



5.2 Business unusual: aligning government, finance and corporate actions

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Introduction

Many seemingly conflicting issues are factored into the 17 Sustainable Development Goals (SDGs). On the one hand are environmental issues; some 13 million hectares of forest were lost every year from 2000 to 2010 (FAO 2010). Although the rate of net global deforestation has slowed by more than half over the past 25 years (FAO 2015), greenhouse gas emissions from agriculture, forestry and other land uses (AFOLU) make up between 20 and 24% per annum of total global emissions (IPCC 2014). Hence, in order to keep global temperature rises to below 2°C, as set out in the Paris climate agreement, it is vital to reduce emissions from land use in addition to decarbonizing the energy sector. The Convention on Biological Diversity (CBD) states that unless governments and other parties take urgent action, it will be difficult to meet the Aichi targets set in 2010 (CBD 2016).

On the other hand, there are social and development issues. For example, about 800 million people are hungry today (Delgado, Wolosin and Purvis 2015). To address food insecurity and feed the expected population of 9 billion people by 2050, food production would have to increase by 60% (FAO 2009).

It is clear that without a different way to use land — both for production and to protect ecosystems — it will be difficult, if not impossible, to meet some of these SDGs. The solution needs to include more efficient use of existing agricultural land and restoration of degraded areas to stimulate rural economic development and reduce pressure to convert more forests (Figure 1).



TO DECOUPLE DEFORESTATION FROM COMMODITY PRODUCTION, ALL STAKEHOLDERS MUST DO THEIR SHARE.

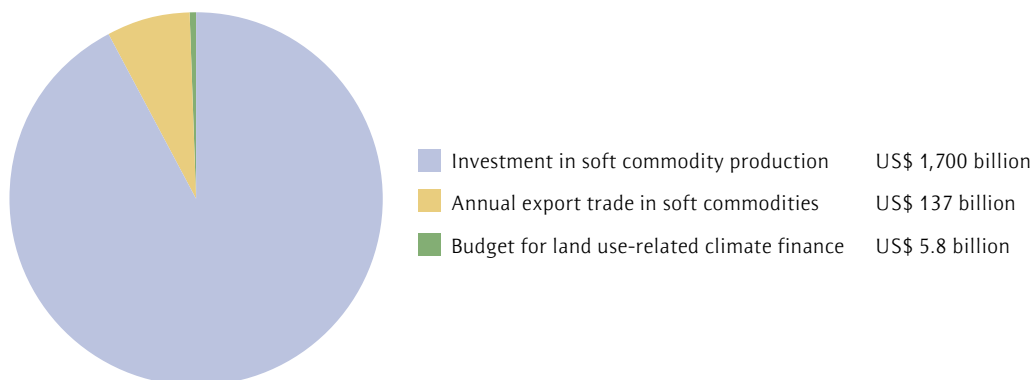
Diversified approaches to finance

A diversified approach that includes both domestic and international and public and private finance is critical to move towards sustainably managing land that can achieve the SDGs. One incentive for developing countries to tackle deforestation and forest

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degradation is the possibility of being rewarded for verified emission reductions or removals against a baseline, called the forest reference (emission) level. Visualizing and pricing carbon increases the market value of tropical forests and stimulates the restoration of degraded land. To date, at least US\$ 10 billion has been pledged, mostly by public donors (Norman and Nakhouda 2014).

Figure 1. Financing sustainable land use, in context



Note: Budget data is 2014.

In addition to international public funding, there are other incentives for developing country governments and the private sector to reduce deforestation. Beyond carbon, most of the benefits of sustaining ecosystem services are accrued by the countries themselves, such as additional fuel and fodder from forests, pollination for agriculture, and attractive landscapes that draw tourists from far and wide. The United Nations Environment Programme calculated that a range of forest ecosystem services provides Zambia with a value equivalent to US\$ 957 million. This corresponds to 4.7% of the country's gross domestic product (UNEP 2015), although many of these values are currently not fully reflected in Zambia's System of National Accounts. That is not to say that these values do not provide real wealth to the Zambian society and economy. On the contrary, sustaining these services should provide national economic motivation beyond any international payments provided by donor governments to reduce deforestation and forest degradation.

Last but far from least are the impacts of finance and trade. The magnitude of private finance invested in the production of commodities that drive most deforestation around the globe is huge: in the order of US\$ 1.7 trillion. Annual trade in soft commodities related to palm oil, beef, soy and timber is around US\$ 137 billion, around half of which originates in illegally cleared land (Bregman 2016). But a growing number of consumers are putting pressure on companies to produce food with lower environmental impact. Given that around 70% of deforestation is caused by the production of palm oil, soy, beef and timber (Kissinger, Herold and de Sy 2012), there is an urgent need for companies across the agricultural value chain — producers, processors, traders and retailers — to decouple the production of such commodities from forest impacts. And their main

motivation does not need to be carbon-related, but rather based on a need to maintain (or regain) reputation and consumer confidence, and to meet more stringent requirements imposed by importing countries.

Decoupling impact from production

At the forefront of increasing efficiency in the agricultural sector are certification programmes and initiatives that decouple production from forest impacts through corporate zero-deforestation and zero net deforestation commitments. Zero deforestation means no forest areas are cleared or converted, while zero net deforestation allows for the clearance or conversion of forests in one area as long as an equal area is replanted elsewhere (Brown and Zarin 2013). One of the platforms that drives change is the Consumer Goods Forum, an organization that includes more than four hundred consumer goods companies, with combined sales of around US\$2.6 trillion. In 2010 the forum recommended that its members achieve zero net deforestation by 2020. Another more recently established platform, which mainly includes companies at the production level, is the CEO-led private sector Global Agri-business Alliance (GAA). It aims to mitigate the impacts of climate change and sustainably manage natural capital, among other goals. Many other relevant initiatives, including the Tropical Forest Alliance 2020 and the Sustainable Trade Initiative, include companies that operate “downstream” in the food supply chain.

These initiatives have stimulated many companies to adopt zero net deforestation policies, but overall, it appears that progress is too slow to achieve the 2020 target for zero net deforestation that many (downstream) consumer goods companies have committed themselves to (GCP 2016). A recent analysis found that 25% of Consumer Goods Forum members had internalized policies and procedures that required their suppliers to provide products that did not lead to net forest loss (Bregman 2016). This means that 75% do not have such policies. In addition, only 5% of agribusiness firms that are not Consumer Goods Forum members have put such zero net deforestation policies in place. In addition, there is scarce information on the effect of the implementation of these policies on the ground in terms of combating deforestation. In 2016 in Brazil, for example, after many years of reduced forest loss, the country reported the loss of 8,000 km², the greatest annual amount since 2008. It is clear that urgent action is required to achieve the objectives as stated by the New York Declaration on Forests: halving natural forest loss by 2020 and ending it altogether by 2030.

Everyone must do his or her share

Achieving success in combating deforestation, climate change and biodiversity loss — while also increasing agricultural productivity and combating poverty — requires companies, government bodies and international organizations to do their share and work together as much as possible (Figure 3). Finance and technological improvements will need to be at the heart of the solution. The following five elements are especially relevant:

1. Remove deforestation from the agricultural sector.
2. Decouple deforestation from the financial sector.

3. Align domestic agricultural policies with efforts to reduce deforestation.
4. Increase international public funding for REDD+.
5. Improve transparency through technological improvements in monitoring.

Remove deforestation from agriculture

This requires the stepping up of corporate policies and implementation towards zero net deforestation. As mentioned, a growing number of consumer goods companies have made such pledges, but the large majority of agribusiness firms still lack such commitments, let alone implementing them. Most companies upstream in the agribusiness supply chain lack forest policies that detail how to decouple the production of beef, soy, palm oil and other commodities from forest impacts. Retailers such as Carrefour, Walmart and others downstream in the supply chain can take concrete actions by requiring suppliers to buy products only from farms and areas that are committed to zero deforestation.

Decouple deforestation from finance

Financial institutions — including institutional investors such as pension, insurance and sovereign wealth funds, banks and fund managers — need to increase their efforts to require clients and investee companies to adhere to zero net deforestation commitments and to require reporting to track progress. Financial institutions can make immediate concrete efforts, such as pledging that a certain percentage of loan and investment portfolios in agriculture, infrastructure and extractive sectors do not contribute to deforestation; and developing new loan and investment products that decouple forest impacts from the production of commodities that cause forest loss (crops, metals, minerals). An excellent example is the Production, Protection and Inclusion Fund, a new facility launched by the Sustainable Trade Initiative, the Government of Norway, UN Environment and the Global Environment Facility in collaboration with major food companies and international NGOs. It aims to trigger private investments in deforestation-free agriculture in countries by requiring strict targets on forest protection or restoration on and off concessions. It provides an opportunity for commercial banks to lend to the agricultural sector at favourable financial terms in exchange for forest protection and restoration. The fund makes this possible by taking away some of the credit risk that banks are exposed to, by taking a junior subordinate debt position, or by providing credit guarantees.



Align agricultural fiscal policies with deforestation

Agricultural subsidies often vastly outweigh funding for forest conservation. Brazil and Indonesia together provided more than US\$ 40 billion in subsidies to palm oil, timber, soy, and biofuel sectors between 2009 and 2012. This is more than one hundred times greater than the US\$ 346 million these countries received through REDD+ to reduce emissions from deforestation and forest degradation, stimulate conservation and sustainable

forest management, and enhance forest carbon stocks (MacFarland, Whitley and Kissinger 2015). International climate funding may not deliver the intended outcomes unless parallel efforts focus on bringing coherence to fiscal incentive frameworks to align sustainable economic growth with food production and reduced deforestation. Governments can make efforts to coordinate analysis and action among relevant ministries, including Finance, Planning, Economic Affairs, Agriculture and Environment, to reform the estimated US\$ 200 billion in conventional agricultural subsidies that require farmers to obtain sustainability certifications for soy, palm oil, timber, etc., and stimulate yield increases on existing land or use of degraded land.

Increase public funding for REDD+

Climate finance related to land use was approximately US\$ 5.8 billion in 2012–13 (Falconer et al. 2015). The International Resource Panel of UN Environment estimated in 2014 that around US\$ 30 billion in annual funding is needed to support developing countries to significantly reduce deforestation. It is crucial for governments to increase financial support to less developed nations to ensure that they will achieve their Nationally Determined Contributions under the Paris climate agreement. Concrete actions that governments can take include the provision of more long-term and predictable funding in the form of results-based payments to developing countries to reduce emissions from agriculture, forests and other land use.

Improve transparency

Governments and businesses must have more reliable ways to track the origin of commodity production, and through that tracking, to advance deforestation-free production. There has been tremendous progress in recent years in the availability and use of satellite imagery to monitor deforestation and see what is happening on the ground, but commodity trade flows continue to be difficult to untangle and track (EU REDD Facility 2016). International initiatives such as Transparency for Sustainable Economies, together with national information systems to track the production, trade and import of commodities, enhances the transparency that is necessary for retailers, governments and finance institutions to know with confidence where products originate.

Conclusions

Flying over Sumatra, Indonesia, in October 2014, one could hardly see the island, since it was covered in smoke and haze from peat and forest fires. The fires were set to clear land for agriculture and to produce palm oil and other commodities. These commodities are consumed domestically and are also traded on international markets and used in all sorts of products thousands of kilometres away. To address the deforestation challenge it isn't sufficient to increase the financial value of carbon through REDD+ alone. A more concerted effort is needed that includes removing deforestation from the finance sector and from agribusinesses up and down the supply chain, as well as concrete government support to make this possible.

All of that has to happen in a context in which more people will populate the planet, mostly in developing countries, with increased needs that will require producing more food and per capita economic growth. Business as usual won't work to resolve these seemingly conflicting issues. The solution will have to include making use of degraded land and enlarging food production on existing land and especially on smallholder farms, and which needs to be stimulated through subsidies and tax rebates, but also by traders and retailers as well as financial institutions along the agricultural supply chain.

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