

Participatory monitoring for transparent and effective forest finance

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Key Points

- Strong regulatory frameworks and related monitoring protocols are needed to reduce the risks and enhance benefits of finance to reduce emissions from deforestation within the landscape.
- Involving local community institutions and civil society organisations in developing and contributing to forest monitoring systems will be crucial to improve forest governance and the transparency of new forest financing mechanisms, such as green bonds.
- Participatory monitoring can independently verify progress and assess the impact and effectiveness of different forest policy and finance interventions across the landscape.
- Bottom-up information flows can help improve investor confidence and inform ethical and environmental investment decisions.
- As forest finance flows are scaled-up, cross-sectoral and multi-scale collaboration will be needed to align indicators and standards and develop coherent landscape-level monitoring frameworks.

Financing forest landscape interventions

Two thirds of rainforest clearance today is for land to produce commodities that are traded globally, and the export value for these forest risk commodities alone is 135 billion US dollars per year (The Forest 500, Global Canopy Programme). In the face of this challenge, multiple sources of innovative forest finance, from bond markets, and bilateral and multilateral funding institutions such as the Green Climate Fund, are being investigated to implement interventions that reduce deforestation from forest-risk commodities and other drivers of deforestation (Dutschke & Wertz-Kanounniko 2008; Streck et al. 2009; Nepstad et al. 2013; Walker et al. 2013). The array of finance interventions discussed include:

- International performance-based mechanisms to reduce carbon emissions from deforestation and forest degradation (REDD).
- Domestic demand-side measures such as: fiscal policies that avoid perverse incentives for deforestation from tax and subsidies; finance programmes that extend rural credit lines and loans to improve agricultural practices and legal reform and environmental regulations, such as soy moratoria.
- Forest risk commodity supply chain reforms through multi-stakeholder roundtables, standards and certification schemes, and 'zero-deforestation' pledges.

Engagement and partnership with the private sector is needed to raise investment to fund these interventions and to effectively implement them. Private sector institutions, such as banks and institutional investors, for example, Norway's Sovereign Wealth Funds, are already critical to the financing of most of the global commodity supply chains driving deforestation and forest degradation. However with the right incentives and enabling conditions, the private sector can also be critical in financing sustainable land use activities and supply chains transformations (Henderson et al. 2013).

To be successful, innovative forest finance from the private sector must fund initiatives that intervene both inside and outside the forest boundary. Thus landscape approaches, which seek to address complex environmental, social and political challenges, and engage multiple sectors and actors, are increasingly seen as the most holistic and effective approach

to maximise the impact of these investments within tropical forest jurisdictions.

Increased flows of finance to landscape approaches will have profound impacts on institutions, people and the environment. In order to avoid the potential risks, such as land-grabbing by commercial interests, and to deliver the socio-environmental benefits, such as, biodiversity conservation, proposed market-based measures and forest financing mechanisms will need to embed fiduciary, social and environmental criteria and standards. Further, strong governance and regulatory frameworks capable of enabling financial flows while demonstrating compliance with these criteria and standards will be required to attract and sustain investments for their implementation.

At present, however, governance and financial transparency remains limited in tropical forest regions (Global Witness 2012), with little clarity on who is receiving finance and what the impacts are among end users. While efforts have been taken to develop forest safeguards and standards¹, these vary considerably in rigour and breadth (Rey et al. 2013), and experience in monitoring financial flows and impacts of different forest sector interventions and commitments is limited.

To address this, cross-sectoral and multi-scale approaches and exchanges will be needed to:

- 1) Harmonise different performance standards and safeguards commitments across a landscape by developing comparable indicators (e.g. the VCS landscape standards);
- 2) Establish information flows and reporting protocols;
- 3) Build capacity to develop and maintain monitoring systems within diverse institutions.

In summary, new forest finance for landscape approaches that reduce deforestation require comprehensive monitoring systems to improve investor confidence and ensure risks are avoided and benefits are enhanced.

A role for participatory monitoring?

Local communities are embedded in key supply chains, as important producers of agricultural commodities, and many are at the forefront of current policies and measures aimed at stimulating sustainable economic development and curbing forest loss. As such, they, and the civil society organizations that support them, should play an integral part in developing safeguard frameworks and indicators that can be used to measure impacts of interventions on the ground.

Furthermore, involving local stakeholders in monitoring activities will be crucial in gathering data to report on the social-environmental outcomes and effectiveness of different activities (MacFarquhar & Goodman 2015). The involvement of local community members in data gathering can greatly complement existing remote sensing systems through accurate accounts of the causes of forest loss and displacement of deforestation drivers.

Participatory monitoring can form key components of grievance mechanisms, providing evidence if goals are missed and safeguards are not enforced, and can help assess cost-effectiveness and ultimately improve implementation strategies. Experiences in state of Acre, Brazil (Sabogal et al. 2015) and Maï Ndombe province in the Democratic Republic of Congo (Siani et al. 2015), demonstrate the potential of participatory monitoring models for improving transparency and accountability in REDD+ and wider sustainable development strategies. By monitoring benefit-sharing, and compliance with standards and safeguard commitments within these jurisdictional REDD+ initiatives, such efforts can form vital components of grievance mechanisms and important sources of information to understand the socio-economic and environmental impacts of forest sector investments and activities.

Participatory monitoring systems can also be integrated into supply chain certification schemes and standards as part of sustainable development initiatives. For example, fishing communities in Acre, Brazil, are monitoring fish stocks and ecological indicators to sustainably harvest large Amazonian fish *Arapaima gigas* and through this monitoring attain Marine Stewardship Council (MSC) certification (see more at: <http://forestcompass.org/case-studies/community->

¹ E.g. International Finance Corporation Performance Standards, CCB National Standards, World Bank, Forest Carbon Partnership Facility Safeguards, WRI Governance indicators, Forest Investment Programme Safeguards, Inter-American Development Bank Safeguards, Asian Development Bank, UN-REDD Programme Safeguards, etc.

[monitoring-and-management-arapaima-fish-acre-brazil#sthash.3q2jMjOX.dpu](#)).

These examples show the relevance and potential of participatory monitoring systems as part of efforts to improve of different financial and policy interventions in tropical forest regions.

In conclusion, innovative forest finance to reduce deforestation will bring socio-economic and environmental risks and benefits. If participatory monitoring is embedded within systems to ensure delivery of finance and outcomes on the ground, it can reduce both risks and make forest finance more effective. This would ensure investor confidence, and build trust with those on the deforestation front line.

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