|  |  |  |
| --- | --- | --- |
|  | **A black background with red and blue text  AI-generated content may be incorrect.** |  |
|  | **Output 4.4: Incentives aligned and upfront finance mobilized** |  |
|  | **UN-REDD Multiyear Programming Document 2026–2030 Illustrative Support Overview** |  |
|  |  |  |
|  | **Prepared by UN-REDD Programme**  **June 2025** |  |
|  |  |  |
|  | *This brief has been prepared by the UN-REDD Programme team based on preliminary analysis, internal assessments, and strategic insights from prior engagements and consultations. It is intended to provide illustrative information on potential areas of UN-REDD support for the 2026–2030 period. The content, including indicative budgets and activities, is for donor engagement purposes only and has not yet been discussed or consulted with the respective country authorities. As such, it does not represent an official position or commitment from the country concerned or from the UN-REDD Programme.* |  |

# Output 4.4: Incentives aligned and upfront finance mobilized

|  |
| --- |
| ***This is one of four outputs forming Outcome 4:*** Linking and leveraging actions and actors to address deforestation drivers. Strengthening and aligning policies, governance, and incentives within the forest sector and across relevant land use sectors and stakeholders towards protection of forests and reduction in forest emissions. Promoting appropriate solutions towards transformative change that address and respect safeguards. and support rural and smallholder producers, engage private sector actors, and foster cross-sector collaboration. UN-REDD will promote solutions that support transformative change, aligning mitigation, adaptation and biodiversity agendas, and strengthening access to upfront finance to enable implementation of these solutions  Linking and leveraging actions to address deforestation drivers by strengthening policies, governance, and incentives across forest and land-use sectors — while using REDD+ as a strategic entry point to mobilize public and private investment, align financial flows with sustainable land-use goals, and promote transformative change through partnerships with the finance and private sectors. |

# The challenge

**Mobilizing Finance to Address Deforestation through Investment-Driven Approaches**

The protection of forests and the ecosystem services they provide is underfunded. While public domestic and international finance for forests currently averages USD 2.3 billion per year, an estimated funding gap of USD 460 billion per year needs to be addressed to protect, restore, and enhance forests globally remains (Forest Declaration, 2023).

Despite the potential of the private sector - including corporations, financial institutions, and micro, small and medium enterprise (MSMEs) - to contribute to filling the gap, private finance for forests remains limited and fragmented largely due to the perceived high risks of forest-sector investments. Concurrently, public finance is increasingly constrained by government fiscal pressures and macroeconomic volatility, further limiting government's capacity to stimulate and de-risk forest related investment. In addition, data limitations prevent comprehensive tracking of public domestic resources allocated to the Agriculture, Forestry and Other Land Use (AFOLU) sector, making it difficult to assess whether national spending aligns with cross-sectoral priorities. Strengthening global reporting on public expenditures, alongside detailed analysis, offers governments an opportunity to optimize resource allocation and enhance the coherence of their policy frameworks.

Hence, limited mobilization of finance from public and private sector sources has failed to operationalize actions at scale. At the national level, due to the fragmentation and perceived risk of the sector, the lack of up-front finance is a key constraint to many countries and jurisdictions struggling to finance actions in advance of anticipated results-based finance. It is only more recently that debt for nature swaps, green bonds, blended finance models, and risk mitigation schemes have been used as financial instruments to support REDD+-related implementation at the country level. As an example, more recently, the government of Brazil has taken the lead to mobilize public-private funding (with a target of USD 125 billion) for the Tropical Forest Forever Facility (TFFF), an investment facility targeting the preservation and increase of tropical cover forest in forest tropical countries (Government of Brazil, 2025).

However, the capital deployment of these instruments is channelled by local infrastructures that require institutional strengthening. Local institutions such as climate national funds have faced institutional and governance challenges to act as intermediaries to leverage and channel financial resources in an equitably and sustainably manner.

At the industry level, notwithstanding the key importance of the land use sector for the country's economies and environment, private sector investors, financial intermediaries, and fund managers face significant barriers to financing the forestry sector and forest carbon credits generating initiatives. The long-term productive cycle and perceived risk of these investments require long-term financial resources and risk mitigation supporting instruments to improve investors’ appetite, ultimately increasing public and private sector confidence in the structuring and deployment financial instruments for the forest and land-use sector. Thus, project developers at the project level, and jurisdictional REDD+ programs led by countries and jurisdictions are entering the forest carbon credits issuance market at a slow pace. Consequently, there is a limited investible pipeline of initiatives at the project and jurisdictional levels.

MSMEs, which represent around 80-90 per cent of business globally and are key players in the forestry sector, could generate emission reductions and removals that could be“nested”within jurisdictional crediting systems to accelerate and grow high-integrity carbon credits supply. MSMEs could also strengthen their deforestation-free and sustainable production business models. But MSMEs also face limited business capacities, limited upfront finance opportunities, and poor regulatory and policy frameworks. However, investing in MSME’s is essential for countries to meet sustainable development priorities and promote sustainable livelihoods for communities. In the agriculture sector, for example, some commodity markets, like coffee and cocoa, are driven by small-scale farmers. The transformation of global and local food markets is leaving smallholders increasingly vulnerable as production risks increase and harvests decrease.

Hence, in general, despite sustainable, climate, and blended finance instruments, and financial products from both public and private institutions having progressively expanded in developing countries, finance instruments that provide up-front flows targeting forests and land use as a sector have yet to scale.

Complementarily, there is a weak supporting environment in forest countries to encourage investment in forest solutions, particularly those implemented by local stakeholders. Governments have a crucial role in creating the enabling policy, legislative conditions and incentives for private sector participation, particularly for MSMEs. Weak enabling environments are impeding the development of investments in REDD+, sustainable forest management and deforestation-free value chains. National and sub-national jurisdictions with favorable policies, better infrastructure, and knowledge-sharing platforms can significantly reduce risks and transaction costs for private sector engagement.

But decreasing deforestation and forest degradation does not only require additional finance from public and private sources for forests. It also requires that nature-negative incentives directed to forests, including agricultural subsidies - which are responsible for the loss of 2.2 million hectares of forest per year (World Bank, 2023), are properly addressed and reduced and that nature-positive incentives directed to forests are promoted and established.

The reversal of agricultural subsidies as public policy instruments may benefit forests at large. On the other side, nature-positive incentives, currently limitedly scaled, may be considered as a tool to address the drivers of deforestation and promote conservation behavior while promoting economic well-being for communities. Fiscal policy instruments such as tax incentives and Payments for Ecosystem Services for forest conservation and restoration have proved to be tools to lower deforestation rates (World Bank, 2011).

# The value proposition

UN-REDD offers a unique value proposition in this space. Since its inception, UN-REDD Programme has mobilized USD [1 billion in REDD+ financing](https://app-unredd.tbf.dev/document/un-redd-impact-flyer-29-september-2020) (UN-REDD, 2024). Through its global, regional and country reach, UN-REDD has crowded in diverse funding sources and revenue streams for all three phases of REDD+, country by country, tailored to national circumstances and engaged the full range of in-country stakeholders.

In today´s evolving financial and environmental landscape, mobilising upfront finance for REDD+ actions from both public and private sectors is essential to scale forest mitigation. Large initial capital flows are needed to cover REDD+ readiness, implementation, and transition costs. UN-REDD plays a critical role in supporting countries to design financial, fiscal, trade, and real-sector policy instruments that both address the drivers of deforestation and promote inclusive economic development. The design and implementation of tailored financial, fiscal, and real sector policies and incentive schemes, as tools to address the drivers of deforestation, while promoting economic wellbeing for communities, is an area where UN-REDD’s expertise is considerable. UN-REDD will support countries in conceptualizing pricing instruments and economic incentives for forests.

Building on relevant experiences such as the world’s well-known payments for environmental services (PES) scheme in Costa Rica, Guatemala (PINFOR) and Socio Bosque in Ecuador , UN-REDD will support countries in the strengthen and development of PES, policies and other incentives to advance management, conservation and restoration of forests. The Programme will draw on the respective agencies’ wider portfolios and teams, associated expertise on agriculture, forestry, economics, legal issues, investments, trade, value chains, land-use governance, and rights to scale up incentives and support to countries.

In response to the evolving REDD+ finance ecosystem of stakeholders, and building on the extensive support to countries, UN-REDD’s unique value in unlocking finance for REDD+ implementation will lie in being a technically solid and trusted partner that supports governments (finance ministries, ministries of environment, planning ministries, among others) to engage with a diversity of funding sources to identify and capture new forms of forest and climate financing including for sectoral risk mitigation and adaptation, such as debt-for-nature swaps, forest bonds, blended finance instruments, and guarantee schemes. UN-REDD will partner with finance sources to convene investors and facilitate transactions by helping countries make informed choices through the exchange of technical and policy knowledge, including on environmental, economic and social perspectives, term sheets negotiations, and financial agreements.

In terms of facilitating the channeling of financial resources from financial intermediaries to local stakeholders, UN-REDD’s value will lie in the ability to engage with existing and emerging local institutions, such as climate national funds and financial intermediaries, to strengthen their institutional capacities to scale up access to finance along the REDD+ and forestry value chains from bilateral donors, multilateral climate funds, multilateral development banks (MDBs) and private investors.

UN-REDD will work with local financial institutions to incorporate environmental and social risk management systems, and green credit line creation for sustainable commodity products into their financial intermediation models. In parallel UN-REDD, in partnership with financial institutions, will promote the development of front-runner blended finance facilities and deals aimed at providing loans, investments and grants towards sustainable land-use projects and business, including for MSMEs.

UN-REDD will also support forest countries in conducting economic and financial analyses that highlight how protecting, restoring, and sustainably using forests contributes to the transition towards a green economy. UN-REDD, in collaboration with local producers and suppliers, will also provide technical support to its partner countries to build the economic case for forest carbon related business models and sustainable production of forestry and agricultural commodities as well as support countries in analyzing existing public expenditure to assess whether national spending is aligned with national priorities and to identify opportunities for strengthening this alignment.

UN-REDD will strengthen MSMEs’ business models that include REDD+ carbon credits generation, promoting the development of their business models and their access to financial sources and to the voluntary carbon market. Deforestaton free production . REDD+ carbon revenues, as part of a project’s business model, will be harnessed to ensure income stream diversification for MSMEs (as well as high-integrity mitigation results fully nested into jurisdictional accounting).

UN-REDD will also support national financial institutions in transitioning their portfolio towards deforestation-free investments, by supporting FIs to provide sustainable finance that facilitates access to financial resources necessary for adopting sustainable practices, vital for both smallholder farmers reliant to external capital and corporates along the supply chain. Multilateral development banks will be consulted to explore potential incentives for the banking sector, including through providing capacity building initiatives or concessional finance interventions. UN-REDD will facilitate the identification of best practices and technical exchanges, including identifying investment practices for key agricultural value chains and associated deforestation risks, and potential policy actions for reducing those impacts.

In summary, UN-REDD’s value proposition, when it comes to incentives and upfront finance, lies in its ability to influence government and private sector action on forest-positive economic policies and incentives, including concessional and flexible conditions on financial products, factoring deforestation risk considerations into the portfolios of financial institutions, and incorporating green taxonomies for the financial sector.

# Scenarios

| **Deliverables** | **Types of Activities** |
| --- | --- |
|
| 1. Country-tailored technical, policy legal support to establish and promote incentives for forest conservation, including payments for ecosystem services (PES) | 1. Develop national and subnational roadmaps for incentives to forest conservation 2. Support the design, including capitalization strategy, of domestic economic incentives (fiscal, tributary, real sector, PES) to promote the participation of stakeholders, including MSMEs, in forest conservation and restoration Support the review and update of legal, regulatory and policy incentives for forest conservation 3. Support development of policies and programmes to be financed by domestic and international (e.g. TFFF) PES schemes |
| 1. Country-tailored technical and policy support to establish financial instruments for scaling forest conservation towards deforestation-free production and supporting countries and their financial regulators to establish deforestation-free financing policies, guidance, and taxonomies   (See also Output 4.3 deliverables: financial mechanisms that provide direct funding to IP&LCs for forest conservation; IP&LCs access financing to conserve forests, support sustainable forest management and forest enterprises) | 1. Develop roadmaps for scaling up financial instruments 2. Support the implementation of multiple financial instruments, notably blended finance facilities and deals, debt-for nature swaps, green bonds, insurance and guarantees schemes, pre-payment and multi-year off-take deals. 3. Conduct targeted engagements to support countries to navigate the pros, cons and implications of financial instruments 4. Support the implementation and improvement of existing institutional, regulatory, and policy frameworks and infrastructures for financial instruments scaling up within national financial institutions 5. Conduct public investment and commodity ~~price~~ incentive analysis to support policy decisions that incentivize the production and trade of agrifood products in align with deforestation-free and climate goals. 6. Develop practical guidance for national banks on deforestation-free finance, including risk benchmarking and tailored strategies, based on the existing global framework and national level consultations. 7. Support local financial intermediaries and national climate funds to build institutional and governance capacities (investment committees, ESG frameworks, taxonomies) to leverage upfront finance for forests 8. Capacity building initiatives on deforestation-free finance among national level banks and financial institutions for selected commodities. Support local financial intermediaries, and national climate funds to develop green financial products directed to the forest sector  Engage with local stakeholders (project developers, MSMEs, ministry of finance, financial intermediaries, fund managers, institutional investors, philanthropy) to promote capital raising and deployment for forests through instruments development 9. Develop financial strategies that include the forestry and REDD+ sector (REDD+ Strategies) in alignment with countries’ NDCs and mainstream the forest sector across different sectors (see also Output 3.1 deliverable on NDC investment plans, with a focus on the forest sector) |
| 1. MSMEs incubated and provided finance for developing REDD+ income generation, deforestation-free and sustainable production activities | 1. Capacitate local MSMEs to develop REDD+ income generation from deforestation-free and sustainable production business models 2. Capacitate local MSMEs to establish carbon impact measurement methods for their operations 3. Facilitate engagements between MSMEs with local stakeholders (project developers, financial intermediaries, risk mitigation finance providers) investing in the agriculture and (social) forestry sectors as a mean to promote MSME’s access to markets and finance (see also Output 4.3 deliverables on community-based forest enterprises that generate income while promoting sustainable forest management; and sustainable production practices for forestry and agriculture with Indigenous Peoples, community groups, smallholders). |
| 1. Governments capacities strengthened on synergistic public investment opportunities and minimized trade-offs to halt deforestation and promote sustainable land-use practices across interconnected sectors. | 1. Support countries in optimizing public finance and subsidy systems to align agricultural spending with deforestation-free and climate goals. (including support to national investment plans and NDC implementation) 2. Enhance forestry and agriculture sector public expenditure reporting, integrated within FAOSTAT, for greater transparency and facilitating global monitoring, with a focus on forest conservation, restoration, and sustainable use. 3. Global analytical framework development and expansion - analytical framework on policy coherence and public expenditures, allowing governments (Africa, Asia, Latin America) to connect their public investments to the socio-economic values of forests, and public incentives, facilitating the integration of land-use policies and investments |
| 1. B.1 Capacity built for upfront finance providers, risk mitigation instruments providers, forest jurisdictions, financial intermediaries, MSMEs and other stakeholders | 1. Establish knowledge platforms on best practices for investing in sustainable forestry and deforestation-free supply chains and lessons replicated across financial intermediaries and companies |
| 1. C.1 Dialogues and advocacy campaigns on upfront investing for forests | 1. Facilitate and convene a dialogue among upfront finance providers, risk mitigation instruments providers, forest jurisdictions, financial intermediaries, MSMEs and other stakeholders towards scaling up upfront finance for forests 2. National, regional and global campaigns to advocate for upfront finance for forests |