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Brief 5

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REDD-plus Finance

Seven major bilateral and multilateral funding initiatives have been recently created to support Reduce Emissions from Deforestation and Forest Degradation plus conservation (REDD+). Brazil has received the largest volume of REDD+ finance through its Amazon Fund. Public and private finance may be able to play complementary roles in delivering REDD+ finance: while public sources are essential in the initial preparation stages, the private sector may play a role in financing REDD+ implementation. The total finance needed for REDD+ is highly sensitive to the agreed level of payments to developing forest countries per tonne of reduced or avoided emissions. Concerns over the scope of REDD+ financing, benefit sharing, effective stakeholder participation and the need for safeguards to avoid negative environmental and social impacts persist.

The concept of REDD+

REDD+ offers incentives for developing countries first, reduce their carbon emissions from forested lands through slowing deforestation; and thereby pursue a development path centred around the environmentally and socially sustainable use and conservation of forest resources. REDD+ has come into prominence after the recognition that land use changes, principally deforestation, are responsible for more than 15% of current global emissions. Tropical forests provide ecosystem services and biodiversity, support the livelihoods of 1.6 billion of the world's poorest people and are home to Indigenous Peoples. The rights of poor and marginalised peoples to forest use have been tenuous, and their voices have seldom been considered when economic decisions that affect forests are made.

REDD+ has the potential to offer a large pool of emission reductions at relatively low cost, which could reduce the price of meeting emission reduction targets in developed countries via 'offsets" in developing countries. Despite its emission-reduction potential, many groups are wary of offsetting, noting that it does not lead to changes in production and consumption patterns within Annex I countries. Concerns have also been raised that REDD implementation could have negative effects on forest dependent communities and indigenous peoples. More than 4 years after negotiations on REDD+ first began, consensus on how it should proceed is still elusive.

One reason why the potential of REDD+ remains uncertain is the lack of reliable information on the probable costs associated with such programmes. There is a large degree of variation both within and between countries with regard to opportunity costs, depending on the direct and indirect drivers of deforestation, and the carbon content of forests.

Current status of REDD finance

Climate Funds Update (CFU) data reports that $446 million was approved for REDD finance between 2008 and November 2011, of which $252 million has been disbursed. Today, REDD+ represents 13% of total climate finance. There has been a decrease in finance approved and disbursed for REDD+ through dedicated climate funds relative to 2010, but this does not capture the growing trend towards financing REDD+ through bilateral institutions.

Although REDD+ is considered a key component of the post-2012 international climate change regime, many actors argue that financial support has been slow and concentrated in a small number of countries, despite progress made at the 2010 UNFCCC COP in Cancun. Latin America receives the most REDD+ finance through dedicated climate funds: $178 million was approved, and $73 million disbursed between 2004 and 2011. Efforts have largely focused on Brazil and its Amazon Fund, for which $143 million was approved and $49 million disbursed during this period. In Sub-Saharan Africa, $119 million has been approved and $47 million has been disbursed for REDD+. The tropical forests of the Democratic Republic of Congo have been the main recipients in the region, with $66 million approved and $16 million disbursed directed to the country. The Congo Basin Forest Fund has played an active role here. Indonesia is the main recipient of REDD+ finance in Asia with $42 million approved and $40 million disbursed. Asia, compared to Latin America and Sub-Saharan Africa, has a lower gap between amount approved ($94 million) and amount disbursed ($88) for REDD+, although it also receives a lower volume in both amounts.

REDD finance instruments

There is general agreement on the need for countries to have time and resources to prepare and build capacity for REDD+ implementation. The adoption of a phased approach allows countries with different circumstances to pilot and mainstream REDD+ actions, allowing necessary flexibility for countries to develop portfolios that combine fund-based (public) and market-based (private) sources of funding.

Numerous initiatives to support REDD+ are underway. These include:

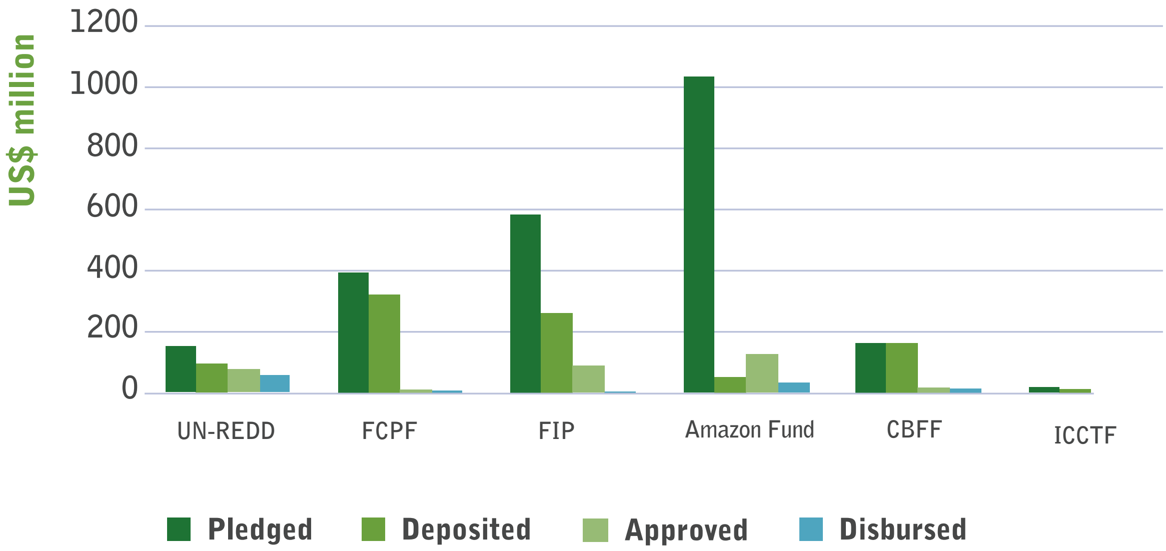
The **UN REDD Programme**, a multi-donor trust fund that aims to help reduce global emissions from deforestation and forest degradation in developing countries. It was established in 2008 by three UN Agencies: the UNEP, UNDP and FAO. Through its initial country programmes in Africa, Asia and Latin America, it is supporting national governments prepare and implement national REDD-plus strategies. As of September 2011, $80 million has been approved for project implementation, with a total of $63 million disbursed for 14 UN-REDD national programs. The UN-REDD programme has taken unique steps to engage civil society and Indigenous People's groups, who are represented as full members on its governing policy board. It has developed guidance on the engagement of Indigenous Peoples and other Forest Dependent Communities, and worked with civil society to explore approaches and tools to address governance issues as they relate to REDD+ implementation.

The **Forest Carbon Partnership Facility (FCPF)** is a World Bank pilot programme launched at the Bali COP in 2007, with the dual objectives of building capacity for REDD+ in developing countries and testing a programme of performance-based incentive payments in a small number of pilot countries. Thirty-seven forest developing countries (14 in Africa, 15 in Latin America and the Caribbean, and eight in Asia-Pacific) are participants in the FCPF. It consists of a *Readiness Mechanism* ($202 million), designed to assist developing countries reach a capacity level at which they will be ready to participate in a future system for positive incentives for REDD+, and a *Carbon Fund* ($118 million), intended to provide payments for verified emission reductions. The readiness mechanism has disbursed $5 million for readiness preparation grants in 12 countries. 5 countries have been approved to participate in the Carbon Fund, which was made operational in May 2011.

$578 million has been pledged to the **Forest Investment Program (FIP)** of the World Bank Climate Investment Funds (CIFs). The FIP became operational in 2009, with the objective of directing scaled up finance to reduce deforestation and forest degradation and to promote sustainable forest management, including by addressing the drivers of deforestation in a small number of pilot countries. Significant time and effort was spent on the design of the FIP. In June 2011, investment plans for the Congo-Kinshasa ($60 million) and Burkina Faso ($30 million) were provisionally endorsed. Investment Plans for Brazil, Ghana, Indonesia, Laos, Mexico and Peru are also under development.

The **Congo Basin Forest Fund (CBFF)** was set up as a multi-donor fund in 2008 to protect the forests in the Congo Basin. It aims to support the people and institutions of Congo Basin countries to manage their forests and help local communities find livelihoods that are consistent with the conservation of forests and reduced rates

Chart: REDD funding going through dedicated climate funds



of deforestation. As of November 2011, the CBFF, which is managed by the African Development Bank, had approved $20 million in funding and disbursed $16 million to 14 projects.

The government of Brazil has established the **Amazon Fund** to help prevent, monitor and combat deforestation, as well as to promote the preservation and sustainable use of forests in the Amazon Biome. It has approved almost $127 million in funding for 20 projects to date, and disbursed $33 million to 8 forestry projects.

The **Indonesia Climate Change Trust Fund (ICCTF)**, created by the Government of Indonesia in 2009, has also focused on REDD+. As of November 2011, however, only $1.25 million has been approved for a single forestry project to enhance carbon sequestration and mitigation of greenhouse gas emissions.

Bilateral finance:

While multilateral funds play a critical role, a growing share of REDD+ finance is directed through bilateral arrangements. This includes support for capacity building around technical dimensions of REDD+ such as monitoring, reporting and verification infrastructure, as well as support for more broadly beneficial activities to address tenure and governance issues. The government of Norway, for example, has been a major player through its **International Forest Climate Initiative (IFCI)**. It is one of the only countries to commit long term finance for the implementation of REDD+ programs, and this funding has been primarily directed through bilateral channels to national trust funds in Brazil, Guyana and Indonesia on a payment for performance basis.

Germany supports REDD+ programs through its International Climate Initiative and has approved and disbursed $103 million for 29 REDD projects between 2008 and 2011. Australia's **International Forest Carbon Initiative (IFCI)** is a $48 million bilateral initiative focused on building monitoring capacity for REDD+, working primarily in Indonesia and Papua New Guinea. There has been no further disbursement of funding through the IFCI in 2011, however.

Bilateral development assistance agencies have engaged with forest related issues for decades, including through tropical forest conservation programs focused on biodiversity. Such programs continue and may contribute to the success of REDD+ over the longer term.

Shortcomings, concerns and innovations

As REDD+ finance is not based on a compliance mechanism, but is supported by voluntary efforts, its financial mechanisms exhibit a number of shortcomings in ensuring effective delivery of REDD+ projects. Among the main obstacles are the tensions between the necessity to prevent deforestation at a global and national level, and the need to ensure that REDD+ activities are tailored to the characteristics of different areas both between and within countries.

The effective engagement of all affected stakeholders – particularly civil society organisations, forest dependent communities, women and Indigenous Peoples groups—in the design and implementation of effective national REDD+ strategies is essential. Strategies need to be designed to effectively target the drivers of deforestation, while addressing failures of governance that allow deforestation and forest degradation to persist.

In this context, ensuring that the benefits of REDD+, including financial benefits, are shared equitably among countries, within countries and within communities, is a major challenge. It is not yet clear how forest-dependent communities who live mostly outside the market economy and often hold only traditional ownership rights might benefit from REDD+ schemes. Clarification of rights over carbon tenure and traditional uses of forests, including the consideration of the gender dynamics of forest management, will be necessary in developing equitable benefit sharing schemes. Furthermore, robust safeguard policies to ensure that programs do not have negative environmental and social impacts will play an important role.

A lack of analysis and consideration of the full value (including intangible benefits) forest owners and users place on forests in many developing countries is a further impediment to REDD+. Determining people's willingness to accept compensation for benefits foregone as well as a clarification of which forest benefits cannot be replaced with income could be a useful way forward that can also enhance meaningful and broad stakeholder participation. Obtaining such information can also help clarify the benefits and hidden costs of REDD+.

Likely political developments

Significant progress was made on REDD+ at the Cancun COP in 2010, including recognition of the need to halt, rather than just reduce, deforestation. The Cancun REDD text proposed that contributor countries should coordinate their engagement with recipient countries, and provided some guidance on readiness.

While there is broad consensus that finance should be results based, there is an urgent need to clarify precisely what this will entail at the upcoming Durban COP. Furthermore, detailed guidance is still needed on the reference levels against which the impact of REDD+ programs will be measured, as well as on an information system for social, including gender, governance and environmental safeguards. The links between REDD+ --which may be able to move forward on a parallel track focused on attracting private finance-- and the global Green Climate Fund remain to be elaborated.

References and useful links:

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