

Public, Private Finance for Forests Converge at Climate Tipping Point

Ecosystem Marketplace tracks record demand for forest carbon offsets in 2014

3 November 2015 | Washington, D.C. | Companies and governments around the world committed US\$705 million in new finance in 2014 to enhance the role of forests in combating climate change, according to a report released this week by Forest Trends' Ecosystem Marketplace, [*Converging at the Crossroads: State of Forest Carbon Finance in 2015*](#).

Over the last decade, private and public sector actors have provided a cumulative \$5.1 billion to initiatives that aim to keep threatened forests standing, promote carbon-conscious land management, and plant new trees. But last year marked the first time that market-based payments for verified emissions reductions – a record-high \$257 million for 34.4 million tonnes of offset greenhouse gases – exceeded the \$229 million in new “readiness” payments intended to help tropical forest countries build capacity to halt deforestation under the United Nations' Reducing Emissions from Deforestation and forest Degradation (REDD) mechanism.

The jump in results-based finance last year was thanks in large part to a 200% increase in demand for forest carbon offsets on regulatory markets, namely in California and Australia, with voluntary demand also growing 18%. An additional \$219 million in finance arrived in the form of non-market, bilateral payments from the Norwegian and German governments to help reduce tropical deforestation in Brazil and Guyana. Together, these payments for emissions reductions accounted for two-thirds of new forest carbon finance in 2014.

This new dynamic is a departure from years past, when public-sector readiness finance far outweighed payments for emissions reductions, and voluntary offset volume dwarfed the nascent compliance markets. The shift indicates that the previous focus on capacity building is giving way to an emphasis on implementation, with at least \$1.2 billion in new results-based finance “on the table” for tropical forest countries in the near future. Most government-to-government payments estimate a carbon price of \$5/tonne, whereas market-based prices recovered slightly since 2013, averaging \$5.4/tonne.

“We’re at a critical crossroads in the fight to save tropical forests, and with them, our chance at a livable climate,” said report author Allie Goldstein. “The majority of the money meant to get countries ‘ready’ to receive results-based payments has been disbursed, and now it’s time to pay for emissions reductions.”

Deforestation and forest degradation currently accounts for 10% to 15% of global greenhouse gas emissions, so this report is especially timely in the run-up to the highly anticipated UN climate negotiations in Paris. According to Ecosystem Marketplace's analysis, at least 57 climate plans submitted to the UN by developing countries include two sets of emissions reductions targets – the more ambitious goals being “conditional” on international finance – and 29 developing countries specified that they plan to implement a national REDD+ framework or sell REDD+ offsets.

“Tropical forest countries are poised to make huge contributions to climate change mitigation by pursuing development pathways that treat standing forests as their greatest asset,” said Forest Trends President and CEO Michael Jenkins. “But they need a strong signal that companies and developed country governments are ready to pay for those assets. The Paris negotiations need to pave the way for the continued expansion of performance-based finance for emissions reductions.”

The future of forest carbon finance is very much dependent on policy developments at the national and international level. *Converging at the Crossroads* considers how positive or negative policy signals may affect voluntary demand in the next decade. On the compliance side, California’s cap-and-trade program stands to add another 40 MtCO₂e in demand for REDD+ offsets through 2020, if state regulators open the market up to offsets from carbon projects located outside the U.S. However, long-term plans hinge largely on policy at the national level in Brazil.

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***Ecosystem Marketplace**, an initiative of Forest Trends, is a leading source of news, data, and analytics on markets and payments for ecosystem services such as water quality, carbon sequestration, and biodiversity. Ecosystem Marketplace works through a range of qualitative and quantitative analyses to link practitioners and decision-makers with each other and advises companies, governments and other NGOs on carbon/forest carbon market developments, transparency, social and environmental co-benefits and other mechanisms.*

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