



# COMMITTEE ON FORESTRY

## TWENTY-THIRD SESSION

Rome, 18 - 22 July 2016

### FUNDING OPPORTUNITIES FOR FORESTS AFTER THE PARIS AGREEMENT

#### I. Introduction

1. The Paris Agreement, in addition to aiming “to limit the rise of global average temperature to well below 2 °C above pre-industrial levels”, and striving to contain the increase to 1.5 °C, also aims to “increase the ability to adapt to the adverse impact of climate change and foster climate resilience....” and “to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.
2. Mobilization of climate finance should represent a progression beyond previous efforts and the provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation. The Agreement refers to UNFCCC's existing goal agreed in Copenhagen in 2009 to mobilise at least US\$100 billion for climate-related financing annually by 2020. It further calls for an assessment of the adequacy of this pledge in 2025.
3. The Agreement recognizes the key role forests play in both climate change mitigation and adaptation. It emphasizes the importance of adequate and predictable financial resources for the implementation of policy approaches and positive incentives for reducing emissions from deforestation and forest degradation, and the role of “conservation, sustainable management of forests and enhancement of forest carbon stocks”. It also reaffirms the importance of non-carbon benefits associated with sustainable forest management (SFM).
4. Overall, the Paris Agreement has provided a new impetus for financing SFM, not only through direct climate financing, but also through other existing financing mechanisms and instruments. Due to the pledges made for financing its implementation, the Agreement provides new opportunities for significantly scaling up SFM financing.



## II. Climate change-related funding opportunities for forestry

### A. Existing funding mechanisms

5. Several multilateral funds provide financial assistance for actions related to climate change mitigation and adaptation, including for forests. To name just a few, these include, inter alia: the Green Climate Fund (GCF), the Global Environment Facility (GEF), the Adaptation Fund (AF) and the Least Developed Countries Fund. A number of initiatives have been set up to target specifically the forest sector and REDD+, which include three instruments of the World Bank: the Forest Carbon Partnership Facility (FCPF), the BioCarbon Fund Initiative for Sustainable Forest Landscapes (BioCF-ISFL) and the Forest Investment Programme (FIP); the UN-REDD Programme; the REDD+ Early Movers Programme (REM); the Congo Basin Forest Fund; the Central Africa Forest Initiative and other private sources.

6. With regard to climate finance for forests, REDD+ has gained prominence due to its assumed capability to deliver relatively cheap reductions in CO<sub>2</sub> emissions. REDD+ aims at creating a financial value for carbon stored in forests by offering incentives to developing countries to reduce emissions from forested lands. Most climate change funding, including for REDD+, still uses traditional modalities of Official Development Assistance (ODA). Recent research by the Overseas Development Institute concludes that almost the whole amount of bilateral REDD+ finance was offered as grants.<sup>1</sup> So far, funding for REDD+ and climate change has largely been geared toward capacity development. Multilateral initiatives also use other tools such as concessional loans and aim to eventually provide results-based payments.

7. The Paris Agreement recognizes the importance of adequate and predictable financial resources for the implementation of REDD+, which foresees results-based payments to countries for achieved emission reductions. Such results-based payments under REDD+ could create a financial value for carbon stored in forests, which are at risk of clearance or degradation, and thus offer incentives to developing countries for their protection. Global institutions such as FAO, UNEP, UNDP, GEF and the World Bank are actively engaged in capacity development for REDD+, next to many bilateral agencies and non-governmental organizations.

8. Several initiatives aim to provide results-based payments for REDD+ action to forest countries, including the GCF, the FCPF, the BioCF-ISFL and the REM. Implementing the novel concept of results-based payments in the forest sector has caused delays, but several deals are expected to be concluded in 2016. While the other initiatives are smaller, as of early 2016, GCF contributions totalling US\$10.3 billion have been announced<sup>2</sup>. It is expected that larger programmes and projects and a sizeable share of these funds will be channelled towards results-based payments for REDD+, once procedures for such undertaking will have been defined.

9. In addition to international public climate finance, domestic public finance and private sector contribution are two other major sources of climate financing. Many developing countries, particularly the emerging economies are prioritizing climate actions in their national plans and allocating significant budgets. Such contributions also include co-financing commitments made through international climate programmes and projects. Comprehensive information on domestic climate financing, however, is lacking as these efforts have not yet been systematically tracked.

10. Currently, the private climate finance flows to the forest sector in developing countries, particularly through voluntary carbon markets, are low and uncertain. Institutional complexities and the absence of a strong compliance market may partly explain the low level of private sector investment. The carbon offsets traded on the voluntary carbon market represented less than 1 percent

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<sup>1</sup> <http://www.climatefundsupdate.org/global-trends/fast-start-finance>

<sup>2</sup> <http://www.greenclimate.fund/contributions/pledge-tracker>

of global greenhouse gas emissions in 2014. This particularly calls into question the prospects of carbon markets becoming a significant source of finance for climate actions (including REDD+) in future.

11. With regards to adaptation, UNFCCC projects the costs of adaptation to climate change in developing countries in the range of US\$28 – 67 billion per year by 2030. While the focus of climate financing has traditionally been mitigation, since 2011, there has been a considerable increase in adaptation finance from dedicated climate financing instruments. In addition to many bilateral mechanisms, the Least Developed Countries Fund and the Special Climate Change Fund have disbursed the most finance for adaptation. The Adaptation Fund, the Pilot Program on Climate Resilience of the Climate Investment Funds, and the EU Global Climate Change Alliance have also substantially added to the volume of finance available. The Green Climate Fund has a targeting strategy which seeks to spend equally between mitigation and adaptation. Climate actions in forestry are increasingly focusing on holistic approaches that seek to reduce emissions as well as enhance resilience, thus contributing to both mitigation and adaptation objectives.

## **B. Achieving climate objectives by enhancing funding for SFM**

12. It is widely recognized that the main contribution of forests and forestry to climate change is through sustainable forest management. Sustainably managed forests sequester and store carbon and carbon released into the atmosphere through forest harvesting can be compensated for through natural regeneration or planting. In addition, the carbon in the harvested wood would not necessarily be released into the atmosphere, rather it can be stored in wood products for longer periods of time. By doing so a carbon-neutral raw material can substitute other materials with heavy carbon footprints. Yet, globally, the progress towards SFM continues to be a challenge as the sector struggles to broaden and diversify sources of revenue and to improve the economic viability of forestry.

13. The issue of financing for SFM has been extensively discussed in many global fora, including the United Nations Forum on Forests and the Committee. The 21<sup>st</sup> Session of COFO in 2012 made recommendations for broadening the financial basis for SFM while 23<sup>rd</sup> Session in 2014 invited countries to strengthen efforts to promote payments for environmental services of forests and other innovative financing mechanisms. The Collaborative Partnership on Forests (CPF) has made available information on the global situation of forest finance and on strengthening forest finance in member countries of the UNFF.

14. A number of countries have developed successful financing strategies such as national forest/environment/climate funds, microfinance instruments and dedicated credit lines to support SFM. Financing for SFM has also been strengthened by improving the enabling environment including removing unnecessary barriers for investment and promoting resource rights and tenure security. Incentivizing the multiple benefits associated with SFM through payment for ecosystem services (PES) schemes and measures such as subsidies, tax breaks, insurance support and price and purchase guarantees have also helped mobilize investments for SFM in several countries. Evidence of successful examples in recent years also include the public-private and private-private partnerships (e.g. out-grower schemes). These initiatives help to reduce management costs, assure supply for the industry, provide liquidity and mitigate risk and uncertainty for small forest owners. Other significant examples include improving access to financial and market services and facilitating marketplaces – settings where forestry investors and project promoters interact and implement investment plans.

15. The financing of SFM, particularly the international climate financing, is getting increasingly complicated by the continued emergence of new mechanisms and institutions. There is also a slow transition from project-based interventions to broader national programmatic approaches. The magnitude of funding is increasing but there has also been both a proliferation and a fragmentation of financing modalities. For example, the Adaptation Fund and Green Climate Fund, have created their own sets of accreditation standards for national entities eligible to receive funding. This changing financial landscape demands not only improved financial governance and fiduciary standards for

accessing funding but also adequate and efficient means for channelling and distributing the funds received. Social and environmental safeguards built into mechanisms involving large public payments also underline the need for good financial governance at the national and subnational levels. The role of private finance and how to leverage it particularly requires more detailed analysis of instruments, business models, and implications for accountability and equity. Even after successfully making the case for funding, countries often struggle to put in place the necessary institutional structures and systems to distribute the funds mobilized.

16. Thus, the financing of SFM in developing countries is about more than raising money. Broadening and diversifying the financial base for SFM involves, among other things, demonstrating the multiple benefits of forest investment; creating new revenue streams; establishing viable and lasting partnerships with other economic sectors; and strengthening the capacity of forestry institutions to effectively access, manage and use the funding mobilized. These challenges in part explain the slow progress and underline the need for strengthening the financial architecture and governance as a fundamental basis to achieving the US\$100-billion-per-year climate finance goal.

17. The work of FAO and other development partners on strengthening financing for SFM, including climate finance, underlines the need for a coordinated, coherent and synergetic approach. This entails the development of a broad array of resources from national, international, public and private sources, together with the strengthening of necessary enabling environments and institutional capacities. At a strategic level, this involves: a) the forest sector is mainstreamed in national planning and financial decision-making, b) proactively recognizing and enhancing the economic values of forest products and services by creating and supporting a level-playing field for the forest sector, c) ensuring that the trade in forest products and services represents their true values and the forest owners receive appropriate reward for their efforts; and d) improving the efficiency of existing forest revenue collection through market based price determination and avoiding leakages.

### **C. A new opportunity for scaling up climate finance for forests**

18. Of the 175 countries that signed the Paris Agreement, 101 have submitted Nationally Determined Contributions (NDCs) that include adaptation proposals for agriculture and forests while 88 include mitigation proposals for the agriculture, forestry and land use (AFOLU) sectors. Of the US\$100 billion commitment for climate finance, the Green Climate Fund (GCF) has received around 10 billion to date but disbursement of funds has been low due to challenging application and approval procedures. COP22 of UNFCCC in Marrakech, in December 2016, will consider implementation mechanisms for the Paris Agreement, including on financing. The GCF will need to demonstrate that the already pledged funds are effectively supporting implementation of the Paris Agreement, in order to entice further pledges to reach the US\$100 billion commitment by 2020.

19. COP22 therefore provides a window of opportunity to submit large-scale proposals to the GCF that would support countries to implement their NDCs as they relate to AFOLU. FAO has a unique comparative advantage in the sense that it combines the AFOLU sectors under one roof and has the technical expertise needed for effective country support.

20. FAO is planning to partner with international financial institutions, including regional development banks, to facilitate countries' access to Green Climate Fund and other climate change funding, and the deployment of such funding. In this context, existing FAO "Facilities"<sup>3</sup> and programmes can be used as channels for technical support and for building capacity for readiness for larger scale investments. In forestry, several such Facilities exist, e.g. the Forest and Landscape

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<sup>3</sup> FAO facilities = FAO's large scale programmes and entities that fund national programmes, partnership agreements or grants.

Restoration Mechanism, the Forest and Farm Facility, the FLEGT Programme and the UNREDD Programme.

### **III. Points for consideration**

21. The Committee may wish to invite countries to:

- improve governance and institutional mechanisms to effectively make use of the existing financial instruments and mechanisms and of the new opportunities resulting from the Paris Agreement to improve financing for SFM;
- strengthen investments in forests for climate change and scale up successful initiatives that can generate significant multiple benefits;
- strengthen public-private and private-private partnerships in financing for SFM;
- consider, through the governing bodies of the international instruments and processes related to climate change, to simplify procedures and enhance access to financial resources for SFM.

22. The Committee may wish to request FAO to:

- mobilise large scale financial resources from the Green Climate Fund and other sources of climate financing, in partnership with countries and with accredited implementation agencies, including Regional Development Banks;
- use existing FAO Facilities and programmes as channels for technical support and for building capacity for readiness for larger scale investments for climate change adaptation and mitigation in agriculture, forestry and other land use sectors;
- strengthen partnerships to help country access to international climate finance, including from bilateral sources and multi-lateral institutions such as the World Bank and GEF;
- support countries in developing effective instruments to strengthen financing of SFM, including for non-carbon benefits of forests.