Decoupling deforestation and forest degradation from the private & finance sector

Context

Due to clearing for agricultural land, mining and infrastructure development, about 30% of global forest cover has been lost and a further 20% has been degraded. To reduce deforestation and forest degradation, but also to restore significant areas of degraded land, governments and other stakeholders around the world have signed up to the Paris Agreement, the Bonn Challenge, the New York Declaration on Forests and the Sustainable Development Goals.

The magnitude of private finance invested in the production of commodities that drive most deforestation around the globe is significant, in the order of USD 1.7 trillion. Annual trade in soft commodities related to palm oil, beef, soy and timber is around USD 137 billion, around half of which originates in illegally cleared land. But a growing number of consumers and non-governmental organisations are putting pressure on companies to produce food with lower environmental impact. Given that around 70% of tropical deforestation is caused by the production of palm oil, soy, beef and timber, there is an urgent need for companies across the agricultural value chain — producers, processors, traders and retailers as well as financiers — to decouple the production of such commodities from forest impacts, for example through “zero (net) deforestation” commitments.

Leading private sector companies and associations are increasingly supporting these commitments through voluntary pledges, though this has not yet been mainstreamed across the agribusiness supply chain[1]. About 25% of Consumer Goods Forum members – an association of 400 large retailers, manufacturers, and services providers with combined sales of around USD 3 trillion – have made commitments to deforestation-free sourcing, essentially committing to decouple production of vegetable oil, beef and other commodities from forest clearing. In addition, only 5% of agribusiness firms that are not Consumer Goods Forum members have put zero (net) deforestation policies in place. Beyond agriculture, minimizing and if possible decoupling deforestation from the operations in other sectors, most notably mining and infrastructure, is yet to gain full traction.

Engaging the private sector is a mean to an end to effectively transform private sector behaviour and practice in land use. The magnitude of the challenge to slow, halt and reverse deforestation and forest degradation is such that an unprecedented reconfiguration of agricultural production (and the financing thereof) will be required to achieve REDD+ emission reductions and removals. Many businesses and finance institutions currently lack the knowledge tools and ways to operationalize a decoupling of activities from forest impact.

The UN-REDD Programme can play a supporting role to bring systemic change to removing deforestation from our economic and financial system. Given that many large businesses operate on a global scale (e.g. operating and sourcing from many different countries), many international initiatives like TFA2020, Sustainable Trade Initiative, and others operate at the international level but with strong ties to country operations (see the increasing support to jurisdictional approaches to production). Given the role that UN-REDD plays in supporting countries to define and operationalize REDD+ strategies, it makes sense to include a private sector and finance component in the UN-REDD Programme. There is a role for the UN to stimulate more businesses to pledge to decouple deforestation from (the financing of) commodity production by signing up to private sector initiatives and also through REDD+ policies and measures. In addition, there is a

[1] Bregman, 2016. Progress by Consumer Goods Forum members on zero deforestation commitment. Available here

catalysing role for the UN-REDD Programme to play in scaling up private finance to sustainable agricultural production, restoration and sustainable forest management, thereby contributing to redirecting capital flows away from business practices that contribute to deforestation. There is often a lack of a business case for companies to change their practices in the absence of economic incentives and/or government regulation. The UN-REDD Programme has contributed to build the case for a variety of companies and sectors to do so. Continuing that work will pave the way for more and businesses to reduce their impact on forests thereby supporting countries and communities to meet their commitments to the Paris Agreement and 2030 Agenda for Sustainable Development for example.

Rationale and approach

The approach to achieve ambitious REDD+ emission reductions and removals will have to include public-private partnerships that stimulate companies in the agricultural, mining, infrastructure and finance sectors to decouple forest impact from their productive and commercial activities at the global and country level. The UN-REDD Programme proposes a three years programme with a focus on the following areas:

1. Knowledge management: best practice collection and dissemination
2. Business case analysis and scaling up public-private sector partnerships to strengthen the case for REDD+
3. Innovative finance schemes such as the Production, Protection and Inclusion Fund (PPIF) that unlock and direct private finance towards sustainable land use
4. Government regulation: creating a level-playing field to mainstream private sector action

Outputs

1. ***Knowledge management: best practice collected and disseminated.*** This area of work will provide material for the UN-REDD global knowledge management and communication component. It will collect and synthetize successes and failures in public-private partnerships to promote increased investments in deforestation free productive activities. It will enable UN-REDD partner countries to make more informed decisions and REDD+ policies and measures to direct private capital flows towards sustainable land use.

2. ***Business case analysis and private sector commitments to reduce deforestation achieved.*** The majority of companies in the agribusiness value chain as well as in finance have not yet made pledges to decouple production from deforestation. The UN-REDD Programme will conduct business case analysis and through that build the case for companies in the agricultural, mining, finance and other sectors to change their business models to remove deforestation and forest degradation from productive activities and the financing thereof. As a result the UN-REDD Programme aims for more agribusiness firms, finance institutions and other companies to make zero (net) deforestation pledges or similar commitments.

3. ***Innovative finance schemes: unlocked private finance towards sustainable land use through the Production, Protection and Inclusion Fund (PPIF) and other schemes**.* Over the past years there has been a slow but steady revolution in the way energy is produced and financed. In 2015 about USD 286 billion in climate finance was invested in renewable energy production, more than twice as much as all investment in fossil fuels – oil, coal and gas – combined. However, unlike private climate investment in renewable energy, there is hardly any private finance and investment currently flowing to sustainable land use for a reduction in deforestation, forest degradation, or land restoration. The Production,

Protection and Inclusion Fund (PPIF), as well as the Tropical Landscapes Finance Facility (TLFF) and the Seed Capital Assistance Facility for Forest and Landscape Restoration are example of facilities that will stimulate and unlock private finance towards sustainable land use, thereby helping UN-REDD partner countries to achieve REDD+ results.

4. ***Government regulation: a level-playing field to mainstream private action promoted***. Voluntary action by agribusiness companies, finance institutions and others can make a difference, but government regulation will be critical to create a level-playing field that stimulates all or the majority of the private sector to take action that benefits REDD+. This includes bringing coherence to fiscal incentive frameworks to align sustainable economic growth with food production and reduced deforestation. This can be done by supporting partner countries identify the most effective public-private partnerships to accelerate REDD+ implementation.

Activities

1. Knowledge management: best practice collection and dissemination.

1.1. *Enhance knowledge management and best practice use*: collect examples of where public-private partnerships and private finance action has created positive and tangible impact (or where it led to failure) and repackage to ensure UN-REDD partner countries can make informed decisions on how to stimulate private sector action and achieve positive REDD+ results. This technical product will be disseminated and communicated through the cross-cutting Communications and Knowledge Management programme.

1.2. *South-South Exchange to mainstream bankable models to other UN-REDD partner countries and across the finance industry*: ensure that new bankable models that contribute to REDD+ are mainstreamed across the finance industry through the UN Environment Finance Initiative (UNEP FI) and other member hubs such as the Principles for Responsible Investment (PRI), the Principles for Sustainable Insurance (PRI), Portfolio Decarbonisation Project (PDC), Natural Capital Finance Alliance (NCFA) and the Banking for Environment Initiative (B4E). In doing so the aim is to ensure that more finance institutions and governments in UN-REDD partner countries are aware how to replicate innovative finance schemes in their jurisdiction, that are viable and scalable while addressing deforestation issues at the core.

2. Business case analysis and scaling up private sector commitments to reduce deforestation

2.1 *Strengthen partnerships between UN-REDD and private sector initiatives*: by establishing partnerships with private sector initiatives such as the World Business Council for Sustainable Development, Sustainable Trade Initiative (IDH), Prince's International Sustainability Unit (ISU), Global Green Growth Institute (GGGI), Tropical Forest Alliance 2020 (TFA2020), Banking 4 Environment (B4E), Principles for Responsible Investment (PRI) and sector initiatives like the World Cocoa Federation, the UN-REDD Programme can stimulate more companies to pledge to decouple productive activities from deforestation. The goal is to get more companies to make "zero (net) deforestation" pledges or similar commitments that reduce their direct and indirect forest footprint. In the case of the finance sector, the aim is to increase the number of finance institutions with loan and investment products that help businesses decouple forest impacts from the production of commodities (crops, metals, minerals). This will build on existing efforts, for example through the Global Environment Facility (GEF) Integrated Assessment Project on commodity supply chains. Priority will be given to companies that are relevant for the successful implementation of REDD+ in UN-REDD partner countries.

2.2 _Business case analytics_: the UN-REDD Programme has contributed to build the case for a variety of companies and sectors to assess their potential to contribute to reducing/removing emissions. Continuing this work is important to ensure that companies operating in emerging markets contribute to the objectives of the Paris climate agreement. Business case analysis will be conducted – especially for sectors that are relevant in the context of REDD+ such as agriculture, forestry, mining and finance - to assess under what conditions there is a rationale for companies to implement zero (net) deforestation commitments in the agricultural, mining, finance and other sectors. The team will support countries to analyse and understand issues related to vertical integration, price certainty for sustainably produced commodities, favourable export/import tariffs and concessional finance are among a number of factors that determine how economically attractive it is for agribusinesses and other sectors to implement stated commitments.

3. *Innovative finance schemes: unlocking and directing private finance towards sustainable land use.*

3.1 _Expanding the Tropical Landscapes Finance Facility_: To address the lack of private banks investing in sustainable agricultural production, the Tropical Landscapes Finance Facility (TLFF) aims to provide long-term concessional capital to agricultural production that improve rural livelihoods and reduce pressure on tropical deforestation in Indonesia. By working with finance institutions that pledge to provide a liquidity facility for lending to sustainable agricultural production, accompanied with credit guarantees to lower the costs of capital for the borrower and grants to pay for non-commercial activities, we are supporting a new type of agricultural lending that includes restoration and forest protection. Putting these REDD+ elements at the heart of loan agreements is a way to stimulate REDD+ implementation at sub-national level by working with private sector entities. Other countries have also expressed interest in developing and setting-up a similar model in their country.

3.2 _Setting up the Production, Protection and Inclusion Fund_: Complementary to the TLFF is the newly emerging Production, Protection and Inclusion Fund (PPIF), which is being set up by the Sustainable Trade Initiative (IDH) and which aims to provide junior subordinated debt and credit guarantees directly to agribusinesses or as blended finance with private banks in exchange for strict requirements for forest restoration and/or protection on and off concession. UN Environment – through the Global Environment Facility contribute to the capitalization of the PPIF, which will be operational in Q3 2017 and will initially focus on Indonesia, Liberia and Brazil but with potential to enlarge the number of eligible countries in the coming years. There is an important role for the UN-REDD Programme to ensure that the right policy framework is put in place. Removing regulatory barriers to channelling private finance to sustainable agricultural production and providing relevant economic incentives should be part of this. In both cases, the PPIF and TLFF aim to finance large deals typically in excess of USD 20 million.

3.3 _Setting up the Seed Capital Assistance Facility for Forest and Landscape Restoration_: There is a large gap between public funding and private finance available for degraded areas and the amounts needed to effectively restore the 2 billion ha of degraded land around the globe. Removing emissions by rehabilitating degraded land can contribute to achieving REDD+ results and hence the Paris climate agreement, but also to enhancing productive activities (e.g.

agriculture, forestry), economic growth and job creation. A Seed Capital Assistance Facility for Forest and Landscape Restoration (SCAF-FLR) aims to work directly with private equity and venture capital firms to increase the number of funds that invest in forest and landscape restoration projects by providing support to private equity, venture capitalists and other investors on a *cost-sharing and co-financing* basis for pipeline and early stage project development.

3.4 *Finance facilities apply risk management procedures that lead to net environmental benefits (incl. emission reductions / removals)*: The default project-specific environmental risk management standards by banks are the IFC Performance Standards. These are mostly about "do-no-harm". These private finance facilities will in principle apply the IFC Performance Standards, but aim to go beyond that by creating "net environmental benefits" that include emission reductions and removals and hence contribute to national REDD+ results at a (sub)national level. The UN-REDD Programme can play an important role by developing these standards and supporting their application.

4. Government regulation: to create a level-playing field to mainstream private action.

4.1. *Integrate private sector commitments/actions in National REDD+ Strategies and Investment Plans*: there is a need to align better business-focused initiatives that aim to deliver results at a project or sub-national level (e.g. by IDH/Sustainable Trade Initiative, Global Green Growth Institute, TFA2020) with government focused initiatives like UN-REDD that aim to create structural change at national/federal level. As more and more countries are working and/or completing REDD+ National Strategies and Investment Plans, it is important to ensure that REDD+ policies and measures embedded in investment plans are well-aligned by sub-national activities undertaken by other initiatives (e.g. IDH, World Bank-FCPF, TFA2020, etc.).

4.2. Creating economic incentives through fiscal policy reform: identifying options for governments to reform the estimated USD 200 billion in conventional agricultural subsidies will have a significant impact on the success of REDD+. Over the medium to long-term, which may extend beyond this 2018-2020 period, it will be important to sensitize governments on the need to integrate REDD+ objectives in national economic development plans – this will go far to ensure that reducing/removing emissions is not dealt with in an isolated manner but rather through inter-ministerial support, mutually accountability and coordination.

Results Framework

UN-REDD TA outputs	**UN-REDD TA Agency**	**Timeline (year)**	**Indicators**	**Baseline**
Output 3.1. Knowledge management: best practice collected and disseminated	UN Environment	2018-2020	• At least 4 case studies a year submitted to the Global Communication Team for dissemination to selected target audiences	Number of cases submitted during 2017.

Output 3.2. Business case analysis and private sector commitments to reduce deforestation achieved.	UN Environment	2018-2020	2018 • At least two UN-REDD partner countries are supported with business case analysis that builds the case for greater inclusion of private sector action in the design of REDD+ PAMs (MoV: submitted reports) 2019-2020 • At least two UN-REDD partner countries are supported with business case analysis and technical assistance related to economic incentives that drive deforestation. (MoV: submitted reports)	Partner countries have at present limited understanding how to build the case for the private sector to contribute to REDD+, through PAMs.
Output 3.3. Unlocked private finance towards sustainable land use through the Production, Protection and Inclusion Fund (PPIF) and other schemes	UN Environment	2018-2020	2018 • At least two new finance facilities – including the Production, Protection and Inclusion Fund - are active and operational in at least two UN-REDD partner countries (MoV: board documents or other relevant information from respective websites). 2019 • Additional funding is leveraged for the Production, Protection and Inclusion Fund from relevant sources (e.g. GEF, GCF, etc) beyond committed capital. (MoV: board documents/decisions from relevant websites) • At least two deals have been concluded that leverage public and private funding in UN-REDD partner countries that contributes to achieving REDD+ objectives at (sub)national level. (MoV: board documents or other relevant information from respective websites) 2020 • At least four deals have been concluded that leverage public and private funding in UN-REDD partner countries that contributes to achieving REDD+ objectives at (sub)national level. (MoV: board documents or other relevant information from respective websites)	At present marginal private finance flows are directed in a way that explicitly avoids deforestation and forest degradation and/or directly stimulates rehabilitation of degraded land.
Output 3.4. A level-playing field to mainstream private action promoted.	UN Environment	2018-2020	2018 • At least in four UN-REDD partner countries private sector initiatives (e.g. IDH, TFA2020, etc) are consulted during the design of PAMs (MoV: meeting reports) 2019 • Two UN-REDD partner countries have developed investment plans that address barriers and/or economic incentives for private sector actions that contribute to REDD+ results (MoV: submitted reports). 2020 • At least two UN-REDD partner countries have embedded or aligned private sector action at (sub)national level related to decoupling deforestation from productive activities in design of PAMs (MoV: submitted reports). • At least four UN-REDD partner countries have	Partner countries in the (process of) designing REDD+ policies and measures currently do not align their proposed actions at (sub)national level with private sector commitments to decouple deforestation from productive activities.

			embedded regulatory and/or economic incentives in the design of REDD+ PAMs that paves the way for mainstream private sector action to contribute to REDD+ results. (MoV: relevant country reports)	

Annex 2: Sample Risk Management Framework

Risk description	**Rating**	**Mitigation measure**
External risks		
It takes longer than anticipated to deploy private finance towards sustainable land use that contributes to REDD+ because of a lack of bankable projects in the majority of UN-REDD partner countries	P= Medium I = TBD	A growing number of organisations and initiatives (e.g. by the Global Green Growth Knowledge Institute, Partnership for forests, USAID CEADIR, etc) are trying to stimulate the creation of bankable projects on the ground. It is important to foster partnerships to ensure there is demand/finance if/when such bankable projects are created.
Commodity prices for the most important crops and products that drive deforestation – soy, palm oil, beef, timber, cocoa, coffee, etc – rises substantially leading to increased deforestation.	P= Medium I = Medium/High	Higher commodity prices generally tend to lead to increased pressure on forests conversion for cattle rearing or crop production. However, as more private finance facilities focus on using already cleared land and on increasing production of existing agricultural land, as one of the main strategies to decouple production from deforestation, rising commodity prices may not necessarily have the historical impact on forest conservation.
Implementation of agricultural fiscal reform takes longer than anticipated, or will not be implemented altogether when governments change.	P = medium I = Medium/High	Fiscal policy reform is a sensitive topic for many countries. No UN-REDD country has effectively implemented a reform of agricultural subsidies, taxes and tariffs as part of policy efforts to achieve Nationally Determined Contributions. However, the UNREDD programme has been playing a major role in bringing this topic to the discussion table and to provide information and analysis of policy options. This is work in progress and will continue during and beyond the next cycle.
More agribusinesses and other types of companies make 'zero net deforestation' or similar pledges, but implementation is lacking and hence there is no effective decoupling between agricultural production (or other productive and extractive activities) and deforestation	P = Medium, I = Medium	Without legal requirements to back up implementation (company commitments remain voluntary), there is a risk that some companies may not achieve their pledges. To counter this, it is important for the UN-REDD Programme to try and aim for creating a level-playing field by stimulating and/or mandating companies to take action through government regulation (REDD+ policies and measures)

Internal		
There is more demand for the outputs and activities described than available resources leading to the team being stretched to deliver – which may affect quality and / or lead to delay.	P = High I = Low	The interest of working with private sector has grown significantly in UNREDD countries since early 2010 and shows no sign of abating. The UNREDD programme will have an internal decision making process to prioritize demand.

* P: Probability; I: Impact