

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

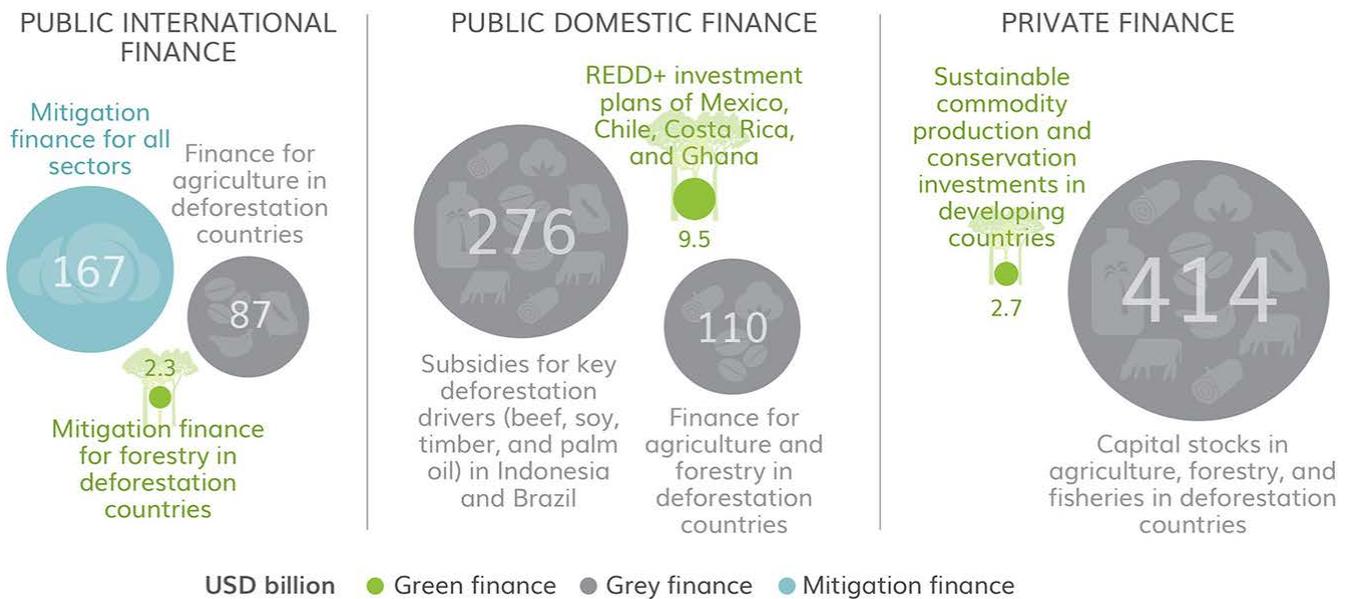
Indicator 1.1
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### Key Messages

- The transition to sustainable land use can only be achieved with a dramatic increase and shift of finance – from high-deforestation to more sustainable approaches our assessment shows that across sources, “green” finance that is aligned with Goal 8 – roughly USD 16 billion – is dwarfed by the much larger flows of “grey” finance to the land use sector – roughly USD 777 billion – that have a potential for negative impacts on forests (Figure 1).
- Support for the development and implementation of strategies to reduce forest emissions remains insufficient, and does not reflect the mitigation potential of the forest sector. Between 2010 and 2015, cumulative international public finance that clearly falls into the scope of green finance amounted to USD 2.3 billion. This is dwarfed by USD 167 billion in mitigation finance for other sectors.
- Especially in the case of upper-middle-income countries, domestic investments in REDD+<sup>[1]</sup> programs has the potential to exceed international support. However, governments also invest heavily in subsidies for key agricultural commodities, often without measures in place to avoid deforestation and harm to ecosystems.

- Traditional private investment in the agriculture and forestry sector in deforestation countries – without explicit sustainability or forest protection objectives – is estimated to be over 50 times greater than international support (public and private) that clearly falls in the scope of Goal 8. Given the role that these sectors play in driving deforestation, there is important potential for aligning such finance with forest and climate goals.
- While a number of banks have published policies to increase sustainability and identify and manage deforestation risks, few are mandatory. In most cases, information is unavailable regarding the extent to which clients actually apply these policies.
- Collaborative approaches and blended finance mechanisms between the public and private sectors can catalyze new private investment in sustainable activities in forest-relevant sectors. More significantly, the public sector has a range of tools at its disposal that can assist in developing an attractive sustainable investment environment into which private sector actors can shift existing grey finance.

Figure 1: Green and grey finance flows captured by the Goal 8 Progress Assessment (excluding REDD+ finance, since 2010)



Sources and notes:

**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: <http://www.oecd.org/dac/stats/climate-change.html>. 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 for the next 4 – 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](http://fenixservices.fao.org/faostat/static/documents/RM/CS_e.pdf) for additional details.

## Overview of Goal and Indicators

Goal 8 focuses on the support for strategies to reduce forest emissions. In 2017 the New York Declaration on Forests (NYDF) Assessment Partners published an in-depth review of progress toward NYDF Goals 8 and 9 (available for download [here](#)). The call to provide finance for protection and sustainable use of forest is anchored in the international agenda for climate and sustainable development. It extends to domestic, international, public, and private finance. The Paris Agreement asks developed countries to mobilize finance in ways that represent a progression beyond previous efforts, and encourages voluntary support from other parties. We use two criteria to assess progress on achieving Goal 8 (Table 1).

Table 1: Indicators to track Goal 8

CRITERIA	INDICATOR
1. Public support for the development and implementation of strategies to reduce forest emissions	1.1 International finance 1.2 Domestic finance
2. Private investment targeted at reducing forest emissions	2.1 Policies for investment in forest-risk commodities 2.2 Investments in sustainable commodity production and conservation

## Findings

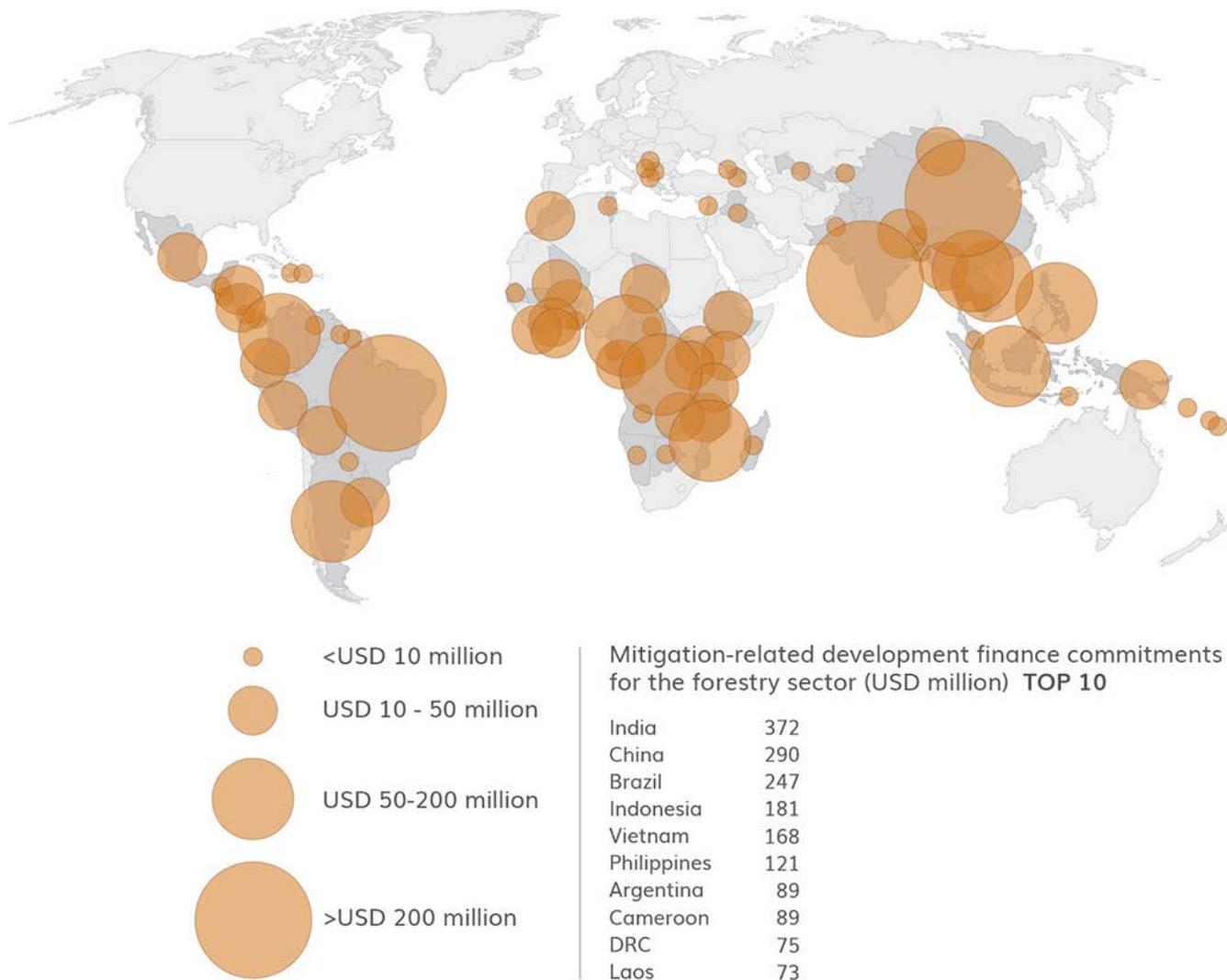
### Criterion 1: Public support for the development and implementation of strategies to reduce forest emissions

Public finance plays a key role in reducing forest emissions. It can support research and capacity building, provide direct incentives for the protection of forests, and aid the mobilization of private investment needed to address deforestation.

#### *Indicator 1.1: International finance*

International forest finance remains in short supply and has not grown substantially in recent years. According to OECD data for 2010-15, developed countries and multilateral institutions committed<sup>[2]</sup> USD 167 billion in mitigation-related development finance, out of which USD 3.6 billion went to the forestry sector – the large majority (65 percent) to countries with high levels of deforestation.<sup>[3]</sup> Another USD 1 billion was pledged for regional or unspecified support to the forestry sector. Financial commitments concentrated on a few countries, including major deforestation hotspot countries, but not necessarily countries where forests are disappearing the fastest (Figure 2).

Figure 2: Mitigation-related development finance commitments targeted at the forestry sector and deforestation countries (2010-15)



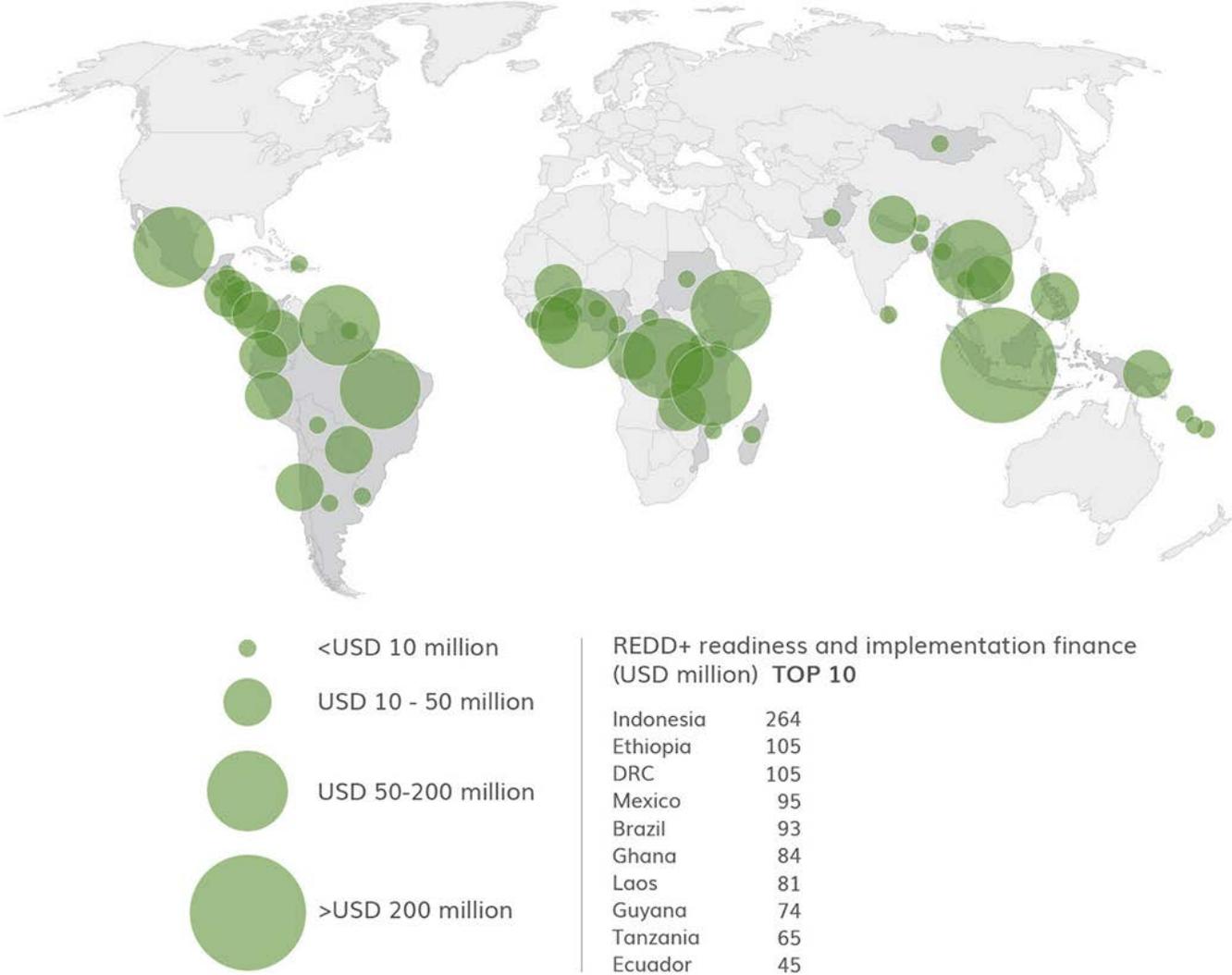
Source: Climate Focus analysis based on climate-related development finance dataset retrieved from the [OECD website](#).

The absolute value of these resources is dwarfed by development finance in sectors that drive deforestation, and there is an important opportunity to align international support in these sectors with forest climate goals. Agriculture accounts for between 53 percent<sup>[4]</sup> and 80 percent<sup>[5]</sup> of global deforestation, and four commodities alone – palm oil, soy, beef, and wood products – are responsible for 40 percent of deforestation.<sup>[6]</sup> Between 2010 and 2015, deforestation hotspots received a cumulative USD 87 billion in development finance for the agriculture sector.<sup>[7]</sup>

In many tropical forest countries, climate change mitigation has become a primary objective of programs targeted at halting forest loss and degradation. Close to USD 1.7 billion in REDD+ finance has been used to strengthen capacities, policy dialogue, and the development of REDD+ strategies. According to [Climatefundsupdate.org](#),

since 2008, cumulative REDD+ support by multilateral initiatives for readiness and implementation support amounts to almost USD 1.4 billion in commitments.<sup>[8]</sup> However, there are trade-offs in allocation decisions between coverage of countries and scale of financial support delivered. Several dozen countries have received small amounts of readiness funding, while the bulk of implementation funding is focused on a few countries (Figure 3).

Figure 3: REDD+ readiness and implementation finance (since 2010)



Source: Climate Focus analysis based on Clamtefundupdate.org data (multilateral finance) and FCPF Annual Report (2017) (bilateral finance).

Notes: Multilateral data refer to commitments. Bilateral data is based on a survey conducted in 2017 with countries participating in the FCPF readiness process. Source document does not specify timeframe or whether finance has been committed or already disbursed.

Major REDD+ initiatives also support indigenous peoples and local communities. A recent study by the United Nations Office for Project Services (UNOPS) identified commitments and/or disbursements of at least USD 1 billion of finance related to indigenous peoples between 2010 and 2015.<sup>[9]</sup> About USD 165-215 million of this amount was targeted at climate objectives.<sup>[10]</sup>

## ***Indicator 1.2: Domestic finance***

Many middle-income countries invest substantial amounts of domestic finance into forest protection, in many cases exceeding what they receive from international public sources. While there is no aggregate information available on domestic finance, our analysis of six countries advanced in the pipeline of the World Bank Forest Carbon Partnership Facility shows that domestic investments can exceed international public finance contributions. Over the next four to ten years, Mexico, Costa Rica, Ghana, and Chile have plans to allocate USD 8 billion, USD 1 billion, USD 53.7 million, and USD 36.9 million of government funds, respectively, to deliver REDD+ strategies.<sup>[11]</sup> Within Brazil, where the Amazon Fund has commitments of over USD 1.7 billion (partly in results-based finance), an analysis by the REDDX initiative found that between 2012 and 2015, the large majority of REDD+ funds in the largest Brazilian state of Amazonas came from domestic sources (USD 334 million).<sup>[12]</sup> This is not the case in all Brazilian states, however. In Acre, domestic public flows amounted to USD 82.6 million, representing just one-fifth of all funds allocated to REDD+ in the state.<sup>[13]</sup> Lower-middle-income countries also invest in REDD+ activities, though international donors generally provide more of the investment.

Governments in tropical forest countries invest significantly larger amounts of **grey finance** than **green finance**, especially in the agricultural sector. Agriculture is the backbone of many developing country economies, with large shares of their population relying on the sector for their basic income and livelihoods. In some deforestation hotspots, such as Paraguay, the DRC, and Myanmar, the sector contributes to more than one-fifth of GDP.<sup>[14]</sup> Governments therefore invest heavily in agricultural subsidies, often without safeguards to avoid deforestation and harm to ecosystems.

## **Criterion 2: Private investment targeted at reducing forest emissions**

### ***Indicator 2.1: Policies for investment in forest-risk***

## *commodities*

There is a substantial amount of grey finance in the private sector that has the potential to be greened. Estimates from the Food and Agriculture Organization place the value of private investment in “business as usual” farming and forestry sectors at USD 168 billion annually.<sup>[15]</sup> A recent study estimates that the four big agricultural commodities mobilize USD 100 billion of capital and trade financing each year. Capital stocks in agriculture, forestry, and fishing in deforestation countries alone totaled USD 414 million from 2010-14.<sup>[16]</sup>

Financial institutions are adopting policies that address deforestation risks. Such policies seek to ensure that their investment portfolios are at the very least not increasing deforestation. It is not clear, however, to what extent policies are applied, as many are still considered to be recommendations rather than requirements; nor are the consequences of non-compliance plain to see, owing to a lack of transparency and reporting.

According to 2016 data from Forest 500, few of the 150 financial institutions linked to those companies with the greatest influence in the global palm oil, soy, timber, and cattle supply chains are actively addressing deforestation risks in their portfolios.<sup>[17]</sup> Yet, more than one-third of financial institutions have made commitments to removing deforestation associated with at least one of these commodities. Many financial institutions also still provide finance to companies without any forest-related safeguards or deforestation-related commitments. Since 2016, 12 banks have committed to the ‘Soft Commodities’ Compact, an initiative by the Banking Environment Initiative and the Consumer Goods Forum that seeks to achieve transparency in the financial sector regarding the sustainability of supply chains.

Few banks and investors disclose actions to be taken against clients that are in violation of policies and guidelines. Those that do take different approaches to implementation. Divestment, or the removal of capital, can send a strong message to other clients of an investor. NBIM manages Norway’s Government Pension Fund Global, the world’s largest sovereign wealth fund with USD 1 trillion in assets under management, who recently dropped 11 companies because of their involvement with deforestation risk.<sup>[18]</sup> Similarly, HSBC states in their policy that contracts with customers will be ended if standards are not met.<sup>[19]</sup> ASN Bank avoids investing in palm oil, soy and beef producers altogether.

## *Indicator 2.2: Investments in sustainable commodity*

## *production and conservation*

The increase in sustainable commodity sourcing and deforestation-free supply chain commitments (NYDF Goal 2) indicates a growing acknowledgment of the necessity of moving toward more sustainable land use. The private sector is presented with the opportunity to not only scale up investments, but work with governments to develop appropriate policy and legislative settings that ensure a shift of finance flows toward investments with environmental benefits.

Trends show a small but growing share for forest-relevant subsectors in the impact investment market. Impact investors seek environmental and social benefits in addition to returns. According to Forest Trends, the amount of private capital committed to three areas – sustainable food and fiber production, habitat conservation and water quality and quantity protection – grew by 62 percent in just two years.<sup>[20]</sup> From 2004 – 15, close to USD 2.7 billion of capital was committed in sectors relevant to green forest finance in Latin America, Asia, and Africa.<sup>[21]</sup> This is just over one-third of the capital committed globally in those sectors.

Accelerating the rate of private capital deployment requires a clear business case for deforestation-free investments, good governance, and public subsidies, where barriers have to be overcome. Blended financing models such as the Private Sector Facility of the Green Climate Fund can mobilize private sector action and resources by using a mix of grant and non-grant financing to lower the risks to investment related to market failure.

Additionally, the public sector has a range of tools at its disposal to reduce risks and make deforestation-free investments more attractive. These include:

- Forming strategic partnerships with private investors to demonstrate proof of concept
- Risk mitigation instruments such as guarantees, insurances, public co-investment, etc.
- Providing subsidized or free technical assistance to producers and companies
- Providing fiscal incentives for deforestation-free investment
- Taxing environmentally degrading activities
- Enhancing financial sector transparency
- Investing in law enforcement and eliminate illegality
- Providing clear land use rights and tenure
- Promoting jurisdictional<sup>[22]</sup> or landscape initiatives (NYDF Goal 9) that take a multi-stakeholder approach to land use planning while considering social, economic and environmental objectives

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- [1] Reducing emissions from deforestation and forest degradation, as well as conservation, sustainable management of forests and enhancement of forest carbon stocks (REDD+).
- [2] While commitments refer to a firm obligation expressed by a donor country or multilateral finance institutions to provide a specific amount of financial support to a recipient country or another multilateral organization, disbursements are actual transfers of financial resources to the recipient. The disbursement of committed financial resources can take several years. In this assessment, international climate finance to the forestry sectors is reflected by presenting bilateral and multilateral ODA commitments.
- [3] Developing countries with high deforestation (>30,000 hectare of gross forest loss during 2010-15).
- [4] European Commission. (2013). The impact of EU consumption on deforestation: Comprehensive analysis of the impact of EU consumption on deforestation (Report No. 063). Retrieved from <http://ec.europa.eu/environment/forests/pdf/1.%20Report%20analysis%20of%20impact.pdf>
- [5] Kissinger, G., Herold, M., & de Sy, V. (2012). Drivers of deforestation and degradation: A synthesis report for REDD+ policymakers. Vancouver, Canada: Lexeme Consulting.
- [6] 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>
- [7] OECDStat. (2017). Credit Reporting System. Data extracted on 09 September 2017
- [8] Climatefundsupdate.org data, last updated in May 2017.
- [9] Indufor. (2015). Indigenous Peoples Funds Assessment. United Nations Office for Project Services (UNOPS). Desk Review.
- [10] Indufor. (2015). Indigenous Peoples Funds Assessment.
- [11] Climate Focus analysis based on ER-PDs. Retrieved from FCPF Website: <https://www.forestcarbonpartnership.org/redd-countries-1>
- [12] Domestic sources include the Government of Amazonas, the Brazilian Government, Brazilian Public Partnerships, and >10 percent from domestic private initiatives; Bastida, C. A., Cenamo, M. C., & Gustavo, S. C. (2017). Mapping financial flows for REDD+ and land use in Brazil: National and subnational analysis for the period 2009 through 2016. Retrieved from [www.forest-trends.org/documents/files/doc\\_5621.pdf](http://www.forest-trends.org/documents/files/doc_5621.pdf)
- [13] Bastida, C. A., Cenamo, M. C., & Gustavo, S. C. (2017).
- [14] WorldBank Database. Agriculture, value added (% of GDP). Retrieved from <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>
- [15] Girling, A., & Bauch, S. (2017). Incentives to save the forest. Financial instruments to drive sustainable land use. Retrieved from Global Canopy Programme Website: [http://globalcanopy.org/sites/default/files/documents/resources/Incentives%20to%20save%20the%20forest-web\\_1.pdf](http://globalcanopy.org/sites/default/files/documents/resources/Incentives%20to%20save%20the%20forest-web_1.pdf); Lowder, S.K., Carisma, B., Skoet, J. (2012). Who invests in agriculture and how much? Retrieved from Food and Agriculture Organization Website: <http://www.fao.org/3/a-ap854e.pdf>
- [16] Food and Agriculture Organization of the United Nations. (2017). FAOSTAT Statistics Database. Data extracted on 10 October 2017
- [17] Forest 500 is an international rating agency that publishes yearly rankings of those governments, companies, and financial institutions that have the greatest impact on forest risk commodity chains. Financial institutions are selected and ranked on the basis of their deforestation policies, i.e. institutions with commitments related to zero-deforestation, specific commodities, or the protection of untouched forests

[18] Gaworecki, M. (2016). World's Largest Sovereign Wealth Fund Just Dropped 11 Companies Over Deforestation. Mongabay; News and Inspiration from Nature's Frontline. Retrieved from: <https://news.mongabay.com/2016/03/worlds-largest-sovereign-wealth-fund-just-dropped-11-companies-over-deforestation>

[19] UNEP. (2015). Bank and Investor Risk Policies on Soft Commodities. Retrieved from: [www.naturalcapitalfinancealliance.org/documents/wgi/NCD%20-%20SOFT%20COMMODITIES%20RISK%20\(FULL\).pdf](http://www.naturalcapitalfinancealliance.org/documents/wgi/NCD%20-%20SOFT%20COMMODITIES%20RISK%20(FULL).pdf)

[20] Forest Trends estimates that they captured about one third of total activity.

[21] Sustainable food & fiber and habitat conservation are taken to be forest-relevant categories. Commitments were also calculated cumulatively until 2015; Excluding North America, Europe and Oceania.

[22] At the level of a state or biome or otherwise defined area.

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