

FORESTS AND CLIMATE CHANGE:

DISCUSSION PAPER ON A PROPOSED NEW SET OF UK INTERVENTIONS TO TACKLE DEFORESTATION

Summary

Deforestation damages people's livelihoods and the environment; avoiding dangerous climate change will be significantly harder if forest loss continues unchecked. The UK Government is committed to tackling deforestation for these reasons. Significant global political momentum has been generated behind REDD+ over the past 5 years. According to the Voluntary REDD+ Database, developed countries have committed \$6.1bn to support efforts to reduce deforestation during the Fast Start period (2010-12). Many forest nations have made ambitious commitments and taken impressive early action to tackle deforestation. The private sector has an important role to play in reducing deforestation, but has had a marginal role in the first array of programmes and funding instruments for REDD+.

In that context, the UK is developing a major new set of interventions to achieve climate change, poverty and biodiversity objectives through reducing deforestation. This will focus on working with governments and the private sector to build greater value in standing forest and address agricultural drivers of deforestation, in line with their REDD+ national strategies. A series of complementary areas of focus have been identified comprising support for:

- Demand-side measures to build greater market share for sustainably produced timber and agricultural commodities, such as sustainable public procurement policies.
- Enabling conditions, to address barriers to investment in activities that reduce deforestation, such as improved regulatory environments and clear land tenure.
- 'Greenfield' investments, which make forests more valuable and so increase the incentives to keep forests standing, such as community forestry and reforestation initiatives.
- 'Brownfield' investments, which support the production of key agricultural commodities in ways that do not result in further deforestation, such as intensification of production on existing sites and the siting of new investments on non-forest land.
- Jurisdictional approaches, which test the above interventions in a defined sub-national or national jurisdictions.

In pursuing these opportunities, the UK's support to forests will apply robust social and environmental safeguards, consistent with the UNFCCC and the Convention on Biological Diversity.

Introduction

1. This discussion paper sets out proposals for UK funding to support international efforts to tackle deforestation, in order to support an informed discussion with key stakeholders on the scope of the programme and its implementation. The programme is being designed to achieve climate change, poverty and biodiversity objectives. Deforestation accounts for 17% of global greenhouse gas emissions. An estimated 1.2bn poor people depend on forests for their livelihoods, and forests hold up to 80% of global terrestrial species.
2. Funding for the programme, or any of its subsidiary components, will be subject to a full value-for-money assessment and a decision will be taken by UK ministers on that basis.

Context for a UK intervention

3. The UNFCCC REDD+ mechanism aims to achieve measured, reported and verified reductions in greenhouse gas emissions from deforestation. REDD+ has three phases, addressing respectively the development of national strategies and capacity building; implementation of policies and measures to reduce deforestation; and payments for measured reductions in forest carbon emissions. The UK has been a strong supporter of early efforts to develop REDD+ and has provided a £15m contribution to the Forest Carbon Partnership Facility (FCPF) and a £100m contribution to the Forest Investment Programme (FIP).

4. The momentum generated by REDD+ negotiations has helped to galvanise political commitment in developed and developing countries to tackle deforestation. This creates an opportunity for the UK to work with progressive developing country governments to develop and finance programmes to address deforestation. This is in line with UK objectives for the international climate change negotiations, which seeks to reward ambition and provide support to countries with ambitious mitigation plans.
5. Political commitment to tackle deforestation is evident in a number of contexts. For example, Indonesia has committed to work towards an ambitious reduction in greenhouse gas emissions of 26% by 2020 from a business-as-usual projection beginning in 2005, rising to 41% with international assistance. Brazil has committed to a 36% reduction from business as usual by 2020, including at 80% reduction in deforestation in the Amazon and a 40% reduction in deforestation in the Cerrado. Colombia has set out an ambitious goal to reduce deforestation its Amazon region to zero by 2020. Many African countries, including Ghana, Liberia and the Congo Basin countries are implementing important forest sector governance reforms.
6. Achieving these objectives will require significant efforts to address the drivers of deforestation, such as private investment in agribusiness, as well as stepped up efforts to attract investments to support economic growth in ways that does not result in further deforestation.
7. Initial efforts to reduce emissions form deforestation have been largely focused on supporting readiness and capacity building processes (REDD+ phase I). To support continued progress towards the end objective—payments for verified emissions reductions (REDD+ phase III)—many forest nations now require assistance to implement and scale-up policies and measures to reduce deforestation (REDD+ phase II).
8. The private sector has a recognised role to play in programmes to reduce deforestation, but has had a marginal role in the first array of programmes and funding instruments for REDD+. A stepped up effort to engage the private sector in tackling deforestation will be essential for the success of REDD+, and will complement existing bilateral and multilateral forests programmes.

The private sector and deforestation

9. Annual deforestation from 2000-2010 was 13m hectares, according to the FAO. South America, Southeast Asia and Africa—all important regions for reducing emissions from deforestation—recorded the largest net forest loss compared to other regions during this period. Conversion of forests to agriculture was the greatest contributory factor to deforestation.
10. At the same time, an estimated 2bn ha of land which was formerly forested has been cleared of trees and left idle or put under usage below its productive potential. While some of this land is under use by local communities, large areas have potential for rehabilitation and could be put to more productive use.
11. The private sector is the primary agent of change across many forest landscapes. Over the past ten years many countries have moved away from rules-based systems for determining the pattern for land-use management to a market-based approach, where private investment increasingly determines the shape of the landscape. The state continues to play an important regulatory function, but has a lesser role in land allocation, rural credit provision, technology, extension and food production than in the latter part of the 20th century.
12. Current deficiencies in pricing for carbon and biodiversity, as well as short-comings in regulation and enforcement, are important factors which favour investments on 'greenfield'

sites (newly deforested land) over 'brownfield' sites (degraded land). This market failure needs to be corrected if deforestation rates are to be slowed, halted and reversed.

13. A small number of agricultural commodities—soya, palm oil, cattle and to a lesser extent cocoa—account for a large percentage of deforestation in tropical regions with high rates of deforestation. Rapid expansion in output has been driven by private investment, with both large companies and small farmers involved in these industries (often through a combination of out-grower, cooperative, concession and supplier arrangements). Further growth in output is forecast. For example, the area under oil palm expected to increase from 12m ha currently to 18m ha by 2020 and 24m ha by 2050. Mining and infrastructure also have a considerable impact on deforestation.

The private sector as a solution to forest loss

14. The private sector is also a potential source of innovation and investment in better management of forests and land. In many countries state-run research and extension services no longer exist and the private sector has become the main source of technology and innovation. This offers an opportunity to reach farmers, land owners and land managers with a degree of scale and efficiency which the public sector cannot match.
15. Increasingly, markets are driving change in products and processing standards to meet consumer requirements. Major companies are adopting mandatory requirements for sustainable production and responsible sourcing in a range of forest-risk commodities, such as palm oil, soya, beef and cocoa. Unilever, the world's largest buyer of palm oil, has a commitment to the sustainable sourcing of all its raw materials by 2015. Nestlé has committed to ensuring that all its raw materials sourced in forest areas have not led to deforestation. Grupo André Maggi has committed to the sustainable production principles embodied in the Roundtable on Responsible Soya (RTRS). The Consumer Goods Forum, which represents companies with annual revenues worth US\$3trn, has pledged to help achieve zero net deforestation by 2020.
16. Similar trends are evident in the market for timber. Investment to meet a growing demand for certified timber can help to secure standing forest and rehabilitate areas that have been previously cleared, realising important benefits in terms of carbon, poverty and biodiversity, as well as securing supplies for consumers. Small and medium sized enterprises play a vital role too. An estimated 70% of the timber used by the furniture industry in Indonesia is grown in small, privately-owned or community-owned woodlots.
17. There is a clear opportunity to work with companies in both agribusiness and timber industries to accelerate these trends and realise public benefits in terms of carbon, biodiversity and poverty reduction, as well as supporting sustainable trade and investment.

Incentivising the private sector

18. The public sector can work with the private sector to tackle deforestation in a range of ways. Opportunities for collaboration arise through the range of ways in which private companies are responding to the challenges of climate change, resource scarcity, requirements to mitigate adverse environmental and social impacts arising from their business operations, consumer awareness and concerns over reputational risk, and growing interest in responsible investing and new environmental markets. This allows collaboration to be constructed around established and emerging trends in markets and industries.
19. A focus is needed both on demand-side measures in consuming countries and supply-side measures in REDD+/producing countries, as well as on the way in which support is provided. A focus is also needed on both influencing and shifting investment that is resulting in deforestation, and encouraging more investment in sustainable practices that bring greater value to standing forest. Large companies, small farmers, indigenous people and local communities are all important stakeholders in these efforts.

20. Demand-side measures include:

- Market incentives (public procurement policies, private sector responsible sourcing policies, consumer awareness campaigns)
- Supply chains and business-to-business links (private sector responsible sourcing policies, certification systems)
- Accountability and transparency (monitoring and reporting of commitments for sustainable sourcing and production, sharing of information on best practice)

21. Demand-side measures, particularly public procurement and corresponding private sector practice, offer an effective way to leverage better practice on-the-ground. Experience with timber procurement offers important lessons. Eight EU governments including the UK now have public procurement policies that require "legal and sustainable" timber (or variants thereof). Many private sector buyers observe similar standards too, leading to a steady transformation in the market for timber.

22. Agricultural commodities are not always as visible as timber products, but in some cases they are traded internationally by only a small group of multinational companies. Major private buyers are now addressing supply-chain risks with the same methods that were used to address timber. Individual countries have only a small influence on the markets for agricultural commodities. For example, the UK at large consumes only 1% of palm oil traded internationally. However, EU countries together account for 22% of palm oil traded internationally, offering much greater scope to influence the market.

23. In the case of timber, a small number of countries showed that by taking leadership and encouraging others to act, the effects of the public and private sectors taking action in one country could be amplified, greatly adding value to supply-side interventions (see below). The same is potentially true for agricultural commodities. The UK recently announced a public procurement policy which requires all central government departments to source only sustainable palm oil for food and catering services by 2015. A small number of other EU countries, including the Netherlands and Belgium, have also set out plans to work towards achieving nationwide use of sustainable palm oil. In time these commitments could generate momentum for change across EU and other countries.

24. Supply-side measures include:

- Subsidies and incentives (technical assistance and grants, patient capital to support sustainable investments, advance market commitments for verified emissions reductions)
- Support for compliance with standards and to improve practice (technical assistance and finance to help meet sustainable production standards)
- Coherent and clear regulation and other enabling conditions
- Clarifying land tenure

25. Supply-side measures, particularly subsidies and incentives, offer a way of aligning private interests around the policy objective of reducing deforestation. Public subsidy can be justified by the public benefits which reducing deforestation achieves. These public benefits, which are currently un-priced and under-valued, include greenhouse gas mitigation, conservation of biodiversity and poverty reduction.

26. Support to improve standards and apply best practice is a key part of any package of measures to tackle deforestation. This helps to create sustainable trade and sustainable jobs and growth in countries where timber and agricultural commodities are produced. It is particularly important to offer smallholders support for the transition, as they often lack the upfront capital and technical expertise required to shift to sustainable production methods.

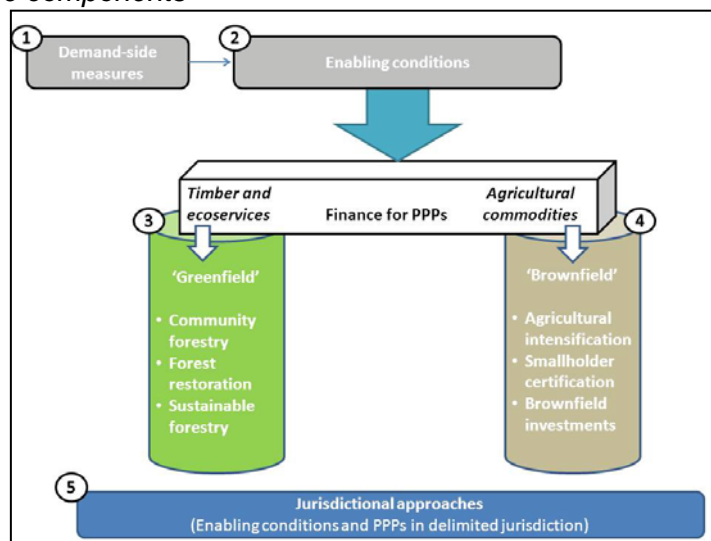
27. Onerous regulatory requirements and unclear land tenure are also often cited as obstacles to taking action to reduce deforestation. For example, permitting regimes can sometimes

prevent companies from switching agricultural production away from forest and onto land that has already been cleared and is not under any productive use. Unclear land tenure creates incentives to overexploit forest resources, as well as causing conflict between different users of the resource.

Proposed focus of UK forests and climate change programme

28. The proposed focus of the intervention is on addressing the gap identified in private sector engagement with international efforts to reduce deforestation, drawing on a range of demand and supply-side actions which have the potential to support this focus.
29. A series of potential investment opportunities have been identified within this focus. These include opportunities to work with progressive elements of the private sector to reduce the impact of agribusiness on forests, extend sustainable production methods to smallholder farmers, and work with companies and communities to better manage forest landscapes. There are also opportunities to work with forest nation governments to improve the business environment for sustainable investments in forests and agriculture, and opportunities to work with governments, non-governmental organisations and other stakeholders to create future investment opportunities that achieve reduced deforestation.
30. The proposed intervention meets these needs and opportunities through five components. These components address demand, enabling conditions and finance to develop and demonstrate a series of public-private partnerships that will build greater value in standing forest and reorient private sector investment towards more sustainable land use outside forests.

Figure 1: Programme components



Component 1: Demand-side measures

31. Demand-side measures have the potential to influence markets and the behaviour of private sector companies. The UK already has in place a sustainable timber procurement policy and has made a commitment to a sustainable oil palm procurement policy. Significant impact could be achieved through extending commitments to other commodities, raising the required standards, advocating similar commitments across the EU and with other G8 and G20 nations, and through encouraging the private sector to take similar measures.

Component 2: Enabling conditions

32. Land tenure is identified as a key enabling condition for investment in the sustainable management of forests and for investment in sustainable agriculture. Other regulatory obstacles and constraints are also present in many forest nations, such as lengthy and complex permitting processes and ineffective land-use planning. Support would be provided

to developing country partners to identify and address constraints to investment in activities that reduce emissions from deforestation.

Capturing public benefits from private investment

33. Catalytic finance is needed to show how the private sector can be a part of stepped up international efforts to curb deforestation. Large, and small and medium-sized enterprises all have an important role to play. Public intervention is justified in order to realise the environmental and social benefits that arise from preventing deforestation. There are two distinct but related areas where there is a need and justification for public intervention:

Component 3: 'Greenfield': addressing constraints to sustainable investment

34. Interventions under the 'greenfield' component would seek to increase the rate of return on the sustainable management of forests. Standing forests are currently undervalued. A UK programme would seek to increase the value of standing forest and trees through activities such as community-based management of forests, agroforestry, forests under sustainable harvesting regimes, biomass energy, forest restoration, and best practice plantations which produce demonstrated social, economic and environmental benefits. These interventions would add value to forest and thereby increase the incentives to keep forests standing.

Component 4: 'Brownfield': mitigating the impact of investments that cause deforestation

35. Interventions under the 'brownfield' component would seek to intensify the production of commodities currently associated with deforestation on existing sites without further expansion into forests. The production of a small number of such commodities—oil palm, soya and beef / leather—is currently the primary driver of deforestation in many tropical countries. Cocoa, coffee and other crops have a significant impact in specific regions. Present rates of growth imply high rates of deforestation for many years to come. A UK programme would seek to mitigate the impact of these commodities through activities such as agricultural intensification, expansion and improvement of schemes to certify the sustainability of commodity production, and support for investments that divert expansion away from natural forests to brownfield sites.

Component 5: Jurisdictional approaches to tackling the drivers of deforestation

36. Interventions under the 'jurisdictional' component would seek to support forest nations to improve the enabling conditions for investment and enhanced private sector engagement in programmes to reduce deforestation in a limited number of focused jurisdictional programmes. Technical assistance would be provided to develop jurisdictional funding architectures, with either national or regional governments. Finance to mobilise the private sector in support of REDD+ and green growth strategies in the given jurisdiction could then be invested through the jurisdictional architecture, based on a value-for-money assessment. Interventions under this component would demonstrate ways of working with the private sector at a jurisdictional scale (possibly a sub-national jurisdictional scale in the first instance), and provide lessons for replicating this approach at a national scale, which is the scale at which the REDD+ mechanism is expected to operate in the longer-term.

Business model

37. Across the suite of interventions, the UK would pursue a business model aimed at:

- Levering and partnering with private investment to reduce deforestation.
- Responding flexibly to results and opportunities.
- Exploiting synergies with related support for REDD+, including established bilateral partnerships and multilateral programmes.
- Supporting forest nations to engage the private sector around the objectives in their national strategies to reduce deforestation.

Implementation

38. A facility could be established to support the implementation of the programme. The facility would provide support to develop demand-side policies to tackle deforestation, and provide technical assistance to forest nation governments that express interest in working with the UK on mobilising the private sector in support of their efforts to reduce deforestation. Technical assistance provided through the facility would also facilitate cooperation with partner governments, companies and non-governmental organisations to develop a pipeline of potential future investments under the programme.
39. The facility would also run periodic competitive calls for proposals to finance public-private partnerships to tackle deforestation, in line with a defined scope and geographic focus. Allocating funding through an open and transparent mechanism is necessary when using public finance to support private entities, and this model draws upon successful experience with supporting public-private partnerships in other fields of development. The focus of the call for proposals would be on supporting public-private partnerships under the 'greenfield' and 'brownfield' themes. These investments would be facilitated by support for enabling conditions and project development provided through the facility.
40. The types of products and services which could be offered through a call for proposals to attract private investment in reducing deforestation include:
- **Technical assistance grants** to support activities with no immediate likelihood of generating an immediate return. This includes very early stage project development (feasibility studies, consultation, advisory services); training and capacity building.
 - **Capital grants** to support non-commercial activities with clear carbon, pro-poor and biodiversity benefits.
 - **Patient capital** in the form of longer term loans and / or equity for commercial activities that face financing gaps because of their particular characteristics (such as long gestation periods, high transaction costs or risks) or where such capital could mobilise high ratios of private financing with high public benefits; guarantees and other means of risk mitigation; advance market commitments for verified emissions reductions.
41. The facility could also provide technical assistance and advice to governments on the design of jurisdictional funding architectures aimed at encouraging private sector investment in reducing deforestation. UK funding would then be provided directly to the sub-national funding architectures on the basis of a value-for-money assessment.

Results

42. The programme would be expected to generate significant benefits and leverage through engaging the private sector in international efforts to reduce deforestation. Benefits will be measured in terms of carbon mitigation, conservation of biodiversity and poverty reduction. A heavy emphasis will be placed on measurement of impact and results through the programme.

Adaptability

43. Given the significant and rapid changes that have taken place since the 2007 Bali Action Plan which put REDD+ onto the UNFCCC agenda, the UK's support in this field needs to retain the capacity to adapt over time to reflect changing circumstances in the period through to 2020 and beyond.
44. Ways in which the programme may need to adapt include through extending its focus to other drivers of deforestation, such as mining and infrastructure; through financing work in additional countries; and to reflect new policy priorities.

Safeguards

45. The programme will apply an approach to social and environmental safeguards which is consistent with the high-level REDD+ safeguards agreed at the UNFCCC Cancún COP16, and elaborated at Durban COP17, and the advice on applying biodiversity-relevant REDD+ safeguards agreed at the Convention on Biological Diversity (CBD) Hyderabad COP11.
46. The programme will also apply best environmental and social practice to the interventions which are supported, including with respect to gender. This will not only include application of minimum standards but, where technically and economically feasible, will also include the use of proactive approaches that help to maximise co-benefits of projects, including provision of ecosystem services, poverty reduction and conservation of iconic species.