INTERNATIONAL SUSTAINABILITY UNIT

EMERGENCY FINANCE FOR TROPICAL FORESTS

Two Years On: Is Interim REDD+ Finance Being Delivered as Needed?

OCTOBER 2011

THE PRINCE'S RAINFORESTS PROJECT

The Prince's Rainforests Project (PRP) is part of The Prince's Charities' International Sustainability Unit, a charitable organisation which works to build consensus around durable solutions to meet the challenges of climate change and natural resource depletion.

The PRP was established in 2007 by His Royal Highness The Prince of Wales to encourage consensus on how the rate of tropical deforestation might be slowed. Following extensive consultation, in March 2009, the PRP published a report calling for an emergency funding package for tropical forests, and subsequently the Prince of Wales convened world leaders across both rainforest and Annex I countries to discuss how such an emergency funding package could be catalysed. This initiative led to the formation of the Informal Working Group on Interim Finance for REDD+ (IWG-IFR).

More recently, the PRP has convened the agricultural private sector and NGOs in Indonesia, Brazil and Ghana to identify ways in which agricultural production can be increased without further deforestation. Research is underway to assess the transitional finance and regulatory and institutional changes required by the agricultural sector to achieve this goal. Developing realistic mechanisms and incentives by which agricultural production can be increased without furthering deforestation is essential to addressing the challenges of food security, price volatility of agricultural commodities, and climate change mitigation.

EXECUTIVE SUMMARY

Without action to stop and indeed reverse tropical deforestation, limiting the rise in global temperatures to 2°C above pre-industrial levels will be much more difficult, if not impossible, to achieve. Forests represent perhaps the largest potential for mitigation in the next five years. In fact, new research estimates that over a quarter of anthropological emissions are caused by deforestation and forest degradation. In addition, if deforestation stopped tomorrow, forests could act as a sink for half of fossil fuel emissions. However, this window of opportunity is closing as forests continue to fall.

Annex I countries have pledged $4.5 billion in 'Fast Start Finance' for Reduced Emissions from Deforestation and forest Degradation (REDD+) activities for the 2010-2012 period. These interim finance commitments have the potential to build the capacity and implement frameworks and policies to enable REDD+ in a timeframe of months and years rather than decades. Given the size of the economies concerned and the vested economic interests involved in business as usual development trajectories, $4.5 billion is a small sum and it will need to be applied strategically to maximize impact.

That said, currently, there would seem to be sufficient finance pledged to support REDD+ strategy development and early implementation across a large number of countries, and to scale up activities and payment for verified emissions reductions in some early mover countries, during the interim period before long term financial support is established. International efforts are slowly continuing under the UNFCCC to establish a mechanism to provide short and long term financial support for REDD+. At the moment, it appears that the generation of public or private funds at the scale required is likely to be many years away

Concerns have been raised that monies pledged by Annex I governments to support REDD+ efforts are not being disbursed to rainforest nations on a timely and strategic basis. Without implementation of Annex I commitments, it is likely that the political will in rainforest nations to redirect their economies toward an alternative low carbon long term development path will decline.

While problems and solutions in interim finance disbursal vary according to the specifics of the parties and mechanisms involved, the following factors contribute to slow disbursal in many, though not all contexts:

- Annex I governments are insufficiently focused on supporting large scale strategic programmes linked to emerging national and sub-national REDD+ strategies, including addressing the drivers of deforestation.
- Insufficient co-ordination and co-operation between ministries in rainforest nations.
- The non-transparent, slow and perhaps inappropriate rules and procedures that are sometimes faced by rainforest nations when applying for financial support.

These problems reinforce each other as only when Annex I country partners are prepared to provide finance and other support at scale will there be sufficient incentive for rainforest nations to dedicate the limited resources of political will and in-country capacity to appoint an appropriate focal point, establish a commonly accepted vision and develop and drive integrated REDD+ strategies and absorptive capacity in rainforest countries. But without a clear, integrated and supported REDD+ mandate and agenda in rainforest countries, Annex I governments are not prepared to commit resources at scale.

It would appear that the obstacles to disbursement of REDD+ Fast Start Finance are tractable. This may require:

- A clear mandate and a high-level focal point in rainforest countries with sufficient authority across all ministries.
- Co-ordination across Annex I governments to look for opportunities to co-engage and thereby scale existing and proposed bilateral support (or commitments of support) to enable the faster development and implementation of the REDD+ strategy and investment plan.
- Institutional strengthening and capacity building in intermediary organisations, Annex I and rainforest governments including through sustained engagement and collaborative partnerships, building on existing bilateral projects and experience and going beyond forest and climate specialisms.
- Debate on the disbursal rules and procedures appropriate to the circumstances faced. It may be useful in this debate to (re)frame these disbursals as payments for performance, with clear specification of the nature of the performance expected, whether payment for a verified emission reduction unit, or payment for a key intermediary step which will ultimately enable avoided emissions or increased sequestration at scale.
- **Accelerate the allocation of a portion of the fast start finance to "no-regret" activities.** These may include land use mapping; integrated economic development and land use plans; institutional capacity building; stakeholder consultation; increasing extension services; enforcement of current forest and land use laws; and pilot projects to address drivers of deforestation. Interim performance criteria could be agreed on for the above activities, until long-term agreements are reached.

Ensuring that sufficient monies are disbursed on a timely basis to enable appropriate action at scale may require greater transparency, trust, experimentation, co-ordination and collaboration (on and across all sides). At least in these early stages, REDD+ is a high-risk, high-return programme. For which, arguably, payments-for-performance may be better suited than traditional aid transfers.

Balancing vision with sufficient security to satisfy all parties is showing itself to be a significant challenge, but should not be insurmountable. Rainforest nations are re-assessing their economic and development trajectories. This requires vision and commitment not only from those nations, but also from donor countries and intermediaries supporting them. Solutions exist, and workable models are being developed across a number of countries and institutions. These provide valuable lessons and precedents to build upon.

1. Background

1.1. There is No Solution to Climate Change Without Action on Forests

The importance and urgency of extensive action to curb forest destruction and degradation can hardly be overstated. Up to now, scientists have estimated that forestry accounts for 12 to 20 percent of all greenhouse gas emissions stemming from human activity[1]. However, a recent study estimates that destruction of forests accounts for more than a quarter of all emissions stemming from human activity. Further, this study estimates that, given the forests' function as an enormous carbon capture and storage mechanism, if deforestation were stopped tomorrow, the world's established and regrowing forests would remove half of fossil fuel emissions.[2]

On this basis, the goal of limiting the rise in global temperatures to 2°C above pre-industrial levels will be much more difficult, if not impossible, to achieve if forest loss is not addressed at scale. If forest loss is reversed, the goal is within our grasp.

1.2. A Development Choice for Forest Nations

Forests are more than carbon capture and storage units. They provide other critical ecosystem services including water storage, rainfall regulation and nutrient recycling to local, regional and global communities, and are home to over half the planet's biodiversity. In addition, they support the livelihoods of 1.6 billion of the world's poor, and more broadly, drive employment and economic development at local and national levels through forest conversion for food, fibre, fuels and extractive resources such as metals and oil.

Redirecting rainforest nations towards an alternative development path consistent with conserving and restoring forests is, therefore, a substantial challenge. It brings very significant development implications at multiple levels, from individual households and communities who depend on forest resources for their survival, through to national economies. Successful strategies will need to be multi-sectoral, addressing the activities and impacts of those sectors driving deforestation including agriculture, mining, and infrastructure, domestically and internationally. A strategic re-visioning and reform of the whole trajectory of development is required. Given the immediate economic opportunities and the vested interests in business-as-usual deforestation trajectories, this requires significant political will.

A number of rainforest nations are demonstrating that they are prepared to take tough actions to improve their forest-based economic sectors where necessary, and are ready to create real economic alternatives to remove long-term pressure on their forests. Brazil has announced it will reduce its net rate of deforestation by 80% from historic rates by 2020. Indonesia has announced self-funded greenhouse gas reduction targets of 26% from business-as-usual levels by 2020, up to 41% if international support is provided (the majority from forest based activities). Guyana is selling avoided emissions, which it terms "forest climate services" to enable it to maintain 99.5% of its forest cover until 2015. The payments received for these services are channelled into its Low Carbon Development Strategy[3] to create a new economic path away from the high-carbon development path that today's business-as-usual trajectory suggests.

---

[1] The IPCC for example estimated that forestry accounts for around 17 per cent of global GHG emissions. See IPCC (2007) AR4 Synthesis Report

[2] 'A Large and Persistent Carbon Sink in the World's Forests', Y. Pan et al, Science, 14 July 2011

[3] See http://www.lcds.gov.gy/

1.3. Financial Support from Annex I Countries

It is recognised that financial and technical support for these domestically led efforts is required from Annex I countries.

To enable this, the international community has been negotiating a "REDD+ mechanism" under the auspices of United Nations Framework Convention on Climate Change (UNFCCC).

This "REDD+ mechanism" is an evolving concept, but in essence it is envisaged as a means to provide financial incentives to developing countries to i) reduce their emissions from deforestation and forest degradation (REDD), and ii) conserve and enhance forest carbon stocks, and sustainably manage their forests ("+"). It is intended that these incentives (or payments) will provide countries with the financial resources to develop and implement viable alternative economic growth models that do not involve deforestation and enable forest conversion to out-compete forest conversion. These incentives include up-front support for the necessary investments in capacity building and other preparatory activities, and ex-post payment for performance[4].

Such an arrangement should constitute the nexus of global REDD+ efforts over the long term.

However, although a critical step forward was achieved when this "REDD+ mechanism" was formally adopted in December 2010[5], it will still be a number of years before it is operating at scale[6]. Therefore, it is unlikely to meet the urgent finance needs of the next five years. In the meantime, interim finance from both public and private sectors is required to enable reductions in emissions and increases in sequestration in relation to forests in a timeframe of months and years rather than decades. (See Box 1 for an overview of why action is needed now).

This need was well articulated in 2009, firstly by the Prince's Rainforests Project[7], and then by the Informal Working Group on Interim Finance for REDD+ (the IWG-IFR). This group of 34 countries[8] called for a package of Interim Finance to "support and scale up the voluntary efforts of developing countries, to accelerate significant short and long term reductions in greenhouse gas emissions, in advance of a fully fledged UNFCCC mechanism"[9].

---

4 That is, payment on evidence of achieved performance against agreed targets. The nature of these targets may evolve over time, but the bulk of financial support is envisaged in exchange for verified emissions reductions against an established baseline. Per the 'Cancun Agreement', measures "should be consistent with the objectives of environmental integrity *and* take into account the multiple functions of forests and other ecosystems", and the UNFCCC process recognises participants should be bound by appropriate safeguards to ensure the protection and participation of indigenous peoples and local communities, and the conservation of natural forests and biological diversity.

5 At COP 16 under the UNFCCC in Cancun. See Section III C and Annexes I and II of the Cancun Agreement.

6 There are a number of reasons for this. Firstly, the framework and (key) details for the operation of REDD+ remain to be established. For example, the 'Cancun Agreement' was silent on the controversial issue of the source of long term finance for REDD+. The Advisory Working Group on Long Term Co-operative action (AWG-LCA) has been mandated to explore long term financing options as part of its work plan for 2011, and a progress report is expected for Durban. Secondly, broader issues regarding the nature of the successor to the Kyoto Protocol (of which REDD+ will be a part) make the outlook for the next commitment period uncertain. For example, failures amongst parties to agree emissions reductions targets, and disagreement over whether the Kyoto Protocol should be extended or a new Protocol designed. Thirdly, important carbon markets such as the EU ETS remain opposed to the trade of REDD+ credits in their exchanges.

7 'An Emergency Package for Tropical Forests', The Prince's Rainforests Project, March 2009

8 The IWG IFR member countries were: Argentina, Australia, Brazil, Cameroon, Canada, Colombia, Democratic Republic of Congo , Costa Rica, Denmark, Ecuador, European Commission, France, Gabon, Germany, Ghana, Guatemala, Guyana, Indonesia, Italy, Japan, Madagascar, Malaysia, Mexico, Netherlands, New Zealand, Norway, Panama, Papua New Guinea, Peru, Suriname, Sweden, Thailand, Uganda, UK, and USA

9 This group estimated that if financing of 15-25 billion euro were made available for the period 2010-2015 for a combination of results based incentives and capacity building, a 25% reduction in annual global deforestation rates may be achievable by 2015, the period before which the UNFCCC REDD+ mechanism is thought unlikely to become fully operational. See 'Report of the Informal Working Group on Interim Finance for REDD+ (IWG-IFR)', 27 October 2009.

Substantial public funds have been pledged and committed by Annex I governments to rainforest countries for REDD+ and forestry activities over the next five years, partly as a continuation of existing forest spend, and partly as additional spend in anticipation of and preparation for a UNFCCC REDD+ mechanism. These are variously intended to support action across the three phases of the development and implementation of REDD+, namely Readiness (Phase 1), Early Implementation and Demonstration (Phase 2), and Implementation at Scale (Phase 3)[10].

It is hoped that these public funds can be utilised to leverage significant private finance in this interim period before long term solutions, including potential carbon market revenues, are available. This includes private investment into those sectors which are currently drivers of deforestation (such as agriculture, logging, mining) to mitigate those drivers, and also private investment into projects which restore or preserve identified forest areas. Therefore, potential private sector participants include those whose supply chains are built around land based products such as agribusiness operators and sustainable forest management companies, as well as carbon project developers, local banks and specialist international investment banks. *Some* of these investments may give rise to, or depend upon, revenue from saleable carbon credits.

Encouragingly, early examples exist where available public finance is being leveraged to attract significant private finance, and further opportunities for private sector investment should become apparent as more countries complete their low carbon development plans or equivalents.

In terms of public finance, most notably, Annex I country governments have pledged $4.5 billion of "Fast Start Finance" for REDD+ activities[11]. This finance was intended to enhance implementation of REDD+ by rainforest countries between 2010 and 2012, and to help to prepare for sustained implementation beyond 2012. However, more than half-way through the fast start period of 2010-2012, it is reported that only a fraction of the Fast Start Finance pledges have been spent in forest countries.

This slow disbursal of pledged public finance impedes activities which are dependent on receipt of external financial support today. This impact is multiplied due to the lost opportunities to leverage private investment through the strategic deployment of this public finance. This slow disbursal also calls into question the commitment of Annex I countries to provide the level of long term support that will be required. This in turn dampens political will in rainforest countries, and in doing so impedes the extensive policy and legal reforms necessary for long term behavioural change.

Box 1: Why Action is Needed Now

Firstly, there is a narrow and closing window of time during which REDD+ can contribute significantly to reducing net GHG emissions:

- **Every day, forests continue to disappear, releasing emissions, and reducing futucarbon capture and storage potential.**
- **Rainforest countries are willing to act now, but in the face of the immense economic opportunities presented by forest-based commodities, political will is not indefinite.**

Secondly, a fast start will both bring forward the operation of REDD+ at scale, and enable a more robust approach:

- **Establishing and scaling-up REDD+ takes time. Significant policy and legislative changes are required at national and international levels.**
- **Early action can be a catalyst, providing valuable lessons.**

[10] REDD+ is commonly thought of as a three phase process: Phase 1 (readiness) being the development of a national REDD+ strategy, identifying needed policies and measures and capacity building activities, Phase 2 (scaling up and demonstration) being the implementation of the national strategy and identified policies, capacity development, and results based demonstration activities, and Phase 3 (full implementation) being results based actions at scale with full measurement reporting and verification.

[11] As part of total Fast Start pledges of $30 billion for enhanced action on mitigation (of which REDD+ is a part), adaptation, technology development and transfer and capacity building.

1.4 This Paper

The focus of this paper is not to call for additional monies, but rather, to shed light on where and why problems are occurring in respect of the disbursal of interim finance from Annex I governments (often for understandable reasons), and offer solutions to overcome these problems. The paper collates the views of representatives of rainforest and Annex I governments, financial intermediary organisations and civil society that were interviewed for this consultative review. It is hoped that this paper can be used as a basis for a solution-focused dialogue between key stakeholders ahead of the next Conference of the Parties under the United Nations Framework Convention on Climate Change (UNFCCC) in Durban in December 2011.

Scope

The remainder of this paper is structured as follows:

- Section 2: An assessment of the amount of finance pledged, committed and allocated for the interim period (relative to need), and whether it is being disbursed on a timely basis.
- Section 3: An investigation of the perceived barriers which are impeding timely disbursal of this interim public finance from Annex I governments*, and potential solutions to overcome these barriers.

* This finance includes the pledged Fast Start Finance for REDD+ and other commitments of finance for forestry activities and programmes through a myriad of bilateral and multilateral channels, which may or may not be labelled as REDD+ finance but are currently available and contribute to the realisation of REDD+. It is fully acknowledged that these monies do not represent the full landscape of available finance for this interim period. Significant resources have already been and will continue to be expended on REDD+ related activities by domestic governments, domestic and international private sector operators, non-governmental and philanthropic organisations. However, at the present time, rainforest nations have expressed concerns over delays in disbursal of public finance from Annex I countries and this is the focus of this paper.

The success of REDD+ depends, in part, on ensuring finance flows through to all actors in need of financial incentives to enable a move away from forest conversion and degradation. This includes national and sub-national governments, the private sector, civil society, local communities, and individual households. Whilst recognising this, this paper is focused on the first challenge of ensuring financial support from Annex I countries is accessible to the first point of contact in rainforest countries. However, lessons from this analysis can be applied to further disbursals within countries.

Methodology

Information on the perceived barriers to faster disbursal has been gathered from informal interviews with representatives from rainforest and Annex I governments, financial intermediary organisations, and civil society. As time was short, this study has not included a comprehensive, bottom up review to track finance pledges and spend, but instead has relied on recent comprehensive assessments, complemented with more up-to-date information received during interviews with representatives from rainforest and Annex I country governments, financial intermediary organisations and civil society.

2. Assessing the Sufficiency of Available Financial Support for this Interim Period

The status of REDD+ finance from Annex I countries is difficult to track as data is scattered, inconsistent and incomplete. Not all finance which contributes to the realisation of REDD+ objectives and activities is labelled as such. Further, the voluntary efforts which are attempting to collate information on REDD+ financial support[12] rely on voluntary reporting and there are no agreed definitions or standards. For these reasons, the figures given below should be viewed as indicative only.

As is the case for other public funding, REDD+ funding can be categorised as pledged, committed, allocated and disbursed. In the following, these terms should be interpreted as follows[13]:

- Pledged: the subject of a political statement of intent to provide funding.
- Committed: firmly committed within the Annex I country by, for example, earmarking within the national budget.
- Allocated: earmarked to a specific multilateral initiative or fund, or initiative, fund, programme or project in a rainforest country.
- Disbursed: transferred to the earmarked initiative, fund, programme or project.

Much of the data reported in this section is taken from the valuable report for the REDD+ Partnership: 'Analysis of REDD+ Financing Gaps and Overlaps'[14], supplemented from other sources where available.

2.1. How Much is Needed?

At this time, it is very difficult to provide reliable estimates of how much money will be needed over time to finance REDD+. A number of global studies have estimated aggregate financial costs for specified levels of emissions or deforestation rate reductions, although it should be noted that these figures are very susceptible to the methodology and assumptions employed, and the state of knowledge at that time[15]. Profiling these costs over time is further complicated by the varying stages of readiness achieved by different rainforest countries. What can most reliably be drawn from those estimates is the understanding that readiness and capacity building costs are likely to add to something in the range of billions, and full costs of payment for avoided emissions on a per unit basis would be in the range of tens of billions.

A greater understanding of the costs of REDD+ and the extent and timing of financial support required can perhaps be seen from country estimates of their own costs and needs. Though it should be noted that at this time, information is far from complete.

[12]Most notably,www.faststartfinance.org (a government initiated and supported enterprise collating data on all fast start pledges, not just REDD+), and the 'Voluntary REDD+ Database'.

[13]This paper adopts the classification defined in 'Fast Start Finance to Address Climate Change: What We Know at the Mid Point', J. Brown, M. Stadelmann, L. Hornlein, ODI Briefing Note, August 2011.

[14]'Analysis of REDD+ Financing Gaps and Overlaps', a report for the REDD+ Partnership by M. Simula, Ardot, December 2010.

[15]For example, the Eliasch Review of the UK Government estimated that at a global level, $4 billion would be needed over 5 years to build the capacities of 40 nations to participate in a global forest carbon scheme, and the finance required to halve emissions from the forest sector by 2030 could be around $17-33 billion per year if included in global carbon trading. Similarly, the IWG-IFR estimated that if $15-$25 billion were made available for the period 2010-2015, for a combination of capacity building and payment for performance and complementing other REDD+ efforts, a 25% reduction in annual global deforestation rates may be achievable by 2015. However, caution needs to be taken when comparing these and other estimates, which vary widely due to differences in terms of the time horizon reviewed, abatement levels targeted, geographic coverage, methodology used and implicit assumptions of the nature of the costs that will be incurred. Further, the 'opportunity cost' approach often used has a number of shortfalls: it may not be appropriate where there is no market (ie, subsistence cultivation, or illegal activities), it does not always take into account all costs (e.g. transaction costs) or foregone opportunities (e.g. non-monetary benefits to local populations such as environmental or cultural services), and perhaps most significantly, private opportunity cost does not necessarily reflect the incentive that needs to be paid (e.g. significant emission reductions could be achieved by increasing enforcement).

As would be expected, the most reliable estimates exist for the readiness phase. As of December 2010, based on country submissions to the Forest Carbon Partnership Fund, \$244m is estimated to be needed in the short to medium term for readiness across 18 countries[16].

Beyond this first phase, detailed estimates are scarce. Few countries have developed investment strategies identifying and costing alternative, low carbon growth strategies which are not reliant on deforestation and forest degradation. Guyana is perhaps the only country which has a fully developed investment plan, derived from the development of its Low Carbon Development Strategy. This sets out how \$350 million of public investment can stimulate over \$4 billion in private investment over 5 years, to be used to build strong forest governance and create economic alternatives for forest-based communities and the country as a whole. This investment, about half of which has been secured by mid 2011, will enable Guyana to avoid the emissions of 1.5 Gt of CO_2e by 2020 that would have otherwise stemmed from a business-as-usual development path including significant deforestation.

However, as part of the REDD+ Financing Survey[17], rainforest countries were invited "to outline their estimated additional financing needs to build capacity for REDD+ in their countries and commence early implementation of REDD+ activities". These provisional estimates are given in Table 1. The wide range of both estimates and timeframes should be noted.

Table 1: Country Estimates of "Additional Financing Needs for REDD+"

	Low carbon plan and REDD+ strategy	Implementation	Demonstration activities	Performance based results	Financing period
	Phase 1	*Phase 2*	*Phase 2*	*Phase 3*	
	\$ million	*\$ million*	*\$ million*	*\$ million*	
Brazil	1	7500	-	-	2010-15
Central African Republic	20	20	-	-	2010-13
Chad	20	20	9	9	2010-12
DRC	12	700	50	3000	2010-15
Ecuador	5	-	-	-	2010-12
Gabon	4	3.5	100	250	2010-20
Indonesia	-	10	5	-	2010-12
Mexico	20-30	20-30	50-80	20-40	2010-15
Mozambique	0.3	5	0.2	3	2010-12
Nigeria	7	5	2	2	2010-12
PNG	-	40-50	-	3700	2010-30
Uganda	65.1-123.5	3.6-6.0	-	-	2010-15

Source: As reported in 'Analysis of REDD+ Financing Gaps and Overlaps', a report for the REDD+ Partnership

[16] 'Analysis of REDD+ Financing Gaps and Overlaps', a report for the REDD+ Partnership by M. Simula, December 2010.

[17] REDD+ Financing and Activities Survey prepared by the Intergovernmental Taskforce for the Oslo Climate and Forest Conference, 27 May 2010

2.2. Pledged, Committed and Allocated Finance

The recent report by the REDD+ Partnership estimated that, based on the available (incomplete) information, the total amount of international REDD+ funding sources available from 2008 to 2012/ 2015 is $7.2 billion (see Table 2). This represents programmed public funding sources for REDD+ via bilateral and multilateral channels, plus a small amount of expected finance from global carbon markets[18].

Table 2: Financing programmed for REDD+ from 2008 onwards

Source and channel	$ million	Notes
International public monies programmed to multilateral, international and regional REDD+ programmes	2283	As at May 2011, it is estimated that $764 million is held across five of the main multilateral, international and regional funds which disburse for REDD+ activities (excluding funds held in GEF) and a further $442 million has been pledged but not committed.
International public monies programmed to bilateral REDD+ programmes	4765	Nearly half of this is from Norway, per their agreements with Brazil ($1bn to 2015), Indonesia ($1bn to 2015), Guyana ($250m to 2015) and Tanzania ($72m to 2015). This total is likely to be under-reported as not all donor countries are covered.
International private sector and carbon markets	150	Primarily through the voluntary carbon markets. This does not include monies invested by the private sector into activities which directly or indirectly support REDD+, information on which is not available.
Domestic financing – public and private	Not known	With regard to phase 1, the country budgets submitted to the FCPF suggest that domestic financing would contribute about $40m across 16 countries, representing 21% of the total needs. However, in addition to this, countries like Brazil, China, Costa Rica and Mexico have invested significantly before international REDD+ efforts were started, and continue to do so outside of the REDD+ arena, both from public and private sources. Brazil also funds a number of programmes which are not specifically REDD+, but are complementary, supportive sectoral strategies, for example, the Low Carbon Agriculture Programme.

Source: 'Analysis of REDD+ Financing Gaps and Overlaps', a report for the REDD+ Partnership

Of course, part of this $7.2 billion has already been spent. Conversely monies available from the Fast Start Period onwards will have been underestimated for three reasons:

1. Not all Annex I countries were covered in this assessment of bilateral commitments;
2. Not all monies deployed on activities contributing to the realisation of REDD+ have been classified as REDD+ funds. This includes monies directed to forest based activities such as sustainable forest management, biodiversity conservation, and activities which mitigate the drivers of deforestation and forest degradation;
3. It is likely that a significant proportion of the $4.5 billion Fast Start pledges are not included in the $7.2 billion as they are still in the planning processes and have not yet been allocated to specific initiatives or programmes.

[18] This represents voluntary market finance in respect of avoided deforestation and degradation demonstration projects plus a mixture of voluntary and compliance market finance for afforestation and reforestation projects. It does not include anticipated potential future compliance market finance flows at scale that may arise from the eligibility of REDD+ credits on compliance markets.

On this third point, in December 2010, the aforementioned report to the REDD+ Partnership noted that "It can be concluded that a significant share of the Fast Start Financing for REDD+ is still in the planning process for 2011-2012"[14]. This appears to remain the case today. Australia, for example, has pledged AUS $146 million Fast Start Finance for REDD+ activities. As at August 2011, all of this has been committed, but only two thirds has been allocated to specific programmes and initiatives.[19] Likewise, the UK Government has pledged £300m of Fast Start Finance for REDD+ activities. As at August 2011, all of this has been committed, however, less than half (£133 million) has officially been allocated to specific programmes and initiatives[20].

Across all Fast Start Finance pledges for REDD+, it is difficult to estimate how much remains to be allocated, and therefore, how much of the $4.5 billion pledged is not yet accounted for in this $7.2 billion estimate. Fast Start Finance is very difficult to track as the term Fast Start Finance simply represents financial commitments made in a political context. It has no particular structure or form, no direct legal implications and does not of itself create new funds or initiatives, but rather uses existing channels of delivery and disbursements. Therefore, Fast Start Finance is intermingled with all and any other pre-pledged spend. It was intended, and pledged, that this finance would be new and additional, but to what extent this condition is being met is very difficult to ascertain.

More broadly, a recent report from the Overseas Development Institute looking at all Fast Start Climate Change Finance (i.e. not restricted to REDD+) concludes that while the collective pledges from Annex I countries almost meet the $30bn target stated in Copenhagen, "less than half of the money has been committed or allocated"[21]. *If* the same were true of the specific REDD+ pledges, then presuming these pledges will be honoured, total available funds would not be $7.2bn (less monies already spent plus unlabelled REDD+ funding) but $9.4bn (less monies already spent plus unlabelled REDD+ funding).

2.3. Is There Enough On Paper?

To recap, committed finance from Annex I governments is in the region of $7.2bn although, as noted, this should be adjusted downwards as some has already been spent, and then adjusted upwards as it does not include all bilateral commitments, unlabelled REDD+ monies, or outstanding pledged Fast Start monies.

This figure can (very approximately) be set against short-to-medium term estimates of need for Phase 1 activities in the range of hundreds of millions of dollars, and needs for Phase 2 and 3 activities in the range of tens of billions of dollars (over a period of decades).

It could therefore be argued that, on paper at least, sufficient public funds from Annex I countries are available to support readiness activities across all participating countries. Indeed, 87% of Phase 1 finance needs identified through FCPF planning processes are estimated to be covered by identified funding sources, three quarters through multilateral and bilateral arrangements.

In addition, sufficient monies are theoretically available to support early movers to progress into Phase 2 and 3 activities as they are ready. However, it likely that the credible availability of further funding at scale would provide the level of confidence required to enable faster acceleration across a larger number of early mover rainforest countries. Therefore, it is critical that outstanding Fast Start Finance pledges are committed and allocated by Annex I countries.

In respect of scaling up private sector engagement in this interim period, early examples are emerging where public finance is being leveraged to attract substantial private finance. For example, $60 million of payments

[19] See Australia's submission to the UNFCCC available at http://unfccc.int/resource/docs/2011/cop17/eng/inf01.pdf

[20] 'UK Fast Start Climate Change Finance', Brochure, 2011, and interviews

[21] 'Fast Start Finance to address climate change: what we know at the mid point', J. Brown, M. Stadelmann, L. Hornlein, ODI Briefing Note, August 2011.

received by Guyana from Norway is to be invested into hydro-electric power, where it is deemed an equity stake from the Guyanese Government. On the back of this, Guyana has been able to attract approximately $600m of private finance from private sector investors. Further, Guyana's return on this equity stake will be recycled into other low carbon growth initiatives in the future. Further opportunities for private sector investment should become apparent as more countries complete their 'low carbon development plans' or equivalents. Of the multilateral funds, the Forest Investment Programme (FIP) in particular is focused on scaling up private sector engagement in phase 2 activities.

However, it should be noted that private sector engagement in the development of projects and programmes whose feasibility is dependent on carbon revenues is limited while uncertainties prevail regarding the ability to realise carbon revenues at scale (i.e., uncertainties over the future size and accessibility of markets for REDD+ carbon credits).

2.4. Is it Available in Practice?

Financial support from Annex I governments for REDD+ activities is channelled through a variety of multilateral and bilateral channels. This paper focuses on the largest multilateral and bilateral mechanisms and funds which currently hold or channel large sums of finance. It does not address the multiplicity of bilateral arrangements which provide support for the many, but relatively smaller scale and disconnected, forest based projects and activities.

Multilateral funds are the key finance channels for readiness activities, predominantly the FCPF and UN-REDD[22], though this varies significantly between countries. Existing commitments to support early action and demonstration and full scale implementation are generally from bilateral sources, with some multilateral engagement envisaged (e.g. through the FIP).

Based on the most recently available information, it is estimated that $764m is currently held across five of the main multilateral, international and regional REDD+ funds. A further $442m has been pledged but not yet disbursed to these funds. This does not include the substantial monies pledged or committed to the trust funds of the UN Global Environment Facility (GEF)[23]. An additional estimated $140 million is be held across the three trust funds established to channel Norway's commitments to Brazil, Indonesia and Guyana (see Table 3).

Viewing the numbers in Table 3, disbursal rates (the proportion of committed funds disbursed) are very low. This is often taken as evidence of inefficient disbursal from these funds. However, it is difficult to be conclusive about this simply from the numbers. In the early days of REDD+, low disbursal rates may be due to lack of absorptive capacity, and / or natural 'growing pains' in a period of learning. In Indonesia for example, an independent review noted that "The time needed for political deliberations, consultation and consensus building in the [Letter of Intent] process seems to have been under-estimated"[24]. Conversely, it should be noted that disbursal to date include payments for administration costs, which can represent a significant proportion of total funds disbursed. For example, FCPF disbursals include $3 million for the Secretariat and Fund administration, and FIP disbursals include $6 million for administration.

However, both in the interviews undertaken for this paper and other broader stakeholder engagement initiatives, persistent concerns have been raised regarding the speed of disbursal from both these multilateral and bilateral funds.

---

[22] According to the December 2010 'Analysis of REDD+ Financing Gaps and Overlaps' for the REDD+ Partnership, 60% of the total identified funding of the 16 FCPF R-PP budgets relies on multilateral sources. A further 21% is expected to come through domestic sources.

[23] GEF administers three trust funds: the GEF Trust Fund, the Least Developed Countries Trust Fund (LDCF) and the Special Climate Change Trust Fund (SCCF). These funds can be used to support many environmental activities, and it is not possible to separately identify REDD+ targeted finance. Climate Change is one of the six focal areas supported by the GEF Trust Fund. $2.17 billion has been pledged to this focal area and an estimated $1.89 billion deposited. 'Promoting conservation and enhancement of carbon stock through sustainable management of land use, land-use change, and forestry' is one of the six objectives under the climate change focal area. The GEF has stated that it will provide up to $1 billion for the implementation of a dedicated sustainable forest management / REDD+ Program throughout the period 2010–2014.

[24] 'Indonesia-Norway REDD+ Partnership: First Evaluation of Deliverables', Final Report, GAIA, 3 May 2011.

Table 3: Status Selected of Multilateral and Bilateral Funds

Fund	Focus			In		Out	Notes
	Phase 1	Phase 2	Phase 3	Pledged $ million	Deposited $ million	Disbursed/ Spent $ million	
Multilateral Funds							
Forest Carbon Partnership Fund – Readiness Fund (FCPF - Readiness)	✓			218	202	10	As of September 2011
Forest Carbon Partnership Facility – Carbon Fund (FCPF – Carbon Fund)			✓	174	118	-*	As of May 2011 *Disbursals from the FCPF Readiness and Carbon Funds are reported jointly
Forest Investment Programme (FIP)		✓		578	262	7	As of September 2011
Congo Basin Forest Fund (CBFF)	✓	✓		165	165	12	
UN-REDD Programme (UN-REDD)	✓	✓		151	97	51	As of September 2011
Bilateral Funds							
Brazil: Amazon Fund	✓	✓	✓	1027	280	7*	*As at February 2011. As at August 2011, the Amazon Fund has approved $138 million of support to identified projects, $110 million of which has been contracted. Predominantly funds from Norway into BNDES managed trust fund.
Guyana REDD+ Investment Fund (GRIF)	✓	TBD	TBD	250	60	2	As at August 2011 Funds from Norway into World Bank managed trust fund.
Indonesia - Norway	✓	TBD	TBD	1000	30	3	Funds from Norway (initial tranche) into UNDP Trust Fund. Interim solution. Alternative long term finance mechanism under design.

Figures compiled using available data and interviews. For up to date information on the nature, focus, eligible activities and current status of these funds, ClimateFundsUpdate.org is a very useful resource.

Certainly there has been a lot of frustration in accessing finance from multilateral funds, which has been perceived to be unnecessarily difficult, representing a very lengthy process for (so far) a relatively small amount of money.

The speed of disbursement from the Readiness Fund of the Forest Carbon Partnership Facility (FCPF) in particular has generated significant stakeholder frustration, from both contributing governments and forest governments. As part of the first programme evaluation of the FCPF[25], 313 stakeholders were surveyed and 67% of respondents disagreed or highly disagreed with the statement that disbursement of readiness funds was done in a timely manner. Action is being taken to address these concerns, and important lessons can be taken from these experiences.

The bilateral arrangements between Norway and Brazil, Indonesia and Guyana all make use of intermediary trust funds to channel finance to activities in these countries. Stakeholders have reported challenges in these arrangements as well:

[25] 'First Program Evaluation for the Forest Carbon Partnership Facility (FCPF): Evaluation Report commissioned by the Participants Committee of the FCPF', Nordic Agency for Development and Ecology (NORDECO), 13 June 2011.

- Brazil: "While the Amazon Fund has been able to get started quickly, it has begun to face design and operational challenges as it seeks to evolve towards greater impact in effectively tackling the economic and political drivers of deforestation"[26]. More information on the early experiences of the Amazon Fund is given in Box 2.

- Guyana: "When establishing the financing mechanism, there was a frequent adherence to old-fashioned approaches on the part of some of those in the financial intermediaries. That in turn leads to extremely expensive and inefficient use of scarce public funds"[27]

- Indonesia: "Reservations were expressed regarding operational procedures that have interfered with the delivery of high-quality and high-speed responses that were expected." Further, "We suggest encouraging the Task Force to accelerate disbursement of its existing budget"[28].

Interestingly, given these reported problems in accessing finance to support the development and implementation of REDD+ strategies, one interviewee commented that his advice to a rainforest country would be "to self finance the strategy development process as the time and resources required to meet external process requirements represents a significant 'capacity extraction'".

2.5. Conclusions on the Sufficiency of Available Financial Support

It is difficult to evaluate the sufficiency of available financial support given the lack of transparency over the status of REDD+ funds, and on other forest and land based spend which could contribute to the goals of REDD+. Any or all of the following changes would help to improve this situation: i) central register(s) of REDD+ pledges, commitments, allocations and disbursals, at international and national levels, ii) common reporting definitions and standards, and iii) mandatory reporting requirements for REDD+ and/or forest spend more broadly[29].

That said, currently, there would seem to be sufficient finance on the table to cover readiness activities across a large number of countries, and also a scaling of activities and payment for emissions reductions in early mover countries during the interim period before long term financial support is established.

Encouragingly, early examples exist where available public finance is being leveraged to attract significant private finance, and further opportunities for private sector investment should become apparent as more countries complete their 'low carbon development plans' or equivalents.

However, a greater number of early mover countries would be enabled by the fulfilment of Fast Start Finance pledges by those Annex I countries still undergoing strategic reviews to determine where their financial support should be allocated.

Furthermore, although significant sums of money are on the table today, the groundswell of stakeholder opinion is that this is not being disbursed to rainforest nations on a timely basis.

[26]The Amazon Fund: Radical Simplicity and Bold Ambition. Insights for Building National Institutions for Low Carbon Development',
S. Zadek, M. Forstater and F. Polacow, November 2010.

[27]From interviews.

[28]'Indonesia-Norway REDD+ Partnership: First Evaluation of Deliverables', Final Report, GAIA, 3 May 2011.

29 For example, the lack of a forest-related indicator in the OECD-DAC development indicators and the Rio Markers (now adopted by DAC) means that forest spend is invisible (and potentially double counted) across biodiversity. mitigation and adaptation. Inclusion of such an indicator would ensure mandatory and standardised reporting by at least all DAC participating countries.

3. Challenges in Disbursal

3.1 Characterising the Disbursal Process

Funds need to be delivered on an efficient basis to those with the authority and capability to implement projects and programmes on the ground. This requires efficient 'supply chains' from contributors to end users.

In part, this is simply a technical challenge. It requires delivery capacity, an effective channel for disbursement, and absorptive capacity, underpinned by rules, processes, and safeguards which are transparent and as simple as possible while appropriate and flexible to need and scale. This is complicated where international and / or national intermediaries are used[30], as these extend the chain in terms of actors, processes, roles and act as both recipients and disbursers, but the same logic applies.

However, disbursal of finance is also a political issue encompassing issues of commitment and ownership, and the degree of expectations from all sides of the transaction.

3.2 Investigating the Reasons Behind Inefficient Disbursal, and Possible Solutions

The climate and REDD+ finance space is characterised by a multiplicity of donors, recipients, intermediaries, with a resulting plethora of distinctive 'supply chains' for transferring REDD+ finance from donors to recipients. Each faces its own challenges and issues, and should be subject to a detailed review in its own right. However, below are summarised the common concerns, and potential solutions, that were raised in the course of our interviews with a range of stakeholders.

As noted above, the scale of the challenge in and for rainforest nations is substantial. There are good reasons why the existing systems and processes are in use. The objective of this analysis is not to apportion blame, but to seek to understand where and why problems are occurring, and identify how we can improve performance in respect of timely finance flows.

The PRP is not advocating any of these solutions over others. It is simply hoped that these findings can inform future development and review of existing and proposed processes and arrangements.

3.2.1 Feedback on Rainforest Country Government Activity

Context: Discussions in Annex I countries regarding disbursal efficiency often focus on the (lack of) absorptive capacity in rainforest countries, on the rationale that slow disbursal rates might be a symptom of a shortage of appropriate activities to fund. On the other hand, discussions in rainforest countries focus on the difficulty in accessing even small amounts of money. This is something of a chicken-and-egg problem. Without the existence of significant accessible funds (or credible commitments for such), there is insufficient incentive to expend the limited resources of political will and in-country capacity to create the needed absorptive capacity in rainforest countries. At present, significant efforts are being, and must continue to be, deployed into stakeholder engagement to develop and maintain widespread support for the development choice that REDD+ represents. This includes stakeholders outside and inside governments.

That said, many donors have concerns over the current operating conditions in many rainforest countries. These include the state of land use planning systems, governance systems, stakeholder engagement, transparency over the use of public funds, institutional capacity and effective means to devolve power and resources. The critical issue to be addressed by all parties, donors, intermediaries and rainforest nations alike, is 'when is a country ready for REDD?' Partnerships are needed for donor countries and intermediaries to work constructively with rainforest nations on practical ways forward.

---

[30] For example, the use of international intermediaries such as multilateral REDD+ funds to channel finance to a country, and / or national and sub-national funds to channel finance within country.

Common concerns raised (in respect of *some* rainforest country governments)**:**

- **A lack of common vision, co-ordination and co-operation between government ministries.** The result is that available funding is fragmented across ministries, generally in line with established relationships between particular ministries of rainforest and Annex I country governments. This competition and fragmentation creates a vicious circle: it reduces the likelihood of developing and implementing an effective national REDD+ strategy which can deliver results, which in turn deters donors from allocating additional finance.

- **A lack of a coherent large scale development and investment strategy,** which could be used to guide investment proposal evaluation, limits the likelihood of funding being provided to ambitious, large-scale activities and makes more difficult the approval of systemic change.

- **False expectations** that (large) sums of money would be forthcoming quickly, without a realistic understanding of the process and conditions attached to any funds. For example, many countries expected FCPF funds to flow once approved by the Participants Committee (PC). However, the established process is that once PC approval has been granted, the World Bank will then undertake its own due diligence process to secure internal approval prior to the release of any funds.

- **Disconnects between potentially reinforcing policies and programmes** make it more difficult for those looking implement transformative REDD+ activities to access and secure the funding required to enable multi-stage programmes. This limits absorptive capacity for REDD+ funds.

Solutions might include:

- **A clear mandate and focal point with recognised authority** across all ministries is established to co-ordinate (though not necessarily handle) climate finance, including REDD+ finance, and relationships with Annex I country governments and internal ministries. This focal point may best be an institutionalised secretariat or task force, which maintains its independence from, and authority over, each particular ministry.

- **A broad investment plan** is established to underpin the REDD+ strategy, to be used to guide approval decisions, and enable focus on game changing programmes and policies that can deliver mitigation at scale over the longer term. All recipients and activities supported are linked to and consistent with the REDD+ strategy and investment plan.

- **Greater engagement between rainforest and Annex I country governments and intermediaries** to provide transparency and clarity on objectives, targets and procedures of and for delivery of financial support.

- **Greater engagement and co-ordination between public and private sectors** in rainforest countries to enable co-engagement in identified REDD+ projects and programmes and access to a wider and reinforcing range of financial support.

3.2.2. Feedback on Annex I Government Activity

Context: The majority of financial support from Annex I governments is classified as Official Development Assistance (ODA). In the current financial climate, these aid budgets are under ever greater scrutiny from domestic taxpayers. Indeed, in some countries, forest budgets are being cancelled or redirected. Perhaps more than ever, when making funding decisions, donors require a plan with identified results and a way to measure those results. At the same time, donor agendas are widening and budgets are being stretched across overlapping but often unlinked agendas with varying objectives (including carbon mitigation, trade liberalisation, food security, rural development, and biodiversity conservation). Many Annex I governments are engaged in protracted REDD+ spending reviews to determine where and how to allocate their financial support.

Common concerns raised (in respect of *some* Annex I ministries)**:**

- **Insufficiently focused on integrated, large-scale strategic programmes.** Resources (both time and money) are being focused on specific, smaller scale forest based projects, rather than larger, higher cost – higher impact programmes to address the drivers of deforestation and to support alternative development paths. This is thought to be due to a combination of factors including:

    - The relatively low levels of finance available from most Annex I countries on an individual basis,

    - Previous experience of project level activities,

    - A preference to support 'in-forest' rather than 'out-of-forest' activities, on the rationale that these are likely to deliver identifiable and verifiable emissions reductions,

    - A preference to support more localised, discrete activities which are less reliant on progress with the implementation of nationally focused policies and developments.

    - The current shortfall of coherent programmatic solutions that Annex I governments can support. Of course, this is something of a 'chicken and egg' problem. As noted above, it is difficult for rainforest nations to deploy resources to develop large scale programmes and absorptive capacity prior to significant commitments and some disbursals of financial support.

  This approach generates important experience, particularly where lessons are fed back to shape national strategies and programmes. However, it is suggested that, in terms of impacts on financial disbursements, smaller amounts are being disbursed in a fragmented fashion, often through existing relationships with rainforest nation ministries, rather than larger, co-ordinated support to facilitate the development and implementation of national REDD+ strategies, and the coalescence of all rainforest government ministries around a unifying strategy for REDD+ in country.

- **Too risk averse**, with an over-emphasis on risk avoidance and safeguards, and not enough of an attitude of 'learning by doing'. In the words of one intermediary working in a rainforest country: "The focus of many donors is around risk aversion and risk avoidance, rather than experimentation. So nine tenths of their focus is on safeguards, and only one tenth on performance."

- **Paralysed in the face of multiple objectives**. The desire to use the money in a way that delivers measurable climate change mitigation, reductions in poverty, advances in rural development and biodiversity conservation for example is making it difficult to identify priority initiatives, allocate funds and establish performance criteria on a timely basis. These conflicts are playing out within and across different ministries in Annex I country governments.

- **Insufficient clarity has been provided to rainforest nations** regarding the specific targets they are working towards, or will be assessed against to be eligible for funding, for example on the nature of specific governance targets required. This has prevented targeted action being taken in rainforest nations on a timely basis.

- **Insufficient attention is paid to tracking monies** through intermediary organisations to approved projects and programmes on the ground. This lack of follow through reduces pressure to ensure monies pledged are allocated, and monies disbursed to intermediaries are in turn disbursed by them on a timely basis.

- **Capacity shortfalls.** Reduced headcounts in appropriate ministries despite widening agendas are limiting the ability of Annex I governments to disburse money speedily, and to tailor REDD+ support to country specific requirements. Further, Annex I experts are typically forest or climate specialists, rather than those with Executive, Policy and Whole-of-Government (or Whole-of-Nation) perspective, or particular expertise and experience in finance disbursal mechanisms. This applies both to bilateral and multilateral support.

Solutions that could be undertaken by Annex I governments might include:

- **Co-ordination across Annex I governments** to look for opportunities to co-engage and thereby scale bilateral support in a coordinated manner to enable the faster development and implementation of strategic plans and investment programmes. This is particularly important where each party can provide only a small amount of financial support relative to need.

- **Institutions strengthened and capacity expanded** both in central ministries in Annex I countries, and also in rainforest country offices, to enable timely strategy setting and appraisal for overall budgets, and to support particular bilateral and multilateral initiatives in country. This will require collaboration between Annex I and rainforest nations to build capacity, beyond forest and climate specialisms.

- **Reframe Annex I support as a transaction based on payment for performance** (with flexibility around the nature of that performance). Pre-set performance standards and eligible activities should be determined in agreement with rainforest nations and clearly communicated to all stakeholders.

- **Allocate a portion of the fast start finance to "no-regret" activities in the short-term.** They may include land use mapping; integrated economic development and land use plans; institutional capacity building; stakeholder consultation; increasing extension services; enforcement of current forest and land use laws; and pilot projects to address drivers of deforestation. Interim performance criteria could be agreed on for the above activities, until long-term agreements are reached.

- **Greater willingness to engage in high risk but high return activities**, with the provision these activities do not cause perverse or harmful consequences.

- **Engagement only with or through the identified REDD+ focal point** in rainforest countries, providing finance only for activities tied to the emerging national REDD+ strategy. And correspondingly, the establishment of a single focal point within each Annex I government to monitor and co-ordinate all financial support given by that country.

- **Greater commitment to tracking and monitoring** REDD+ pledges, commitments, allocations and disbursals through the full 'supply chain' of intermediaries, international and national**.**

3.2.3. Feedback on Intermediaries' Activity

Context: In practice, REDD+ monies are rarely transferred directly from contributor to end user, but are disbursed via intermediary institutions and mechanisms, such as multilateral funds, national trust funds and regional and national development banks. Often, a number of intermediaries are used in the same delivery chain. The FIP, for example, disburses its monies via regional development banks, and GEF monies are disbursed through the regional development banks, the FAO, UNDP and UNEP. Further, disbursal of monies in respect of the three largest bilateral deals done to date (between Norway and Brazil, Indonesia and Guyana respectively) all involve the use of intermediary trust funds (see Table 3).

Although not the preferred arrangement for rainforest nations, who would like more direct access to allocated finance, the use of intermediaries is, for now, generally accepted as a necessary pre-condition to satisfy donor preferences (indeed is often a precondition of donor country aid law) and is tolerated while rainforest governments have significant control over the approval process for proposed programmes and projects. That said, the reliance on existing international institutions was questioned by some respondents, who would like to see a greater focus on strengthening national institutions, and a transition away from the use of existing and, in their view, inappropriate and outdated, institutions.

Common concerns raised (in respect of *some* intermediaries)**:**

- **Pre-set modalities and expertise are often inappropriate to need.**
  - The established approach to rules and procedures and procurement in many of these intermediaries is thought to be ill matched to i) the amount of funding required; ii) the flexible and experimental approach required to learn about successful approaches to REDD+; and/ or iii) the established

processes of donor and/ or recipient countries. For example, the usual World Bank safeguard procedures were applied to all potential disbursals from the FCPF, including the relatively small grants to finance REDD+ strategy development. Furthermore, in some instances, intermediary procurement processes may not be consistent with those established in donor and/ or recipient countries.

  - A number of intermediaries, particularly development banks, are geared towards and are experienced in commercial investment project appraisal, but are not experienced in the evaluation of safeguards, or evaluating the strategic value-add gained from a collection of projects in aggregate, over and above individual returns.

- **Lack of transparency over standards and procedures adopted** by these organisations. It is felt this has already prohibited informed choices in the establishment of appropriate financial mechanisms. For example, one rainforest nation was not aware that the trust fund proposed to handle its bilateral funding would not be a direct access institution, but would itself disburse monies only to a secondary intermediary organisation.

- **Each intermediary has its own operating processes, approach to safeguards and procurement policies, and its own bureaucracy.** This duplicates efforts and transaction costs where rainforest countries are applying for finance from more than one institution with similar scope, and / or where there are multiple intermediaries in a single supply chain. Early attempts are being made to standardise procedures and requirements, for example the 'Common Approach' developed by the World Bank for the disbursement of FCPF monies through multiple delivery channels[31], and the common platform for the execution of REDD+ activities developed by the FCPF, UN-REDD and FIP, but these efforts do not yet go far enough.

- **Established application and evaluation processes are onerous and resource intensive,** with multiple iterations and reviews and numerous country visits.

- **Lack of established relationships and capacity in country.** The most successful intermediaries have an established base in country, and their staff work alongside governments providing ongoing support (eg UN-REDD in DRC). However, other intermediaries have been reliant on externally-based consultants, which limits trust building and knowledge transfer.

Solutions might include:

- **Tailor rules and procedures to**:
  - Level of funding: Where sums are small, the risk associated with ineffective use of funds is also small and it may be appropriate to have correspondingly less onerous conditions.

  - The urgency of need: For example, IMF emergency loans are not based on adherence to performance criteria. The request for assistance is granted when the IMF is satisfied that the member will cooperate with the Fund in finding solutions to its balance of payments difficulties, i.e. satisfied it will co-operate to deliver future improvements, rather than focusing on requiring set standards prior to disbursal. Similarly, in responding to an emergency, the World Bank considers "individual country needs", rather than working to 'one-size-fits-all policies and procedures'. This could act as a precedent for REDD+ funding.

- **Continue work to increase transparency over disbursal methodologies and frameworks as precursor to harmonising where appropriate,** building on the early collaborative efforts and approaches of the FCPF, UN-REDD and FIP. A key step would be the preparation of a **detailed comparative study** of the processes, standards and conditions applied by intermediary organisations, and an evaluation of their comparative advantages, for the purposes of informed decision making.

---

[31] The 'Common Approach' initiated between the FCPF and its delivery partners ensures delivery partners have "substantial equivalence" on the *material* elements of the World Bank's environmental and social safeguard policies and other appropriate FCPF regulations. This could be used as a starting point to establish common environmental and social safeguards across institutions, or at the least to increase transparency and cross scrutiny. It should be noted, however, that concerns have been raised by some NGOs that the "substantial equivalence" approach may mean a weakening of safeguards as not every element of the World Bank's safeguards and policies may need to be matched / complied with.

- **Greater support for capacity building activities in regional and national development banks.** In particular, to develop greater expertise in the application and appraisal of the environment and development objectives and safeguards being employed in the assessment and support of projects and programmes.

- **Authorise retroactive financing for preapproved activities** to enable rainforest countries to proceed with lengthy procurement and other preparatory processes despite delays in financial disbursement.

- **Consider the use of private financial institutions as intermediaries**, noting that this will likely require significant support from others with experience of appraising projects and programmes with a variety of environmental and development objectives as part of a national framework of action.

Box 2: Learning Lessons from the Early Experience of the Amazon Fund

The Amazon Fund was established in 2008 and made operational in 2009. It aims to provide support to projects that prevent, monitor and combat deforestation, as well as for the conservation and sustainable use of forests, primarily but not exclusively in the Amazon biome. The Fund is managed by the BNDES, the state-run Brazilian Development Bank. The lessons below are not a full reflection on the Amazon Fund, which has had notable success. However, they effectively illustrate a number of the challenges faced by many intermediaries, as noted in Section 3.2.3 above.

"BNDES complains of a lack of high-quality fundable projects, while external stakeholders and some COFA [Guidance Committee] members complain of narrow operational criteria, lack of communication and rigid procedures making it difficult to access funding. The Fund started out by using the same application forms, funding procedures and employee competency sets for the Amazon Fund as BNDES does for its commercial, industrial and infrastructure loans. There are also concerns that BNDES staff lack specific competency in assessing environmental projects and sustainable development issues – such as gender equity and the rights of indigenous peoples."

"The Amazon Fund was in effect launched as a REDD fund, in advance of Brazil developing a REDD strategy. The criteria developed provides basic guidance as to the themes and activities that should be funded including requirement for coherence with national and state plans, and an aim to target 50% of funding towards scientific research and innovation in sustainable economic activity in the Amazon. However, in its early operations BNDES has tended to apply its criteria as a filter, rather than as a set of strategic priorities. To date, the Amazon Fund has not met its ambition to target over half of funding towards innovation, but has tended to fund traditional command and control measures. "

"In 2010 the Amazon Fund had nine (and now has 21) members of staff– managing a current annual budget of US$110 million dollars – giving a figure of 0.08 people per million. The Fund has now increased its staffing levels but the centralised nature means that staff are limited in their ability to visit Amazon states on a regular basis, and successful funding bids have often involved grantees making multiple trips to BNDES in Rio de Janeiro. While there have been some road-shows in the Amazon, the Fund does not have a local presence, and interviewees indicated that awareness and understanding of the Fund amongst local stakeholders remains low."

Source: The Amazon Fund: Radical Simplicity and Bold Ambition. Insights for Building National Institutions for Low Carbon Development', S. Zadek, M. Forstater and F. Polacow, November 2010

3.3 Reflections on Problems with Disbursement, and Possible Solutions

While problems and solutions in interim finance disbursal vary according to the specifics of the parties and mechanisms involved, the following factors are significantly contributing to slow disbursal in many, though not all, contexts:

- **A lack of common vision, co-ordination and co-operation between ministries in rainforest nations**. As this situation reduces the likelihood of developing and implementing an effective national REDD+ strategy which can deliver results, it deters donors from allocating significant finance.

- **Annex I governments are insufficiently focused on supporting large scale strategic programmes linked to emerging national and sub-national REDD+ strategies, including addressing the drivers of deforestation.** Much support is geared to enabling specific, smaller scale forest-based projects based on existing relationships with a variety of ministries in rainforest countries which do not influence national policy.

- **The non-transparent, slow and perhaps inappropriate standards and procedures that are sometimes faced by rainforest nations when applying for financial support**. This is exacerbated in the, not uncommon, case where a number of intermediary organisations are present in the chain of disbursal, as each intermediary generally has its own operating processes, approach to safeguards and procurement policies, and its own bureaucracy.

Notably, these problems are reinforcing, and somewhat circular. Only when Annex I country partners are prepared to provide (commitments to) finance and other support at scale will there be sufficient incentive for rainforest nations to dedicate the limited resources of political will and in-country capacity to appoint an appropriate focal point, establish a commonly accepted vision and develop and drive integrated REDD+ strategies and absorptive capacity in rainforest countries. But without a clear, integrated and supported REDD+ mandate and agenda in rainforest countries, Annex I governments are not prepared to commit resources at scale.

Suggested solutions to these problems include:

- **Establishment of a clear mandate and a high-level focal point in each rainforest country with sufficient authority across all ministries.** This focal point to be representative of all ministries interests, and to be responsible for co-ordinating rainforest country ministries and Annex I partners and ensuring that all REDD+ finance being deployed in country furthers the development and implementation of the national REDD+ strategy and investment plan.

- **Co-ordination across Annex I governments** to look for opportunities to co-engage and thereby scale existing and proposed bilateral support (or commitments of support) to enable the faster development and implementation of the REDD+ strategy and investment plan. This is particularly important where each party can provide only a small amount of financial support and capacity relative to need.

- **Institutional strengthening and capacity building in Annex I governments and intermediary organisations,** including through sustained engagement and collaborative partnerships with rainforest nations, building on existing bilateral projects and experience, and going beyond forest and climate specialisms.

- **Debate on the disbursal standards, safeguards and procedures (collectively the 'terms') appropriate to the variety of circumstances faced.** In particular, to address whether and how these terms can and should be varied according the amount of finance being disbursed, the nature of the activity being so financed, and the nature of the finance available. In this context of interim finance to facilitate urgent action, consideration could further be given to the appropriateness of a new, rapid response 'Emergency Operations' approach, with simplified, streamlined processes and lighter-touch safeguards, balanced with appropriate mechanisms for oversight, accountability and independent monitoring. Lessons could be taken from existing arrangements for the delivery of emergency support in the event of crises and emergencies. It may be useful in this debate to (re)frame these disbursals as payments for performance, with clear specification of the nature of the performance expected, whether payment for a verified emission reduction unit, or payment for a key intermediary step which will ultimately enable avoided emissions or increased sequestration at scale.

- **Accelerate the allocation of a portion of the fast start finance to "no-regret" activities.** These may include land use mapping; integrated economic development and land use plans; institutional capacity building; stakeholder consultation; increasing extension services; enforcement of current forest and land use laws; and pilot projects to address drivers of deforestation. Interim performance criteria could be agreed on for the above activities, until long-term agreements are reached.

Ensuring sufficient monies are disbursed on a timely basis to enable appropriate action at scale will require greater transparency, trust, experimentation, co-ordination and collaboration (on and across all sides) than is currently experienced. At least in these early stages, REDD+ is a high-risk, high-return programme for which, arguably, existing aid approaches are not best suited.

References

Gaia Consulting Limited with Creatura Limited, 'Indonesia-Norway REDD+ Partnership: First Evaluation of Deliverables', J. Caldecott, M. Indrawan, P. Rinne, M. Halonen, Final report, 3 May 2011

IDEA Carbon, 'Assessing the Financial Flows for REDD+: the Pledge-Implementation Gap', Research note, June 2011

IWG-IFR, 'Report of the Informal Working Group on Interim Finance for REDD+ (IWG-IFR)', Discussion document, 27 October 2009

Lincoln Institute of Land Policy, 'The Environment and Global Governance: Can the Global Community Rise to the Challenge?', working paper, U. Lele, A. Zazueta, B. Singer, 2010

Nordic Agency for Development and Ecology (NORDECO), 'First Program Evaluation for the Forest Carbon Partnership Facility (FCPF): Evaluation commissioned by the Participants Committee of the FPCF', 13 June 2011,

Overseas Development Institute, 'Fast Start Finance to Address Climate Change: What We Know at the Mid Point', J. Brown, M. Stadelmann, L. Hornlein, ODI Briefing Notes, August 2011

Overseas Development Institute, 'National delivery of climate finance in Indonesia', ODI Presentation by J. Brown, 31 March, 2011

The Prince's Rainforests Project, 'An Emergency Package for Tropical Forests', March 2009

Proforest, 'Accelerating Transfers of Interim Finance for REDD+: Building Absorptive Capacity: A report for UK DFID', R. Nussbaum, A. Hoare, C. McDermott, J. Saunders, P. Moura Costa, August 2009,

Pan et al. (2011). 'A Large and Persistent Carbon Sink in the World's Forests'. Science, July 2011.

PwC with Climate Focus, Winrock and IUCN, 'Funding for forests: UK Government support for REDD+', a report for the UK Government, 5 July 2011

Simula, M., 'Analysis of REDD+ Financing Gaps and Overlaps', A report for the REDD+ Partnership, Final draft, 30 December 2010

UK Department for International Development (DFID) and Department for Environment and Climate Change (DECC), 'UK Fast Start Climate Change Finance', Brochure, 2011

World Bank, 'World Bank Management Response to the FCPF Evaluation Report', 16 June 2011

World Resources Institute, 'Summary of Developed Country Fast-Start Climate Finance Pledges', 9 May 2011

Author

Written by **Anna Creed** for **The Prince's Rainforests Project.**

Contact

The Prince's Rainforests Project
The Prince's Charities International Sustainability Unit
The Prince's Charities Foundation
Clarence House
London SW1A 1BA **UK**

andreanne.grimard@royal.gsx.gov.uk

INTERNATIONAL SUSTAINABILITY UNIT

OCTOBER 2011