



IMPACT

2019 REPORT

Carbon Markets:
Financing Emissions
Reductions for the Future

“We End Forest Loss in the
Amazon through Investment
in the Indigenous Frontline”

A Dispatch
from the Mekong

A Roadmap for
Raising Billions in New
Climate Investments

Why Peru is the
Greatest Climate
Action Story You've
Never Heard of

Photograph: Carol Pamela Gaspar Villaverde

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Every year, our Ecosystem Marketplace team benchmarks the size, scope, and direction of markets for voluntary carbon offsets. This year's just-released State of the Voluntary Carbon Markets report shows that markets are booming, thanks to growing interest in financing natural climate solutions like tree-planting.



Looking Back on Two Decades in the Greater Mekong: "We Can Prevent Deforestation Long Before it Happens."

Illegal deforestation persistently undermines global efforts to fight climate change. For that reason, we've pioneered new strategies to combat the illegal timber trade. Founder and CEO Michael Jenkins and Director of the Forest Policy, Trade, and Finance Initiative Kerstin Canby recently sat down for a wide-ranging conversation on the history of our work in the Greater Mekong over the last two decades, and what comes next.

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An Investment in the Countryside Is an Investment in the City

Lake Piuray supplies nearly half of Cusco's potable water, making it a critical resource for this growing city that is also one of Peru's most important tourism hubs. There's something else special about the lake: it is the focus of an innovative agreement that safeguard Cusco's water quality at the source, while expanding access to rural sanitation for upstream communities.



A New Decade

WHEN WE FOUNDED FOREST TRENDS TWENTY YEARS AGO,

I wanted this organization to be nimble – to be able to move fast when opportunities arose. But even by our standards, the pace has been extraordinary this year.

I've just returned from a visit to our new office in Lima, Peru. We're working with an incredible coalition of partners to support the Peruvian government as it transforms its water sector from one that thinks only in terms of engineered "gray" infrastructure projects to ensure water security, to one that considers "natural" infrastructure as part of its portfolio of assets. All around the country, dozens of water utilities are incorporating activities like ecosystem restoration and sustainable agriculture into their asset planning. Healthy landscapes mean cleaner, more reliable water supplies are coming in to utilities' intake pipes.

New data unveiled last month at a national forum in Lima included an amazing finding: investments in natural infrastructure in Peru increased by 30x in the last five years. Those numbers speak volumes about the impact of our work.

Forest Trends' story in Peru began in 2010 with an Incubator for Ecosystem Services. We supported the Ministry of Environment on its groundbreaking Payments for Environmental Services Law in 2014 and engaged Peru's national water regulator on reforms that allow water utilities to spend their funds on



Photograph: Julio Angulo Delgado

I think we are all realizing just how big the global push for climate and environmental security is going to have to be. But in Peru and in many other places, that shift is already happening.

natural infrastructure. We developed cost-benefit curves — the first of their kind — to show Lima's water utility how simple interventions like rotational livestock grazing and restoring ancient pre-Incan infiltration systems could deliver the same amount of water as major new public works like desalination plants, but at a fraction of the cost.

These advances laid the groundwork for a \$130 million public funding mechanism in 2015 to drive investments in natural infrastructure for water security and climate resilience. In 2018, USAID and the Government of Canada made an additional major \$28 million commitment to the Natural Infrastructure for Water Security project in Peru to build on these efforts, led by Forest Trends and partners.

Today, we're building a portfolio of cutting-edge projects on the ground, advising on policy, and working with utilities and government leaders to build a broad coalition for natural infrastructure. Our groundbreaking research on how 1,400 year old indigenous water management systems can increase water supplies in Lima by 33% during the dry season was recently highlighted in the prestigious scientific journal *Nature Sustainability* and in *National Geographic* (see page 20). We launched a leadership development program for women working in the water sector and have secured commitments to better gender inclusivity from all of the major government agencies and institutions that manage water in Peru.

What's amazing is that much of this work began with a few hundred thousand dollars in unrestricted funding from the D.N. Batten and MacArthur Foundations, which we were able to use for project incubation and coalition-building. In a few years, we turned that into \$28 million in programmatic grants, which in turn leverages \$130 million in public funds from utilities and millions more from the private sector and other actors.

For our 20-year anniversary, we've launched a Catalytic Campaign to raise funds to allow us to repeat this story in the other places where we work. Many of those reading this report joined us for our twentieth anniversary celebration in late October. It was an incredible and energizing evening, and we are so grateful to those who came out to celebrate with us. If you weren't there, we hope to find ways to connect with you this year, wherever you are.

As you read this, I'm on my way home from the COP25 climate negotiations in Madrid. I think we are all realizing just how big the global push for climate and environmental security is going to have to be. But in Peru and in many other places, that shift is already happening. In the United States, the ecological restoration industry is a \$25 billion-a-year sector that supports more jobs than logging, coal mining, or iron and steel. Yet the average policy-maker or investor has still never heard of it.

I think 2020 is the year that that changes. I hope you enjoy the stories in this report about our work this year, and that you join us with in the great work ahead of us.

My very best,

Michael Jenkins
Founding President and CEO



State of the Voluntary Carbon Markets 2019

Forest Trends' Ecosystem Marketplace has benchmarked voluntary carbon markets every year since 2006. In doing so, we've helped answer fundamental questions about the size, scope, and direction of voluntary offsets. Our *State of the Voluntary Carbon Markets* reports are the gold standard for international financing institutions, governments, businesses, and private investors looking to go "carbon neutral" or understand emerging investment opportunities.

New data from the United Nations shows that carbon emissions are still rising every year. Carbon offsets are one of the tools we have to reverse that trend. Offsets are a ready-to-go solution while the world undergoes

necessary – but slower – structural transitions in its energy and transportation systems. Some emissions are also nearly impossible to totally eliminate (i.e., emissions from the airline industry). Offsets allow a way for those emitters to still be carbon-neutral, or even carbon-negative.

This year's report, released at the climate negotiations in Madrid, finds voluntary carbon offsets at a tipping point. Major new sources of demand have materialized, including from airlines and the energy sector. And buyers are showing unprecedented enthusiasm for offsets that finance nature-based climate solutions, such as tree-planting and forest protection.

TRANSACTIONED VOLUNTARY CARBON OFFSET VOLUME, VALUE, AND WEIGHTED AVERAGE PRICE BY PROJECT CATEGORY, 2017 AND 2018

	2017			2018		
	Volume MtCO ₂ e	Average Price	Value	Volume MtCO ₂ e	Average Price	Value
Forestry and Land Use	16.6	\$3.4	\$63.4M	50.7	\$3.2	\$171.9M
Renewable Energy	16.8	\$1.9	\$31.5M	23.8	\$1.7	\$40.9M
Waste Disposal	3.7	\$2.0	\$7.4M	6.1	\$4.8	\$29.5M
Household Devices	2.3	\$5.0	\$11.8M	4.5	\$2.2	\$10.0M
Chemical Processes/Industrial Manufacturing	2.6	\$1.9	\$4.9M	2.8	\$2.8	\$7.8M
Energy Efficiency/Fuel Switching	1.1	\$2.1	\$3.3M	2.5	\$3.1	\$7.9M
Transportation	0.1	\$2.9	\$0.2M	0.3	\$1.7	\$0.5M

Key Findings

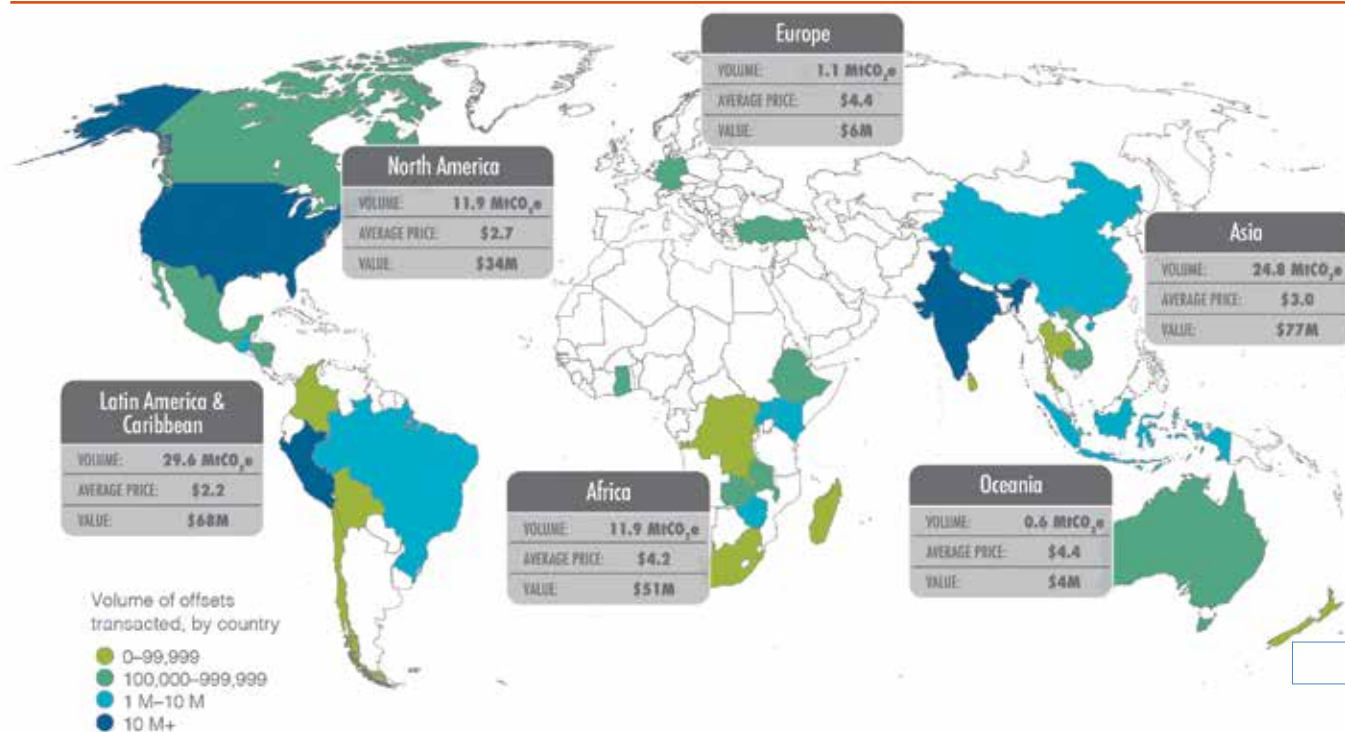
- **We tracked a near all-time high for voluntary carbon markets last year.** Companies and other organizations purchased offsets representing emission reductions equivalent to 98.4 MtCO₂e, or more than the annual emissions of the entire country of Qatar. Total market value hit \$295.7 million. This represents a 53% increase in volume and a 49% increase in value in the last two years.
- **Market highs were fueled by interest in nature-based climate solutions.** Transacted volume for offsets generated through tree planting, forest protection, and other projects from sustainable forestry and land use jumped 264% between 2016 and 2018. Volume for other offset types (such as renewable energy and energy efficiency) by comparison grew just 21%.
- **More than 99% of projects said they used a third-party standard to certify their projects** – meaning that they have completed a rigorous process to ensure that real, quantifiable emissions reductions have been achieved.
- **The biggest boom was in Latin America**, which originated 37% of total volume tracked worldwide in 2018, led by Peru. The vast majority of Latin American

A carbon offset is defined as an instrument representing the reduction, avoidance or sequestration of one metric tonne of carbon dioxide or greenhouse gas equivalent. An individual, company, or other entity can buy offsets to manage their overall emissions footprint.

offsets come from sustainable forestry and land use. Asia as a region accounted for the second-highest volume of voluntary offset credits in 2018, led by renewable energy offsets from India and China and tree-planting offsets from Indonesia.

- **We're still gathering information for 2019, but it is on track to be an even bigger year than 2018** as enthusiasm for nature-based climate solutions grows and new buyers continue to flood the market. 🌱

VOLUNTARY CARBON OFFSET MARKET SIZE BY PROJECT REGION AND COUNTRY, 2018



Deforestation in the Amazon in 2019 hit its highest level in a decade, largely because of small farmers and land speculators clearing land to graze cattle or grow soybeans.

As a result, the region is dangerously close to the point of no return. A relatively small increase in deforestation could cause the entire Amazon to “flip” to a savanna-like ecosystem, according to scientists. That could alter rainfall patterns across South America, disrupt water supplies in Brazil, and decimate biodiversity we are only just beginning to understand.

This destruction is an economic problem, and fortunately we have economic solutions. Hundreds of companies have made ambitious public commitments to eliminate agricultural commodities associated with deforestation from their supply chains. Governments have contributed billions to carbon finance programs that pay forest managers to protect and restore natural carbon sinks.

We End Forest Loss in the Amazon Investment in the Indigenous



The Yawanawa Cultural Festival, Rio Gregório Indigenous Territory, Acre, Brazil, 2014.

The European Union released a plan this year to keep commodities produced on deforested lands from entering European markets. That may be a harbinger of a shift to stronger trade measures in the future.

But a crucial piece of the strategy is missing.

To stabilize the forest frontier, we need to invest directly in the communities living there. Indigenous and traditional communities control one-third of remaining tropical forests. Over nearly twenty years working in Brazil, we've witnessed that deforestation rates are significantly lower

in the forests controlled by our indigenous partners than in surrounding forests.

We believe they are the best guardians of the forest, and the unrecognized frontline in climate action.

Strategic investments in forest-based enterprises in these communities create an economic engine that keeps forests intact. Relatively small injections of funding yield massive returns for the planet in terms of climate mitigation.

Guarding the Amazon means local-scale projects, like technical support for community enterprises that bring forest products like cocoa, paiche fish, *aji negro*, and Brazil nuts to market, where a growing community of foodies and conscious consumers awaits. These value chains increase local income and keep forests intact.

For example, projects scaling up Brazil nuts value chains for indigenous groups are already yielding benefits for both indigenous producers and Amazon forests. Increasing Brazil nuts production requires mapping existing nut trees and opening new harvesting sites, in doing so providing resources for the bigger picture: helping communities patrol their lands for illegal incursions by speculators, cattle ranchers, loggers, and miners.

Strategic investments in forest-based enterprises in these communities create an economic engine that keeps forests intact.

Together with partners including Original Beans, GoSol solar, and Canopy Bridge, Forest Trends has seen similar success supporting value chains for honey, babassu (an alternative to coconut oil), açai berries, and wild cacao. These products can be cultivated and harvested without chopping down trees.

Strong forest-based economies are not limited to food products. The artisan sector, often dismissed as “women’s work,” is the second-largest employer in the developing world, and an incredibly important source of income for women. Thanks to long-standing support from the IKEA Foundation, we have focused on indigenous women’s artisan enterprises in the Brazilian Amazon as a cornerstone of our work.

Markets are not a panacea, and indigenous and traditional communities must be able to participate in

The Indigenous Frontline against Deforestation

Amazon through the Indigenous Frontline



Markets are not a panacea, and indigenous and traditional communities must be able to participate in markets on their own terms.

markets on their own terms. There are still many communities striving to strike a balance between market engagement and their land, traditions, and well-being. Economic investment must be paired with support for communities to strengthen capacity to manage their lands and resources, advocate for their rights with often-hostile governments, and defend their territories.

Enforcement of the environmental laws already on the books in Brazil – which are some of the most progressive in the world – is the third leg of the stool. Efforts to weaken environmental legislation and the government agencies responsible for that legislation's enforcement are extremely concerning.

But in fact, a strategy of forest-based economic development must be part of the solution to the Amazon. Such a strategy reduces the dependence of rural areas on economic support from the national government, and respects the sovereignty of the Brazilian people.

And, of course, small investments in community enterprises on the forest frontier yield incredible returns.

At the individual level, they increase incomes and create economic independence for women. At the local level, they strengthen resource governance and defense of local forests. Nationally, they support economic growth and contribute to countries' emissions reductions and adaptation goals. And globally, we all benefit by protecting



Mixing açai, Rio Gregório Indigenous Territory, Acre, Brazil, 2017.

the most important carbon sink on the planet: the Amazon Basin.

A strategy of forest-based economic development must be part of the solution to the Amazon.

From our perspective, that is an incredible return on investment. It is also a powerful lesson. For millennia, Indigenous people have created a carefully cultivated garden out of the Amazon, proving that it is possible to balance economic and ecosystem health. To stop deforestation, we can learn from that example, re-imagining an Amazon economy that thrives when its forests and people do. 🌳

Beto Borges is Director and Iza Hoyos is Manager of Forest Trends' Communities and Territorial Governance Initiative (CTGI). CTGI partners with indigenous and other forest communities on innovations to secure their rights, livelihoods, and cultures, through a strategy built on advocacy, economic self-determination, and cultural integrity.

OUR IMPACT



Communities

SEPTEMBER 2018 Illegal mining forces the suspension of our groundbreaking indigenous-led forest carbon project with the Paiter-Surui people in Brazil.

SEPTEMBER 2018 The Governor's Climate and Forests Task Force unanimously endorse principles for collaborating with indigenous peoples at the Global Climate Action Summit - a key result in our efforts to create platforms for indigenous peoples to participate in high-level climate policy discussions.

OCTOBER 2018 The Accelerating Inclusion and Mitigating Emissions project concludes. This five-year, \$13 million program increased participation of indigenous and traditional communities in climate policy, markets, and finance. Key impacts include:

- Livelihood improvements for more than 18,000 people
- Rights of indigenous peoples newly recognized in seven new climate and rural development policies in South America
- \$6.8 million in public and private finance leveraged for forest-friendly enterprises

NOVEMBER 2018 Forest Trends and GoSol.solar announce a new partnership connecting indigenous communities with solar technologies, which allows them to efficiently and sustainably process marketable products like cacao, coffee, and Brazil nuts.

SEPTEMBER 2019 California's Air Resources Board approves the Tropical Forest Standard, which sets the stage for tropical forest jurisdictions to link to California's cap-and-trade program. Forest Trends and partners have worked since 2014 to ensure inclusion of indigenous and community leaders in the Standard's development, and to provide science-based evidence on the potential climate impact of tropical forest protection. 🌳





“We can prevent deforestation long before it happens.”

Fishing on the Mekong River, Can Tho, Vietnam

LOOKING BACK ON TWO DECADES IN THE GREATER MEKONG

Illegal deforestation persistently undermines global efforts to fight climate change.

For that reason, for nearly twenty years Forest Trends has pioneered new strategies for tracing the flows of illegal timber across the world, and for working in both producer and consumer countries to prevent deforestation.

Forest Trends was the first organization to show that commercial agriculture – the palm oil, soy, beef, and timber supply chains that stretch around the globe from tropical countries into your shopping cart – is responsible for over 70 percent of forest loss in tropical and sub-tropical countries. Much of that conversion takes place illegally.

The Greater Mekong Region is at the heart of our work to prevent deforestation.

It's home to spectacular beauty, abundant natural resources, and more than 300 million people spread across Cambodia, Lao PDR, Myanmar, Vietnam, Thailand, and China. Yet the Greater Mekong has been gripped

by conflict and political crises, creating in many places conditions ripe for illegal forest conversion.

Forest Trends is credited with first opening the dialogue with the Chinese government on China's imports of illegally harvested logs, nearly two decades ago.

Since then, we have helped to shape trade deals blocking exports of illegal timber from Vietnam and Laos, and were a driving force in harmonizing laws to prevent illegal timber imports into the US, EU, and nations in the Asia Pacific.

Our data on trade flows in illegal timber influenced a ban on unprocessed wood exports from Laos, resulting in a steep drop in illegal trade in 2017.

Most recently, with our work in Myanmar, Forest Trends is a pioneer in the new field of environmental peace-building.

Our founder and CEO, Michael Jenkins, and Director of the Forest Policy, Trade, and Finance Initiative Kerstin Canby recently sat down for a wide-ranging conversation on the history of Forest Trends' work in the Greater Mekong over the last two decades, and what may come next.

[This conversation has been edited for length and clarity.]



MICHAEL JENKINS: We really began looking at forest conversion and illegality when we came to a realization that all the well-intentioned conservation projects in the world can't compete when illegal logging and commercial agriculture are so lucrative.

There are very powerful financial incentives that you're up against. We knew we needed to find a strategy that addressed that if we wanted to prevent deforestation.



KERSTIN CANBY: Right. We also saw that where you found forest conversion, you also tended to find land rights abuses and corruption. We saw that poor governance could undermine good conservation policies at every turn, and hurt communities. That's why

we've focused on governance issues from the beginning.

JENKINS: And of course governance is very complicated.

CANBY: It's very difficult to root out corruption and build strong governance systems to manage forests sustainably and prevent deforestation. It will take years.

Our strategy has been to work at the problem from both ends: in producer countries in the Mekong Region we work with in-country partners to advocate for sound policy, transparency, and civilian oversight. We want governments of these countries to see illegal conversion and logging as a threat to their governments and economic growth. At the same time we work to put the squeeze on the trade in illegal timber at the consumer-country end.

By design, we're a small, nimble organization, so when we see an opportunity, that's where we jump. That's what happened with the opening in China.

JENKINS: When we started Forest Trends in 1999 we had this vision: if we recognize the economic values of nature, markets for ecosystem services will bloom, and we'll mainstream nature into commerce.

What happened instead was China had made a decision to ban logging in their forests around 1998, after some

major floods in deforested areas in which lives were lost. And suddenly the map of timber flows changed. Timber that was moving mostly into Japan and Europe almost overnight switched to China. It was coming from the Russian Far East, Southeast Asia, East Africa — all places with poor governance at the time. We saw there was a missing piece in our theory of change. We needed to move China as a consumer of timber to demand legality and sustainability.

CANBY: Governments were drawn to payments for ecosystem services as a new idea, but as long as cheap illegal timber undermines you, payments for ecosystem services won't work to prevent deforestation.

We put together a series of papers in 2002 and 2003 tracking the footprint of the recent Chinese policy to stop harvesting timber domestically, showing the impact of Chinese demand on countries like Papua New Guinea, Laos, Cambodia, Mozambique, and the Russian Far East. We saw ripple effects. China was essentially exporting environmental damages to countries with weak governance, and making both legal and illegal trade channels into China even more lucrative.

That was a time of opening in China. At that time we had a good dialogue with the Chinese government, built through our previous work on grasslands policy. They were comfortable talking to us and saw us as researchers, not an advocacy group. Our reports focused on data, and we always worked with Chinese researchers to produce data with us.

That was why Chinese officials were willing to talk to us about illegal timber. It was a long trust building exercise.

JENKINS: As a result of the harvesting ban, China was like this giant vacuum sucking up timber from around the world. That was the reality for a year or two. But what we discovered was that it was already starting to become the world's woodshop. Within a few years, it would become a major exporter. China would import illegal or high-risk

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timber from tropical countries and produce furniture for companies like Ikea, and export it to Europe and the US.

Trade flows are very dynamic. Even as China was beginning to engage in looking at illegal timber, we realized things were already shifting to Vietnam.

CANBY: By 2006 or 2007, Vietnam was becoming a mini-China in terms of wood processing. Luckily, we've found that the government has been responsive. They're really working on putting in place strong regulations and traceability.

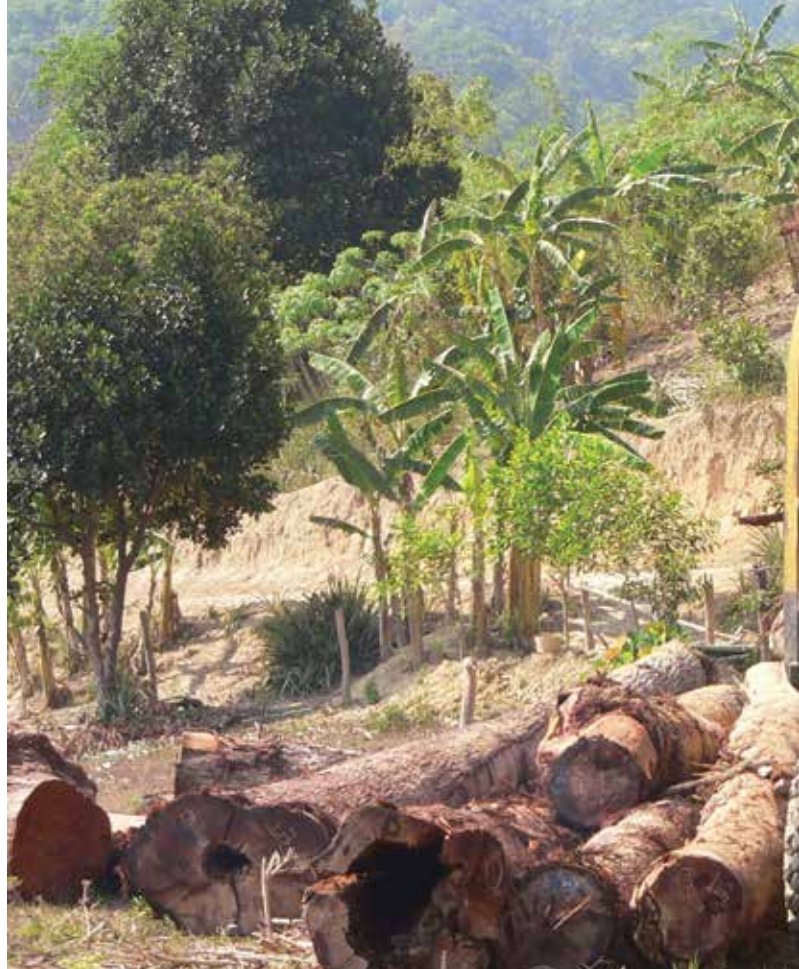
Over the years a lot of the wood entering China is starting to stay in China, especially high-value species. But Vietnam is still exporting a lot to the EU and US. That gives us more leverage through the EU Timber Regulation and the US Lacey Act. We can work from the demand side to put pressure on bad actors to prevent deforestation.

JENKINS: Asian countries, as they've become larger importers of timber, are also developing import regulations. We've seen this happen in China, Japan, [the Republic of] Korea, Vietnam, Indonesia, and Malaysia over the last couple years. The incentive structure is changing for companies to only deal in legal timber.

CANBY: Of course, enforcement will be the key. But in places like Laos, where our trade data was one of the drivers behind the government banning the export of logs and sawnwood, regulations have been pretty successful. The government in Laos seems committed to addressing corruption in natural resource management. Cambodia is maybe another story.

“Much of the last remaining forests of Myanmar are located in the territories under the control of ethnic groups. It'd be like if California was controlled by rebel groups, but you were only talking to the federal government about forest management in California. It just doesn't make sense. So we decided we were going to talk to the rebel groups.”

“We can prevent deforestation long before it happens.”



JENKINS: When we started looking at these issues in Myanmar, we stumbled into an entirely new field – what we call environmental peace-building.

CANBY: Myanmar was just opening up in 2014-15. We felt strongly from the beginning that any forest sector reform process also needed to be working with ethnic political organizations, even as fighting between their armed groups and the Union government continued.

Much of the last remaining forests of Myanmar are located in the territories under the control of ethnic groups. It'd be like if California was controlled by rebel groups, but you were only talking to the federal government about forest management in California. It just doesn't make sense. So we decided we were going to talk to the rebel groups.

JENKINS: Natural resources can be a driver of conflict. But they can also become a table for everyone to meet around. You're at the edge of democracy, at the negotiating table – forests become a way in.

CANBY: Two ethnic groups that we've worked with have their own forestry departments, with their own policies and forest laws. We thought, if we work with them on their policies, we can put in seeds of ideas that will help them have forest policies that are up to international standards, and reflect local priorities rather than the priorities of the



Forest clearing for agricultural plantations in Cambodia
Photograph: Marcus Hardtke

central government. Things like Free Prior and Informed Consent, traceability, and anti-corruption measures.

It gives these groups a clear negotiating stance when they're negotiating a peace agreement with the Union government.

JENKINS: Something like fewer than 15 percent of peace agreements cover resource use. But we know that natural resources can fuel violent conflict. As countries are going through the post-conflict peace process, we see an opportunity to create structures to ensure good governance, and to make sure that local populations are sharing in benefits from natural resources.

CANBY: We want to put what we call "integrity mechanisms" in place before the vested interests arrive. Once someone gets put in charge of the forestry department and becomes a millionaire through corrupt means, they have the power to make sure anti-corruption measures are never put in place.

JENKINS: We can prevent deforestation long before it happens. It's a new way of thinking about these issues. 🌱

OUR IMPACT

Forests

MARCH 2018 We expand our Timber Regulation Enforcement Exchange (TREE) to the Asia-Pacific region. For six years, TREE has helped officials in the US, EU, and Australia coordinate to enforce laws keeping illegal timber out of consumer markets. Now we're also working with Asian countries developing their own legislation to tackle the trade in illegal wood, including Japan, South Korea, Indonesia, and Vietnam.

MAY 2019 We publish explosive new research on ethnic minority smallholders in Vietnam's rubber sector, who are losing land and livelihoods as a result of a government-backed contract farming model. Our work draws the attention of the Prime Minister's office and National Assembly of Vietnam. Since then, we have worked closely with the state-owned Vietnam Rubber Group to improve policies affecting over 15,000 farmers.

JUNE 2019 The Korean Forest Service requests our assistance in adopting new timber tracking technologies to enforce import controls designed to keep illegal timber from entering the country. These technologies allow Korea to use species identification and isotopic analysis to confirm that "proof of legality" paperwork is legitimate – a major breakthrough in stopping high-risk wood entering Korea from Vietnam, China, and other markets.

OCTOBER 2019 Our latest work reveals how natural resources and land ownership issues are being ignored in Myanmar's peace negotiations, even though these issues are at the heart of ethnic stakeholder demands. Our experts publish recommendations for "unsticking" the peace process with a new focus on resources (see page 28 for more on this work). 🌱



REFLECTIONS OF EQUALITY: Women and Water

See the winners of our photo contest in Peru highlighting the role of women in safeguarding water resources. We're working with our partners to create new leadership opportunities for women in the water sector.

Photograph: Víctor Neper Contreras Bardales



Photograph: Juan Carlos Casafranca Sayas

IN PERU, through our Natural Infrastructure for Water Security project, we're working to reduce the gender gap in the water sector. With our partners, we're promoting female leadership and greater participation of women in decision-making on water management, and emphasizing how their knowledge and contributions are fundamental to ecosystem conservation.

In the lead-up to our "Gender Equality and Water Security" Forum in June, we launched a national photo contest to increase visibility on the role of women in water resources management.

We received hundreds of submissions. The winning photos show the challenges



Photograph: Luisenrique Becerra Velarde



Photograph: José Junior Fernández Crisostomo

that women face in ensuring water security for their families and communities. The images also convey the tremendous strength, knowledge (both personal and traditional), and care with which their subjects manage water sources.

Each photo and story transports us to communities across Peru, a country that is home to abundant and overwhelming natural wealth. We are reminded of the fragility of these ecosystems, and the need to ensure water security for all Peruvians by protecting its "natural infrastructure."



Photograph: Ana María Castañeda Cano



Photograph: Juan Patiño



Photograph: María Angélica Villasante Villafuerte



Photograph: John Michael Ramon Taya



Photograph: Luisenrique Becerra Velarde



Photograph: Julio Angulo Delgado

A Pre-Incan Technology Gets a Second Look as Peru Grapples with 21-Century Water Risks

LIMA, PERU IS THE SECOND-LARGEST desert city in the world, after Cairo. Despite efforts to build new reservoirs and to transport water from the headwaters of the Amazon to the thirsty Pacific coast, Lima's nine million inhabitants still face a water deficit every year during the driest months.

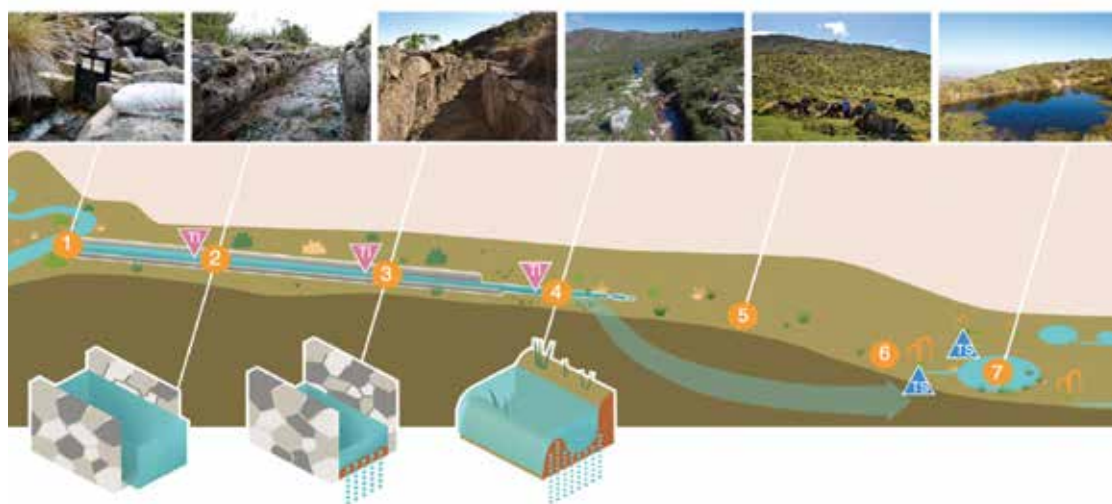
To simply build new reservoirs to store more water is an imperfect solution. Climate change will affect rainfall and water availability in Peru in unpredictable ways. Water managers run the risk of making expensive long-term investments in large fixed infrastructure systems that are in the wrong place or don't actually perform as designed.

To hedge their bets, Peruvian leaders are considering more flexible and lower-cost approaches to water security. And as it turns out, one solution for Lima's water deficits already exists: a water infiltration system developed by pre-Inca cultures to handle climate variability in the Andes 1,400 years ago.

The *Natural Infrastructure for Water Security* project in Peru, a coalition of partners led by Forest Trends, carried out first-of-its-kind scientific research to gather evidence that these infiltration systems, known as *amunas* (Quechua for "to retain") could actually help Lima's water woes.

The results, recently published in the prestigious journal *Nature Sustainability*, showed that restoring these ancient systems could increase the volume of river flows to Lima during dry months by an astounding 33%. They also show how indigenous knowledge and technologies around the world deserve a closer look, as we plan for how we're going to cope with water and climate risks. 🌱

PRE-INCAN SYSTEMS FOR ENHANCING INFILTRATION



During the rainy season, the infiltration system captures water and channels it to prime areas for natural infiltration. There, water soaks into the earth, to emerge weeks or months later in springs and streams downhill. That time delay means that during the dry months, springs continue to provide reliable supplies of water.

Elements include: Diversion channels (1 and 2), infiltration channels (3 and 4), infiltration hill slopes (5), springs (6), and ponds (7). Our team injected a dye tracer into diversion and infiltration channels upslope and monitored its later emergence in springs downslope using activated carbon samplers. Tracer injection (TI) and tracer sampling (TS) points are marked schematically in the diagram.

Citation: Ochoa-Tocachi, B. F., Bardales, J. D., Antiporta, J., Pérez, K., Acosta, L., Mao, F., ... & Gammie, G. (2019). Potential contributions of pre-Inca infiltration infrastructure to Andean water security. *Nature Sustainability*, 1.



+ OUR IMPACT

Water

JUNE 2018 USAID and the Canadian government commit \$27.5 million to our Natural Infrastructure for Water Security project in Peru.

NOVEMBER 2018 At Peru's first National Water Summit, senior executives and general managers of 23 water utilities ratify the Piuray Declaration, committing to improve water security in Peru by conserving and restoring natural ecosystems.

MARCH 2019 Our Water Week television, radio, and print media campaign reaches approximately 6 million Peruvians and over 300 policymakers and advisers, highlighting how urban water supplies depend on healthy upstream ecosystems.

JUNE 2019 Multiple new commitments are made to address the persistent gender gap in the water sector at the Gender Equality and Water Security Forum in Lima, convening 350 policymakers, advisers, and local leaders. A companion media campaign reaches 6.4 million Peruvians.

AUGUST 2019 Our work showing how restoring 1,400 pre-Incan water management systems could increase water supplies in Lima by 33% during dry months is published in the prestigious scientific journal *Nature Sustainability* and featured in *National Geographic* and at TEDxCuenca.

NOVEMBER 2019 New data shows that investments in nature-based solutions for water security in Peru grew 30x in just the last five years. The findings, which suggest that our work in Peru for the last decade is successfully mobilizing significant new funding for natural infrastructure, are presented at a major national forum in Lima. 🌱



How Can Investors Accountable for

What are the greatest drivers of deforestation?

The answer may surprise you.

Forest Trends was the first to show that commercial agriculture is responsible for at least 70 percent of tropical forest destruction. The commodities most strongly linked to tropical deforestation are palm oil, soy, timber & pulp, and cattle. These “Big Four” commodities end up in products that are found in virtually all consumer goods: from hamburgers and clothing to furniture and paper products, as well as in less obvious places like animal feed and packaging materials.

Climate solutions like switching to renewable energy and transforming the transportation sector get a lot of attention in media and policy discussions. **But deforestation actually makes up 20 percent of global greenhouse gas emissions.** What’s worse, we don’t need to be clearing these forests to feed the world. We can end pressures on our forests with better legal protections, increasing productivity on existing agricultural lands, and through demand-side measures like reducing food waste and switching to more plant-rich diets.

Major corporations (as well as their investors) have begun to ask whether tropical deforestation is embedded in their own commodity supply chains. In 2010, the Board of the Consumer Goods Forum, an industry association

comprised of roughly 400 companies, passed a resolution to achieve Zero Net Deforestation in cattle, soy, palm oil, and pulp & paper supply chains by 2020.

Unfortunately, it has become clear that these companies will not meet their 2020 deadline.

This has some investors, who are starting to see deforestation as a systemic risk in their portfolios, very worried. In September, as the world watched the Amazon rainforest burn, asset managers and institutional investors representing \$16.2 trillion in assets signed an open letter calling on companies to move faster and threatening loss of access to markets. Dozens of shareholder resolutions have recently been filed with companies demanding action on deforestation.

But investors need better data on what companies are actually doing, and whether they’re living up to their commitments. Forest Trends together with the nonprofit Ceres has been working to benchmark actual progress on corporate pledges to eliminate deforestation from their supply chains. A review of 865 companies with forest-risk exposure found that:

- Only half (56%) of companies with forest-risk exposure analyzed have set sustainable commodity commitments. The other 44% have so far been silent.



Hold Companies Deforestation?

- Most commitments fall short of “zero deforestation.” Fewer than one in ten companies have specifically committed to achieve zero/net deforestation for at least one commodity in their supply chain.
- Even within the group of companies pledging to take bold action, a minority of companies (29%) are disclosing quantitative progress toward their goals.

Investors worried about exposure to material and reputational risks from deforestation are right to be worried about this gap between commitment and action. Forest Trends and Ceres, along with other

partners, continue to work with companies, investors, and other stakeholders to close this gap.

Through Forest Trends’ Supply Change initiative (supply-change.org), we’ve built an online platform to increase transparency on corporate action on deforestation. Users can explore company commitments and progress, helping them make more informed investment and purchasing decisions and hold companies accountable.

Supply Change also provides expert advice to companies and investors on practical strategies to produce and source commodities responsibly. In 2019, we worked with

the United Nations Environment Program Finance Initiative and the International Finance Corporation to zero in on palm oil in Indonesia and beef in Paraguay. Working together, we found new opportunities for companies, investors, and governments to more effectively tackle forest risks embedded in commodity supply chains. 🌱

Variation in Companies’ Sustainable Commodity Commitments and Progress Reporting on Zero Deforestation (ZD) Commitments

865 Companies with Exposure Tracked by Supply Change	
484 Companies with Commitments	381 Companies without Commitments
72 Companies with ZD Commitment(s)	412 Companies without ZD Commitment(s)
21	51 Companies with and without Progress Reporting on ZD Commitment(s)

CUSCO, Peru

An Investment in the Countryside Is an Investment in the City

Lake Piuray, Peru.
Photograph: Ana Castañeda

Lake Piuray supplies nearly half of Cusco's potable water, making it a critical resource for this growing city that is also one of Peru's most important tourism hubs. There's something else special about the lake: it is the focus of an innovative agreement between Cusco's water utility, SEDACUSCO, and rural communities located upstream around the lake. SEDACUSCO has committed a portion of water user tariffs to protecting water quality at its source, by expanding access to rural sanitation in upstream communities and compensating land managers who implement sustainable agriculture and conservation practices. The agreement has increased water security for both rural residents and urban water users, and provided a platform for ongoing dialogue and cooperation.

CUSCO IS A CITY OF NEARLY 350,000, located high in Peru's Andean Mountains. It has historically depended on Lake Piuray as its primary freshwater source. Even today, after SEDACUSCO, Cusco's water utility, has drilled wells to increase access to additional water sources, Lake Piuray constitutes approximately half of the city's potable water supply. Located about 20 miles from Cusco, Lake Piuray is surrounded by a rural catchment area dominated by agriculture.

In the late 1990s, demand from SEDACUSCO for water from Lake Piuray intensified thanks to an extended drought and a growing population in Cusco. When agricultural yields began to decline in the areas around the lake, rural communities grew increasingly concerned about water security. Those concerns grew when the drought was followed by floods: the El Niño Southern Oscillation in

1998 was one of the strongest in recorded history, and Peru got 16 times its average rainfall that year. The rains flooded agricultural lands in low-lying areas in the Piuray watershed and triggered a series of landslides that devastated crops. More floods struck rural areas in 2011. Meanwhile, SEDACUSCO noted a disturbing decline in water quality in the lake.

Striking a Deal

In 2011, rural communities and SEDACUSCO began a series of negotiations seeking a solution to the utility's concerns about water quality and upstream communities' worries about the impacts of Cusco's growing demand for water.

Shortly after talks began, in 2012, representatives from the Piuray communities were invited to attend an event on an experimental approach being carried out in Moyobamba, a city in northern Peru. In Moyobamba, residents had voted in 2007 to include an additional 1 PEN (\$0.33 USD, or a 3.3% increase in the water tariff) in each household's monthly water bill for a fund for watershed conservation. The money was used to pay for technical assistance and materials for landowners to introduce sustainable agroforestry practices.

Inspired, representatives from Piuray communities proposed a similar approach for the Piuray-Ccorimarca watershed. The national regulatory body, SUNASS, became involved and worked with SEDACUSCO to evaluate potential cost savings of working with the rural communities to improve water quality at its source in Lake Piuray, instead of building a new treatment plant. In 2013, SUNASS approved a 2% increase in the water tariff charged to water users in Cusco in order to provide compensation to the Piuray communities for helping to safeguard water quality.

Upstream Benefits, Downstream Benefits: Linking Finance for Watershed Conservation and Expanded Rural Sanitation

In Cusco, successive adjustments to the tariff have increased the portion allocated for the initiative to 4%, which has risen several times again over the last five years to 9.6%. More than 80,000 households in Cusco contributed over PEN 14.6 million (US \$4.5 million) to the fund as of the end of 2018, making Cusco's the largest program in the country actively implementing natural infrastructure strategies with upstream communities.

In the first five years of the project, SEDACUSCO used the new funds primarily to expand rural sanitation services in the Piuray-Ccorimarca watershed. To date, the utility has spent PEN 4.6 million (US \$1.5 million) installing new bathroom modules with full sanitary and electrical services in five communities. The partnership also worked together to attract additional support from the Chinchero Backus-Ferreyros Consortium to finance and implement a wastewater treatment plant, which treats the discharge that these modules collect.

These projects have obvious benefits for local residents—1,913 families to date have been served, hundreds of jobs have been created, and SEDACUSCO expects that by 2023, acute diarrheal and skin diseases in the communities around Lake Piuray will be reduced by 80%. And these investments also mean cleaner water flowing to Cusco, 20 kilometers downstream.

During the five-year period from 2018 to 2023, SEDACUSCO is shifting its focus slightly, to digging new infiltration canals and replanting forests. The infiltration canals and forests will help to recharge groundwater and filter contaminants. SEDACUSCO also is using proceeds from the tariff to work with local communities to introduce soil conservation practices in farmlands and pastures, and to allow natural vegetation to begin to repopulate degraded grazing lands.

Momentum Building across Peru

The example set in the Piuray-Ccorimarca watershed is a bellwether for the entire country of Peru. A series of regulatory reforms at the national level beginning in 2012 have recognized and promoted the role of water utilities in financing conservation projects. To date, 24 water utilities in Peru have approved tariffs similar to SEDACUSCO's, including Lima's water utility, SEDAPAL. As the country's capital and home to about one-third of its population, Lima is incredibly important for Peru in social, economic, and political terms. SEDAPAL's 2015-2020 master plan, formally approved in June 2015, includes a 1% tariff increase to be used for ecosystem services (about US \$25 million). An additional 3.8% is allocated for climate change adaptation and disaster risk reduction (about US \$105 million). These commitments are by far the greatest commitments for natural infrastructure by any water utility in Latin America.

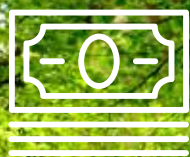


Natural Infrastructure for Water Security project partners working on ecological restoration in the Piuray watershed, Peru.

Photograph: Ana Castañeda

The Lake Piuray watershed is one of the priority geographies under the recently-initiated Natural Infrastructure for Water Security project, funded by USAID and the Government of Canada. The project, led by Forest Trends, will work with the water utility, regional government, and Piuray communities to demonstrate and scale up sustainable investments in nature that enhance water security and resilience. Forest Trends will partner with CONDESAN, the Peruvian Society for Environmental Law (SPDA), EcoDecisión, and experts from Imperial College London.

In 2018, Forest Trends was honored to join USAID, SEDACUSCO, and the community of Piuray-Ccorimarca in hosting United States Ambassador Krishna Urs for a visit to Lake Piuray. Ambassador Urs began his visit with a briefing at the offices of SEDACUSCO. From there, the Ambassador travelled to Lake Piuray, where he met with community representatives to learn the community's perspective on the agreement and visited a natural infrastructure project site. 🌱



OUR IMPACT

Investments

JUNE 2017 With the World Bank and Vivid Economics, we develop a green Forest Bond for Brazil that harnesses innovative enhanced bond structures to catalyze significant increases in funding flows for climate mitigation.

MAY 2018 We launch the world's first startup accelerator for nature-based businesses through the ECOSTAR partnership.

JUNE 2019 Public equities research group Redburn Review features our Global Climate Finance Foundation concept in their quarterly magazine, calling our proposal "required reading for CIOs."

OCTOBER 2019 Our Environmental Markets and Finance Summit, cohosted with AEMI, brings together an unusual coalition of more than 200 experts from the fields of impact investment, forestry, carbon and energy markets, ecological restoration, corporate sustainability, climate policy, philanthropy, and water resources management. Our goal is to begin mapping out a practical, coordinated financial strategy to scale up global restoration and sustainable land use dramatically. (See the following page for the roadmap developed at the Summit.) 🌱

A Roadmap for Raising Billions in New Climate Investments

Five Things We Can Do in the Next 24 Months to Mobilize Major Investments in Ecosystem Restoration and Climate Resilience

In the next decade, the world will probably see the biggest ecological restoration effort in history.

We have watched a recent wave of major commitments to large-scale landscape restoration. In pursuit of restoring natural carbon sinks and achieving the United Nations' global Sustainable Development Goals, nearly \$1.5 billion was pledged by donors in the fall of 2018 in the wake of the Global Climate Action Summit. Those pledges join the Bonn Challenge, New York Declaration on Forests, AFR100, and numerous other public and private commitments that together represent more than 700 million hectares of land. This March, the United Nations General Assembly declared the 2021-2030 period the UN Decade on Ecological Restoration.

What we don't know yet is how to pay for all this: How do we finance and execute restoration and sustainable land use at the necessary scale? How do we coordinate actions across many nations, sectors, and value chains to ensure that we're meeting our goals?

Forest Trends has worked at the leading edge of creative finance for nature conservation for two decades. In October 2019, together with the Alliance for Environmental Markets and Investments, we hosted the Environmental Markets and Finance Summit. Our goal was to begin mapping out what a coordinated financial strategy could look like, in order to scale up global restoration and sustainable land use dramatically.

The Summit brought together a broad and unusual coalition of experts from the fields of impact investment, forestry, carbon markets, ecological restoration, corporate sustainability, climate policy, philanthropy, and water resources management. Our goal was to identify practical ways to coordinate – and accelerate – new investments at a scale appropriate to the challenge.

Here are the key insights from the Summit:

1. We are fundamentally mispricing risks related to natural assets. We need new market signals and a set of instruments that put the power of the insurance industry, mainstream investment, and impact investors behind finance for restoration and resilience.
2. There is tremendous ambition among subnational, business, and nongovernmental actors to take action on climate, deforestation, and ecological degradation. We can accelerate investments in sustainable land use and conservation by supporting these leaders with data and practical implementation tools.
3. We are in the early days of doing incredible things with environmental data. In the next two years, we need to create a strategic roadmap and work more closely with the tech sector.
4. The future is in “mosaic” projects, such as a forest managed not just for timber but also carbon storage, wildlife habitat, and floodwater absorption. But we are still missing the ecological accounting systems needed to support investments in these projects at the necessary scale.
5. All of the above require us to build unusual coalitions to drive new investment – the conservation community, investors, businesses, universities, national and local governments, and philanthropists have to be better coordinated or we will not rise to meet the climate challenge. Since strong partnerships don't happen overnight, we need to start now.

These insights give us a strategic roadmap for our work in 2020. We are pursuing partnerships, funding, and project incubation opportunities that will allow us to make progress on each of these fronts. If you would like to be involved, please get in touch with us. 🌱



PEACE *in* MYANMAR

Natural resources play a role in roughly half of the world's conflicts, but when it comes to ending wars, they're almost always forgotten.

The UN estimates that nearly half of all conflicts since the end of the Cold War have been linked to natural resources and their associated revenues. Yet Forest Trends' research shows fewer than 15 percent of peace agreements actually address natural resources: who will own them, who will get to use them, and how the revenues generated from their production will be shared. Even fewer take the necessary steps to prevent these resources from being used to sustain — or even restart — fighting.

In Myanmar, resources and armed conflict in ethnic areas are inextricable. Most of Myanmar's most valuable natural resources — timber, minerals and gems, hydropower resources, and opium — are found in the mountainous geographic periphery inhabited by non-Burman ethnic minorities. Since the 1990s, armed groups including the Myanmar military, ethnic armed organizations (EAOs), and paramilitaries have struggled for control over these resources and the revenues they generate. Natural resource revenues have been used by all sides to prolong the violence. Partly as a result of this, since 2010, Myanmar has had the third-highest rate of deforestation in the world and some of the worst human rights abuses reported.

But this link is why supporting better land and natural resource governance is perhaps the best way to reboot Myanmar's stalled peace process, which has been at a virtual impasse since 2016. Forest Trends is working with all parties of the peace negotiations to identify opportunities to build bridges and political will to make progress. This is part of our pioneering work in the new field of "environmental peacebuilding." By supporting countries in the post-conflict period to improve the way their natural resources are managed, we can ensure sustainable (in all senses of the word) peace. 🌱

*Mawlamyine, Myanmar,
November 2016.*

*Unidentified member of the Karen military,
near the border with Thailand, Myanmar,
January 2019.*

The Forest Trends Family

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The Forest Trends Family

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For 20 years, we've been convening diverse coalitions, partners, and communities of practice that have shaped the way forests and other ecosystems are managed across the world. Partnership takes work, but we wouldn't have it any other way.

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BIODIVERSITY

African Wildlife Foundation
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BirdLife International
Botanical Society, South Africa
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Policy
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Environ Corporation
Environment Bank
Environmental Banc & Exchange
Environmental Defense Fund
Environmental Resources
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Newcrest Mining Limited
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Redd Forests
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The Nature Conservancy
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Tulalip Tribes, US
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US Fish and Wildlife Service
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WCS
Wild Business
Wildlands Inc.
Wildlife Conservation Society
Wildlife Division,
Forestry Commission, Ghana
Winstone Aggregates
WRA Environmental Consultants
WSP
WWF-UK
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CLIMATE

American Carbon Registry, an
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3Degrees
Asociacion de Comunidades
Forestales de Peten (ACFOP)
BioCarbon Fund
BP Target Neutral
ClimateSeed
Cool Effect
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FORESTS

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 National Ceasefire Accord Signatory Ethnic Armed Organization (NCA-S EAO) Office
 National Wildlife Federation
 Natural Resource Governance Institute

Natural Resources Defense Council
 NEPCon
 Norad
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 TRIP NET
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WATER

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 Natural Capital Project
 Peru's Ministry of Women and Vulnerable Populations (MIMP)
 Sociedad Peruana de Derecho Ambiental (SPDA)
 Stockholm International Water Institute
 Swiss Agency for Development and Cooperation
 The Nature Conservancy
 The Tinker Foundation
 University of Minnesota, Center on Environment
 US Department of Agriculture
 US Agency for International Development
 Water and Land Resource Centre - Addis Ababa University
 Water Research Foundation
 The Willamette Partnership



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Join Our Catalytic Campaign

THIS YEAR, we're launching a major campaign to mobilize funding to restore natural ecosystems on a historic scale. We hope you'll join us.

As Forest Trends celebrates our 20th Anniversary — and the world approaches dangerous tipping points for climate, biodiversity, and water — we are in a unique position to harness our experience and scale up solutions quickly.

For every dollar of catalytic capital raised, our goal is to secure ten dollars in programmatic funding. Those new programmatic efforts can deliver yet another 10x return in leveraged public and private funds that will help restore and protect the planet.

That goal is not aspirational: it's grounded in our existing track record of successfully leveraging seed funding for major impacts in places like Peru. To learn more and make a contribution to this important work, please visit forest-trends.org/catalytic-campaign.



MacArthur Foundation Award
for Creative and Effective Institutions



Schwab Foundation Social Entrepreneur —
World Economic Forum



Skoll Foundation Award for
Social Entrepreneurship



U.S. Forest Service Chief's
Global Stewardship Award



2020

