

Tools to Address the Drivers of Deforestation through Public and Private Sector Synergies

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Report

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***Addressing the Drivers of Deforestation through Public and Private
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Executive Summary

Due to global demand for commodities, land use change and agriculture emit about one quarter of the global greenhouse gas emissions. Demand for commodities, land and the associated emissions are predicted to increase greatly in the coming decades. Though efforts to reduce emissions from deforestation and degradation (REDD+) in tropical countries have become popular, financing for these policies is currently less than \$7 billion over multiple years. In contrast, agricultural production for domestic and international supply chains that are driving tropical deforestation and degradation is worth over fifteen times more annually.

Successful efforts to reduce deforestation and degradation (deforestation) will need to directly address their respective drivers; therefore, on April 8-9 2013, the Global Canopy Programme (GCP), National Wildlife Federation (NWF), CDP and other sponsors convened government representatives, private sector actors, and civil society participants for a workshop to increase cross-sectoral understanding of the drivers, and to explore a range of potential options for tackling these drivers from both public and private perspectives.

Based on that workshop and subsequent conversations, GCP and NWF propose a toolbox that leverages the actions of governments, businesses, and civil society. Investment tools, international policy tools, and domestic policy tools can break some of the barriers to scaling-up efforts to leverage the private sector – a critical REDD+ actor and stakeholder:

- Public, philanthropic, and private actors should establish coordinated investments and incentives to leverage each of their contributions and achieve emissions reductions on the ground.
- Companies should employ Environmental Profit and Loss Analysis across their supply chains to identify the major environmental impacts of their products.
- REDD+ policies, capacity building, and technology transfer should include actions to appropriately improve agricultural productivity, while ensuring no resulting deforestation.
- Governments could agree to withhold subsidies from those corporations that cause forest destruction.
- Local and international lenders and governments should establish variable credit programs that provide low-interest credit to sustainable commodity producers and limit credit to those businesses causing deforestation.
- Governments could establish an international insurance and risk protection program for investors in REDD+.
- All governments should analyze if and how their laws, policies, and investment strategies may impact tropical deforestation and forest degradation.
- Governments could establish deforestation-free public procurement policies for timber, paper, food, and other goods.
- Consuming country governments could explore innovative financial incentives to promote the production and import of sustainable products.
- International bodies, such as the UN Framework Convention on Climate Change should explore opportunities and partnerships to facilitate learning and experience-sharing on public, private, and civil society actions to address the drivers of deforestation.

The global drivers of tropical land-use change

The Challenge

The impacts of deforestation are felt on local, national, and international scales – from threats to local livelihoods to global warming emissions. However, in most cases the drivers of forest loss are tied to international markets demanding soy, beef, palm oil, timber, paper and biofuels¹; together worth over \$135 billion annually.^{2,3} The private sector is meeting an increasing consumer demand for these products as the global population increases, urbanizes and gets richer. The enormous industries behind these commodities and their associated deforestation include many of the world's largest companies, which in 2010, accounted for a larger proportion of the world's top 150 economic entities than did countries⁴.

Understanding the grave implications of deforestation, governments have committed to policies to reduce emissions from deforestation and degradation (REDD+). However, a continuing challenge for REDD+ is institutionalizing policies and actions that engage with those corporations that can directly address the drivers of forest loss. Rather than using REDD+ funds to pay corporations, private sector participation can be leveraged through policy incentives and disincentives, cooperative approaches, common goals, and investment in “forest friendly” sustainable agricultural development. Engaging the private sector is critical for lasting actions to reduce deforestation.

There are many challenges to implementing the public-private partnerships needed to achieve REDD+ goals. Many of the commodities driving deforestation follow complex and un-transparent supply chains. Furthermore, the global capital that goes into the commodities driving deforestation is enormous, and the players are often unaware of the tools available for developing sustainable production. However, it is increasingly clear that sustainable practices can create a predictable

commodity supply into the future; therefore, participating in forest conservation is critical for corporate profitability.

The public and private sectors will need to rely on each other to achieve sustainability goals, establish enduring supply chains, and promote low-carbon economic development.

An alternative vision

Through multilateral and bilateral agreements and arrangements, a number of developing and developed country governments have decided to tackle the challenge of deforestation – agreeing under the United Nations Framework Convention on Climate Change (UNFCCC) to slow, halt, and reverse the trend of forest loss in developing countries. The public sector is leading the charge on an alternative vision for economic development – one that is not dependent on the destruction of natural capital to create financial capital. REDD+ can help to promote low-carbon economies that produce goods like vegetable oils, meat, and wood products demanded by world markets, in a sustainable manner that does not drive deforestation.

The private sector is also increasingly interested in fulfilling market demand for sustainably produced goods and ensuring enduring supply chains. Consumers are increasingly recognizing the impacts that their purchases can have on tropical forests, and are demanding credible systems of labeling and transparency that identify sustainably produced goods. Furthermore, many companies are recognizing the investment risk of sourcing from areas where deforestation is occurring. Therefore, the private sector is increasingly stepping forward to become engaged in REDD+ efforts and provide support for these policies.

The Toolbox

Investment tools to address deforestation and degradation

Involving the private sector in REDD+ can leverage public finance, bringing in additional investments to forest conservation. This will be critical for reaching the level of financing needed to move toward non-destructive commodity production. There are a number of innovative policy options and tools to help engage and broaden private sector finance, including: matching mission with capital, environmental profit and loss analyses, supply chain security measures, and improving communication with the investment community.

“Mission matching” is an opportunity to connect the right investment incentives with the right capital provider. For example, investments in reducing deforestation could follow a path that begins with investment by funds interested primarily in environmental or social returns (philanthropic funds or grants from developed countries) rather than by funds primarily interested in financial return. These early funds could provide frameworks to reduce or mitigate the risk for the private investor (such as repayment guarantees for new REDD+ business)⁵ in order to meet their mission and facilitate additional investments by other actors. For instance, developed countries could be equity investors or issue debt to be repaid with income from REDD+ activities. Subsequently, groups looking for modest returns (such as impact investors or public-private partnerships) can be brought in and provide capacity for private sector guarantee facilities. Impact investors seek a financial return, but the success of their investments is also linked to the achievement of environmental or social goals. Finally, larger-scale private capital and investors can be folded-in as they see opportunities to create environmentally sustainable supply chains in areas that already require and receive financial investments. This approach to engaging the private sector matches motives, incentives, and risk appetite with diverse sources of finance, and helps each actor have an impact.

Public-private partnerships (PPPs), as referenced above, can encourage additional investment through risk sharing and the provision of loans and credit. They enable the private sector to undertake actions it would not normally do in the absence of government partnership, because of the perceived risk or anticipated low return on investment. The public sector benefits from the additional investment capital and technical support. Numerous examples of varying complexity and scale exist in both the agriculture and forestry sectors.^{6,7}

Environmental Profit and Loss Analysis (EPL) is a company’s analysis and valuation of its environmental impacts (both from its business operations and its supply chain). When properly employed, EPLs can place a monetary value on the environmental impacts along the entire supply of a given business,⁸ and could serve to provide transparent and comparable evaluations of a company’s impacts on forests. Corporations should establish policies to complete these analyses for each of their products, and pledge to take action to reduce the major environmental impacts of their products.

The private sector’s interest in establishing **supply chain security** can be leveraged to establish sustainable production systems. Forest- and community-friendly agricultural production can improve buyer confidence in their supply chain while achieving environmental and social aims. Working toward building ecologically and economically sustainable sources may provide a unique opportunity for private, public, and civil society partnerships.

Traditionally, the investment and conservation communities have failed to communicate well with one another. Finance may be scaled-up by providing **detailed explanations of investment opportunities** that better fit into the style and information expected by large investors. Therefore, governments and civil society should aim to better communicate forest conservation investment opportunities with the private sector.

International policy tools to address deforestation and degradation

As agriculture is the main driver of deforestation, **technological improvements** to enhance productivity can significantly help with forest conservation efforts.⁹ In some cases, simply building capacity to employ improved agricultural practices may be sufficient. In other cases, new technologies need to be brought in. In both cases, increases in agricultural productivity must be coupled with forest conservation policies – otherwise increased production on land can simply increase the financial revenue from agriculture and cause even more deforestation. Thus far, technology transfer has been largely overlooked in the current REDD+ debate. Therefore, international policies should work toward improving transfer of technology and information, financing capacity building, and ensuring these efforts are coupled with international efforts that support forest conservation.

International financial policies and incentives can influence investment and sourcing decisions. For example, governments can **withhold subsidies** from those corporations that cause forest destruction. This would need to be implemented at the international level so that those companies based in developing or developed countries are equally expected to end deforestation.

The public sector can also provide **insurance or risk protection** for corporations investing in sustainable production. Finally, governments in both developing and developed countries can alter access to credit, making sustainable choices less expensive and withholding financing from those corporations causing deforestation.

Domestic policy tools for consuming countries

Those countries whose consumption of commodities drive deforestation can employ

domestic policies to help address this issue. Employing the power of their own purchasing, governments could include **deforestation-free requirements for procurement**. This can kick-start demand for sustainably produced goods. Such government policies to incentivize forest-friendly production can be established while meeting the principles and guidance of the World Trade Organization (WTO)¹⁰. Additional options include: launching bilateral or multilateral agreements to restrict trade between countries to an agreed definition of a “sustainable” product; establishment of differential import tariffs for sustainable and unsustainable commodities to reduce the costs of importing certified products that carry a price premium; implementation of trade measures that differentiate between sustainable and unsustainable commodities.

Finally, the public sector can work with the private sector to develop appropriate incentives for investors that fund REDD+ and sustainable production efforts. Stakeholders should identify gaps and needs in the private sector and civil society for which **public financing** could be used. Direct funding and alternative tools could include: reducing cost barriers to sustainable production; technical studies and support for improving knowledge in this area; or advertising campaigns supporting sustainably produced commodities.

While existing public-private partnerships and multilateral initiatives such as the World Bank’s Forest Carbon Partnership Facility and UNEP’s Finance Initiative may utilize some of the tools presented, there is still a need for more comprehensive utilization. The newly formed Tropical Forest Alliance 2020 (TFA 2020), whose members include the Consumer Goods Forum and the governments of the United States, Netherlands, Norway, and the United Kingdom, presents one such potential vehicle.

Conclusions: synergies among public, private and civil society stakeholders

Multiple stakeholders will need to work together in order to effectively reduce tropical deforestation and forest degradation. The workshop organized by the authors identified a toolkit of approaches that best utilizes the interest, expertise, and role of public, private, and civil society actors to tackle tropical deforestation. These included financial instruments, government and private sector policies, capacity building, and sharing lessons.

Workshop participants noted that transparency and access to information are critical for identifying sustainable sources for a supply chain, supporting actors who are working to reduce deforestation,

and implement REDD+. Since public, private, and civil society actors all gather data, sharing information across these sectors can help to promote transparency. Governments can establish incentives for companies to share their non-proprietary data, and civil society can work to create sharing tools and develop lessons learned.

By working together to tackle the drivers of land use change, public, private and civil society stakeholders can shift towards sustainable production while promoting sustainable development and protecting the world's tropical forests.

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