

**CONCEPT NOTE**

**Engaging with the Private Sector and Private Sector Finance to Achieve REDD+**

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| **I. Summary** | |
| **Objective** | To facilitate the phase out of deforestation and forest degradation from productive and financial supply chains. It will achieve this by (i) identifying necessary incentives, levers and enabling conditions for supply chain actors to adopt widely recognized good agricultural practices and, (ii) by identifying financial instruments and mechanisms to channel private-sector finance and investment, away from conventional, and into sustainable land-use activities and REDD+ |
| **Expected results** | 1. Raised awareness and behavioral shifts: developing critical information and knowledge on REDD+ risks and opportunities that can improve private sector decision making on REDD+ and catalyze transformational change 2. Policy and regulation: formulate, advance, and support the installment of the policy, regulatory and institutional frameworks and enabling conditions required to effectively engage private sector productive and financial supply chains in REDD+ 3. Capital mobilization: supporting the mobilization of private capital along productive supply chains by improving the risk-return profiles of key REDD+ activities and developing investment instruments that allow investors to reduce the ‘forest footprint’ of their investments. |
| **Level of intervention** | Global: conceptual work, advocacy, and global partnerships  National[[1]](#footnote-1): Indonesia, Ghana or Côte d'Ivoire, Paraguay or Colombia |
| **Related Work Areas as defined in the** [UN-REDD Programme Strategy](http://www.unredd.net/index.php?option=com_docman&task=doc_download&gid=4598&Itemid=53) | Private sector engagement  REDD+ in a green economy  (The proposal relates to Outcome 6 “Green economy transformation and REDD+ strategies and investments are mutually reinforcing” and Output 4.5 “Private sector engagement in REDD+ readiness and broad stakeholder consensus on private sector engagement is built” of the Support to National REDD+ Action: Global Programme Framework 2011-2015 (SNA)) |
| **Duration** | 24 months |
| **Total amount requested (US$)** | US$ 3.5 million[[2]](#footnote-2). A second phase involving comprehensive implementation in up to ten UN-REDD Programme partner countries is conceptualized for 2015-2020 with a larger budget to be determined. |

| **II. Background** |
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| Forests provide tremendous value, yet the world’s forested areas continue to decrease. Forest-related activities captured by traditional economic measures are predominantly extractive and often involve conversion to other types of land use. The causes of deforestation and forest degradation are complex and interconnected, involving various sectors of the economy and multiple actors yet the largest single driver of deforestation remains the production of agricultural commodities.[[3]](#footnote-3) Current rates of deforestation and forest degradation can threaten economic progress and human well-being, which are dependent on healthy forest ecosystems, which provide shelter, food, timber and non-timber forest products, jobs, medicine, water, climate regulation and energy to more than one billion people.  The UN-REDD Programme was created in 2008 to assist developing countries to build capacity to reduce emissions from deforestation and forest degradation and to participate in a future REDD+ mechanism. As part of this, the Programme will support selected countries in their efforts to engage the private sector to achieve REDD+.  The private sector is a key actor in both development trajectories and resource use. It accounts for around 60% to 70% of both global GDP and jobs so deforestation and forest degradation can be expected to be largely private sector driven. Effectively changing private sector behavior and land-use practice is therefore critical to the success of REDD+.[[4]](#footnote-4) Increases in global population, wealth, and the resulting changes in consumption patterns, will considerably intensify the pressure on land and the forest frontier in the coming decades; this means that the role of the private sector in the global land-use economy will increase, not decrease. Conclusive empirical evidence is lacking, yet the lack of private sector engagement and investment in ‘forest-friendly’ activities suggests that in the prevailing economic paradigm it is generally more profitable in the short-term to include deforestation in financial and productive supply chains than to exclude it.  Two broad groups of private sector actors are key to the success of REDD+, yet have hitherto been marginal to the REDD+ process. These are the private actors in ‘forest risk’ agricultural commodity supply chains and private sector financial institutions. These stakeholders are often the primary agents of change in many forest landscapes: they are key actors in current patterns of deforestation-based land-use (some of it planned and not necessarily negative, in large areas unplanned, with sometimes major environmental and social impacts). As a result, private sector actors should be engaged because they will be integral to the success of REDD+ as a source of investment, implementation and innovation in the transition to a green economy.   * Engagement with major commodity market players—producers, processors, traders, retailers— is imperative in order to define and implement effective land-use legislation / regulation (including incentives and sanctions), better management practices, and appropriate environmental and social standards. Yet, while increasing market demand for responsible agricultural products (through platforms such as the Consumer Goods Forum (CGF) or the different roundtables on sustainable commodities) has already brought some change on the ground and benefits for agricultural communities, it is also necessary to build capacities at the country level, increase market access and provide support for financial mechanisms and policies if good agricultural practices are to be widely adopted in producer countries. * Engagement with financial intermediaries is also critical given the enabling role of investment and finance in REDD+ and its interaction with land use change and commodity supply chains. Most physical land-use activities that directly or indirectly impact the forest, such as timber extraction, cattle ranching, the production, trade and distribution of soft commodities, require one or more enabling financial transactions (such as provision of a grant, loan or equity investment) or services (such as different types of insurance or fund management). The scale of existing capital flows into the drivers of deforestation is vast relative to anticipated REDD+ funds. Despite enormous financial assets in the global capital markets, a range of factors has limited deploying these assets towards REDD+.[[5]](#footnote-5) Unless deforestation is stripped out of the ‘financial economy’, it will be extremely challenging to address deforestation in the ‘physical economy’.   Engaging the private sector is a means to the ultimate end of effectively changing private sector behavior 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 the productive and financial supply chains will be required to achieve REDD+. The ‘systemic nature’ of unsustainable land-use patterns, and the resulting need for approaches and solutions that are equally ‘systemic’, have received relatively little attention in the global debate on REDD+, compared to other topics such as Measurement, Reporting and verification (MRV)or the development of safeguards. A package of activities needs to be defined whereby practical interventions at the global and national levels bring the productive and financial supply chains into the global and national REDD+ dialogue. While the participating UN agencies of the UN-REDD Programme are FAO, UNDP and UNEP, this presented work will be undertaken in partnership with UNEP Finance Initiative (UNEP FI) and UNDP Green Commodities Facility (GCF), which is in a unique position to address these challenges. This document sets out a proposed approach. |

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| **I**I**I. Results framework and theory of change** | |
| This proposal aims to contribute to the phase out of deforestation and forest degradation from productive and financial supply chains. (See Figure 1 below on the linkages between the physical and the financial economy underlying forest-risk commodities trade, and REDD+ financing). It will achieve this by (i) identifying necessary incentives, levers and enabling conditions for supply chain actors to adopt sustainable agricultural practices; and, (ii) by identifying financial instruments and mechanisms to channel private-sector finance and investment, away from conventional, and into sustainable land-use activities and REDD+.  It builds on the comparative advantages of the UNEP FI and the UNDP GCF, under the auspices of the UN-REDD Programme, to address the single largest driver of deforestation (the production of agricultural commodities), and to facilitate private sector finance and investments into REDD+ and sustainable forest management and utilization. The proposal focuses largely on agricultural commodity production through both the ‘physical economy’ (production and consumption) and the ‘financial economy’ (financial transactions and services) simultaneously, capitalizing on the fact that global production and trade of key agricultural commodities is highly concentrated both in terms of producers/traders, and is enabled to varying degrees by the finance sector. This proposal seeks to address the well-documented issue that agricultural and private sector finance stakeholders, who are critical to the ultimate success of REDD+, have largely been marginal to the REDD+ debate so far. The proposal focuses on three pilot countries in 2014-2015, with a view to scale up to ten countries[[6]](#footnote-6) for a second phase in 2015-2020.    Figure 1: The relationship between the 'physycal economy' and the 'financial economy'.  A programme of work has been designed that addresses issues related to three barriers to achieve REDD+: awareness and behavioral failures; policy failures; and capital failures. (See Table 1 below). The outputs expected from the implementation of this package are presented below (full description of activities in **Annex I**):     1. ***Awareness raised and behavioral shifts:* developing critical information and knowledge on REDD+ risks and opportunities that can improve private sector decision making on REDD+ and catalyze transformational change**   This would be achieved by:   * Examining the finance and economics of REDD+ from a country perspective and building a robust business case for the involvement of the private sector in REDD+ in the selected countries, identifying investment shortfalls and opportunities for the private sector that in turn inform the development of investment plans for REDD+ implementation. * Providing information that allows investors and companies to reduce their exposure to deforestation in their investment portfolios and supply chains. This will be done by identifying the financial risks to which investors are exposed through their exposure to deforestation in the supply chains of the companies they own and invest in. This will contribute to the development of a methodology to measure hidden ‘value at risk’ related to direct or indirect deforestation exposure in institutional equity investment portfolios based on exposures and holdings in publically listed companies. * Developing a series of innovative communications products (in multiple languages) that demystify the private sector and private sector finance with a view to narrowing the ‘perception gap’ that currently exists between public and private sectors actors. * Engagement with commodity buyers - supermarkets, brands, manufacturers, traders and banks – that purchase and finance forest-risk commodities from selected countries, in order to influence supplier and producer behavior. The corporate engagement will assist participating companies to develop corporate policies to reduce deforestation, and identify associated investments in sourcing areas. As part of achieving this outcome, the initiative will work with individual companies, industry associations, notably the Consumer Goods Forum, the different roundtables on sustainable commodities, the Tropical Forest Alliance 2020 and the World Cocoa Foundation.  1. ***Policy and regulation:* formulate, advance, and support the installment of the policy, regulatory and institutional frameworks and enabling conditions required to effectively engage private sector productive and financial supply chains in REDD+**   This would be achieved by:   * Analyzing and examining the extent to which favorable enabling conditions or ‘investment grade policy’ are in place to attract investment and finance into sustainable land use activities and supply chains in selected countries; identifying key bottlenecks and providing recommendations on opportunities for intervention. * Supporting the establishment and operation of National Commodity Platforms for forest-risk commodities within the Ministries of Agriculture (or a more suitable government agency). Setting up specific task forces focused on deforestation, convening all producers and supply chain stakeholders, to bring the agricultural sector and international supply chains into dialogue and focusing activity on the issue of deforestation. This will facilitate the other activities below. * Strengthening policy frameworks and land use planning to limit agricultural commodity expansion into forests - This will be backed up by recommendations to reform national laws that may still promote deforestation from commodity production and expansion. This may include introducing new laws to recognize High Conservation Value forests, or changing land use categories so that forests are not available for plantation concessions. Land use planning will be in conjunction with the large producers and buyers to assist in development and implementation of the land use plans in key commodity producing landscapes. * Strengthening national agricultural extension systems of Ministry of Agriculture to train producers to produce sustainably and not deforest – To work within government agricultural extension agencies to expand their focus beyond conventional agriculture practices for the targeted commodities to promote good agricultural practices and environmental sustainability (including reducing deforestation) in priority landscapes at the agricultural frontier. The agricultural extension systems themselves will be assessed and systemic and institutional awareness over deforestation raised and capacity to tackle the issue strengthened. Private sector extension officers from traders, exporters and buyers, will be connected to and coordinated with Ministry of Agriculture extension services to provide farmers and enterprises with more efficient public-private extension services. Training to be provided to government extensionsists will include: GAP, REDD+, legal compliance, watershed management and improved access to markets. * Increasing economic incentives for producers to reduce deforestation – To complement the land use planning and agricultural training by working with the relevant institutions to provide an array of economic incentives to farmers to reduce their interest to expand into forested areas. These may include a combination of the following:   + Targeting of positive incentives, as appropriate within the national REDD+ frameworks, to forest landowners at agricultural frontiers.   + Provision of public policy-based incentives such as subsidies on equipment and technology to improve their production practices. This will be particularly relevant to sustainable cattle and the introduction of silvopastoral systems.   + Strengthened enforcement of forest law to recue illegal activity in protected forest areas.   + Water payments to producers connected to the conservation of forests in important upper watershed areas.   + Connecting buyers for certified products to producers, through the National Commodity Platforms. This can also include innovative marketing campaigns to promote “deforestation free” commodities. * Engaging with the Green Climate Fund and convening representatives from the finance sector to ensure that the Green Climate Fund and particularly its Private Sector Facility are fit-for-purpose to deliver efficiently, effectively and equitably on REDD+ at the required scale.  1. ***Capital mobilization:* supports the mobilization of private capital along productive supply chains by improving the risk-return profiles of key REDD+ related activities and developing investment instruments that allow investors to reduce the ‘forest footprint’ of their investments**   This would be achieved by:   * Analyzing the feasibility of, and developing recommendations for, the creation of in-country finance delivery mechanisms for scaling up long term financing for agricultural smallholders in three UN-REDD countries with specific implementation plans for pilots in each country with a focus on gender equitable financing considerations. * Examining the application of the Social Impact Bond (SIB) model to REDD+ and forest landscapes (an ‘Environmental Impact Bond’ or EIB) exploring the relevance of the model to environmental finance, identifying possible eligibility principles and criteria and identifying diverse case studies to explore different potential revenue streams and structures. * Developing three ‘zero net deforestation’ equity indexes that can facilitate the transition of institutional investment to ‘zero net deforestation’ investment products. | |
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| **IV. Management arrangements and partnerships** |
| The work will be coordinated by the UN-REDD Programme with the UNEP Finance Initiative, based in Geneva, and with the UNDP Green Commodities Facility based in Panama as the key implementing partner. Other partners will be brought in as needed including private sector actors. UNEP FI and UNDP GCF will lead on global work with their respective sectors, finance and productive, to ensure the private sector partnerships and tools are in place to support change on the ground. Pilot country activities will be led by UNDP, with joint UNEP/UNDP teams supporting developing countries in key project activities. The project will contribute to the overall work streams on Private Sector Engagement and REDD+ in a Green Economy (Output 4.5 and Outcome 6, respectively, of the Support to National REDD+ Action: Global Programme Framework 2011-2015 (SNA)). (See Figure 2 below).  The UNEP Finance Initiative is a 20-year-old partnership between UNEP and over 230 financial institutions globally, representing the banking, insurance, and investment sectors. UNDP’s Green Commodities Facility has been working since 2009 to connect global markets, including major companies, with national governments and farmers to strengthen national capacity for scaling up sustainable agricultural commodities production around the world. This combination of skills, resources and access to key partners creates a unique platform with both global and national presence in addition to strong links to both the public and private sectors.    A Steering Committee will be formed by the UN-REDD Programme with UNEP, UNDP, donors and two representatives of the private sector to jointly oversee and coordinate activities, progress and results. UNEP and UNDP will then lead the management of their respective activities within the project.  A consortium of partners will be put together to work on specific activities, each bringing their comparative advantages. For example, in the work focused on the productive supply chains, NGOs assisting farmers might work in tandem with think tanks to develop in-depth analysis required to engage national governments, different supply chain actors and other REDD+ stakeholders. UNDP’s corporate partners, such as Mondelez and IKEA, will also be heavily engaged on supply chain management activities. In addition, leading actors in the finance and environment field will be partners in the delivery of finance-related activities. Actors might include: UNEP FI signatories (230 predominantly private financial institutions), leading international law firms with a strong environmental/REDD+ practice, leading private sector initiatives such as the Cambridge Programme for Sustainability and the Natural Capital Declaration, international organizations such as the Global Mechanism and World Bank, as well as relevant specialist companies such as communications firms, ESG research firms and ratings agencies.  Corporate engagement at the global level for actors involved in productive supply chains will be done in close collaboration with the Consumer Goods Forum and other relevant industry associations including the roundtables on sustainable commodities. Linkages and synergies with the work of the Tropical Forest Alliance 2020 will be explored.  Lessons learnt from other ongoing UN-REDD and UNEP Finance Initiative projects on REDD+ will be sought, including from a project in partnership with the Global Canopy Programme to examine the feasibility of developing an interim forest finance facility to stimulate private sector investment in REDD+ and sustainable land use activities.  Synergies with and lessons learnt from UN-REDD, UNEP and UNDP GEF projects will also be sought, for example with the ongoing UNEP project ‘Greening the Cocoa Industry’ (2011-2016, US$ 15 million) in collaboration with Rainforest Alliance, which aims to change production practices in major cocoa producing countries and business practices in cocoa and chocolate companies, and to reduce deforestation and forest degradation, and restore productive forest landscapes. It is expected that this approach is extended to other forest-risk commodities in GEF VI, and the UN-REDD project will work closely with the UNEP and UNDP GEF teams on a harmonized and mutually reinforcing approach. |

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| **V. Monitoring and Evaluation** |
| While an initiative that aims to change the behavior of a wide array of private sector actors will be difficult to monitor, certain indicators have been developed. Results in addressing the drivers of deforestation by engaging the private sector will not be fully in control of the project as effectively addressing these drivers requires complex market transformations and a significant reconfiguration of the productive and financial supply chains. Measurable indicators have been established for each of the outputs considered under this proposal (included in the table below). The outputs will contribute to:   * Improve private sector decision making on REDD+ * Establish the policy, regulatory and institutional frameworks as well the enabling conditions required to effectively engage private sector productive and financial supply chains in REDD+ * Mobilize private capital along productive supply chains by improving the risk-return profiles of key REDD+ related activities and developing investment instruments that allow investors to reduce the ‘forest footprint’ of their investments   Additionally, budget has been allocated to conduct a mid-term and final evaluation of the project as well as for a final independent evaluation. |

| **Outcome** | **Output** | **Responsible agency** | **Indicative activities** | **Inputs (for information - to be removed in final version)** | **Timeline** | | | | | | | | **Indicative budget (Q4 2013- to Q4 2015)** | **Output Indicators** |
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| **2014** | | | | **2015** | | | |
| **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** |
| **Awareness raising and behavioral shifts: developing critical information and knowledge on REDD+ risks and opportunities that can improve private sector decision making on REDD+ and catalyze transformational change** | A report examining the economics of REDD+ from a country perspective and building a robust business case for the involvement of the private sector in REDD+ in the selected countries, identifying investment shortfalls and opportunities for the private sector which in turn inform the development of investment plans for REDD+ implementation | UNEP and UNDP | Hire international and national consultants to assist coordinator in:  Conduct an economic assessment of the business case for REDD+ in three countries  Convene three national expert workshops to validate results from research  Develop the investment plan for implementation for three countries |  |  |  |  |  |  |  |  |  | $ 300,000 | Investment plans for the three selected countries are prepared |
| A methodology to measure hidden ‘value at risk’ related to direct or indirect deforestation exposure in institutional equity investment portfolios based on exposures and holdings in publically listed companies | UNEP | Partnership agreement with Carbon Tracker |  |  |  |  |  |  |  |  |  | $ 200,000 | Adoption or endorsement of methodology by leading financial institutions or umbrella organizations  Methodology leads to changes in capital allocation strategies of responsible investors |
| Three written briefs and three short (five minute) animated videos in multiple languages explaining the basics of the private sector and private sector finance for REDD+ professionals | UNEP | Hire international consultant to assist coordinator in the development of briefs  Sub-contract short animation videos  Engage with local media |  |  |  |  |  |  |  |  |  | $ 150,000 | Greater awareness of the potential of private sector investments to support REDD+ is built amongst policymakers and other relevant REDD+ stakeholders in selected countries |
| Engagement of commodity buyers (traders, manufacturers and retailers) at global level to develop   joint strategies at country level to align supply chains to be deforestation free | UNDP |  |  |  |  |  |  |  |  |  |  | $ 225,000 | Companies engaged with have developed corporate policies to phase out deforestation from their supply chains. |
| **Subtotal** |  |  |  |  |  |  |  |  |  |  |  |  | $ 875,000 |  |
| **Policy and regulation: formulate, advance, and support the installment of the policy, regulatory and institutional frameworks and enabling conditions required to effectively engage private sector productive and financial supply chains in REDD+** | A legal, economic and financial analysis of the broad regulatory framework, fiscal policy, subsidies/sanctions and tax code of selected countries in the context of REDD+ with a specific focus on the impacts on at least one relevant ‘forest-risk’ commodity supply chain per country. | UNEP | Hire three national analysts/consultants to assist coordinator in in-country legal analysis |  |  |  |  |  |  |  |  |  | $ 200,000 | Production related taxes, subsidies and other fiscal instruments are reviewed at the national level and discussions on possible necessary reform processes are initiated |
| National Commodity Platforms within Ministries of Agriculture established and operational, with stakeholders from the supply chains convened and connecting to UN REDD activities to discuss, plan and collaborate to reduce deforestation from productive supply chains | UNDP | Setting up National Commodity Platforms and specific task forces focused on deforestation within them |  |  |  |  |  |  |  |  |  | $ 700,000 | At least one national strategy for the responsible production and trade of the one of the countries’ targeted commodities is developed |
| Strengthened policy framework and land use planning to limit targeted agricultural commodity expansion into forests | UNDP |  |  |  |  |  |  |  |  |  |  | $ 250,000 | Number of land use and other relevant regulations eg legal riparian forest conservation or forest set aside, in each country identified |
| Strengthened national agricultural extension systems of Ministry of Agriculture to train producers to produce sustainably and not deforest | UNDP | Work within government agricultural extension agencies to expand their focus beyond conventional agriculture practices for the targeted commodities to promote GAP in priority landscapes at the agricultural frontier  Connected and coordinating private sector extension officers from traders, exporters and buyers with Ministry of Agriculture extension services to provide farmers with more efficient public-private extension services |  |  |  |  |  |  |  |  |  | $ 250,000 | A strategy for agricultural extension for relevant institutions with joint work plans and budgets from public and private sector  Capacity building strategies for the extension institutions providing training to small producers on best practices are approved by government in at least one of the selected countries |
| Increased economic incentives for producers to reduce deforestation – to complement the land use planning and agricultural training by working with the relevant institutions to provide an array of economic incentives to farmers to reduce their interest to expand into forested areas. | UNDP |  |  |  |  |  |  |  |  |  |  | $ 250,000 | Each country has a an options assessment package of possible economic incentives developed to increase the value of the forests within production landscapes eg PES, certification, REDD+ payments |
| A series of briefings analyzing how public finance mechanisms, such as the GCF can be designed, set up, and operated to effectively support REDD+ activities and providing recommendations based on input from private finance institutions | UNEP | Convene at least three global high-level workshops |  |  |  |  |  |  |  |  |  | $ 100,000 | The design of the GCF and other public finance mechanisms considered is fit for purpose to channel private sector finance and investment capital for REDD+ activities |
| **Subtotal** |  |  |  |  |  |  |  |  |  |  |  |  | $ 1,750,000 |  |
| **Capital mobilization: supports the mobilization of private capital along productive supply chains by improving the risk-return profiles of key REDD+ related activities and developing investment instruments that allow investors to reduce the ‘forest footprint’ of their investments.** | An analysis and implementation plan for scaling up long term financing (>1 year) to agricultural smallholders in at least three UN-REDD Programme countries including an assessment of the gender dimensions of the implementation plan | UNEP and UNDP |  | Sub-contract |  |  |  |  |  |  |  |  | $ 275,000 | One tentative public-private agreement for the creation of a finance facility to scale up long-term finance for smallhoders in one of the selected countries |
| Feasibility study examining the application of the Social Impact Bond (SIB) model to REDD+ and forest landscapes (an ‘Environmental Impact Bond’ or EIB). The study will explore the relevance of the model to environmental finance, suggest eligibility principles and criteria and use diverse case studies to explore different potential revenue streams and structures. | UNEP | Hire international consultant to assist coordinator  Convene 3 high-level workshops |  |  |  |  |  |  |  |  |  | $ 300,000 | A process to issue a pilot environmental impact bond for REDD+ is initiated with development financial institutions and private financial institutions. |
| Three ‘zero net deforestation’ equity indexes that track commonly used, mainstream indexes, with a considerably smaller ‘forest footprint’. | UNEP |  | Sub-contract |  |  |  |  |  |  |  |  | $ 150,000 | At least one of the three 'zero net deforestation' indexes has been launched as is available for commercial investment |
| **Subtotal** |  |  |  |  |  |  |  |  |  |  |  |  | $ 725,000 |  |
| **Results Based Management and Monitoring and Evaluation.** | Overall coordination and technical advice | UNEP | Hire regional coordinator |  |  |  |  |  |  |  |  |  | $ 75,000 |  |
| Monitoring and Evaluation | UNEP | Independent Evaluators, design means of verification |  |  |  |  |  |  |  |  |  | $ 75,000 |  |
| **Subtotal** |  |  |  |  |  |  |  |  |  |  |  |  | $ 150,000 |  |
| **Total** |  |  |  |  |  |  |  |  |  |  |  |  | $ 3,500,000 |  |

**Annex I: Approaches and interventions of the different project components**

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| **Awareness raised and behavioral shifts** |
| **1. The Business Case for REDD+** |
| **What:** A report examining the finance and economics of REDD+ from a country perspective and building a robust business case for the involvement of the private sector in REDD+ in the selected countries, identifying investment shortfalls and opportunities for the private sector. The analysis will inform the development of investment plans for REDD+ implementation.  **Why:** while a strong economic case for REDD+ at the global level exists there is a need to articulate a business case for REDD+ from a country perspective with concrete recommendations for investment and a roadmap for implementation.  **Who (partners/contractors):** UNEP FI, UNDP GCF partnering with Vivid Economics, PwC or McKinsey Global Institute.  **Results:** (i) A strong business case for REDD+ at the national level in three partner countries is built and (ii) Investment plans for the three selected countries are prepared. |
| **2. Uncovering hidden risk in forest risk commodity supply chains- equity portfolios** |
| **What**: Providing information that allows investors and companies to reduce their exposure to deforestation in their investment portfolios and supply chains. This will be done by identifying the financial risks to which investors are exposed through their exposure to deforestation in the supply chains of the companies they own and invest in. This will contribute to the development of a methodology to measure hidden ‘value at risk’ related to direct or indirect deforestation exposure in institutional equity investment portfolios based on exposures and holdings in publically listed companies.  **Why:** Understanding and measuring risk is a powerful lever for change. It is a precondition for disclosure and ultimately the reduction of exposure to deforestation. The work of the Carbon Tracker group on quantifying the risks associated with ‘unburnable carbon’ in portfolios of listed equities has had huge impact over the past few years. HSBC estimates that many of the top 200 fossil fuel companies globally could be at risk of a 40-60% fall in their share price under a tighter environmental policy environment. This has contributed to surge in divestment by many global investors which damages corporate brands and increases their cost of capital. A similar body of work has not yet been carried out for the risks related to deforestation embedded in the operations of publically listed companies.  **Who (partners/contractors):** UNEP FI, EnviroMarket, Natural Capital Declaration, CFA UK and ESG research firms would contribute to devising a robust methodology (leveraging work already done by groups such as Carbon Tracker) to enable an credible approximation of financial forest-related value at risk based on available country, corporate and proxy data.  **Results:** (i) Adoption or endorsement of methodology by leading financial institutions or umbrella organizations, (ii) Methodology leads to changes in capital allocation strategies of responsible investors. |
| **3. ‘Smart Communications’- demystifying finance** |
| **What:** Three written briefs and three short (five minute) animated videos in multiple languages explaining the basics of the private sector and private sector finance for REDD+ professionals.  **Why:** A ‘perception gap’ exists between the private sector and other actors in REDD+ that needs to be bridged.  **Who (partners/contractors):** UNEP, UNEP FI and UNEP FI signatories with specialist communications partners (such as the animation specialists, Cognitive Media).  **Result/outcome:**  Greater awareness of the potential of private sector investments to support REDD+ is built amongst policymakers and other relevant REDD+ stakeholders in selected countries. |
| **4. Engagement of commodity buyers** |
| **What:** Engagement of commodity buyers - supermarkets, brands, manufacturers, traders and banks – that purchase and finance the commodities from the selected countries, in order to influence supplier and producer behavior.  **Why:** Toencourage corporate buyers to offer various incentives and support to producers in their efforts to shift to sustainable commodity production practices.  **Who (partners/contractors):** UNDP Green Commodities Facility. As part of achieving this outcome, the initiative will work with individual companies, industry associations, notably the Consumer Goods Forum and the World Cocoa Foundation.  **Result/outcome:** Participating companies develop corporate policies to reduce deforestation, and identify associated investments in sourcing areas. Identification of sourcing areas near forests where the activities can focus to ensure the producers in their supply chains are obtaining training and benefits and as a result of not expanding their agricultural production into forested land. |
| **Policy and Regulation** |
| **5. Regulatory frameworks to attract REDD+ investment (carbon-linked and sustainable supply chains)** |
| **What:** A legal, economic and financial analysis of the broad regulatory framework, fiscal policy, subsidies/sanctions and tax code selected countries in the context of REDD+ with a specific focus on the impacts on at least one relevant ‘forest-risk’ commodity supply chain per country.  **Why:** A key driver of investment decisions is the business climate of the ‘target’ investment country. This analysis will examine the extent to which favorable conditions or ‘investment grade policy’ are in place to attract investment into sustainable land use activities and supply chains in the context of UN-REDD countries and examine where some of the key opportunities and bottlenecks lie.  **Who (partners/contractors):** UNEP FIand leading national or international law firms.  **Result/outcome**: Production related taxes, subsidies and other fiscal instruments are reviewed at the national level and discussions on possible necessary reform processes are initiated. |
| **6. Support the establishment and operation of National Commodity Platforms within the Ministries of Agriculture** |
| **What:** Set up specific task forces focused on deforestation, convening all producers and supply chain stakeholders, to bring the agricultural sector and international supply chains into dialogue and focusing activity on the issue of deforestation. (this will facilitate activities 7, 8 and 9).  **Why:** Task forces are needed to increase production and trade of sustainable commodities in order to reduce conversion of forests into farmland, increase biodiversity within productive landscapes, improve water management, reduce ecological and carbon footprint of production, protect food security and ensure sustainable livelihoods for rural communities affected by supply chains.  **Who (partners/contractors):** UNDP Green Commodities Facility with commodities producers, traders, and buyers, to liaise and strategize with the public and private extension services; the financial entities providing credit to agriculture and fisheries; national government entities with a mandate over production and environment; municipalities and institutions involved with land use planning.  **Result/outcome:** At least one national strategy to achieve improved sustainability performance in production linked to the national REDD+ programme alongside a work plan to implement the national strategy among producers, buyers and government. |
| **7. Strengthened policy framework and land use planning to limit agricultural expansion into forests** |
| **What:** Strengthening policy frameworks and land use planning to limit agricultural expansion into forests backed up by recommendations to reform national laws that may promote deforestation from commodity production and expansion.  **Why:** Ambiguity involving land tenure and generally weak capacity of land registries undermine efforts to conserve forested areas, providing virtual open access to forests for agricultural producers and cattle ranchers, additionally, There are often national laws and policies which incentivize deforestation, such as those dating back to times when governments (and banks) required land clearance to demonstrate use and ownership. There are also laws, which do not adequately define forests, and are opening up forests for plantation concessions when they should be held for conservation purposes. Reforms of these laws can have a profound impact across a country on future plantation concessions and targeting of production areas. The implementing partner will work at a national and landscape level to strengthen the effectiveness of the national policy and regulatory frameworks and land use planning tools to zone and limit agricultural expansion into forested areas targeted for conservation.  **Who (partners/contractors):** UNDP Green Commodities Facility with relevant departments within Ministries of Agriculture.  **Result/outcome:** Number of land use and other relevant regulations eg legal riparian forest conservation or forest set aside, in each country identified. |
| **8. Strengthened national extension systems in three UN-REDD partner countries** |
| **What:** Strengthened national agricultural extension systems of Ministry of Agriculture to train producers to produce sustainably and not deforest – to work with government agricultural extension agencies to expand their focus beyond conventional agriculture practices for the targeted commodities to promote GAP and environmental sustainability (including reducing deforestation) in priority landscapes at the agricultural frontier.  **Why:** To have a significant impact, hundreds of thousands of farmers may need to be trained in key geographic areas. Yet, even some of the more promising approaches to agricultural extension, such as the farmer field school model, typically reach many fewer farmers and also tend to be expensive, with costs of $50-100 per farmer for a week of training. Given the limited capacity of Ministry of Agriculture extension systems to promote GAP to assist smallholder farmers to increase productivity on existing land, innovation is needed to improve the financial viability and effectiveness of national extension systems, through partnerships with the private sector involved in the supply chains so that adequate scale and continuity in delivery of training can be achieved. Training to be provided to government extensionsists will include: GAP, REDD+, legal compliance, watershed management and improved access to markets.  **Who (partners/contractors):** UNDP Green Commodities Facility.  **Result/outcome:** (i)At least one of the countries has developed a strategy for agricultural extension for relevant institutions with joint work plans and budgets from public and private sector (ii) capacity building strategies for the extension institutions providing training to small producers on best practices are approved by government in at least one of the selected countries. |
| **9. Increased economic incentives for producers to reduce deforestation** |
| **What:** Working to with relevant institutions to examine a possible array of economic incentives to farmers to reduce their interest to expand into forested areas. These may include a combination of the following:   * Targeting of positive incentives, as appropriate within the national REDD+ frameworks, to forest landowners at agricultural frontiers; * Provision of public policy-based incentives such as subsidies on equipment and technology to improve their production practices. This will be particularly relevant to sustainable cattle and the introduction of silvopastoral systems; * Strengthened enforcement of forest law to recue illegal activity in protected forest areas; * Water payments to producers connected to the conservation of forests in important upper watershed areas; * Connection of market buyers for certified products to producers, through the National Commodity Platforms. This can also include innovative marketing campaigns to promote “deforestation free” commodities.   **Who (partners/contractors):** UNDP Green Commodities Facility.  **Result:** Each country has an options assessment package of possible economic incentives developed to increase the value of the forests within production landscapes eg PES, certification, REDD+ payments. |
| **10. Influencing global public finance mechanisms** |
| **What:** Engaging with the Green Climate Fund and convening representatives from the finance sector to ensure that the Green Climate Fund and particularly its Private Sector Facility are fit-for-purpose to deliver on REDD+ at the required scale.  **Why:** Global public budgets are strained after repeated financial crises in recent years. This increases the necessity that scare global resources are allocated in a strategic manner to maximize the volumes of private sector investment these public funds leverage. Many of these public finance mechanisms, such as the Green Climate Fund (GCF) are in the early stages of development and are seeking input into design, structure and process.  **Who (partners/contractors):** UNEP FI and economic consultancies such as Vivid Economics.  **Result/outcome:** The design of the GCF and other public finance mechanisms considered is fit for purpose to channel private sector finance and investment capital for REDD+ activities. |
| **Capital Mobilization** |
| **11. Meeting the long-term financing needs of smallholders** |
| **What:** An analysis and implementation plan for scaling up long term financing (>1 year) to agricultural smallholders in at least three UN-REDD Programme countries including an assessment of the gender dimensions of the implementation plan.  **Why:** Smallholders will increasingly play a significant role in global agricultural supply chains. Smallholder production is often characterized by low yields, poor market linkages and little access to finance. One of the largest obstacles to positive, sustainable change for smallholders is the provision of finance, and the smallholder financing market is undeveloped, fragmented and undercapitalized. Most finance available to smallholders is short term (<1 year) trade finance with little long term finance for vital capital expenditure like machinery or tree renovation. Empirical evidence suggests that increased provision of long term finance could have considerable benefits for livelihoods while simultaneously taking pressure off the forest frontier.  **Who (partners/contractors):** UNEP FI, UNDP Green Commodity Facility, UN-REDD Programme Countries, FAO, Impact Investors, Dalberg, ICRAF, EcoAgriculture Partners.  **Result/outcome:** One tentative public-private agreement for the creation of a finance facility to scale up long-term finance for smallhoders in one of the selected countries. |
| **12. Environmental Impact Bond (EIB) feasibility study** |
| **What:** Feasibility study examining the application of the Social Impact Bond (SIB) model to REDD+ and forest landscapes (an ‘Environmental Impact Bond’ or EIB). The study will explore the relevance of the model to environmental finance, suggest eligibility principles and criteria and use diverse case studies to explore different potential revenue streams and structures.  **Why:** SIBs have generated tremendous interest in the world of social finance since the first bond was issued in 2010. The model is based on the cost-effective delivery of *results or* *outcomes*, rather than *activities* and creates an innovative platform based on flexibility and incentives for multiple actors to work together. The model has been applied to social finance, is currently being examined for broader development outcomes (HIV prevention, low-cost schooling etc.) but its application to environmental issues remains unexplored. The SIB model has many interesting features that are relevant to REDD+ including:   * Aligning interests of investors, service providers, governments & donors toward effective delivery of results, not activities; * Leveraging private sector skills, investment and management to improve quality of services and increase efficiency; * Enabling experimentation, innovation and learning; * Providing up-front financing to service providers enabling them to participate more easily in results-based contracts; * Increasing public confidence in aid, because risks can be transferred to investors and tangible results can be identified.   **Who (partners/contractors):** UNEP FI, Global Mechanism, Accenture, Cambridge Programme for Sustainability, Danone Livelihoods Fund, SNS Asset Management, World Bank.  **Result/outcome:** A process to issue a pilot environmental impact bond for REDD+ is initiated with development financial institutions and private financial institutions. |
| **13. Zero net deforestation equity indexes** |
| **What:** Three ‘zero net deforestation’ equity investment indexes that track commonly used, mainstream indexes, however, with a considerably smaller ‘forest footprint’. A smaller forest footprint is achieved by listing and/or overweighting companies that feature best practice in the area of deforestation (for instance companies with public ‘zero net deforestation’ commitments) and by de-listing and/or underweighting companies that do not.  **Why:** widespread inertia in the mainstream of capital markets is a result of investors ‘sticking’ to the markets and companies they ‘know’ (‘herd behavior’). For a variety of reasons (including the measurement of performance and investment mandates) investors avoid deviating from proven benchmarks (indexes); this inertia keeps investment patterns from shifting from ‘business-as-usual’ to ‘zero net deforestation’. An avenue that investors can take to reduce portfolio exposure to ‘deforestation risks’ without having to deviate far from common benchmarks involves the establishment of ‘zero net deforestation’ investment indexes in the largest financial markets. These new indexes would track existing indexes but increase exposure to ‘forest-friendly’ companies and decrease exposure to ‘forest-unfriendly’ companies. The tracking error would be within the tolerance of large institutional investors but the forest footprint of the new index would be considerably lower than that of the existing, underlying benchmark.  **Who (partners/contractors):** UNEP FI in partnership with one of the following:Standard & Poors, FT,Natural Capital Declaration, MSCI, UNEP WCMC.  **Result/outcome:**  At least one of the three 'zero net deforestation' indexes has been launched as is available for commercial investment. |

1. Pilot countries. [↑](#footnote-ref-1)
2. This package of activities requires a budget of US$ 3.5 million. It will build on existing funds secured depending on the pilot countries selected. For example UNDP’s Green Commodities Facility (GCF) has already raised $500,000 from the private sector for sustainable palm oil in Indonesia. [↑](#footnote-ref-2)
3. Kissinger at al (2012). *Drivers of Deforestation and Forest Degradation: A Synthesis Report* [↑](#footnote-ref-3)
4. Sukdev, P. (2012) New Economics Foundation blog. [↑](#footnote-ref-4)
5. These include policy distortions and uncertainties, real or perceived risks, the lack of investment track records and the higher capital intensity of many green investments relative to conventional investments. [↑](#footnote-ref-5)
6. All UN-REDD Programme partner countries. [↑](#footnote-ref-6)