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Towards Building a GOVERNANCE FRAMEWORK for REDD-Plus FINANCING

Policy Brief

A joint initiative by:

Climate Change Commission

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With implementing partners:

Ateneo School of Government
The Graduate School of Leadership and Public Service

Climate Markets & Investment Association

HELVETAS Swiss Intercooperation

The Swiss-Philippine Initiative and Implementing Partners

The Cancun Agreements (Decision 1/CP.16) set forth the broad parameters for an international REDD-Plus mechanism[1] aimed at effectively reducing the human pressure on forests in developing countries that results in greenhouse gas emissions, including actions to address drivers of deforestation. Parties requested the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA) to explore financing options for the full implementation of the results-based actions on REDD-Plus for consideration during the 17th Conference of the Parties in Durban, South Africa in December 2011.

The governments of Switzerland and the Philippines are supporting an initiative towards developing a governance framework for REDD-Plus financing that lays the foundation for securing financial commitments for the full implementation of REDD-Plus. Switzerland has successfully reformed its forestry sector through decentralization and catalyzing private investment, and supports many countries, including the Philippines, that are also undergoing the process of forest governance reforms. The Philippines, on the other hand, is a pioneer in community-based forest management and is actively adapting its forest governance strategies to capitalize on international support to reduce forest carbon emissions. The initiative is implemented by the collective effort of the Ateneo School of Government, the Climate Markets & Investment Association, and HELVETAS Swiss Intercooperation.

The implementing partners designed a dialogue process to inform the UNFCCC negotiations in Durban on REDD-Plus financing options. This dialogue brings together around 100 experts and representatives from country Parties, multilateral organizations, private sector and civil society in a space that encourages independent and innovative thinking unconstrained by formal negotiating positions. The process includes a literature review, electronic survey, and face-to-face workshops[2].

Partners hope that the dialogue results will help crystallize proposals for a governance framework for REDD-Plus financing in the negotiations, building on the existing knowledge base, and highlighting principles and elements, as well as the associated opportunities and risks, to effectively finance a decrease in forest carbon emissions, while addressing drivers of deforestation and adhering to social, environmental and governance safeguards.

1 FCCC/CP/2010/7/Add.1, para 70
2 For the complete set of outputs, visit http://www.asg.ateneo.edu/news2.php?newsid=259

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Message from the Government of Switzerland

On behalf of Switzerland's Federal Office for the Environment and the State Secretariat for Economic Affairs, we wish to give highest priority to this initiative Towards a Governance Framework for REDD-Plus Financing with our colleagues from the Philippines.

Effective forest governance is essential to securing investments in the forestry sector and REDD-Plus. Further, financial resources are necessary to speed up moving towards sustainability, more productivity, and better distribution of benefits. Consumers are increasingly becoming conscious of the importance of paying for sustainably produced goods and services. The capacity of countries to meet the growing demands for these products and services, including carbon, should also be strengthened through better forest governance.

Our specific interest in contributing to a robust forest governance framework has its roots in our own national experience. Switzerland was heavily deforested and degraded in the mid 19th century. This resulted in high environmental damage and high costs, which brought us to a turning point and consequently to improved legislation. Henceforth, public and private investment in the sector has been key to providing capacity building at all levels and improvement of governance structures. The change of policy was a success because of the strict enforcement of the new legal framework.

In Switzerland we recognized the relevance of community management for securing sustainable forest management. Therefore, in our forestry system traditional communal forest management is the basis for decentralization, regaining and maintaining stability, biodiversity, and promoting restoration. Financial resources were also essential in promoting sustainability, enhanced productivity and better distribution within the forest sector.

Another key element is appropriate participation of the private sector. Not only can it provide capital, but also ensure long-term economic feasibility of REDD-Plus agreements. Switzerland has a long tradition of promoting multi-stakeholder partnerships in tropical forestry including the private sector, civil society and public entities. This experience has shown the relevance of creating dialogue platforms when designing mechanisms aimed at securing sustainable use of natural resources.

This initiative between our countries has definitely brought us and other countries and stakeholders, notably the private sector, closer together. Opening up communication between the forest and financial sectors is at the heart of building together a solid foundation of understanding, trust and prosperity.

Ambassador Beatrice Maser Mallor
Head of the Economic Development and Cooperation Division
State Secretariat for Economic Affairs

Ambassador Franz Perrez
Head of the International Affairs Division
Federal Office for the Environment

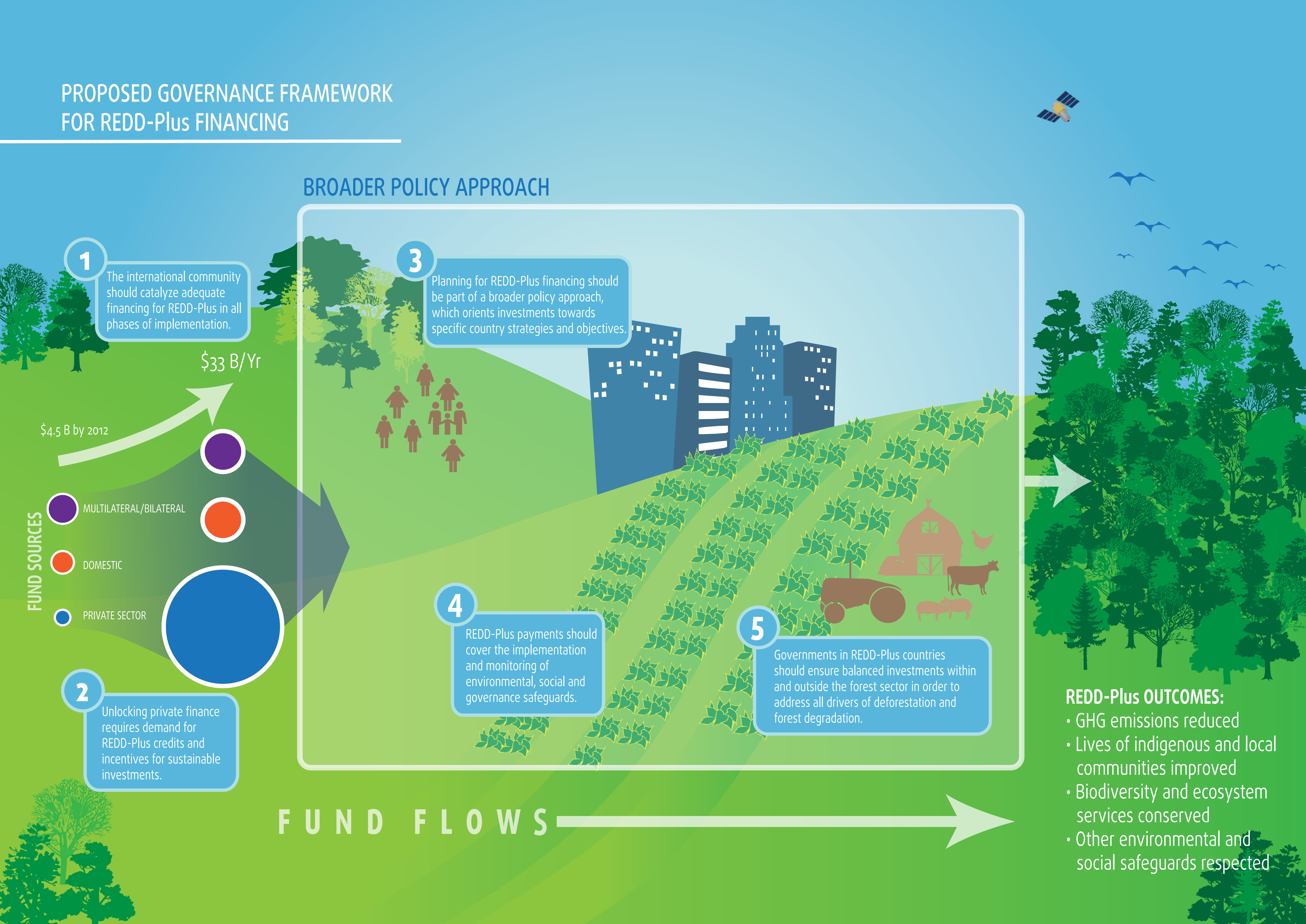
Message from the Government of the Philippines

The Philippine Government is deeply honored to be part of this joint endeavor with the Government of Switzerland that seeks to develop with the international community a governance framework for catalyzing REDD-Plus financing. In these times where resources are becoming more scarce against an ever growing need to address climate change through adaptation and mitigation, the world needs innovative ideas and solutions that can meet the demand of science and fast-track action on the ground.

As the world converges in Durban for the 2011 Climate Change Conference, it is with great pleasure that we share this policy paper with the international community. It embodies the confluence of views, insights, and aspirations of a diverse group of stakeholders who worked hard with us in Panama last October 2011 and who are just as passionate to find ways for unlocking and sustaining the potential of REDD-Plus to serve the climate, environment, and communities in the coming decades. The challenges we face – closing the funding gap, building capacities, institutionalizing safeguards and addressing the drivers of deforestation – all seem tall. But what this joint initiative has proven quite clearly is that when the creativity, diversity, and experience of nations, the private sector, NGOs and stakeholders converge under a common cause, no challenge is insurmountable. It is our hope that this policy paper makes for a valuable contribution to the ongoing discussions on REDD-Plus financing and its vital link with governance. The Philippines firmly believes that REDD-Plus financing should stand on solid bedrock that is good governance.

In closing, I also thank and congratulate our implementing partners, the Ateneo School of Government, the Climate Markets and Investment Association, and HELVETAS Swiss Intercooperation for their untiring efforts to usher this project into success.

Naderev M. Saño
Commissioner
Climate Change Commission


PROPOSED GOVERNANCE FRAMEWORK
FOR REDD-Plus FINANCING
BROADER POLICY APPROACH
1
The international community should catalyze adequate financing for REDD-Plus in all phases of implementation.
$33 B/Yr
$4.5 B by 2012
FUND SOURCES
MULTILATERAL/BILATERAL
DOMESTIC
PRIVATE SECTOR
2
Unlocking private finance requires demand for REDD-Plus credits and incentives for sustainable investments.
3
Planning for REDD-Plus financing should be part of a broader policy approach, which orients investments towards specific country strategies and objectives.
4
REDD-Plus payments should cover the implementation and monitoring of environmental, social and governance safeguards.
5
Governments in REDD-Plus countries should ensure balanced investments within and outside the forest sector in order to address all drivers of deforestation and forest degradation.
FUND FLOWS
REDD-Plus OUTCOMES:
• GHG emissions reduced
• Lives of indigenous and local communities improved
• Biodiversity and ecosystem services conserved
• Other environmental and social safeguards respected

1. The international community should catalyze adequate financing for REDD-Plus in all phases of implementation.

There are currently different sources for REDD-Plus financing, including: international (multilateral and bilateral) public funding, domestic public funding, carbon markets and direct private investments. Multilateral and bilateral sources currently make up more than 90% of existing fund flows[3] mostly through Official Development Assistance (ODA). The private sector has invested relatively small amounts directly into forest carbon projects.

Current pledges for REDD-Plus support (US$4.5B until 2012) pale in comparison to what is required for sustaining REDD-Plus into the future. It may be up to US$33B annually, according to the Eliasch Review[4]. Although estimates of the financing gap for REDD-Plus vary, there is general agreement that the financing shortfall is substantial and will continue to increase over time. Furthermore, the gap is not likely to be met by additional international public funding, but is expected to come from private sector investments.

Various multilateral funds have emerged since the Bali Action Plan in 2007. See Table 1.

Table 1

Multilateral Financing for REDD-Plus

Fund (US$ Million)	Pledged	Deposited	Approved	Disbursed
Amazon Fund (Fundo Amazônia)	$1'027.93	$53.20	$127.05	$32.73
Congo Basin Forest Fund	$165	$165	$18.51	$13.88
Forest Carbon Partnership Facility	$392.37	$320.57	$11.92	$10.34
Forest Investment Program	$577.67	$262	$84.55	$6.70
International Forest Carbon Initiative	$216.27	$67.06	$47.60	$47.60
UN -REDD Programme	$150.84	$98.25	$79.95	$62.72
Grand Total: (US$ Million)	**$2'530.08**	**$966.08**	**$369.58**	**$173.97**

Source: Climate funds update as of October 12 2011

3 Simula, M, 2010. Analysis of REDD+ Financing Gaps and Overlaps
4 Eliasch, J. 2008. Climate Change: Financing Global Forests

Multilateral initiatives so far have mainly invested in capacity building, governance reform, national strategy development, and implementation of policies and measures to get countries ready for REDD-Plus.

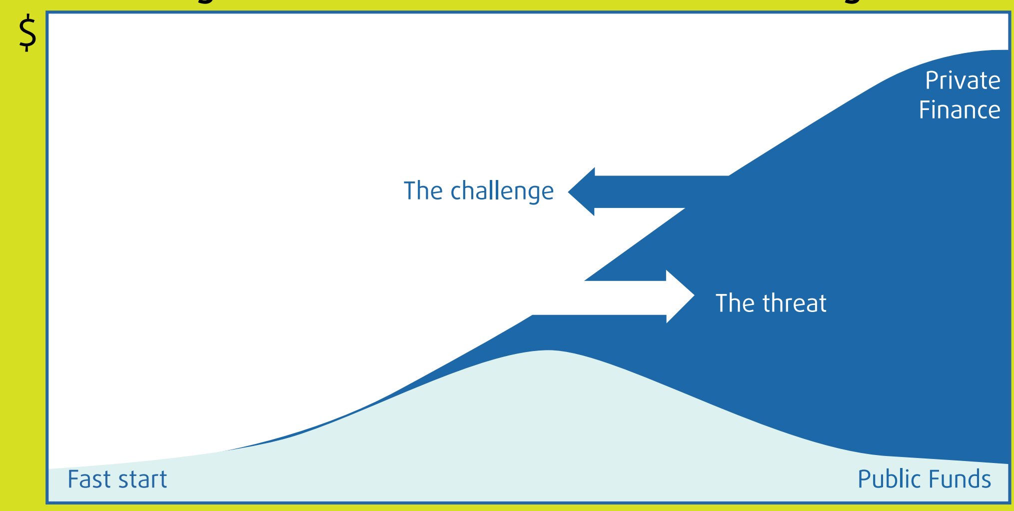
Current pledges are probably enough to support readiness activities (Phase 1), and some demonstration activities (Phase 2). However, these pledges are insufficient for full implementation of results-based activities (Phase 3), which will require substantively more funding that could come from the private sector. See Figure 1.

Many REDD-Plus countries are eager to implement field activities, but the financing challenge is two-fold: scaling-up with new and additional funding from current sources (mainly ODA), and diversifying sources of funding to include the private sector. Collaboration between the public and the private sectors is needed to make REDD-Plus a success. The international community is now faced with the challenge and responsibility to make this collaboration work and develop a framework that catalyzes sustainable and predictable commitments and investments.

Some stakeholders caution that too much attention is given to finding the money needed for full implementation of REDD-Plus rather than finding ways to address the problem of forest loss more comprehensively.

Figure 1

Financing REDD-Plus: the Threat and the Challenge



2010-2015	2015-2020	2020→
• Public funds focused at readiness preparation and institutional and technical capacity • Private finance from early movers	• Public funds for continuing readiness and demonstration projects	• Diminishing public funds • Scaling up of private finance with verifiable emission reduction credits through regional or international REDD-Plus framework

Source: PwC, 2010. Scaling up Private Sector Investment in REDD+: Demand Side Issues and Options.

2. Unlocking private finance requires demand for REDD-Plus credits and incentives for sustainable investments

The role of the private sector can be crucial in three ways: it can make capital available for REDD-Plus; it has the potential to shift away from current investments that drive deforestation; and it has the appetite to strengthen a market for goods and services that protect forests, including carbon. Emerging experiences from demonstration activities involving the private sector show how REDD-Plus can reduce forest carbon emissions, redirect capital away from destructive activities, and create a local economy that values ecosystem protection.

Unlocking this potential requires an enabling environment driven by a stable demand for REDD-Plus credits internationally, complemented with clear signals and incentives for sustainable investments in the country that catalyze economic growth while maintaining ecosystem integrity.

A demand for REDD-Plus credits gives incentives to invest in forest carbon projects, as clearly shown in the existing voluntary market. A significantly bigger compliance market for REDD-Plus is likely to catalyze and attract substantial private sector investments, because it increases security and certainty for investors. Deployment of private capital in pilot projects has the potential to facilitate development of

national criteria and guidelines for safeguard implementation and monitoring by feeding lessons learnt and best practices as designed for the project level up to national level decision-makers.

Investments of all types expect to be paid back with a premium. This premium can consist of many things, for instance social and/ or environmental stability, job creation, leveraging of other types of finance, profit etc. The type and amount of premium a public or private investor expects is determined by strategic priorities as well as the risk-reward profile of that investment. In view of this, the private sector has expressed willingness to provide significant capital for REDD-Plus under the conditions that signal a clear demand for REDD-Plus activities and mechanisms to recoup investments. In line with development priorities, governments should design investment policies that will allow fair returns on investments and reduce unnecessary costs of doing business, including policies that improve transparency, efficiency and certainty in working with government agencies and local stakeholders.

Specifically, if private investments are to be unlocked, public capital should be spent wisely to increase regulatory certainty in the forest and land use sector, for example by assuring effective forest governance, clarifying land tenure for forest land, enhancing integrated land use planning as well as by removing perverse incentives for unsustainable land-use practices.

Case Study: Kasigau Corridor, West Kenya

Wildlife Works is a private venture funded company working to conserve the forests and wildlife in the 200,000 hectare Kasigau wildlife corridor in-between the Tsavo East and West National Parks in Kenya. Backed by financial partners such as Nedbank and BNP Paribas, Wildlife Works uses the market for carbon credits, a clothing line, green charcoal and other products, to improve the lives of the forest dependent community and wean them away from activities that destroy the forest.

Wildlife Works provides over 400 direct jobs to community members to protect the area from deforestation and wildlife poaching, grow food, and make eco-friendly products for sale to consumers worldwide. The company targets consumers who want to help in forest and wildlife conservation, as well as in reducing and offsetting carbon emissions. It also uses the money it earns to invest in education, healthcare and other basic services for the local community.

As a result of forest protection efforts and access to alternative livelihoods, the Kasigau Corridor has been spared from further destruction. More wildlife has returned to the area.

Wildlife Works has been successful because of the growing global corporate and public awareness of the impacts of climate change, and demand for mechanisms to address the problem. Through the voluntary carbon offset mechanism, forward thinking corporations and the general public can buy carbon credits from Wildlife Works, which then uses the proceeds to fund REDD-Plus activities.

The company sees value in helping the local community members improve their lives through alternative livelihoods and better education and health services. Given better alternatives, a healthy and informed community will choose to protect the forests and wildlife. This in turn reduces the costs to Wildlife Works in securing the area from deforestation and degradation, and earn carbon credits. The company is certified through the Verified Carbon Standard and the Climate, Community and Biodiversity Alliance to ensure that its carbon credits comply with environmental and social safeguards.

Critical to the success of the project is the high governance environment it is operating in. Clear land titles show that the project is on community owned land.

3. Planning for REDD-Plus financing should be part of a broader policy approach, which orients investments towards specific country strategies and objectives

As REDD-Plus countries continue to build readiness and experiences, momentum towards results-based payments will have to be met with support in terms of financing and governance. Developing countries should autonomously develop their national REDD-Plus strategies that are consistent with their overall economic development strategies and arrived at through an open dialogue among all sectors of the national economy. Consistent with the country's REDD-Plus strategy, a REDD-Plus financing plan could create appropriate enabling conditions for private investments, which should clearly outline regulation on safeguards implementation, benefit-sharing arrangements, carbon and land-tenure rights, and other relevant policies, so as to properly channel investments and resources towards achieving REDD-Plus goals.

The enabling condition for private sector investments opens up opportunities to explore innovative investment models such as Public-Private Partnerships (PPP), access to markets and capital, including venture and philanthropic capital. Others include conservation concessions, forest bonds, supply chain investments, and certification schemes.

Additionally, the private sector has expressed that it is not completely wedded to a REDD-Plus credit system alone and is indeed interested in looking at other business models that could either work with or learn from existing ones.

Case-study: The West Papua Forest Carbon Program

West Papua, a province of Indonesia occupying the Birds Head Peninsula on the western side of the island of New Guinea is home to nearly 4.5 million hectares of preserved old growth forest that faces the threat of land conversion for palm oil and timber production.

Carrying a conservation agenda, the provincial Government of West Papua wants to pursue economic growth hand in hand with preserving the province's forest heritage, but it also knows that it has to provide alternative options to the local community if it wants to compete with profitable commercial options.

An alternative is payment for ecosystem services (PES) delivered through the West Papua Forest Carbon Program, which has been established through a public private partnership (PPP) between the provincial government of West Papua and a consortia of Australian service and investment companies. The idea is to replace existing logging and agriculture concessions with forest preservation projects funded through carbon financing, other ecosystem service payments and sustainable forest products.

Whilst still at an early stage, the program has established a number of institutional structures through which program implementation takes place. The central coordinating body is a government owned and operated company called PADOMA that receives financial and technical support from private sector partners. When program activities begin generating revenue, the private sector investors will begin to recoup costs and earn ongoing management fees.

Central activities include:
- Aggregating climate benefits and securing financing, through monitoring and financial structures;
- Negotiating PES agreements with communities and kabupatens through an ongoing stakeholder engagement and participation process;
- Providing jobs for forest protection, monitoring and data collection;
- Ensuring that funds flow down to the community through trust mechanisms; and
- Securing titles through a number of mechanisms including community, Kabupaten, provincial and national agreements.

Hope rests that these established structures and mechanisms will ensure the long-term sustainability and transparency of the program needed to address the challenge of providing financing for large scale PES. But even at this early stage of the program, both the government and the private sector are confident that PPP is the key to bringing the best of both worlds. Political will is carrying commitments through. Transparency and safeguards are in place. Flexible and responsive private capital is tapped and blended with public funds to support program needs. Global skills and ideas are put together. This a real opportunity for large public funding mechanisms such as the UK Climate Fund and the Green Climate Fund along with the initiatives from the World Bank to participate in the development of a scaled payment regime for ecosystem services.

4. REDD-Plus payments should cover implementation and monitoring of environmental, social and governance safeguards.

The Cancun Agreements provide guidance and safeguards for policy approaches and positive incentives for REDD-Plus. According to the survey facilitated under this initiative, safeguards should largely be enabled by public funds because of the close link between safeguards and government's responsibility to protect the rights of local communities and indigenous peoples, provide basic services, and facilitate sustainable development. Having clear policies for safeguards implementation is crucial towards building confidence of investors and communities to engage in REDD-Plus, because of the fairness, predictability and enforceability that is built into the policies:

- From the investors' perspective, a comprehensive approach to REDD-Plus, underpinned by strong safeguards, creates a governance environment capable of attracting scaled-up financing and investments.
- From the communities' perspective, REDD-Plus programs and projects which feature an inclusive approach for the respect of indigenous peoples rights, multi-stakeholder processes, livelihoods, and environmental integrity facilitates community-oriented outcomes and equitable benefit-sharing agreements.
- For governments, complementary and additional resources from REDD-Plus payments can augment constrained public budgets and allow for devoted resources towards the implementation of safeguards. Such public investments will enable governments to promote best practices needed to link REDD-Plus to basic services and bring about a multiplier effect.

The private sector identifies safeguards as vital to the success of REDD-Plus. The voluntary market has evolved standards for quantifying emission reductions (e.g. VCS) and for demonstrating institutional, social, economic and environmental co-benefits (eg. CCBA). There are complementary principles and standards for responsible investments in forestry and agriculture initiated by the private sector. The early demonstration of results and benefits from REDD-Plus can build confidence and lead to changes in behavior among government officials, local communities and indigenous peoples, and in the process, promote champions willing to implement REDD-Plus programs and projects with strong safeguards and transparent, verified results.

5. Governments in REDD-Plus countries should ensure balanced investments within and outside the forest sector in order to address all drivers of deforestation and forest degradation

Forests are being systematically destroyed for timber and other products, and to make way for food and fuel production, urban development, and other alternative land uses. As global population and demand grow, more forests are expected to be destroyed, unless attractive incentives are made available to sustain standing forests, create alternatives to forest products, increase the efficiency of land-use practices, and ultimately change consumer behavior. To reduce greenhouse gas emissions from deforestation and forest degradation, countries therefore need to look beyond forests and design a complete package of institutions, regulations and incentives to address the drivers of deforestation.

Designing and implementing such a package may require fundamental changes to a country's institutional and economic frameworks—changes that require proper coordination between various government agencies, and serious political will. Estimating the opportunity, transaction and implementation costs to REDD-Plus also requires considering further the real costs of behavioural change at national and local levels. Ultimately, such a policy package should be able to address pervading issues of corruption and the slow disbursement and poor distribution of funds on the ground, so as to avoid the marginalization and/or abuse of local communities and indigenous peoples.

On the side of the private sector, it is well known investments into forests have mainly resulted in unsustainable produce, deforestation and forest degradation. Governments can provide incentives to improve the sustainability of produce as well as encourage more efficient supply chains via, for example, the introduction of production standards or fiscal measures (tax exemptions, subsidies). An enabling policy environment for sustainable investments has the potential to reduce opportunity costs of, and thus be complementary to, REDD-Plus activities.

Sustainable investments can then be channeled to support economic growth, maintain and enhance environmental stability, and ultimately reduce pressure on forests. Examples include investments into: i) (certified) sustainable production of crops, livestock, timber, biomass; ii) ecosystem services; iii) eco-tourism, iv) integrated planning of renewable energy infrastructure expansion; v) conservation concessions, etc.

Caution however must be exercised as countries scale up efforts to effectively address the drivers of deforestation and forest degradation. Such efforts can increase timber prices and mount pressure on the ground towards exploiting unprotected forests. Therefore it is also critical to address the demand side, which requires coordination within and among countries. At the international level, we gain very little if one country is protected from deforestation but this results in the transfer of unsustainable practices and deforestation to another.

Implementing Partners:

SWISS STATE SECRETARIAT FOR ECONOMIC AFFAIRS

The State Secretariat for Economic Affairs (SECO) is Switzerland's competence centre for all core issues relating to economic policy. Within its Economic Cooperation and Development, SECO supports developing and transition countries to frame their economic and trade policies measures. The support offered by SECO aims at integrating the partner countries into the global economy and to promote their sustainable economic growth, which is contributing to the alleviation of poverty.

(http://www.seco-cooperation.admin.ch/themen/handel/index.html?lang=en)

PHILIPPINE CLIMATE CHANGE COMMISSION

The Commission is the sole policy-making body of the Philippine national government tasked to coordinate, monitor, and evaluate government programs and action plans on climate change. It carries out its duties and responsibilities as an independent and autonomous agency. It was created by virtue of the Philippine Climate Change Act of 2009 and is chaired by the President of the Republic.

(www.climate.gov.ph)

SWISS FEDERAL OFFICE FOR THE ENVIRONMENT

The Federal Office for the Environment (FOEN) is the centre of environmental expertise of the Swiss federal government and is part of the Federal Department of the Environment, Transport, Energy and Communication. Sustainable use of natural resources is FOEN's main responsibility, while minimising natural hazards, protecting the environment and reducing risks to human health from excessive pollution, and maintaining biological diversity.

(http://www.bafu.admin.ch/index.html?lang=en)

ATENEO SCHOOL OF GOVERNMENT

The Ateneo School of Government (ASoG) is the graduate school for leadership and public service of the Ateneo de Manila University in the Philippines. Guided by its vision, "Transforming communities. Building a nation," the School works towards the formation of ethical and effective leaders in the public sector, who serve as vehicles for building prosperous and just communities throughout the nation. ASoG's strength lies in enabling a learning process that bridges the gap between classroom wisdom and real-world policy decision-making and governance.

(http://www.asg.ateneo.edu/index.php)

HELVETAS Swiss Intercooperation

HELVETAS Swiss Intercooperation is a development non-governmental organization from Switzerland. It came into existence on 1 July 2011 with the merger of two organisations: Helvetas (founded 1955) and Intercooperation (founded 1982). As a politically and denominationally neutral association, HELVETAS Swiss Intercooperation is supported by 102,000 members and sponsors as well as 12 regional groups in an honorary capacity. 1170 local and 58 international employees (mainly Swiss) are engaged in 30 partner countries in Africa, Asia, South America and Eastern Europe.

(http://www.helvetas.ch/wEnglish/index.asp)

CLIMATE MARKETS AND INVESTMENT ASSOCIATION

CMIA is an international trade association representing firms that finance, invest in, and provide enabling support to activities that reduce emissions across five continents. Its membership accounts for an estimated 75 per cent of the global carbon market, valued at approximately USD 120 billion in 2010. CMIA distinguishes itself from other trade associations by providing a unique opportunity to be a part of an industry grouping that does not include any entities with compliance obligations under cap-and-trade schemes. This results in a unique and harmonious advocacy platform with emphasis on the environmental integrity of market mechanisms and climate change policies.

CMIA would also like to acknowledge the support of the following organisations: Althelia Climate Fund, Climate Focus, Lowering Emissions in Asia's Forests (LEAF), Norton Rose, and PwC.

(http://cmia.net/)