Why forests matter in climate finance discussions

Within climate action conversations, forests have gained renewed recognition as being critical to achieving global climate goals, but the broader conversation around them remains muted.

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A view shows a venue of the COP29 United Nations climate change conference, in Baku, Azerbaijan. Credit: Reuters Photo

COP29, the conference touted as the "finance COP," concluded recently in Baku and has shown promise and oversight in its treatment of nature within the climate agenda. The latest estimate of required financing stands at a staggering $1.3 trillion, a sharp contrast to the mere $300 billion pledged under the New

Collective Quantitative Goal (NCQG), which remains contentious among many parties, especially the Global South. Moreover, the need, and therefore the estimates, keep increasing year-on-year with minimal mobilisation towards achieving these goals.

Within climate action conversations, forests have gained renewed recognition as being critical to achieving global climate goals, but the broader conversation around them remains muted. Much of COP29 has focused on energy transitions, industrial decarbonisation, and technological solutions, leaving nature as a peripheral topic and raising questions about whether the world is giving nature the central role it deserves.

Nature-based solutions

Nature-based solutions (NBSs) are actions that protect, sustainably manage, and restore ecosystems to address climate change, forming the cusp at which adaptation measures meet mitigation strategies. Globally, the United Nations Framework Convention on Climate Change (UNFCCC) spearheads Reducing Emissions from Deforestation and Forest Degradation (REDD+), a climate action initiative. Beyond curbing deforestation, it emphasises conservation, sustainable forest management, and boosting the capacity of forests as carbon sinks. India specifically includes forest targets in its nationally determined contributions (NDC) and the National Action Plan for Climate Change (NAPCC) goals, recognising their role in sequestering carbon and building climate resilience.

With increasing conversations around using climate finance obligations as an investment opportunity, forest conservation tends to be left out of formal decisions. Global deforestation accounts for 20% of GHG emissions, while existing forests sequester 23% of the total GHG emissions. Forests are worth more standing than cut down. Avoiding deforestation reduces emissions and increases sequestration potential, resulting in mitigation cost savings of up to 140 billion dollars. Interestingly, the estimated cost of conserving forests is 130 billion dollars annually, only 10% of the estimated 1.3 trillion dollars.

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However, these valuations are based on current carbon prices, which are not reflective of non-monetised but essential functions of forests. Valuing the mitigation benefits of avoided deforestation solely based on the market value of goods from a standing forest does not adequately consider non-market forest services, such as biodiversity, clean water availability, and pollution mitigation. Although nature is 40 per cent of the solution to climate change, both as an adaptation and a mitigation measure, it gets only 0.5–5 per cent of the financing.

Forest carbon market

Over the years, growth in the forest carbon market signifies the growing role of forests in climate mitigation. Forest carbon credits—primarily issued in voluntary carbon markets (VCMs)—represent GHG emission reductions from activities such as reforestation, afforestation, and improved forest management, measured in metric tonnes of CO2 equivalent. Once verified and registered, the credits can be traded in carbon markets and used by companies and governments to offset their emissions, offering a viable pathway to contribute to climate action.

However, the integrity of these credits has come under scrutiny, as evidenced by reduced demand for deforestation-linked credits in 2021–22. The companies use false deforestation risks to earn ‘phantom credits,’ which do not represent any real additional mitigation or forest protection benefits. Thus, for the forest carbon market to become a truly effective part of the global mitigation strategy, it is crucial to establish robust frameworks for issuing and verifying carbon credits.

The Commonwealth Secretariat, at COP29, launched the Forest Carbon Market Toolkit—a road map to access climate funds through voluntary carbon markets. The Commonwealth countries collectively support over 800 million hectares of forest cover, giving them a unique opportunity to leverage this market to safeguard biodiversity and combat climate change. Coupled with the global carbon market guidelines that were also adopted at COP29, this will help nature find a seat at the climate finance table.

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Nature, a key player in combating climate change, is undervalued in discussions regarding climate finance commitments. While the forest carbon market has flaws and risks, it also has the potential to channel much-needed funding for nature-based mitigation, provided it is executed properly and carbon credit prices genuinely reflect the true value of forests and the services they provide.

The frustration of the Global South over the outcomes of COP29 reflects deep-seated concerns about inequity in climate action and decision-making. The persistent disagreements among nations overshadow any chance of consensus, leaving frameworks weak and ambitions diluted. Without unified, ambitious targets and actionable pathways, and nature left on the sidelines, achieving the Paris Agreement goals is that much more difficult. It is high time nature is not just seen as a co-benefit to climate actions but as an equal partner in mitigation strategies.

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