



LATIN AMERICAN AND CARIBBEAN FORESTRY COMMISSION

THIRTY-SECOND SESSION

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ACCESS TO CLIMATE AND ENVIRONMENTAL FINANCE

Executive Summary

This document points out the level of finance required in nature based solutions (NbS) and land based climate action to meet climate change, biodiversity and land degradation targets. It describes the type of investments in sustainable forest management, forest conservation or restoration and avoided deforestation and forest degradation to achieve transformational change and how international public finance contribute to achieve the highest impact of such investments. It identifies challenges and suggests ways to address those considering enabling conditions, investments for on the ground activities and policy coherence.

Suggested action by the Commission

The Commission may wish to invite countries to strengthen their efforts to:

- Enable conditions to mobilize environment and climate finance, by promoting integrated programmes and transformational planning that address drivers of deforestation and forest degradation, while making food systems more sustainable, and improving livelihoods of small holders and local communities that are dependent on forests.
- Enhance policy coherence to combine regulatory policies and strategic public investments with complementary fiscal policies that provide the necessary marginal incentives to price optimizing producers to reduce deforestation and forest degradation and de-risk private investments.
- Improve the way finance reaches local stakeholders as an opportunity to propel them to be agents of change and to encourage a long-term, sustainable approach to forest management and halting deforestation.

The Committee may wish to request FAO to:

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- Support member countries, upon the request, to develop forestland-based projects that invest in key public goods and services to enable transformation, de-risk investments, and use public finance to unlock private investments.
- Promote global and regional knowledge sharing on best practices and lessons learned to achieve sustainable finance to halt deforestation and forest degradation, support restoration programmes as well as conservation and sustainable use of forest resources.

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I. INTRODUCTION

1. Advocacy for and commitments to adequate and predictable finance to sustainably manage all types of forests and for fostering the capacity of forests to act as a climate solution, including through REDD+, are urgently needed. Currently, yearly average investments in land-based mitigation and adaptation measures make up a mere USD 21 billion (3.6 percent of the total flow of climate finance)¹ or USD 133 billion for nature-based solutions (NbS)², while the estimated gap is four to six times the amount invested today. Funding combines all types of sources - public and private, bilateral and multilateral, national and international – with the Green Climate Fund (GCF), and the Global Environmental Facility (GEF) representing the largest share of multilateral climate finance for forests. In addition to financing priority investments, GCF and GEF finance assists developing countries to enable policy environments for expanded domestic resource mobilization and active participation of private capital. Additional strategic public investment is needed to facilitate private investment to transform agricultural and food production systems to more sustainable models and offer de-risking tools such as guarantees, blended finance and support for innovative microfinance initiatives. Grants and result-based finance emerge as a combination of two international financing modalities for triggering domestic resource mobilization and enhance the forest sector as a NbS.

II. GRANTS FOR MOBILIZING INVESTMENTS

2. Sustainable forest management, forest conservation or restoration and avoided deforestation and forest degradation require three main types of investments: 1) investments to create enabling conditions; 2) investments for on the ground activities; and 3) investments to ensure policy coherence. As an example, REDD+ readiness funds e.g. support actions such as defining appropriate national policies and actions plans, reforming legal frameworks, land titling, developing tools for measuring, monitoring, reporting and verification, strengthening or setting environmental and social safeguards, strengthening technical and organizational capacities, realizing studies on pressures on forests. These types of measures generate public goods and services rather than individual profits and are generally funded by public sources, be it in the form of grants or low-cost debts.

3. Once appropriate conditions are in place, it becomes easier to unlock investments for practical transformational activities that directly contribute to emission reductions from deforestation and forest degradation or to conservation and enhancement of forest carbon stocks through restoration. Examples of these activities include implementation of forest-positive production models, including sustainable forest management, silvo-pastoralism and agroforestry, land titling, support to products transformation

¹ <https://www.climatepolicyinitiative.org/wp-content/uploads/2019/11/2019-Global-Landscape-of-Climate-Finance.pdf>

² <https://www.unep.org/resources/state-finance-nature>

and commercialization and other actions improving livelihoods in forest landscapes. These investments can generate direct economic benefits, through increased incomes or reduced costs, notably by reducing physical and social risks but also by generating positive externalities. As such, they can be attractive for private funds and strategies for blended private-public finance can be developed to upscale these investments.

4. Policy coherence is also needed to address the several interacting market failures causing deforestation and forest degradation. Efforts to address deforestation and forest degradation rely on sectoral regulation, private certification, public investments and tax and subsidy policies. However, environmental fiscal policies for the land use sector are even further behind than in other sectors. For example, while environment related taxes make up 3–10 percent of total tax revenues in Organisation for Economic Cooperation and Development (OECD) countries, almost all these taxes relate to environmental problems caused by fossil fuel combustion. Fiscal policies are just starting to be used actively for addressing deforestation and forest degradation.³

5. International public finance seeks to maximise the impact of the interaction of enabling conditions, investments for transformational activities and policy coherence. To achieve a paradigm shift, the GCF for example requires demonstration of a Theory of Change (ToC) based on its four pillars: 1) transformational planning; 2) catalysing innovation; 3) mobilising finance at scale; and 4) knowledge replication. This is applicable in each of its four investment pathways: protection of primary forests and other natural landscapes; restoration of degraded forests and lands; sustainable management of production lands and forests; and ecosystem-based management of terrestrial and freshwater ecosystems. Therefore, it is expected that both public sector and private sector co-financing of the projects and programmes will contribute to achieve the highest possible impact and ambition from the use of GCF proceeds.⁴

6. For its part, the GEF, in the 8th cycle, intends to encourage countries to move forward with their programming through large-scale, integrated programmes that address most of the major environmental needs of the planet for which the GEF has a mandate. Among the integrated programmes that are being considered, is the Forest Biomes Integrated Program with the goal of protecting and maintaining the integrity of the last and globally important intact forest landscapes. It proposes four major objectives: 1. Strengthen protection and governance of intact forest landscapes, 2. Promote area-based conservation measures within and outside protected areas, 3. Develop financial incentives for forest protection, 4. Empower Indigenous Peoples and Local communities.⁵

7. FAO has assisted member countries to access significant funding from the GCF and the GEF. As for the GCF, since 2019, FAO has assisted Cuba, El Salvador, Guatemala and Paraguay to mobilize USD 128 million with a co-financing of USD 275 million, for sustainable forest and land management, reforestation or agroforestry. Regarding resources mobilized in the region from the seventh GEF replenishment, since September 2019, projects in seven countries were designed and approved with a main focus on sustainable forest and land management, conservation, reforestation or avoiding deforestation, for a total of USD 33.7 million from the GEF for Bolivia (Plurinational State of), Chile, Cuba, Ecuador, Nicaragua, Peru, and Venezuela (Bolivarian Republic of).

III. RESULT-BASED FINANCE

8. The result-based finance defined as a financing modality or approach under which a donor or investor disburses funds to a recipient upon the achievement and independent verification of a pre-

³ World Bank, 2019 Designing Fiscal Instruments for Sustainable Forests

⁴ <https://www.greenclimate.fund/sites/default/files/document/policy-cofinancing.pdf>

⁵ <https://www.thegef.org/sites/default/files/council-meeting-documents/GEF%208%20Strategic%20Positioning%20and%20Programming%20Directions-Rev01.pdf>

agreed set of results⁶, has gained attention in the past few years. The term covers payments related to rewarding emission reductions achieved through the implementation of REDD+ activities or to achieving a predefined set of results for example, related to progress made in the readiness or implementation of REDD+ phases.

9. Results-based payments (RBPs) have been made by the Green Climate Fund to countries that reported emission reductions to the UNFCCC. Under the GCF countries receiving REDD+ RBPs must reinvest these payments in activities in line with their current or evolving nationally determined contributions (NDCs) as established under the Paris Agreement, their REDD+ strategies, or low-carbon development plans. Seven of the eight countries that have demonstrated results and met the requirements for receiving RBPs under the GCF REDD+ pilot programme⁷ come from the LAC region. By November 2020, the GCF had approved a total financial volume of USD 393 million for: Argentina, Brazil, Chile, Colombia⁸, Costa Rica, Ecuador and Paraguay.

10. Other international instruments have paid or will pay REDD+ RBPs under multilateral and bilateral arrangements. One such example is the Forest Carbon Partnership Facility (FCPF)'s⁹ Carbon Fund, that signed payment agreements by USD 111 million with 3 LAC countries for emission reductions to be reported from 2020 onwards (Chile, Costa Rica and Dominican Republic). The Lowering Emissions by Accelerating Forest finance (LEAF)¹⁰ initiative seeks to bring together companies and governments to provide finance for tropical and subtropical forests to raise global climate ambition and contribute to halting deforestation and forest degradation. LEAF launched a call for proposals to countries wishing to receive results-based finance for emissions reductions verified against the ART/TREES¹¹ standard. LEAF includes results-based payments and also purchase arrangements for voluntary and compliance offsetting, by public donors as well as private firms with mitigation commitments. LEAF is one key new initiative, but not the only one. In 2017-2019, voluntary carbon market transactions are estimated to have amounted to just under USD 400 million, corresponding to a volume of 105 million carbon credits from forestry and land use¹².

11. Article 6 of the Paris Agreement addresses international voluntary cooperation for climate change mitigation, and foresees the special case where the cooperation includes the transfer of mitigation outcomes that will be used for meeting the NDCs of a party other than where the mitigation outcome took place. The international transfer of mitigation outcomes could take the form of a sale arrangement and allow for the creation of carbon markets by those parties that wish to avail themselves of that mechanism. Thus, implementation of Article 6 could potentially become relevant to channel investments to halt deforestation of natural forest if an agreement on its operationalization is achieved during the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 31 October – 12 November 2021.

IV. CONTINUING CHALLENGES

12. Countries and public financing entities constantly call for enhancing the level of participation of the private sector for scaling up action and sustainable finance for forest management and

⁶ WB Group; Frankfurt School of Finance and Management. 2017. Results-Based Climate Finance in Practice

⁷ <https://www.greenclimate.fund/redd>

⁸ FAO is the Accredited Entity for the RBP Projects of Argentina, Chile and Colombia.

⁹ The Forest Carbon Partnership Facility (FCPF) is a global partnership of governments, businesses, civil society, and Indigenous Peoples focused on reducing emissions from REDD+. The FCPF Carbon Fund is set up to pilot incentive payments for REDD+ efforts in developing countries.

¹⁰ A voluntary coalition launched at Leaders Summit on Climate, April 2021 by: US, UK, Norway, WEF, NDC partnership. Panel: Norway, US, UK, Amazon (<http://www.leafcoalition.org>)

¹¹ The ART/TREES specifies requirements for the quantification, monitoring, reporting and verification of Greenhouse Gas (GHG) emission reductions from REDD+ activities at a jurisdictional and national scale.

(<https://www.artredd.org/trees/>)

¹² <https://www.ecosystemmarketplace.com/carbon-markets/>

protection. To date, investments are lacking for the forest sector in key areas of intervention such as forest plantations, natural forest management, small and medium forest enterprises, local and community forestry, and large-scale forest investment projects including REDD+, while private capital is available for investments. Underlying efficient business models can bring substantial financial returns to investors in all these activities, but many traditional investors are still reluctant to invest. One of the barriers to more private investments is the wide range of (real and perceived) risks associated with forestry, including political, socio-economic, market, weather and climate risks.¹³ These different risks may be removed if coherence is achieved between public investments, regulation and fiscal policies.

13. An increasing number of companies have adopted a responsible business policy, defining goals and processes to reduce the potential negative impacts of their activities. In the case of companies relying on commodities produced in forested landscapes, the implementation of those corporate policies can represent an opportunity to fund actions to reduce pressure on forests and foster forest-positive production models. In particular, the increased concern about deforestation associated with some agricultural products drives investments in more sustainable production practices and traceability systems. Additionally, numerous companies are committed to reducing or compensating their climate footprint and are likely to adopt strategies for off-setting or in-setting their carbon emissions. Implementation of their commitments will then generate financial flows for emerging carbon markets or activities of forest conservation and restoration directly linked with these companies' supply chains. Public actors can facilitate companies' involvement through subsidies or fiscal mechanisms, certifications or other domestic schemes to favour market access and clear rules for carbon trading in their country, thus supporting the sustainability of the private climate and environmental finance.

14. Ensuring clear tenure rights, local communities participation and fair and equitably benefit sharing are key aspects for conservation finance success. Diverse types of climate finance schemes have been set up to reduce deforestation, degradation and related emissions and, in some cases, clear tenure rights are a precondition for access.¹⁴ Benefits distribution systems have been based on technical assistance programmes and competitive funds where criteria are established to access support to forest management practices. Countries such as the Argentine Republic and the Republic of Costa Rica have pre-existing systems for benefits sharing, such as payment for environmental services. Similarly, the Republics of Chile, Colombia and Ecuador have successful experiences that allow anchoring the benefits derived from payments for results to the territory, involving indigenous communities and small-scale producers, through different modalities, but at regional level, work remains to be done to define clear criteria of eligibility and mechanisms to ensure maximum equity, efficiency and solidarity. In addition, accurate identification of the beneficiaries and legal aspects related to the ownership of the carbon in the benefit distribution plans are still a challenge in many countries or projects.

¹³ FAO, 2016. Promoting Private Sector Investments in Sustainable Forestry - Expert Workshop on Financial and Institutional Innovation for Reducing the Risks of Private Sector Investments in Sustainable Forestry. Workshop Report, FAO (also available at: <http://www.fao.org/3/bo564e/bo564e.pdf>)

¹⁴ FAO, 2021, Collective tenure rights for REDD+ implementation and sustainable development