



# COMMITTEE ON FORESTRY

## Twenty-sixth Session

3-7 October 2022

## Finance and Investment in Forest Pathways

### Executive Summary

This document draws on the latest evidence and data, in particular from the last edition of FAO's flagship report, *The State of the World's Forests (SOFO) 2022*, and the XV World Forestry Congress. It provides an overview of key issues, priorities, and opportunities to scale up finance and investments for the forest pathways identified in SOFO 2022. It highlights four priority actions that have the potential to deliver both higher financing flows for the forest pathways and increased impact:

- increase climate finance for sustainable forestry, including restoration, for example by including them in climate finance strategies and seizing opportunities from developing carbon markets;
- allocate more finance to Indigenous Peoples, Local communities (IPLC) and small producers, recognizing their key role as key agents to protect and restore forests, and support sustainable forest value chains;
- strategically use public finance to engage the private sector, including smallholders, and better monitor domestic public finance to curb subsidies and incentives leading to deforestation and to create opportunities for forestry within sustainable agrifood systems; and
- address finance issues for forestry and agriculture in an integrated way, promoting complementary practices between agriculture and the conservation, restoration and sustainable use of forests.

### Suggested action by the Committee

#### The Committee is invited to:

- call on Members to consider, through the governing bodies of the international instruments and processes related to climate change, to simplify procedures, enhance access to financial resources, and monitor the level of direct financing to local stakeholders that contribute to halting deforestation, enhancing restoration and increasing sustainable use of forests (the three forest pathways as identified in SOFO 2022);

- encourage Members to promote coherence across public finance instruments towards sustainable landscapes, in particular through assessment of impacts on forests of agricultural subsidies, public expenditures and incentives, including through the opportunities to finance improvements of the forestry-agriculture interface provided by the Global Environment Facility (GEF)-8 and other multilateral funding mechanisms.

**The Committee is invited to recommend FAO to:**

- support Members, upon their request, to strengthen capacities for improved governance and institutional mechanisms across national and sub-national levels<sup>1</sup> to effectively make use of the finance opportunities offered by multilateral agreements, such as the Paris Agreement, and the UN Decades on Ecosystem Restoration and of Family Farming, and high-level political commitments and pledges, such as the Glasgow Leaders' Declaration on Forests and Land Use;
- support Members, upon their request, to access climate finance, such as the REDD+ results-based payments and emerging carbon finance opportunities, including through technical support to assist Members to meet relevant requirements under the United Nations Framework Convention on Climate Change (UNFCCC) and other forest carbon standards to enhance environmental and social integrity and quality of REDD+ results;
- support Members, upon their request, in their efforts to mobilize private sector finance for forestry and increase the opportunities for investments, including through the inclusion of sustainable forest value chains into their climate and restoration strategies;
- use existing FAO facilities, programmes, and initiatives to support public and private institutions in the development of pipelines of investment-grade projects and in building capacity of small producers to actively and fairly participate in them;
- support Members, upon their request, in developing methodologies to monitor the flows of domestic public finance that impact forests and assess the effectiveness and efficiency of public finance instruments used to implement forestry, agriculture, and land-use policies, and in developing effective instruments to strengthen the financing of the forest pathways;
- leverage FAO's ongoing strategic partnerships with the Green Climate Fund (GCF) and the GEF, and particularly through the GEF-7 Impact Programs on Dryland Sustainable Landscapes (DSL-IP)<sup>2</sup> and Food Systems, Land Use and Restoration (FOLUR-IP)<sup>3</sup>, to create and exchange evidence and good practices for innovative finance and investment models to implement the forest pathways at scale.

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<sup>1</sup> FAO. 2019. *Sustainable Food and Agriculture: An Integrated Approach*. FAO and Elsevier, Rome.

<sup>2</sup> <https://www.fao.org/gef/dryland-sustainable-landscapes/en/>

<sup>3</sup> <https://www.folur.org>

## I. Introduction

1. Increased levels of finance and investment are urgently needed to counter climate change, biodiversity loss, and persistent poverty and inequality. According to one estimate<sup>4</sup>, total financing for the forest pathways (halting deforestation; restoring forest landscapes; and increasing the use of sustainably produced wood products) needs to increase threefold by 2030 and fourfold by 2050 for the world to meet climate, biodiversity and land degradation neutrality targets with the estimated required finance for forest establishment and management alone amounting to USD 203 billion per year by 2050. To achieve this increase in funding, all sources of funding – domestic government, private, and official development assistance – will need to be tapped into.

2. In recent years, FAO has dedicated increasing levels of resources to support Members in closing this funding gap. Despite the pandemic, FAO has steadily increased its portfolio size to a total of USD 318 million in 2021, thanks to FAO's bilateral and multilateral funding partners, including the GEF and the GCF.

3. In the biennium 2020-2021, FAO developed guidance material to help forest producers develop bankable business plans<sup>5</sup>, and delivered capacity building and mentoring support to organizations of forest producers to help them to access markets and finance. It also facilitated dialogues and investment fora to share challenges, opportunities and lessons learned to strengthen forest value chains in selected countries, as well as workshops to support Members to access climate finance. FAO produced studies to explore ways to unlock climate funding for forest and farm producers<sup>6</sup> and established a community of practice on Forest and Landscape Restoration finance. In addition, FAO supported various countries to access funds from the GEF<sup>7</sup>, including the Least Developed Countries Fund<sup>8</sup> (LDCF), the Adaptation Fund<sup>9</sup>, and the GCF. FAO leads the GEF-7 Sustainable Forest Management Impact Program on Dryland Sustainable Landscapes (DSL-IP, USD 104.5 million), providing support to 11 countries<sup>10</sup> in achieving land degradation neutrality.

4. Most recently, *The State of the World Forests (SOFO) 2022* included a chapter on financing the three forest pathways and the XV World Forestry Congress (WFC) hosted numerous events with a focus on forest finance. The Seoul Forest Declaration<sup>11</sup> includes a call for investments in forest and landscape restoration globally to at least be tripled by 2030 to implement global commitments and meet internationally agreed goals and targets.

5. Drawing on the latest evidence and data, in particular from SOFO22 and XV WFC, this document provides an overview of key financing issues and opportunities, and highlights four priority actions that have the potential to deliver both higher financing flows and increased impact for halting deforestation, enhancing restoration and increasing sustainable use of forests.

## II. Priority action 1: Increase climate change related funding

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<sup>4</sup> UNEP. 2021. State of finance for nature: Tripling investments in nature-based solutions by 2030. <https://www.unep.org/resources/state-finance-nature>

<sup>5</sup> FAO. 2021. Developing Bankable Business Plans: A learning guide for forest producers and their organizations: <https://www.fao.org/documents/card/en/c/cb4520/en>. The publication is being translated in French and an e-learning course based on this guide is almost complete.

<sup>6</sup> Diaz, J. and Kerr, J. 2020. Connecting forest and farm producer organizations to climate change finance: <https://www.fao.org/documents/card/en/c/cb0276en>; Macqueen. 2021. Local climate resilience finance – How can mirage become reality?: <https://pubs.iied.org/20446iied>

<sup>7</sup> Guinea, Kenya, Madagascar

<sup>8</sup> Central Africa Republic

<sup>9</sup> Burkina Faso and Vanuatu

<sup>10</sup> Angola, Botswana, Burkina Faso, Kazakhstan, Kenya, Malawi, Mongolia, Mozambique, Namibia, United Republic of Tanzania, Zimbabwe

<sup>11</sup> The Seoul Forest Declaration (fao.org)

6. There has been a substantial increase in climate-related development finance for all sectors since 2000. Climate finance flows to forestry have also increased in recent years, almost doubling between 2015 and 2019. This increase in funding has permitted REDD+ frameworks to advance, and their implementation and finance to be scaled up<sup>12</sup>. The UNFCCC reported that REDD+ results have reached over 11.4 billion t-CO<sub>2</sub> in 2021, and Results-Based Payments have been or will be made available from various sources, including from the GCF, the Forest Carbon Partnership Facility (FCPF)'s Carbon Fund and the Lowering Emissions by Accelerating Forest finance (LEAF) initiative. However, the share of climate finance channelled to forestry remains small: less than 4 percent of the total between 2009 and 2019<sup>13</sup>, with a small portion of it accounted for as adaptation finance (SOFO 2022<sup>14</sup>). This share could be increased, and Governments may have several options to make climate finance work better for forests (SOFO 2022<sup>15</sup>).

7. One option is to expand the inclusion of sustainable forestry, including restoration, in climate finance strategies, and including restoration-aligned targets into wider climate adaptation and mitigation commitments (Nationally Determined Contributions - NDCs). Restoring degraded land through afforestation and reforestation could cost-effectively take 0.9–1.5 GtCO<sub>2</sub>e per year out of the atmosphere between 2020 and 2050.<sup>16</sup> Furthermore, mass timber and engineered wood products in construction, and man-made cellulose fibre for textile production, can substitute carbon intensive materials. A recent literature review concluded that wood has a median substitution factor of 0.9 – in other words, every 1 kg of carbon in wood that replaces a non-wood material in a building system could produce an average emission reduction of about 0.9 kg of carbon.<sup>17</sup>

8. A better balance can also be sought between mitigation and adaptation (see possibilities emerging through the Adaptation Fund for restoration as a strategy that combines mitigation and adaptation) along with more concrete actions and tangible forest and landscape restoration targets, still underrepresented in many NDCs.<sup>18</sup>

9. Carbon finance is increasing in scale and innovation and opportunities could be further seized. In 2021, global carbon pricing revenue rapidly increased by almost 60 percent from 2020 up to around USD 84 billion<sup>19</sup>. Net-zero commitments from private sector companies setting emission reduction targets among their corporate value chains, as well as the approval of the Paris Agreement's Article 6 at the 26th Conference of the Parties to the UNFCCC, are driving the carbon market. The voluntary carbon market annual transactions have also increased by USD 1 billion in 2021 for the first time<sup>20</sup>. Forestry has benefitted only marginally from this growth. Improvements in the enabling environment and in technical, administrative, and financial capabilities can help capitalize on the developing carbon market in partnership with the private sector and civil society. The role of forestry in the development

<sup>12</sup> <https://climatefundsupdate.org/wp-content/uploads/2021/03/CFF5-ENG-2020-Digital.pdf>

<sup>13</sup> 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.

<sup>14</sup> FAO. 2022. *The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies*. Rome, FAO. <https://doi.org/10.4060/cb9360en>

<sup>15</sup> FAO. 2022. *The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies*. Rome, FAO. <https://doi.org/10.4060/cb9360en>

<sup>16</sup> Roe, S., Streck, C., Beach, R., Busch, J., Chapman, M., Daioglou, V., Deppermann, A. et al. 2021. Land-based measures to mitigate climate change: potential and feasibility by country. *Global Change Biology*, 27(23): 6025–6058. <https://doi.org/10.1111/gcb.15873>

<sup>17</sup> Verkerk, P.J., Hassegawa, M., Van Brusselen, J., Cramm, M., Chen, X., Imparato Maximo, Y., Koç, M. et al. 2021. *Forest products in the global bioeconomy*. Rome, FAO. <https://doi.org/10.4060/cb7274en>

<sup>18</sup> International Union for Conservation of Nature (2020) Outlook for boosting ambition in 2020 Nationally Determined Contributions through forest landscape restoration targets. Washington DC, USA. Policy brief. Online: <https://infobl.org/node/367>

<sup>19</sup> The World Bank. 2022. "State and Trends of Carbon Pricing 2022" (May), World Bank, Washington, DC. Doi: 10.1596/978-1-4648-1895-0. License: Creative Commons Attribution CC BY 3.0 IGO

<sup>20</sup> Forest Trends' Ecosystem Marketplace. 2021. 'Market in Motion', State of Voluntary Carbon Markets 2021, Installment 1. Washington DC: Forest Trends Association.

of markets for carbon-neutral and sustainable forest products can be further strengthened, but require credible monitoring, accounting, reporting, and verification systems.

### III. Priority action 2: Finance small-scale producers

10. Smallholders, Indigenous Peoples, and local communities (IPLC) are crucial for scaling up the implementation of the forest pathways (SOFO 2022<sup>21</sup>). There is strong evidence that forests managed by IPLC and forest communities are extensive, highly biodiverse, exhibit low deforestation, store significant carbon, and support rural livelihoods and food security. Such actors own or manage at least 4.35 billion ha (out of about 9 billion ha) of forest and farmlands worldwide, producing farm and forest products worth up to USD 869 billion to USD 1.29 trillion per year (SOFO 2022<sup>22</sup>). Small farms (i.e. less than 2 ha) account for 84 percent of all farms worldwide, operating on about 12 percent of all agricultural land but producing roughly 35 percent of the world's food (SOFO 2022<sup>23</sup>, based on Lowder et al. 2021<sup>24</sup>).

11. Despite this, smallholder producers received less than 1.7 percent of climate finance in 2019<sup>25</sup>. To transform and transition agrifood systems towards a healthier, greener, and more sustainable future, the recognition of IPLC forest tenure rights and an increase of accessible local-level finance to small-scale producers including Indigenous peoples, local communities, and forest and farm producers' organizations (FFPOs) is essential. This is supported by the COP26 IPLC Forest Tenure Joint Donor Statement<sup>26</sup> (2021) which pledged USD 1.7 billion directly to IPLCs. New finance solutions and investment modalities appropriate for IPLCs and small-scale producers need to be shared and scaled up. IPLCs and small producers should be adequately considered and included when developing pipelines of investment-grade projects. Strategies to de-risk smallholder projects, such as using trees as collateral for loans, insurance mechanisms, and building assets based on income from ecosystem services, can also mobilize more investment in small-scale producers.

12. FAO, through its Forest and Farm Facility (FFF), has piloted an efficient grant mechanism that, in 2021, has deployed USD 7.6 million, most of which (56 percent) went directly to forest and farm producer organizations through letters of agreement (LoA) and direct beneficiary grants (DBG). The latter is a new mechanism that appears to be well suited to channelling funding to grassroots organizations. In 2021, FFF had issued 37 grants in three pilot countries (Bolivia, Ghana and Togo) under this mechanism, with a total value of USD 584 000<sup>27</sup>. This mechanism could be scaled up to boost ground-level support for forest and farm producers. In 2022, the FFF will pilot an innovative new mechanism that allows the implementing organization to contribute financially to the project, through matching grant agreements. FAO is also providing small grants under GEF-funded [The Restoration Initiative](#) programme to seven local entrepreneurs in Sao Tome and Principe (value of USD 87 000) and to an initial 40 micro-projects in the Democratic Republic of Congo (approximate value of USD 300 000), matched by at least 10 percent own contributions of the farmers.

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<sup>21</sup> FAO. 2022. *The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies*. Rome, FAO. <https://doi.org/10.4060/cb9360en>

<sup>22</sup> FAO. 2022. *The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies*. Rome, FAO. <https://doi.org/10.4060/cb9360en>

<sup>23</sup> FAO. 2022. *The State of the World's Forests 2022. Forest pathways for green recovery and building inclusive, resilient and sustainable economies*. Rome, FAO. <https://doi.org/10.4060/cb9360en>

<sup>24</sup> Lowder, S.K., Sánchez, M.V. & Bertini, R. 2021. Which farms feed the world and has farmland become more concentrated? *World Development*, 142: 105455. <https://doi.org/10.1016/j.worlddev.2021.105455>

<sup>25</sup> Chiriack, D. & Naran, B. 2020. *Examining the climate finance gap for small-scale agriculture*. Climate Policy Initiative. (also available at <https://www.climatepolicyinitiative.org/publication/climate-finance-small-scale-agriculture/>).

<sup>26</sup> <https://ukcop26.org/cop26-iplc-forest-tenure-joint-donor>

<sup>27</sup> Forest and Farm Facility Annual Report 2021. <https://pubs.iied.org/sites/default/files/pdfs/2022-03/20836G.pdf>



13. Scaling up access to markets and finance by small producers has often taken place in partnership with larger actors in the value chain that not only worked as off-takers of their products but also as providers of inputs, finance, capacity building, and technical assistance. During the XV WFC, some positive examples were shared of equitable and constructive collaborations between small producers and larger operators such as Kenya's Komaza Smallholder Forestry Vehicle<sup>28</sup>. Relationships between larger operators and small producers can also be exploitative and detrimental to the latter. It is important, therefore, to continue documenting good practices and ascertain the conditions under which these partnerships are sustainable and fair in their distribution of benefits and costs.

14. Sustainability is an attribute of the whole value chain. For financial sustainability, investment needs to look beyond individual businesses and view the entire value chain. If parts of the value chains are unsustainable, financing segments of it may be profitable in the short-term but will not lead to long-term sustainable solutions. Mechanisms to support value chains financially (e.g. by de-risking investments and ensuring equitable benefit-sharing) and organizationally (e.g. through capacity building, technical assistance, and project preparation) are therefore essential to support the forest pathways.

#### **IV. Priority action 3: Engage the private sector**

15. Domestic public expenditure on forestry is significant when compared to official development assistance and (tracked) private finance flows, even in some low-income countries (SOFO 2022). Yet, national public finance for forestry remains low. For example, as of May 2021, total global spending on recovering from the COVID-19 pandemic amounted to USD 16.6 trillion in 87 of the world's largest economies, of which USD 2.1 trillion was for long-term economic recovery and USD 420 billion was for green recovery. However, few pandemic recovery plans have mobilized significant finance for the forest pathways. Increasing this finance is an important, but currently missed, opportunity for green recovery. Several ways exist to use domestic public finance more strategically.

16. First, shifts in policies are needed to divert financial flows away from actions that harm forests and to incentivize investment in conservation, restoration, and sustainable use. Financing for the forest pathways is small compared with finance that contributes to deforestation and degradation, such as investment in agri-industrial expansion (FAO 2021).<sup>29</sup> Public finance can create the enabling environment for transforming agrifood systems to decouple agricultural production and trade from deforestation in both public and private sector investments. This includes investments in transparency, accountability and stakeholder engagement. Such investments could also help countries address the increasingly stringent requirements from markets on legality and sustainability of forest and agricultural commodities. Efficient resource allocation requires accurate tracking of finance flows that impact forests. Currently not all such flows are monitored, which can lead to poor financing decisions.

17. Second, both "greening finance" and "financing green" need to be further developed. Greening finance is advancing, through measures such as Environmental Social Governance (ESG) standards and sustainable finance taxonomies. At the same time, public and private financial institutions are also called on to "finance green" and move from a do-no harm and risk-based approach to proactive financing and investment approach in nature-based actions.

18. Third, public finance can be used to create supportive enabling environments for marketable ecosystem services, including sustainable timber production. It can also de-risk private investments in value chains that add value to raw materials in producing countries, increasing their contribution to forest conservation and restoration, generate employment and support a circular bioeconomy. Investment in more efficient processing can support circularity by, for example, making use of wood waste for energy and other uses. Clear standards and strong governance are however needed to ensure that the raw materials entering value chains are produced sustainably.

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<sup>28</sup> <https://www.fao.org/event/world-forestry-congress/wfc-programme/sub-theme-sessions/sub-theme-3/en>

<sup>29</sup> [A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems \(fao.org\)](#)

19. Fourth, countries could establish and/or strengthen finance hubs to help IPLC and smallholder producers build bankable business plans, as well as facilitate dialogue and match-making opportunities among finance institutions (e.g., banks), value-chain actors and knowledge agencies to increase business development, cross-actor learning, identify lessons, and improve mutual understanding and cooperation.

20. Finally, Governments play an essential role in creating enabling environments, catalysing private investment, and making the required investments to strengthen governance, rule of law, information, participation, and basic social/public services, since only with adequate conditions will the private sector advance environmental and social goals.

## **V. Priority action 4: Address finance issues for forestry and agriculture in an integrated way**

21. Recognizing the multiple ways in which forestry and agriculture affect each other, the FAO Council, at its 165th Session, recommended FAO to promote complementary practices between agriculture activities and the conservation, restoration and sustainable use of forests<sup>30</sup>. For several years now FAO has been working with Members to scale up investments leveraging the partnership with multilateral funding entities like the GEF and the GCF.

22. In its 6th replenishment cycle, the GEF introduced the “integrated approach” as a new modality for programming GEF resources in a more coherent, programmatic and impactful manner. The landscape approach and integrated landscape management provide good examples of how the “new generation” of GEF projects and programmes integrate social and economic development with ecological issues including climate change, biodiversity conservation, and land restoration through effective coordination across various scales, spaces and stakeholders.

23. The GEF-7 flagship impact programmes [Food Systems, Land Use and Restoration \(FOLUR\)](#) and [Dryland Sustainable Landscapes \(DSL-IP\)](#), with a combined budget of USD 450 million leveraging USD 3.53 billion of co-financing, have systematically incorporated the landscape approach in the project frameworks of all the 36 participating countries as a core element to shift away from unsustainable sectoral approaches. In particular, the FOLUR Impact Programme combines the landscape approach with efficient and more sustainable value chains development targeting eight major commodities<sup>31</sup>, half of them directly linked to deforestation.

24. The programme provides the necessary space to bring a coalition and network of partners together (including land managers, governments, researchers, the private sector and financial institutions) to work jointly on transforming global agrifood systems. The involvement of public and private sectors paired with strategic interventions on, for example, repurposing agricultural subsidies, strengthening commodity centred certification and responsibility standards as well as enhancing the national regulatory framework conditions for more sustainable investments form core part of the programme.

25. The GEF-IPs as well as the upcoming GEF-8 replenishment present a unique opportunity to showcase that agricultural production can be sustainably enhanced while safeguarding ecosystems’ services, halting deforestation, restoring degraded ecosystems, and addressing climate change, biodiversity loss and land degradation and desertification. The approach offers a new business, finance and investment model of cross-sectoral and multi-disciplinary integration to advance holistic solutions across sectors and stakeholders, gather evidence in order to achieve transformative and sustainable results at scale. Such examples of programmatic and integrated approaches need to be replicated and scaled up.

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<sup>30</sup> FAO. 2020. Report of the Hundred and Sixty-fifth Session of the FAO Council (CL 165/REP). Rome. <https://www.fao.org/3/ne381en/ne381en.pdf>; CL 165/REP

<sup>31</sup> Beef, cocoa, coffee, maize, palm oil, rice, soy and wheat.