Global Landscapes Forum

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Background Brief

Landscapes and the green economy

This background brief has been jointly produced by
Pablo Pacheco (CIFOR); **Ivo Mulder** (UNEP); **Tim Christophersen** (UNEP); **Iain Henderson** (UNEP Finance Initiative)

Despite a decoupling of forest loss from population and economic growth, emissions from land use, land use change and forestry (LULUCF) remain one of the most important sources of greenhouse gas emissions globally. Activities in the LULUCF sector can provide a relatively cost-effective way of offsetting emissions, either by increasing the removals of greenhouse gases from the atmosphere (e.g. by planting trees or managing forests), or by reducing emissions (e.g. by curbing deforestation or improving agricultural practices). Still, reality has shown that reducing LULUCF emissions in practice is difficult, not least because of the current lack of clear financial incentive for forest-rich nations and companies to do so. While total funding for REDD+ is on the order of US$ 9 billion (Norman and Nakhooda)[1] to date, global fossil fuel subsidies and biofuel subsidies are US$ 480 billion (in 2011) and US$ 24 billion per year respectively.

As the global population continues to increase, demanding more food and other products, and as the world is poised to have 3 billion more middle-class consumers by 2030 (with higher per capita consumption patterns), pressure to convert tropical forests will continue to rise unless we meet those needs while reducing deforestation and forest degradation to avert dangerous levels of global climate change. There is increasingly consensus that to tackle the drivers of deforestation, governments, non-governmental organisations, the private sector and others need to seek solutions that balance the need to increase food production, conserve water resources and achieve REDD+[2]. In other words: we need a landscape approach to manage trade-offs and optimize sustainable production.

1 A recent paper by ODI identified that between 2006 and March 2014 US$ 8.7 billion has been pledged by public (90%) and private (10%) sources for REDD+. In addition, Norway announced during the UN Climate Summit in New York in September 2014 two bilateral agreements with Peru (US$ 300 million) and Liberia (US$ 150 million), arguably bringing the total to US$ 9 billion.

2 REDD+ stands for 'reducing emissions from deforestation and forest degradation in developing countries and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks'.

While there is not a common definition of green economy, the one put forward by UNEP has been cited by other organisations, including UNEMG[3] and the OECD, as *"the improvement of human well-being and social equity, while significantly reducing environmental risks and ecological scarcities."*[4] In this view, the green economy is an approach to develop a country's economy whereby growth in income and employment is increasingly based on activities that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services.

The "green economy" is a development approach that places investments into natural capital at the center, and recognizes the potential of "green investments" for promoting not only economic growth, but also improving human well-being while protecting the natural capital that underpins economic development, supports livelihoods, and provides environmental services. The green economy perspective acknowledges the importance of the private sector in supporting economic transitions to sustainable development. In this sense, green economy is a re-articulation of the classic definition of sustainable development, but through a more explicit lens on investments to promote economic growth with reduced impacts on the environment and on the climate.

A growing number of countries realize that an approach that focuses on more efficient use of its natural capital may be in a country's best interest over the medium to long term. This has been driven in part by rising and more volatile commodity prices in the past decade, linked to increased demand and growing scarcity of resources. Consumers are increasingly demanding goods that are produced with care for the environment, which is one of the reasons a large group of food and consumer goods companies have made pledges to strip

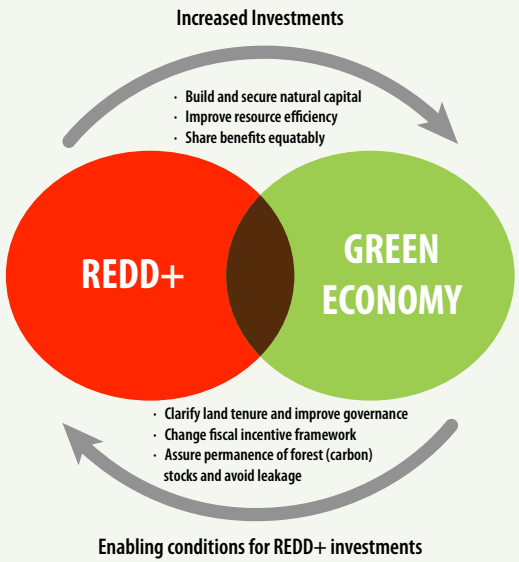
3 http://www.unemg.org/images/emgdocs/publications/GreenEconomy-Full.pdf

4 http://www.unep.org/greeneconomy/AboutGEI/WhatisGEI/tabid/29784/Default.aspx

deforestation from their supply chains by 2020. Countries that produce large quantities of soft agricultural commodities like palm oil, beef and soy more sustainably could be better equipped to deal with these changing trends.

REDD+ is a tool that can help lower greenhouse gas emissions from the agricultural and forestry sectors, protect biodiversity and sustain the livelihoods of forest-dependent communities. To realize this potential, REDD+ must move beyond the 'pilot' phase and become integrated into a country's broader economic and development objectives. The landscape approach can help facilitate this, while also addressing the issue of 'leakage'.[5] Furthermore, this approach helps to factor into decision making other non-carbon benefits that are provided in areas that are remote from forests, such as cities whose water depends on intact forests in upstream catchments. Furthermore, by restoring degraded landscapes for which REDD+ results-based payments could be received, it could make unproductive landscapes productive again.

Some potential mutually beneficial relationships between REDD+ and Green Economy



Source: UNEP, 2014 *Building Natural Capital: How REDD+ can support a Green Economy*

There are key issues related to the "green economy" perspective with significant policy implications affecting how governments, business sectors and other stakeholders engage with the green economy frameworks and instruments to transition to more sustainable and inclusive development:

- The first has equity implications: Many rural poor depend on low-intensity use of natural resources, and likely place less pressure on those resources compared with larger-scale commercial activities. Yet their economies are related to low-profit activities and have reduced multiplier effects on economic growth, in spite of the fact that they generate significant social benefits. Thus a challenge is how to support the transition to green economies while also supporting the capacities of less competitive rural poor economies, something that the concept of "inclusive green growth" aims to tackle. Yet there are risks that proposed green-sensitive growth ideas related to agriculture, trade, and technology may have a detrimental effect on attempts to reduce poverty.
- A second issue is that economic activities based on the detrimental use of natural resources tend to be economically more profitable than activities that protect natural capital. This is due in large part to the failures to internalize environmental costs in commodity production

5 Leakage refers to the scenario where the protection of a forest ecosystem in one area could lead to increased deforestation and forest degradation in other areas.

and to account for the value of natural capital. Thus, there is a call, on the one side, to move toward more sustainable supply chains to reduce the negative environmental impacts associated with commodities supply, and on the other hand to develop and integrate natural capital accounts into a country's national accounts and for companies to integrate their impacts and dependency on natural capital into their financial statements. There are numerous initiatives ongoing to make this happen[6].

- A third issue is related to the fact that different socio-economic and environmental trade-offs arise at different spatial and temporal scales, which must be managed through multi-stakeholder and multi-level governance systems. The transition to a Green Economy also calls for more innovative approaches that take into account this complexity to shape future development pathways. The landscape approach may have some potential in helping to address the governance challenges for managing social and environmental trade-offs by linking goals of social and economic development and ecosystem services conservation.

6 This includes on a national level: Wealth and Valuation of Ecosystem Services (WAVES), led by the World Bank; Valuation and Accounting of Natural Capital for Green Economy program (VANTAGE) and The Economics of Ecosystems and Biodiversity (TEEB). On a corporate level it includes for example the Natural Capital Protocol (by the Natural Capital Coalition), the Natural Capital Declaration for the financial sector managed by UNEP FI and Global Canopy Programme, the Banking for Environment Initiative and the Natural Capital Leaders Compact by the Cambridge Institute for Sustainable Development.

Common questions

- What are the main policy, economic and institutional barriers that hinder the implementation of the green economy approach? How these can be tackled within a landscape approach?
- What are the economic instruments and institutional arrangements with greatest potential to promote a transition to a green economy and sustained green growth?
- What are the implications of the green economy for rural smallholders and forest stewards, and how can they engage in it most effectively under an inclusive approach?
- How can integrated landscape initiatives serve as platforms for the private sector to negotiate, plan collaboratively and pursue complementary investments with other stakeholders?
- Which high-impact approaches and innovative solutions offer the best opportunities for transitioning toward more sustainable commodity supply with reduced impacts in forests?
- How can governments, the private sector, civil society and donors join forces to accelerate change in ways that promote green growth solutions that are socially inclusive?
- What public and private institutional arrangements are required to be in place at different levels to have more effective governance mechanisms supporting transitions to green growth that are inclusive and value the views and capacities of different stakeholders?

Key points of debate

The panels under this theme will address four important aspects of the debate around green economy while exploring the opportunities from an explicit landscape perspective:

- **The role of fiscal and trade policies to reduce deforestation.**
  Subsidies, taxes, tariffs and other fiscal and trade policy instruments have major direct and indirect effects on land use. It is important to understand how they currently contribute to tropical deforestation, but also identify how such instruments could be used to turn the tide by reducing deforestation and contributing to food security and more resilient landscapes. For example, reverting subsidies to fossil fuels could produce a 'double dividend' by reducing incentives for environmentally harmful activities and incentivizing beneficial ones if a portion of current subsidies could be directed to compensate for conservation efforts. Furthermore, improved taxation to activities leading to deforestation with negative environmental consequences could support broader perspectives for sustainable land use. In addition, tariffs could also be used to bridge the relatively small price gap between sustainable versus unsustainable commodity production to stimulate more demand for latter. It is important to explore the most effective options for governments to use subsidies, taxes and tariffs and other measures to create more resilient landscapes, recognizing the role of the private sector.

- **Valuation of natural capital for improved decision-making on resources use.**
  Governments can make better-informed decisions if they are more aware of how forest ecosystems contribute to their economies, how they contribute to employment and benefit human well-being. Yet, a key aspect is how information from valuation exercises can contribute to inform decision-making processes, and be considered as part of national and sub-national strategies for supporting natural resources conservation and reduction of deforestation and forests degradation in the context of efforts towards climate change mitigation and adaptation. Valuation is an important tool for understanding how forests contribute to their economies, the impact of (continued) deforestation on economies and the long-term consequences for the populations that depend on natural resources for their livelihoods, as well as for balancing short- and long-term societal development needs.

- **Economic growth with reduced environmental impacts in commodity supply.**
  The expansion in the supply of key agricultural commodities constitutes a major driver of deforestation in the tropics with adverse effects on biodiversity conservation and climate change. The contribution of these commodities to economic growth is unquestionable, thus the challenge is to ensure the increase in demand for commodities is met through means that offer increased sustainability and avoid further deforestation. Recent commitments and innovation from governments and the private sector signal a new willingness to tackle this challenge. Taking advantage of this opportunity depends on new multi-partner approaches that remove the barriers along commodity supply chains to implementing sustainable practice. There is growing interest in sustainable commodities as part of green growth and low-carbon sustainable development. The task is to implement in both producer and consumer countries financial and economic incentives and clear social safeguards in sustainable commodity supply that contribute to responsible investment decisions.

- **Advancing private sector engagement in land and landscape management.**
  New multi-stakeholder, landscape initiatives are emerging as an operational framework to address key risks such as deforestation and water scarcity, and to support economic growth, food production, ecosystem conservation and livelihoods across landscapes. A key player in these issues is the private sector, which has often been absent from policy frameworks. This situation is changing rapidly given the greater recognition of the potential of the private sector in land and landscape management efforts, associated with the interest to secure financial benefits in the long run and to reduce the risks associated with social and environmental factors. Therefore, improved landscape management requires more active public-private institutional arrangements with clear targets that could allow for greater transparency and social accountability. Efforts in this direction may contribute to create more climate-smart and resilient landscapes for people, food and nature.

Recommendations

This excerpt relates to the UNEP International Resource Panel (IRP) publication 'Building Natural Capital: How REDD+ can support a Green Economy'. The concept of a Green Economy potentially has leverage to drive broader policy reforms and change in business-as-usual economic interests. Implementation can entail tackling the drivers of deforestation through change in fiscal and trade policies, sustainable public procurement, strict certification standards for commodities and fair trade. All of these can contribute to achieving REDD+ results-based actions that can lead to results-based payments and a broader approach to work towards more sustainably managed landscapes. These are, however, difficult challenges that require redefining incentive systems, improving institutional arrangements for governance of natural resources, and promoting collective action at different levels. For facilitating a sustained transition to a green economy, some important conditions are required.

- Policy instruments that promote innovation and investments in support of a Green Economy should comprise a mix of measures such as institutional reform (e.g. land tenure), regulations (e.g. norms and standards, including safeguards), information policies (e.g. certification of commodities, education campaigns, public disclosure of corporate impacts and dependencies on natural capital), risk mitigation (e.g. carbon buffers, mandatory insurance, guarantees) and financial incentives (e.g. tradable permits, taxes, subsidies and trade policies). Policy frameworks have to adopt more integrated perspectives of natural resource management that explicitly acknowledge multiple objectives such as food security, climate change mitigation and natural resource conservation.
- Active participation by the private sector and changes in corporate behavior and capital allocation is crucial for the long-term success of a Green Economy. Private sector operating models need to be shaped by governments through financial incentives and appropriate regulations that tackle the drivers of deforestation and contribute to sustainable landscapes. Several companies have made pioneering pledges to protect forest resources (e.g. commitments to zero deforestation). In addition, multi-stakeholder processes, such as certification, are defining standards and mechanisms in a step-wise transition to more sustainable production characterised by lower social and environmental impacts. Yet, for these efforts to be sustained over time and scaled up, active state involvement is required, not only in enforcing regulations but also in securing the provision of public services. Thus, vigorous public-private institutional arrangements are a condition for the development of the green economy.
- More resources in the form of finance, capacity-building and technology transfer have to flow to developing countries and to social groups with less capacity to respond to the new demands of green development. There is a high risk that investment and business models supporting green growth will exclude the most vulnerable groups, to the detriment of poverty alleviation objectives. Thus resources are needed to support processes of technological change and social inclusion. For the implementation of REDD+ this means the fair and equitable sharing of the payments flowing from successful results-based actions. A more effective transition to low-carbon development with social inclusion requires regulatory and institutional frameworks accompanied by conditions that allow for more social participation, accountability and transparency in the ways in which finance and natural resources are used, as well as the amount of benefits generated, and how these benefits are distributed in society. Civil society involvement, through formal and informal platforms, constitutes an important factor in supporting the transition to more sustainable futures. A landscape approach offers important lessons for building participatory processes that navigates multiple goals and social perspectives

- Broader views to acknowledge the multiple, non-carbon ecosystem benefits that are generated from well-managed landscapes. Governments well-recognize that climate change remains a major risk for both people and the planet. That is why developing countries can be rewarded *for policies, actions and measures that lead to a verified reduction or removal of forest carbon emissions compared to a forest reference (emission) level (FREL) and that complies with the Cancun Safeguards.* Still many other non-carbon benefits are generated from forests, certain types of agriculture and other land use types, which if degraded could lead to real costs for a country's regional or national economy. Panama for example has seen its forests decline by 586,000 hectares (roughly 14%) between 1992-2008. A national forest valuation study found that the net economic losses of deforestation were USD 272 million in 2012 and USD 3.7 billion between 1992-2012. While the national economy benefits from timber sales and land for agriculture, this does not outweigh the costs of foregone ecosystem services (UNEP, 2014). Some of these costs – such as less water regulation, declining soil fertility and sedimentation – are real economic costs borne by other sectors in Panama while others such as higher greenhouse gas emissions are a global cost that needs to be internalized. The economic valuation study on the role and contribution of montane forests and related ecosystems to the Kenyan economy found that deforestation in the "Kenyan water towers" deprived the economy of KSH 3,652 million or USD 40 million in 2010. The report showed that the contribution of forests in conventional accounts is undervalued by 2.5%, and estimated that its annual contribution to GDP is around 3.6% (UNEP, 2012).

Remaining knowledge gaps

There are numerous knowledge gaps with respect to the feasibility of the green economy approach for fostering economic growth while supporting low-carbon development with social inclusion.

- A major gap relates to improved knowledge on feasible economic options to support economic growth with low carbon emissions while providing opportunities for poverty reduction, as the main options for economic growth and potential for poverty reduction are still based on natural resource use. Technologies, finance and improved value chains may lead to new opportunities for managing more effectively the trade-offs between economic growth, conservation and poverty reduction. It is important to learn from cases where equity has been increased or affected through approaches to support green economy, green growth or bio-economy.
- More knowledge is needed with respect to the conditions required for finance to expand amid persistent social and economic risks. Improved knowledge is required on the motivations and factors that stimulate companies (both in the broad agricultural supply chains as well as lenders and investors to apply risk policies for soft commodities and other safeguards to stimulate more sustainable economic activities, and more innovative ways to manage financial risks.
- Institutional interventions based on a combination of regulations and market-based mechanisms – and their effectiveness to support the adoption of more sustainable land uses and supply chains – must be better understood to support higher replication and transferability. Greater knowledge is required on determining the most effective arrangements for supporting sustainable supply chains, the costs associated with the adoption of different options for segregating value chains, and who will pay for those costs along the value chain. Knowing more on the costs of different options and their effectiveness has significant policy implications to build more sustainable value chains while reducing the risks of exclusion.

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