



Forest Portfolio Assessment

Briefing Note 1: Key actions for strengthening the theory of change for deforestation-free financial markets



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Contents

1. Introduction.....	4
2. Our understanding of the Forest Team’s approach to the thematic area of deforestation-free financial markets.....	4
3. Our approach to the TOC review	6
4. Initial insights from the TOC review.....	7
4.1. The focus of the portfolio.....	7
4.2. The logic of the portfolio TOC and its implicit assumptions.....	8
4.3. The usefulness of the TOC as a decision-making tool	10
5. Thoughts on possible next steps.....	11
Annex 1: Emerging review of the TOC for the thematic area deforestation-free financial markets	12
Annex 2: Retrofitted TOC diagram for the thematic area deforestation-free financial markets.....	Error! Bookmark not defined.
Annex 3: Annotated Review of Documents	16
References	18

1. Introduction

The purpose of this call down was to ‘stress test’ the theory of change (TOC) for deforestation-free financial markets to help inform Forest Team decisions. Our objectives were to: (i) rapidly assess the TOC’s strengths and weaknesses based on our team’s existing expertise and knowledge; (ii) provide crisply-articulated and informative briefing notes to the Forest Team to help frame further oral discussions between our teams; (iii) identify how our team can further support the Forest Team on the theme of deforestation-free financial markets moving forward, possibly via a more systematic evidence review.

Since 2021, NICFI has invested in measures that make it possible for Financial Institutions (FIs) to analyze, set targets, and report on nature risk and deforestation. The Forest Team indicated several questions that they were interested in our team answering for this assignment:

- (i) What are the main strengths and weaknesses of the TOC informing these investments?
- (ii) To what extent can we say that these investments have contributed to the goal of reaching deforestation-free financial portfolios?
- (iii) To what extent do we have adequate indicators to measure success?
- (iv) What evidence is needed for us to be able to claim that investments in this area are effective?

The scope of this assignment was limited to a rapid assessment of the TOC for deforestation-free financial markets. It did not include assessments for the other NICFI thematic priorities (i.e., land use policies, Indigenous Peoples rights, carbon markets and international support structures, transparency, commodity markets free of deforestation, and international forest crime), except where these other priorities interrelate to the priority of deforestation-free financial markets. This report provides our emerging insights based on a desk review of core Norad and Norad partner documentation. It informed a substantive discussion with the Forest Team about the portfolio TOC on 10th March 2025. This joint discussion informed updates to this Briefing Note.

The report has five sections: Section 2 describes our understanding of the Forest Team’s approach under the thematic area of deforestation-free financial markets. Section 3 details our methods in undertaking this assessment. Section 4 outlines emerging insights from the TOC stress test or review. Section 5 offers suggestions for moving forwards and raises questions for the discussion on 10th March 2025.

2. Our understanding of the Forest Team’s approach to the thematic area of deforestation-free financial markets

In the early years, NICFI focused on building a multilateral structure for Reducing Emissions from Deforestation and Forest Degradation (REDD+) and bilateral cooperation with important tropical forest countries (e.g., Brazil and Indonesia). These efforts were gradually expanded to directly address the global drivers of deforestation from around 2012. NICFI supported, for instance, several NGO campaigns to get leading companies to set zero deforestation targets. NICFI’s efforts to reduce pressure on tropical forests from commodity markets have been in continuous development over the past ten years. The Ministry of Climate and Environment recommended in 2022 that priorities in this area be continued, with a focus on global food and agricultural companies setting goals for zero deforestation and reporting on emissions throughout the supply chain. The Ministry recommended further strengthening efforts in areas where there is a particular opportunity to counteract greenhouse gas emissions and the destruction of nature, such as in Brazil’s cattle sector. At the same time, the Ministry recognized in 2022 that the global food crisis and problems in global supply chains may require changes in the strategy going forward.

NICFI's long term desired outcome is the reduction and reversal of tropical forest loss to enable a stable climate, preserved biodiversity and sustainable development. In NICFI's strategic framework, contributing to "reduced pressure on tropical forest areas from global markets" is one of two medium term outcomes, in line with "sustainable land policy in tropical forest countries". These are considered mutually dependent on each other. The desired medium term outcome of reduced pressure on forests from global markets is, in turn, dependent on an increasing market share demanding deforestation-free goods.

This will, in turn, be realized if NICFI generates seven shorter term outcomes:

- Increased awareness of the connections between global commodity trade and deforestation;
- Progressive coalitions to discuss how international trade in deforestation-free commodities can take place;
- Civil society to pressure firms to commit to zero deforestation and follow-up on these commitments;
- Global reporting standards for food and agriculture firms that set explicit requirements for deforestation-free supply chains;
- Progressive countries (e.g., in the EU) to facilitate deforestation-free commodity demand;
- The development of tools that link deforestation to individual companies and supply chains;
- The incorporation of deforestation rules into banks' and investors' frameworks and decisions.

It is the last shorter term outcome that we understand this assignment to be particularly focused upon. This interrelates to the other six shorter term outcomes, however, and is intended to contribute to reduced pressure on forests from global markets.

Given the high analytic level of the TOC provided for our review, and its textual as opposed to diagrammatic character, we opted to retrofit a diagrammatic TOC for deforestation-free financial markets (see Annex 2). This retrofitted TOC diagram includes thinking from the background analysis commissioned by Norad from the Meridian Institute (in 2019 and 2020). Our team further discussed this TOC diagram, particularly the extent to which it relates to current Norad observations and thinking, with the Norad team on 10th March 2025 with a view to its further refinement.

Text Box 1: Brief overview of selected partner agreement mid-term reviews

CDP Worldwide

CDP's *Raising Ambitions and Accelerating Action to Project and Restore Forests* project links to Norad's objective that financial markets stimulate deforestation-free commodity production in tropical forest countries. The project envisages two outcomes in this regard: (i) financial institutions (FIs) take action to reduce risk of financing deforestation by setting and implementing sustainability targets; and (ii) financial regulators (FRs) have strengthened transparency and investor accountability systems for deforestation, both nationally and internationally. With FIs, CDP has encouraged disclosure on forest-related risks, opportunities and impacts, produced case studies of promising developments, and engaged in capacity building and portfolio assessments. With FRs, CDP has drafted guidelines for improving financial regulation and participated in regulatory dialogues and awareness campaigns. The project's mid-term review found that CDP is targeting the right FIs to achieve intended impacts but is not yet breaking through with FIs in key geographies such as Southeast Asia, partly due to a lack of mandatory disclosure frameworks. Via its Forest Champions programme, CDP has had success in

engaging important FIs (holding on average USD 307 billion in assets under management) to become members.

Ceres Inc.

Ceres' *Leveraging Investor Influence to Address Deforestation* project aims to reduce greenhouse gas emissions from deforestation and forest degradation by shrinking imports for commodities linked to forest loss and establishing deforestation and conversion-free supply chains. The project recognises the influence of major institutional investors on corporate decision-making and uses sustained investor-based advocacy to drive action against deforestation. The project's mid-term review found that Ceres' approach remains valid under evolving conditions and that it plays a pivotal role in coordinating efforts in the sustainable investment space, connecting dots between initiatives to assist institutional investors navigate the complex sustainable investment landscape.

Global Canopy

Global Canopy's *Forest IQ* project aims to contribute the data needed by financial institutions to enable their stimulation of deforestation-free production in tropical forest countries. Its dataset has been co-designed with financial institutions, including from among the largest and most influential asset managers and investors around the world. A mid-term review indicates that financial institutions anticipate or see future potential for the data to be used, including for portfolio analysis and screening, investment decision due diligence, follow-up engagement with companies, and reporting on their own obligations and commitments. The same review notes that for those financial institutions who do not view deforestation as a core element of ESG reporting, legislation may shift this reputational risk to a regulatory one, and that this, in turn, could spur further use of Forest IQ data.

Accountability Framework Initiative

The Accountability Framework Initiative (AFI) project *Scaling-up deforestation-free and responsible commodity supply chains* aims to make ethical supply chains in the agriculture and forestry sectors the new normal by helping companies transition their businesses, and other stakeholders to transform the enabling environment, so that commodity supply chains are protective of natural ecosystems and human rights. AFI works with multipliers including finance initiatives and industry associations in critical demand markets to create an enabling environment. For example, it engaged with the draft regulatory proposal from the European Commission on deforestation, aiming to improve definitions to better protect forests. A mid-term review noted that AFI has established a leadership position with companies, financial institutions and governments, and that there is now a need to shift focus to credible implementation by companies, transparent disclosure, reporting, and accountability.

Stockholm Environment Institute and Global Canopy

The *Trase* project is a supply chain transparency and intelligence initiative aiming to shed light on supply chains with significant deforestation risk to transition towards more sustainable commodity production, trade, and consumption. It works with multipliers and recognizes that its work may take years to reach desired impacts. A mid-term review found that Trase has influenced the behaviour of supply-chain actors and governments in switching to deforestation and conversion free products. It has, for example, made significant contributions to national and EU policies. However, financial actors have not used Trase's interactive tools and data to the extent hoped for, leading Trase to shut down its dedicated site for financial actors (Trase Finance).

Note: These projects are also briefly assessed in an annotated review of documents in Annex 3.

3. Our approach to the TOC review

To help structure our rapid assessment of the TOC for deforestation-free financial markets we drew on a TOC assessment framework developed by Itad and used in similar exercises with other clients. It interrogated the TOC from several different angles:

- Its grounding in an evidence informed understanding of the problem that is being addressed
- The clarity of Norad's entry point to the problem, its contribution and proposed solutions
- The clarity and logic of the causal pathways and assumptions
- And the strength of the portfolio TOC as a tool for portfolio monitoring and management

For phase 1 of the assessment, we based our analysis on a detailed reading of core Norad portfolio documents (listed in the table immediately below) and our team's expertise and knowledge on deforestation-free financial markets and theories of change. We also began integrating evidence from a broader review of key literature in this field.

Annex 1 provides a high-level perspective to compare, inform, and "sense-check" the TOC. Annex 3 includes an analysis of documents, including partner project mid-term reviews to explore synergies and distinctions in objectives and outcomes, which may be useful for further refining the TOC.

Additionally, a broader background review of literature resulted in a bibliography of literature across various areas. Only literature immediately cited or closely informing our analysis is included in the reference list below.

Table 1: Documents that have been reviewed

- KLD Notat (30 Mai 2022) «Videreutvikling av klima- og skoginitiativets innsats for avskogingsfrie råvaremarkeder»
- Meridian Institute report (25 Nov 2020) "Building NICFI's Strategy to Accelerate Transformational Change on Deforestation-Linked Finance"
- Meridian Institute report (27 Nov 2019) "The Deforestation-Linked Finance Landscape: Preliminary Scoping and Recommendations"
- Selection of partner agreements and mid-term reviews linked to TOC for deforestation-free financial markets (CDP Worldwide, Ceres Inc., Global Canopy, Accountability Framework Initiative, Stockholm Environment Institute/Global Canopy)
- NICFI (2020) Call for Proposals from Civil Society, for period 2021-2025
- Overview table of projects supported in the deforestation-free finance and supply-chain portfolio

4. Initial insights from the TOC review

4.1. The focus of the portfolio

The focus of the portfolio on deforestation-free financial markets is that rules on deforestation should be incorporated into banks and investors decisions and frameworks, but how this is to be realised is not explicitly articulated in the TOC (see Annex 1). That said, various tactics and activities are discussed in two Meridian Institute reports from 2019 and 2020, threads of which then emerge in the various civil society projects supported under the portfolio to date (each of which has its own project TOC).

The portfolio would be improved by formulating a clearer sub-impact statement and unpacking further the activities that logically lead to the intended sub-impact of the portfolio, avoiding leaps of logical reasoning and referring to latest evidence. Using the Meridian Institute reports, we have retrofitted a possible diagrammatic TOC for the portfolio on deforestation-free financial markets (see Annex 2). Here, we suggest a possible framing for the sub-impact statement could be: "destruction of tropical forests is a material risk to firms and investors". We also formulate three activity areas for the portfolio: (i) "investors, civil society, and regulators press for

destruction of tropical forests to be a material risk to firms and investors via voluntary and regulatory approaches”; (ii) “firms, banks, investors access data enabling them to account to voluntary and regulatory pressures”; and (iii) “investors, civil society, regulators, firms, banks, consumers, trace products from origin to end use to apply voluntary and regulatory pressure or account to it”.

From our initial review and subsequent discussion with the Forest Team, we observe that Norad focused particularly on voluntary pressures, data and traceability approaches involving civil society partners because state-led activities aimed at generating regulatory and legal frameworks are challenging to progress. Work on the EU’s Deforestation Regulation has, however, borne some fruit and further work could possibly be supported on the US Forest Act, the UK Environment Bill, or the UK Financial Services and Markets Bill.

Norad noted on 10th March 2025 that they are aware of limitations with consensus-building approaches in this area. Indeed, evidence suggests such approaches can generate misleading progress where stakeholders use rhetorical devices during engagement phases, only later to demonstrate a lack of commitment and follow-up. An alternative is to re-politicize deforestation through state-led regulatory mechanisms with immediate implementation deadlines and clear sanctions for high-risk biomes and commodities, although this too is far from straightforward in, for instance, contexts of collusive public-private interactions (e.g., Brazil and Indonesia). We note that compliance approaches in this space present their own significant risks (e.g., asymmetrically impacting vulnerable populations), particularly if they are imperfectly designed or based on an imperfect understanding of the problem to be mitigated and its underlying drivers.

We note that some of the civil society projects supported were reviewed as having limited uptake and engagement from financial institutions due to the lack of mandatory regulatory frameworks. This underlines the need for synergies across voluntary and regulatory approaches, as well as civil society and state-led approaches. A relevant research finding (Lambin and Furumo 2023) in this regard is that current supply chain initiatives only have a limited impact on global deforestation because the conditions for these initiatives to be effective at eliminating deforestation are only partially met. Lambin and Furumo (2023) further find that supply chain zero deforestation commitments appear most impactful when they are:

- a) connected to forest clearing for agricultural production of commodities whose suppliers are traceable; AND
- b) are exported by traders with credible zero-deforestation commitments to countries where governments and civil society express strong preference for sustainable consumer goods; AND
- c) where importing countries have regulations requiring deforestation-free products.

Activating civil society initiatives in the space of deforestation-free financial markets therefore requires further work on complementary regulatory and legal approaches from governments and regulators. There is a potential risk, however, of a rush to develop marketable data tools that can be licensed in the wake of new regulations. The danger is that a rush for profits from some actors may eclipse data quality, reliability, and functionality.

4.2. The logic of the portfolio TOC and its implicit assumptions

Our overarching recommendation is that a detailed TOC that further unpacks the theme of deforestation-free financial markets be generated. This is because, overall, the TOC is pitched at a high analytic level and covers a range of thematic activity areas that, as discussed below, go beyond the theme of deforestation-free financial markets alone.

As it stands, the TOC states that efficient land policy and efficient land use is “most important” in effecting transitions to deforestation-free commodity chains. It is thought that food production

can be increased while deforestation is simultaneously reduced, citing the examples of Brazil and Indonesia. Implicitly, this appears to be a theory of sustainable agricultural intensification, wherein increased food production is thought to contribute to “land sparing” for conservation or landscape-scale climate change mitigation via REDD+ or other mechanisms elsewhere (see, for instance, Garcia et al 2020). Bilateral cooperation and related incentive structures such as LEAF are mentioned as key mechanisms for achieving these desired outcomes.

There is a large literature both on the mentioned cases of Brazil (e.g., de Andrade Aragão et al 2024, Garrett et al 2022) and Indonesia (e.g., Williams 2023, Hein 2019) and on bilateral cooperation on deforestation generally (e.g., Ingram et al 2020) documenting the complexities experienced with these approaches and their outcomes over the last two decades, but this evidence is not referred to. There was a notable brief collapse in the Norway–Indonesia REDD+ bilateral agreement in 2021, for instance, raising questions related to the permanence of achieved reductions in deforestation and forest degradation (see, for instance, Williams 2023). Rather, the TOC focuses on challenges that politicians in producer countries may encounter when they attempt to reform land policy without sufficient demand in the (global, or trans-regional) market. This draws a somewhat rigid distinction between “politicians” and “producers”, perhaps overlooking collusive engagements and overlapping roles between these categories (e.g., contexts in which the political class enjoys ownership of significant landholding or productive industry interests, as in, for instance, certain contexts in Brazil and Indonesia).

Rather than local political-economies and state–capital–producer relations, the TOC places emphasis on the need for an increasing global market share and heightened demand for deforestation-free goods. **Overall, it is somewhat unclear if this heightened market share should be achieved primarily through voluntary/civil society-led or compliance/state-led mechanisms, or both simultaneously, and at what scale.** It is said that producers, agribusinesses and consumers must be “held accountable”, but it is not always clear by whom or exactly how. This suggests an implicit assumption of a competent, impartial, and sufficiently motivated state or state-like actor that will enforce related regulations “without fear or favour” – an assumption that may correspond more closely to reality in some jurisdictions than others. That said, recent initiatives like the EU Deforestation Regulation point to how transnational actors may catalyse transformations in this regard even with ambivalent or partially cooperative actors at the national and local scale (e.g., Köthke et al 2023).

A mechanism for accelerating heightened demand for deforestation-free products is thought to be the increasing accounting of deforestation risks by investors, banks and regulators. However, this assumes the absence, unattractiveness, or unviability of cost-shifting behaviours (see, for instance, Uehara 2024) i.e., attempts to shift responsibility for externalities rather than to “internalize externalities”. Even when financial actors accurately perceive deforestation as a material risk – for instance, when it degrades the provision of ecosystem services that agribusiness may depend upon – it may be assumed that others remain more exposed to these material risks, or that actions may feasibly be taken to reduce a principal’s exposure whilst increasing the exposure of others: local communities, Indigenous Peoples, lower-income residents, etc. Material risks may also be perceived to accrue across a variety of timescales, and more distant timescales may not immediately affect financial or investment decisions in the short term or even in the medium term. Overall, these and related hypothetical barriers to voluntary engagement underline the importance of compliance-based approaches, and underscore again the need for reliable, evidence-based tools to assist firms and other actors in assessing their own compliance with existing regulations (Cosimo et al 2024).

More broadly, the TOC states that pressures on forests can be reduced by gradually changing consumer preferences and substituting problematic inputs in each production function with less problematic inputs (i.e., higher emission protein sources with lower emission protein sources, perhaps vegetarian or vegan protein sources). It is noted that NICFI has considered and tested related strategies, but “has not invested in them in a systematic way”. Most modelling studies of

sustainable transformation in the land and food sectors assume vast amounts of such dietary change, particularly focusing on the reduction of animal product-based diets (Humpenöder et al. 2024) alongside similarly vast scales of land use change to support climate change mitigation (via, e.g., afforestation, bioenergy cropland expansion) and biodiversity conservation (depending on how this is achieved, e.g., via protected area expansion or the implementation of other effective area-based conservation measures). However, **it is worth noting that the trade-offs of these intertwined forms of dietary and land use change may increase along with the scale of their implementation, eventually presenting land use, livelihood, and cultural survival risks for certain indigenous populations and other local communities (IPLCs)** (Bluwstein and Cavanagh 2023).

The success of such a trajectory also depends on the cooperation of middle-income countries who increasingly drive global demand for meat and other relatively high emission agricultural commodities. As the TOC's own analysis alludes, one risk of a "first mover", leadership-driven approach to deforestation-free markets (e.g., the EU Deforestation Regulation) is that it may catalyse forms of leakage that may benefit the currently least cooperative jurisdictions, perhaps further reducing their willingness to cooperate at least in the short term. Whilst discussions of leakage in the deforestation-free literature have tended to be spatially oriented (e.g., focusing on the risk that deforestation in compliant producer areas may be reduced whilst deforestation is simultaneously increased elsewhere, resulting in no net reduction or even increased deforestation overall – see Lambin and Furumo 2023), leakage effects can also be jurisdictional and financial. **Heightened regulatory standards in some jurisdictions may incentivize capital to shift to more permissive jurisdictions or to reorient investment flows to firms perceived to be less exposed to the costs and risks of compliance.** In turn, this highlights the need for sustained bilateral/multilateral diplomacy and coalition-building to ensure that existing compliance measures may evolve to eventually incorporate currently non-participating jurisdictions or regions.

4.3. The usefulness of the TOC as a decision-making tool

For the TOC to be more useful as a decision-making tool further work is required to clarify the logical progression from activities, to impacts and to various levels of outcomes. Some key terms should be further defined and operationalized, such as "material risk", while more granularity is required for each element in the chain of events, including explicit statements of core assumptions and risks. The following topics briefly indicate a selection of issues that should be further addressed.

Firstly, concerning the "progressive coalitions" and "accountability" activities, the degree to which these coalitions retain the capacity to enforce regulations or ensure accountability in a more than reputational sense could be clarified. Similarly, it could be mentioned whether there are mechanisms for holding these "progressive coalitions" accountable if their proposed measures are ultimately found to be inappropriate or poorly formulated, leading to negative consequences for at least some actors (e.g., smallholders, Indigenous Peoples, IPLCs) in at least some contexts (e.g., marginal producer areas in low and lower middle-income countries). As the TOC's own risk analysis notes, there is some degree of risk that existing compliance approaches will block less well-resourced producers from markets, particularly if they lack access to technology (i.e., for geo-tagging production areas) or do not possess associated skills (i.e., literacy, fluency in official legal or administrative languages in multi-lingual contexts, etc.).

Under the "standards development" activity, it is mentioned that Scope 3 reporting for agricultural products is particularly important. However, it is worth considering greenwashing risks, which are often most prominent or salient in calculations of Scope 3 impacts. There are growing concerns, for instance, that mounting sustainability accounting requirements (across climate, biodiversity, deforestation, health, social-economic, etc., objectives) will increasingly

fuel new forms and practices of greenwashing and “reputation laundering” (In and Schumacher 2021).

Lastly, it is stated in the TOC that “EU regulations are considered important to get China to take similar steps in the long term”. Our conversation with the Forest Team on 10th March 2025 clarified that there is awareness that “first mover” and “leakage” risks in this regard are present, with potentially high consequences, but that this should not excuse inaction.

5. Thoughts on possible next steps

The purpose of this report was to initiate a conversation with the portfolio team. Our conversation with the Forest Team was helpful to affirm our interim analysis and findings, and to clarify various statements. Our meeting with the team on 10th March 2025 provided additional context and detail used to update this Briefing Note.

Our initial ideas for how we could collaborate with the team to move forward, were:

1. Conduct a joint analysis of the retrofitted TOC diagram provided in Annex 2 at our meeting;
2. Perform a more systematic evidence review and a few interviews with partners to further strengthen the TOC diagram using the best available evidence and insights from experience (suggested phase 2 of this assignment);
3. Further refine and finalize the TOC diagram based on insights gained from the evidence review and present our analysis in a second Briefing Note (suggested phase 2 of this assignment).

The proposed questions to frame our discussion on 10th March 2025, were:

Substantive questions:

- Is our assessment what you were expecting? Does it resonate?
- Are our proposed next steps (for phase 2) what you need and want? Would they add value?
- How can we work together to evolve the retrofitted TOC diagram?

Clarification questions:

- What has been the process to develop the current portfolio TOC, including use of evidence?
- Can you elaborate on your ambitions for the new 2025 civil society call for proposals and how this relates to other areas of support?
- Is there a need for more country and region specific TOCs to address key but challenging jurisdictions?

Following our 10th March 2025 meeting we updated this first Briefing Note and look forward to any further feedback and interactions with the Forest Team.

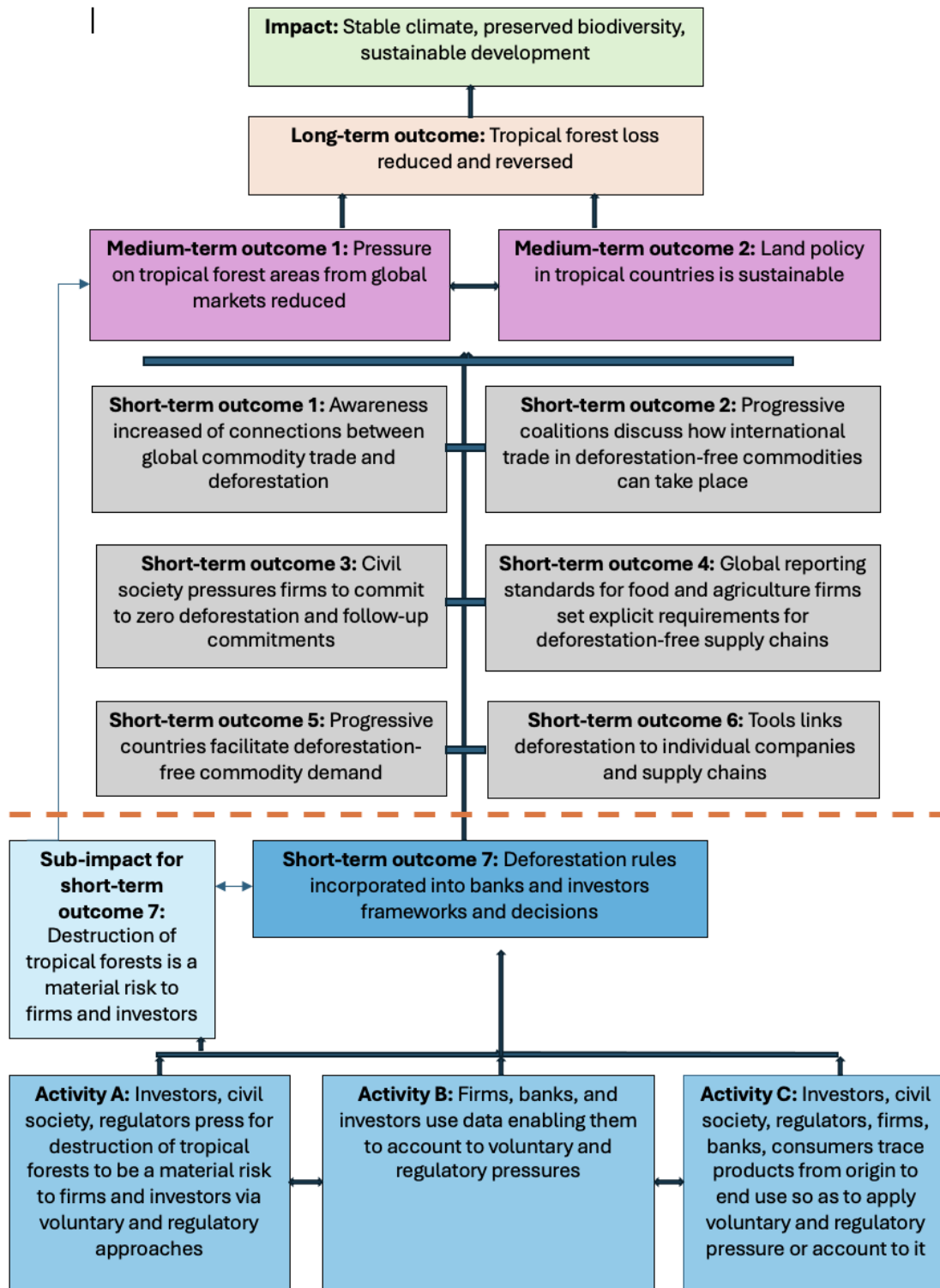
Annex 1: Emerging review of the TOC for the thematic area deforestation-free financial markets

The portfolio TOC is...	Assessment	Recommendations for improvement
<p>...Complete:</p> <p>The chain of events connects the intervention to the ultimate impact</p> <p>If implemented fully the portfolio will contribute to overall impact</p>	<p>Does not detail practical steps from activities to desired outcomes. Lists only a few interventions with short descriptions of each.</p>	<p>Activities, impacts, outcomes should be diagrammatically mapped-out, with explicit notes on risks and assumptions included. Leaps of logic should be avoided.</p>
<p>...Explained:</p> <p>Assumptions are explicit in, and relevant to, the theory.</p> <p>No obvious assumptions are missing</p>	<p>There is no treatment of assumptions underlying the logic of the TOC in the document itself. Some assumptions are, however, discussed in the Meridian background analysis.</p>	<p>Assumptions should be added to a diagrammatic TOC.</p>
<p>...Evidence informed:</p> <p>Theory has been developed based on a review of credible research/ evaluations/contextual knowledge</p> <p>Chain of events and assumptions have solid grounding in evidence base</p> <p>Gaps in evidence acknowledged</p>	<p>The TOC text is not demonstrably linked to evidence and contains no citations. However, there is reference to some evidence in the Meridian Institute’s background analysis. The justification, likelihood of success, and potential impact of each of the seven thematic activity areas is unclear.</p>	<p>A systematic evidence mapping should be conducted for each element of the TOC to inform its further improvement/refinement.</p>
<p>...Logical:</p> <p>Chain of events (sequencing) connecting Norad’s activities and those of its partners to the ultimate impact is logical, without any gaps/leaps of logic</p> <p>Synergies between outcomes detailed</p>	<p>An explicit chain of events is missing therefore it is not possible to assess whether the TOC is based on a logical flow connecting activities to ultimate impact.</p>	<p>A diagrammatic TOC should set out the explicit chain of events envisaged for the theory, and how they interrelate.</p>

The portfolio TOC is...	Assessment	Recommendations for improvement
<p>...Owned and understood:</p> <p>Those who are implementing the theory have been involved in its development</p> <p>Shared understanding within team of the overall logic of the theory</p>	<p>Some elements of the TOC are taken up in supported projects, most clearly regarding data and traceability activities. However, the extent to which the TOC is owned and understood is best assessed in discussion with Norad staff, as there may be a more substantial tacit understanding of the TOC that is not visible in the documentation.</p>	<p>Further reflection with Norad staff and short interviews with partners to inform an updated diagram of the TOC.</p>
<p>...Useful to informing decision making:</p> <p>Theory provides clarity on Norad's contribution to achieving the portfolio outcomes</p> <p>Theory provides support to the selection of partners and interventions</p>	<p>The TOC text provides little information to help guide decisions on how to allocate resources to different types of partner approaches and activities, or which partner approaches to support at which times. There is more information on suggested partners to support, with some justifications, provided in the Meridian background analysis.</p>	<p>Breaking down the logical steps in the TOC via a diagram, and building out the explicit risks and assumptions, as well as a more thorough review of latest evidence, is likely to provide insights and more clarity on the balance of partners and intervention types.</p>
<p>... Measurable</p> <p>Relevant parts of the ToC are clear and measurable for the portfolio managers,</p> <p>Allows for monitoring of portfolio item performance</p>	<p>The TOC text does not map out the chain of events and explain how they interrelate. Clear and measurable indicators for each step are missing. More measurable intermediate outcomes are however provided within project documents.</p>	<p>A TOC diagram should include measurable indicators for each step in the logical chain of events. Clear links should be established between these TOC indicators and indicators developed for specific projects.</p>
<p>... Actionable for learning and adaptation</p> <p>There is plan for continuous follow-up and updating of the ToC assumptions and practices</p> <p>Adaptation of ToC is planned for if/when needed</p>	<p>We do not see evidence in the documentation for a plan to follow-up and update the TOC with risks, assumptions and learning from experience.</p>	<p>An explicit plan should be added to the diagrammatic TOC for periodic revisiting of its assumptions, including take-up of learning from experience. More tacit and informal understandings of the TOC and its adaptation should be discussed between our team and Norad staff.</p>
<p>... Complementary</p>	<p>The TOC text addresses deforestation-free financial markets along with six other thematic shorter term outcomes that relate to NICFI's medium term outcomes, intended impact, and long-term outcome. These shorter</p>	<p>Build out more detailed diagrammatic TOCs for each of the seven shorter term outcomes to further</p>

The portfolio TOC is...	Assessment	Recommendations for improvement
<p>Theory is aligned with ToCs of other portfolios</p> <p>Complementarity and synergies between ToCs can be realised</p>	<p>term outcomes appear intended to be complementary with synergies noted among them. However, more detailed TOC work appears to be required to make these complementarities and synergies more explicit.</p>	<p>make explicit and help operationalize complementarities and synergies between them.</p>

Annex 2: Retrofitted TOC diagram for the thematic area deforestation-free financial markets



Annex 3: Annotated Review of Documents

KLD Notat (30 Mai 2022) «Videreutvikling av klima- og skoginitiativets innsats for avskogingsfrie råvaremarkeder»

This document outlines Norway's ongoing work to reduce deforestation linked to commodity markets, with a focus on agriculture and food production. Over the past decade, efforts have evolved from a focus primarily on REDD+ to the broader promotion of zero-deforestation goals within global land and food systems, emphasizing sustainability reporting across supply chains.

Theory of change: More efficient land use can result in global demand for food and other agricultural commodities being met without (exacerbating) deforestation. Key mechanisms include bilateral cooperation and global incentive structures such as REDD+ and LEAF, combined with consumption/demand side regulation in "progressive" jurisdictions, such as the EUDR. It is believed that the cases of Brazil and Indonesia show how it is possible to combine increased agricultural production with reduced deforestation.

Activities: Increase knowledge and awareness; form and support progressive coalitions; pursue accountability for public and private actors; support development of reporting and monitoring standards; support market regulation in Norway, the EU, and elsewhere; support data availability and monitoring activities; encourage production restructuring whilst avoiding deforestation leakage.

Risks: Different actors at a variety of scales may have variable perceptions of what "efficient" land policy and land use constitutes. Some actors may wish to optimize land use for economic growth and capital accumulation rather than optimizing across a wider range of social and ecological sustainability criteria. This presents risks for Norway as its support for multidimensional sustainability may be perceived as being "anti-development" by some actors with narrower objectives, thereby potentially compromising existing bilateral country agreements. At a larger scale, "first mover" regulation initiatives by progressive actors may also catalyse jurisdictional or financial leakage, as capital flows may shift to more permissive jurisdictions, thus also reducing willingness to cooperate in those jurisdictions.

Meridian Institute report (25 Nov 2020) "Building NICFI's Strategy to Accelerate Transformational Change on Deforestation-Linked Finance"

This report discusses the growing potential to address deforestation as a material financial risk, emphasizing its increasing relevance in financial decision-making. It is suggested that the desire to avoid reputational risk alone is insufficient to eliminate deforestation impacts in key financial arenas of engagement, and that regulatory action is necessary for systemic change in institutional investing and lending. The report recommends strategic interventions by NICFI, in collaboration with financial actors, civil society, and government partners, to establish deforestation as a material financial risk and thus to contribute to its reduction via key financial sector reforms.

Meridian Institute report (27 Nov 2019) "The Deforestation-Linked Finance Landscape: Preliminary Scoping and Recommendations"

This report recommends several actions to drive structural change in deforestation-linked finance. Current efforts are seen as insufficient, as most financial institutions do not view deforestation as a "material financial risk". To address this, the report suggests that NICFI and its partners work to shift financial sector incentives, ensuring that deforestation is recognized as a material risk. This could include advocating for regulation and market signals that change how banks, investors, and analysts perceive deforestation risk. NICFI should also engage key actors to understand their interests and influence, laying the foundation for a longer-term strategy to redirect capital toward more sustainable forms of land use.

Selection of partner agreements & mid-term reviews linked to TOC for deforestation-free financial markets (CDP Worldwide, Ceres Inc., Global Canopy, AFI, SEI/Global Canopy)

CDP Worldwide

CDP's *Raising Ambitions and Accelerating Action to Project and Restore Forests* project links to Norad's objective that financial markets stimulate deforestation-free commodity production in tropical forest countries. The project envisages two outcomes in this regard: (i) financial institutions (FIs) take action to reduce risk of financing deforestation by setting and implementing sustainability targets; and (ii) financial regulators (FRs) have strengthened transparency and investor accountability systems for deforestation, both nationally and internationally. With FIs, CDP has encouraged disclosure on forest-related risks, opportunities and impacts, produced case studies of promising developments, and engaged in capacity building and portfolio assessments. With FRs, CDP has drafted guidelines for improving financial regulation and participated in regulatory dialogues and awareness campaigns. The project's mid-term review found that CDP is targeting the right FIs to achieve intended impacts but is not yet breaking through with FIs in key geographies such as Southeast Asia, partly due to a lack of mandatory disclosure frameworks. Via its Forest Champions programme, CDP has had success in engaging important FIs (holding on average USD 307 billion in assets under management) to become members. To place this figure in context, however, global GDP was roughly USD 110 trillion in 2024, underscoring that investment flows to broadly "nature-negative" land uses and economic activities vastly outweigh investment flows to broadly "nature positive" land uses and economic activities (UNEP 2023; IPBES 2025).

Ceres Inc.

Ceres' *Leveraging Investor Influence to Address Deforestation* project aims to reduce greenhouse gas emissions from deforestation and forest degradation by shrinking imports for commodities linked to forest loss and establishing deforestation and conversion-free supply chains. The project recognizes the influence of major institutional investors on corporate decision-making and uses sustained investor-based advocacy to drive action against deforestation. The project's mid-term review found that Ceres' approach remains valid under evolving conditions and that it plays a pivotal role in coordinating efforts in the sustainable investment space, connecting dots between initiatives to assist institutional investors navigate the complex sustainable investment landscape. Overall, the evaluation finds that Ceres has been highly effective in educating the financial sector about the connection between deforestation and material financial risk. Its research, media efforts, and engagement with investor initiatives have equipped investors with the knowledge and tools to advocate for sustainable practices that help reduce deforestation, ultimately influencing both corporate behaviour and financial decision-making.

Global Canopy

Global Canopy's *Forest IQ* project aims to contribute the data needed by financial institutions to enable their stimulation of deforestation-free production in tropical forest countries. Its dataset has been co-designed with financial institutions, including from among the largest and most influential asset managers and investors around the world. A mid-term review indicates that financial institutions anticipate or see future potential for the data to be used, including for portfolio analysis and screening, investment decision due diligence, follow-up engagement with companies, and reporting on their own obligations and commitments. The same review notes that for those financial institutions who do not view deforestation as a core element of ESG reporting, legislation may shift this reputational risk to a regulatory one, and that this, in turn, could spur further use of Forest IQ data. One challenge noted is that some institutions have not fully adopted the tool due to perceived data opacity and/or concerns about reliability, but addressing these concerns remains a priority for the team. Relatedly, a notable recommendation is for Global Canopy to ensure its alignment with other NGOs to avoid fragmentation and provide a unified front for financial institutions.

Accountability Framework Initiative

The Accountability Framework Initiative (AFI) project *Scaling-up deforestation-free and responsible commodity supply chains* aims to make ethical supply chains in the agriculture and forestry sectors the new normal by helping companies transition their businesses, and other stakeholders to transform the enabling environment, so that commodity supply chains are protective of natural ecosystems and human rights. AFI works with multipliers including finance initiatives and industry associations in critical demand markets to create an enabling environment. For example, it engaged with the draft regulatory proposal from the European Commission on deforestation, aiming to improve definitions to better protect forests. A mid-term review noted that AFI has established a leadership position with companies, financial institutions and governments, and that there is now a need to shift focus to credible implementation by companies, transparent disclosure, reporting, and accountability. A critical success factor was thought to be Afi's "Backbone Team (BBT)" which was thought to drive success through coordination, stakeholder engagement, and leadership in defining consensus-based principles and guidance for responsible supply chains. Further urgent, bold action to accelerate corporate commitments, implement these commitments effectively, and ensure transparent disclosure was recommended, such that AFI is able to meet emerging challenges within a narrow window of opportunity.

Stockholm Environment Institute and Global Canopy

The *Trase* project is a supply chain transparency and intelligence initiative aiming to shed light on supply chains with significant deforestation risk to transition towards more sustainable commodity production, trade, and consumption. It works with multipliers and recognizes that its work may take years to reach desired impacts. A mid-term review found that Trase has influenced the behaviour of supply-chain actors and governments in switching to deforestation and conversion free products, thereby challenging arguments that insufficient supply chain data was a barrier to action. It has, for example, made significant contributions to national and EU policies. However, financial actors have not used Trase's interactive tools and data to the extent hoped for, leading Trase to shut down its dedicated site for financial actors (Trase Finance). The evaluation notes that, while Trase has driven positive changes, it may need to be more solution-oriented when engaging with commercial actors in supply chains. To this end, efforts to revisit and clarify Trase's Theory of Change (TOC) could strengthen its approach to influencing behaviour more effectively.

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