years under the Programme to stimulate partner countries to transition to a green economy, in which forest protection is better reflected in economic decision-making, and technical assistance is provided to incentivize private sector actors to change their business practices in order to positively contribute to REDD+. The brief then looks at the lessons that can be learned from the work that has already been undertaken, and finishes by providing a selection of useful resources.

1 Goodland and Ledec, 1987. Neoclassical economics and principles of sustainable development. Ecological Modelling, volume 38, issues 1–2, pp. 19–46.

2 FAO, 2020. Global Forest Resources Assessment 2020: Main report. Rome. https://doi.org/10.4060/ca9825en.

3 Henders, S., Persson, M., & Kastner, T. (2015). Trading forests: land-use change and carbon emissions embodied in production and exports of forest-risk commodities. Environmental Research Letters, 10(12), 1-13. Retrieved from http://iopscience.iop.org/article/10.1088/1748-9326/10/12/125012/pdf.

1. SUCCESSFUL EXPERIENCES OF PRIVATE SECTOR ENGAGEMENT AND REDD+ FINANCE

A significant body of work has been produced under the UN-REDD Programme on the benefits for governments from transitioning to low-carbon and inclusive green economies and on the work that has been done on private sector engagement and REDD+ finance. The technical assistance provided has helped partner countries build the knowledge and capacity to effect a transformation towards more sustainable economic models, in which REDD+ becomes an integral part of the way in which natural resources are managed more sustainably for both present and future generations. The list below provides a number of successful examples.

1.1 Policies and measures for the transition towards a low-carbon, inclusive green economy

- In **Indonesia,** Government Regulation No. 46/2017 on Economic Instruments in Environmental Matters was signed into law, designed with technical assistance from the UN-REDD Programme, including REDD+ finance. It resulted in the establishment of a public-service entity that will serve as a funding mechanism for projects related to climate change and environmental matters, which will include a mandate to fund REDD+ projects. Indonesia received the first performance-based payment under a letter of intent between the Governments of Norway and Indonesia, managed by the UN-REDD Programme, and is now progressing towards receiving its second payment.

- The Indonesian Government also introduced fiscal regulations on ecological fiscal transfer mechanisms, which provide incentives at the local level for subnational jurisdictions to maintain forests and which are linked to the carbon market and to pricing initiatives. Known as TAPE (Transfer Anggaran Provinsi berbasis Ekologi, Provincial Ecological Fiscal Transfers) and TAKE (Transfer Anggaran Kabupaten berbasis Ekologi, District Ecological Fiscal Transfers) respectively, they are the product of a collaboration that was initiated through the UN-REDD Programme between the Finance Ministry's Fiscal Policy Agency, provincial and district governments and a coalition of civil society organizations, including the Asia Foundation.

- In **Côte d'Ivoire,** with support from the United Nations Environment Programme Financial Instrument and the European Forest Institute, the UN-REDD Programme supported the Government in the implementation of the zero-deforestation cocoa REDD+ strategic option. Achievements included an assessment of the economic viability of sustainable cocoa production, with a focus on agroforestry and intensification; data collection partnerships with three leading cocoa companies; and preliminary recommendations for public-private financing mechanisms to incentivize sustainable production and smallholder access to finance. The work has resulted in expressions of interest from several financial institutions keen to explore investment opportunities in sustainable cocoa, and in the early-stage development of a $300 million financial vehicle, covering the rehabilitation of more than 120,000 hectares of old cocoa plantations into cocoa agroforestry systems and leading to net emissions reductions.

- Work on environmental sustainability and policy for cocoa production in **Ghana,** implemented by the United Nations Development Programme (UNDP), has successfully reintroduced shade-grown cocoa and trained farmers to increase productivity in 35 communities in the Asunafo North landscape. The project has provided timber tree seedlings to farmers and trained them in tree planting, and is currently providing assistance with a registry of newly planted trees at the Forestry Commission of Ghana . Under the project, a collaboration was also formed with the Ghana Cocoa Board to revise and enhance the environmental sustainability content of the manual currently used to train extension agents.

- Two countries – **Peru** and **Costa Rica** – led business case work to address deforestation by the private sector. In Peru, specific examples were analysed for coffee, cocoa and the palm oil sector, and in Costa Rica, cattle ranching and the palm oil sector were analysed. In both countries, the results provided input for defining concrete actions to tackle deforestation as part of national REDD+ strategies and implementation plans.

- In **Ecuador,** UN-REDD has supported government and strategic private sector partners in work done on sustainable, deforestation-free commodity supply chains under an umbrella initiative entitled "Ecuador: Premium & Sustainable". Initial results include commitments from the palm oil sector to become deforestation-free by 2030 and traceability in the cacao and coffee supply chain.

- The UN-REDD Programme has also supported a number of partner countries by providing technical assistance to transition to a green and inclusive economy and by highlighting the economic benefits, beyond the monetary benefit, that come from avoiding deforestation and forest degradation in the form of results-based payments under the REDD+ mechanism. When deforestation is avoided and forests are protected and restored, many long-term economic and societal benefits are realized, including protecting soil quality, providing timber and other commodities, regulating water, and supporting tourism and many other goods, services and jobs in a number of economic sectors, such as tourism, agriculture, forestry and energy, including hydroelectric energy. Under the UN-REDD Programme, economic valuation studies have been carried out in Ethiopia, Indonesia, Kenya, Nepal, Panama, Tanzania and Zambia, highlighting the economic case for REDD+ by examining the costs and benefits of protecting and sustainably using forests. In Ethiopia, for example, it was

found that forests contributed some 12.9 per cent of the country's GDP in 2012–2013, considerably more than had been previously thought. In a similar vein, Kenya's montane forests (also known as "water towers") were found to provide support beyond the value of their timber in the form of water regulation for drinking water and for water used in agriculture and other economic sectors.

1.2 Private sector finance for REDD+

- The Tropical Landscapes Finance Facility was created as a spin-off of the UN-REDD Programme to help Indonesia to unlock more private capital for sustainable landscape management. Funding for a $95 million loan to finance a sustainable natural rubber plantation was raised through what is considered to be South-East Asia's first corporate sustainability bond, covering a unique tropical forest landscape that includes critical habitat for tigers and orangutans.

- With support from the UN-REDD Programme, the **AGRI3 Fund** was created as a much-needed vehicle to reduce risks for banks, investors and agribusinesses and to catalyse the transition to deforestation-free supply chains. The Dutch Government and Rabobank announced anchor investments in the AGRI3 Fund of $80 million in total, enabling the Fund to become operational. In addition, in May 2020, the Council of the Green Environment Facility approved a $10 million contribution to the AGRI3 Fund. The fund has net-positive targets for mitigating greenhouse gas emissions from land use and for protecting and restoring forests, and will focus specifically on Sub-Saharan Africa, Latin America and South-East Asia. Forest protection and carbon sequestration are among the key performance indicators that the fund will target, meaning that any project financed through the AGRI3 Fund will contribute to forest protection and restoration in developing countries and will contribute to REDD+ and to countries' nationally determined contributions.

- The **&Green Fund**, a blended finance impact investment fund focused on forest protection and tropical forest commodities, announced in 2019 that it would be investing $23.75 million through the purchase of notes issued by the Tropical Landscapes Finance Facility. More recently, transactions took place in Brazil, and a 10-year, $30-million investment was made in listed Indonesian palm oil company DSN Group to implement a comprehensive no-deforestation policy, including full extension to third-party suppliers and completion of certification for all their plantations by the Roundtable on Sustainable Palm Oil. Such "proof-of-concept" transactions – which have specific targets for forest protection or restoration and emissions reductions – contribute directly to the results achieved under the REDD+ mechanism and can help to build a track record and thereby attract private investors over time.

2. LESSONS LEARNED AND RECOMMENDATIONS

The examples presented demonstrate the ways in which the technical assistance and analytical work done under the UN-REDD Programme have informed the subnational and national REDD+ strategies (REDD+ Phase 1) of our partner countries, as well as policies and measures to implement ways to reduce or remove emissions (REDD+ Phase 2). The key lessons from the UN-REDD Programme to date are listed below, with a number of recommendations on a variety of ways in which they can be taken up.

2.1 The green economy and interministerial challenges

As part of UN-REDD's green economy activities, substantial work has been done in relation to the public sector. The work has focused primarily on assessing the public incentives driving forest loss, and has generally been well received by ministries of the environment or forestry, but to a lesser extent by ministries of agriculture, given the potential for ministerial overlap and/or encroachment.

Good results have been obtained in terms of bridging the agriculture-environment gap, however, mainly in countries where agriculture ministries were already considering the environmental performance of the sector or had processes under way to enhance it. For instance, in Ecuador, the national REDD+ strategy was linked to the country's agenda for the sustainable

transformation of production in the Amazon region, which promoted the adoption of good agricultural practices and was led by the Ministry of Agriculture and Livestock.

However, in many countries, ministries of the environment are responsible for handing down fines sanctioning non-compliance with environmental regulations. That has caused some reluctance from actors in the agricultural sectors in certain countries to engage in dialogue. Likewise, there have been challenges in broadening the REDD+ agenda beyond ministries of the environment to other ministries, including ministries of economic affairs, finance and agriculture. An important lesson, therefore, is to systematically stimulate interministerial engagement to ensure long-term support for REDD+, given the different institutional mandates.

2.2 Perceptions of the usefulness of UN-REDD products in governments and private sector entities

There is often limited knowledge within the ministries of the environment or forestry responsible for the implementation of REDD+ initiatives regarding the motivations and drivers of private sector actors to potentially engage in the process. The time required for addressing that gap in perceptions through sensitization was significantly underestimated. One example involved work to assess the "value at risk" of palm oil companies that were clearing tropical forests. The work was praised in several private sector forums, yet it was a struggle to have it be understood by government counterparts. Another example involved work carried out on the commodity financing risk policies of different banks, which forms the basis of SCRIPT, but which was not perceived as having much value by many government counterparts. An important lesson for the future is to ensure better understanding by governments of private sector tools in order to better inform policymaking.

Equally important is to better engage with national development banks as key actors for engaging the private sector in activities compatible with REDD+. In many developing countries, national development banks remain the main financiers of forestry and agricultural activities, and owing to their nature, the only providers of longer-term capital. Engaging with them can also support the creation of conditions for other private sector actors to become more interested in forest activities. Examples of engagement with national development banks include technical assistance provided to FINAGRO (Fondo para el Financiamiento del Sector Agropecuario) in Colombia and BANHPROVI (Banco Hondureño para la Producción y la Vivienda) in Honduras on enhancing their environmental and social risk-management systems. In addition, a small group of national development banks was convened to exchange best practices on the design and management of financial products and services for the forest sector.

2.3 Need for a common language and business case mindset to unlock private capital for REDD+

Most private financiers, despite their best intentions, do not have detailed knowledge of what the REDD+ mechanism is or what it aims to achieve. An in-depth understanding of REDD+ requires knowledge of several academic fields (including agronomy, ecology and climate science) that is rarely part of the academic curriculum in finance or part of the sector's day-to-day business. That forces financiers to think outside well-established boundaries and to accept a level of risk that is at odds with their traditionally conservative approach to investment. In addition, and this is especially true in developing countries, the sector is rife with stories of agricultural investments that have gone sour, leading to large-scale insolvencies as a result of a single season of particularly bad weather.

In the light of the above, any ambition to unlock private finance on a scale that positively contributes to forest-related emissions reductions requires such challenges to be addressed head-on. That starts with sharing a common language and perspective – which should centre much more around the role of finance in "greening" agriculture and/or forest supply chains. Without compromising on environmental and social ambition in their policies and measures, in seeking private loans and investments, REDD+ approaches will need to provide a credible long-term business plan, informed by factual data or at the very least by early proof of interest (through market research or surveys, for example). As part of their business plan, project developers should be prepared to provide an evaluation of the projected internal rate of return, an estimate of the cashflow profile with easy-to-read assumptions, and a substantiated assessment of the risk/return profile of the approach. The business plan should also include clear risk mitigation strategies and, to the extent possible, should seek out guarantees and collateral to lower overall risk exposure.

2.4 Challenges in transitioning to sustainable, deforestation-free supply chains

Over time, the agenda to promote private sector engagement has evolved from focusing almost exclusively, during the first few years of the UN-REDD Programme, on carbon-centric business models (in which the main source of income is the sale of verified emissions reductions) to focusing on agriculture, to address a key driver of deforestation and forest degradation by removing or reducing deforestation in commodity supply chains. This change has significantly increased the number and type of actors considered under the work done on private sector engagement, as it requires engagement with agribusinesses, traders and financiers.

There are many barriers that prevent the transition towards sustainable commodity supply chains that have no net negative impacts on tropical forests. They range from the upfront costs or pre-investment risk and the perceived or real high credit risk for borrowers, especially smallholder farmers, to the longer repayment period needed for more sustainable production models, such as palm oil replanting, creating wet agricultural systems on restored peatland, or moving from full-sun plantations to agroforestry cocoa systems. In addition, agricultural subsidies, land tenure and other elements, such as fire management, can all prevent governments and private sector actors from transitioning to more sustainable production models.

THE ECONOMIC POTENTIAL OF FORESTS IN A GREEN RECOVERY FROM COVID-19

Forests will play a pivotal role in green strategies to recover from the economic consequences of the COVID-19 pandemic. While the immediate economic priorities have been to shore up the businesses and industries hit hardest by the recession, managing the long-term recovery is also critically important. Simply reviving the existing "brown economy" will only exacerbate irreversible climate change and other environmental risks, causing an even greater threat to the global economy. A global transition to a low-carbon, greener economy is required, which requires changes on the part of governments and businesses.

Nature-based solutions, such as those implemented under the REDD+ mechanism, are win-win areas for stimulus investment: they can deliver significant economic benefits while reducing the likelihood of future pandemics and building resilience to climate and environmental risks. Forest conservation and restoration can create millions of green jobs to boost rural economies and has long-term growth potential.

In addition, recovery packages and corporate bailouts can put conditions and incentives in place to reduce pressure on forests. For example, agricultural subsidies can be repurposed to reward deforestation-free practices. Long-term commitments, such as the introduction of carbon taxes and other green taxes and the reallocation of fiscal revenues towards investment in sustainable land use, will also be required to support a green structural transformation. The UN-REDD Programme will continue to support the transition to a green economy and foster the global shift towards sustainable and deforestation-free business practices, in order to strengthen the resilience of our societies and economies.

Given the expertise that the UN-REDD Programme has built over the years and the growing demand from consumers, investors and consumer goods companies for sustainability in commodity supply chains, there is an opportunity for UN-REDD to expand on this work in the future, in particular by linking expertise on REDD+ with the greening of agricultural supply chains.

2.5 Aligning fiscal incentives to reduce deforestation from agriculture

Reforming fiscal policies is critical to reducing deforestation and moving towards a global food system that better balances the need for food security and environmental sustainability with economic growth. Agricultural subsidies are often orders of magnitude higher than the amounts currently dedicated to climate finance in support of REDD+, both globally and in key countries with high levels of forest loss (Brazil and Indonesia, for example).[4] Governments could direct public finance support for agriculture and fisheries, currently sitting at over $700 billion a year with only around 15 per cent targeted at public goods, towards paying farmers and fishers to produce food in climate- and nature-friendly ways.[5]

While this matter is understandably highly sensitive for many countries, given its importance and the magnitude of existing public finance incentives that are currently harmful to ecosystems and forest conservation, there is both a need and an opportunity for the UN-REDD Programme to scale up this area of work in its next phase.

4 Overseas Development Institute, 2015. Subsidies to key commodities driving forest loss. Implications for private finance.

5 Food and Land Use Coalition, 2019. Growing Better: Ten Critical Transitions to Transform Food and Land Use; and Mamun, A., Martin, W. and Tokgoz, S, 2019. Reforming Agricultural Subsidies for Improved Environmental Outcomes. International Food Policy Research Institute.

CONCLUSION

Since the launch of the UN-REDD Programme in 2008, the topic of private sector engagement, finance and investment related to REDD+ has steadily become more important. That is reflected in the demand from REDD+ partner countries for technical assistance from UNEP, UNDP and the Food and Agriculture Organization of the United Nations. The breadth and depth of the assistance required has differed considerably between countries, but in general, it is focused on four main areas: building the economic case for forest protection and reducing deforestation; supporting countries with specific private sector engagement requests as part of their REDD+ strategy; mobilizing private finance by creating incentives through blended finance mechanisms; and helping countries to gain access to REDD+ results-based finance.

Looking ahead, private sector engagement will become even more prominent, as pressure increases for companies to move towards carbon neutrality and to operate in line with the emissions reductions needed to meet the goal under the Paris Agreement, including through climate goals set by Governments around the world within the context of their nationally determined contributions.

The UN-REDD Programme has much to offer partner countries around the world, by increasing support to enable them to gain access to REDD+ payments from multilateral funds for their positive results from efforts to protect and restore forests, and by building coalitions for companies to significantly reduce emissions or invest in carbon mitigation, helping countries set normative standards, and ensuring that proof-of-concept blended vehicles are scaled up by development finance institutions and others until those vehicles ultimately become mainstream.

RESOURCES

- UN-REDD Policy Brief 1: REDD+ and a Green Economy: Opportunities for a mutually supportive relationship
- UN-REDD Policy Brief 4: The Role of the Private Sector in REDD+: The Case for Engagement and Options for Intervention
- UN-REDD Policy Brief 7: Fiscal Incentives for Agricultural Commodity Production: Options to Forge Compatibility with REDD+
- Forest economic valuation studies have been completed in: Ethiopia, Indonesia, Kenya, Nepal, Panama, Tanzania and Zambia
- 'UNEP: Building Natural Capital: How REDD+ can Support a Green Economy' (Español, Français and Bahasa)
- UN-REDD: Banking on REDD+: Can bank and investor risk policies on soft commodities benefit REDD+?
- UN-REDD: Financing Strategies for Integrated Landscape Investments
- Subsidies to key commodities driving forest loss (made possible with a financial contribution from the UN-REDD Programme)
- REDD+ Academy: A dedicated chapter on 'REDD+ Finance' (module 6) is included in the academy, which provides a comprehensive body of knowledge on all aspects of REDD+

UN-REDD
PROGRAMME

Food and Agriculture Organization of the United Nations

UNDP

UN environment programme

The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries.

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