

**Background paper prepared for the 2015 SCF forum:
Coherence and coordination issues related to finance for forests,
taking into account different policy approaches**

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1. Introduction

1. In response to COP decision that mandates it to look at coherence and coordination issues relating to climate finance,¹ including on forest finance,² the Standing Committee on Finance (SCF) decided to prepare this background paper for the 2015 SCF forum, with two purposes: (1) to provide the SCF with an overview and highlight the main issues related to coherence and coordination of finance for forests; (2) to provide a basis for the SCF's deliberations on how to improve coherence and coordination for financing for forests, taking into account different policy approaches.³

2. Coherence of financing for forests is about understanding whether the different sources for forest finance are used in a more effective way, for instance, in addressing deforestation and forest degradation. Clarity on the different sources of forest finance would also increase understanding on what climate finance for forests exist and whether they complement each other. Coherence also relates to the question of whether subsidies, taxes and fiscal incentives in forestry and agricultural production encourage sustainable production systems or deforestation. Coordination is more about the actions that need to be taken to reach coherence, and the coordinated efforts that can lead to coherent financing.

3. The paper presents key information that the SCF collected with regard to existing finance for forests, compiling it in a way that enables the SCF to better understand the landscape of financing for forests, in the context of climate finance, as an input to its work on coherence and coordination. In considering this subject matter, the SCF engaged with Parties and stakeholders and invited their inputs and case studies. This background paper draws on those inputs received from SCF members, Parties and observers.⁴ It includes an

¹ Decision 1/CP.16, paragraph 121.

² Decision 7/CP.19, paragraph 11.

³ SCF meeting documents are available at: <www.unfccc.int/6881>.

⁴ All received inputs from Parties and stakeholders are available at: <www.unfccc.int/7561>.



indicative mapping of finance for forests, which is based on previous work undertaken by the SCF in its meetings held in 2014 and 2015. Rather than aiming at an exhaustive mapping, it presents the diversity of sources of forest finance, and the range of options for financing land-based mitigation and adaptation.

4. In presenting this background paper, the SCF notes that there are gaps in information, and uncertainty about actual resources flowing. According to the Climate Policy Initiative (CPI), there is a need for better information on the relevant activities currently being funded. The existing tracking systems are not able to capture the complexity of the topic, since there are “gaps in data availability, inconsistencies in definitions, and a lack of coordination between data gathering systems.”⁵

5. This paper does not attempt to define key terms in the field of forest finance. The SCF notes, as mentioned by CPI, that “challenges involved in establishing definitions for, and tracking finance related to, the broad range of activities needed to tackle the drivers of deforestation and support transitions to more sustainable economic development pathways are well documented.”⁶

2. Background information on the activities referred to in decision 1/CP.16, paragraph 70

6. This section presents information and relevant COP guidance related to the activities referred to in decision 1/CP.16, paragraph 70 under the Convention (hereafter referred to as REDD-plus).

7. The COP encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking five REDD-plus activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; enhancement of forest carbon stocks.⁷ Since COP 11, Parties have agreed upon a series of decisions relevant to REDD-plus, including 2/CP.13, 4/CP.15, 1/CP.16, 2/CP.17, 12/CP.17, 1/CP.18 and seven decisions of the Warsaw Framework for REDD-plus.⁸

8. The COP decided that the REDD-plus activities should be implemented in phases, *beginning with* the development of national strategies or action plans, policies and measures and capacity building, *followed by* the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results based demonstration activities, and *evolving into* results-based actions that should be fully measured, reported and verified.⁹

9. The COP agreed that results-based finance provided to developing country Parties that is new, additional and predictable may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.¹⁰ The COP encouraged entities financing the REDD-plus activities through the wide variety of sources¹¹, including the Green Climate Fund (GCF) in a key role, to collectively channel adequate and predictable results-based finance in a fair and balanced manner, taking into account different policy approaches, while working with a view to increasing the number of countries that are in a

⁵ Based on the input received from the CPI.

⁶ Ibid.

⁷ Decision 1/CP.16, paragraph 70.

⁸ Decision 9/CP.19 to 15/CP.19.

⁹ Decision 1/CP.16, paragraph 73.

¹⁰ Decision 2/CP.17, paragraph 65.

¹¹ Decision 2/CP.17, paragraph 65.

position to obtain and receive payments for results-based actions.¹² The COP also encouraged entities financing REDD-plus activities to continue to provide financial resources to alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests (JMA).¹³

10. In addition to the results-based approach, there are also alternative policy approaches that aim for the reduction of emissions from deforestation and forest degradation. The COP noted that alternative policy approaches, such as JMA could be developed and it is recognized that JMA is one of the alternatives to results-based payments that may contribute to the long-term sustainability of the implementation of the REDD-plus activities.¹⁴ According to inputs received from Bolivia, JMA offers an additional alternative to REDD-plus results-based payments, in order for developing countries to have access to “additional means of implementation and provision of finance for addressing forest adaptation and mitigation simultaneously through the integral and sustainable management of forests”.¹⁵ There could also be other approaches related to REDD-plus implementation, as presented at the in-session expert meeting on matters relating to non-market-based approaches.¹⁶

11. To address the needs and functions related to the coordination of support for the implementation of the activities and elements related to REDD-plus, the COP encouraged national entities or focal points, Parties and relevant entities financing REDD-plus activities to meet on a voluntary basis.¹⁷ The first voluntary meeting took place in Lima, Peru in 2014 and the second meeting took place in June 2015 in Bonn, Germany. The meetings were attended by Parties and their REDD-plus focal points and other relevant stakeholders, including civil society, indigenous peoples groups, entities financing and/or implementing REDD-plus, intergovernmental organizations and UN agencies.¹⁸ In the first and second meetings, participants discussed, inter alia, issues related to the delivery of finance for REDD-plus activities, including coordination of international financing entities and implementing countries and the lack thereof, highlighting the needs of alignment of different financing requirements with COP decisions on REDD-plus.

3. Existing data sources and information on forest finance

12. This section gives an overview of existing data sources and information on forest finance. According to the Collaborative Partnership on Forest (CPF)¹⁹, there is a lack of reliable data on financing for forests, both at the national and international levels. Information is incomplete on the range of activities funded, actors involved in REDD-plus activities or finance channeled. This is partly due to the fact that only a limited number of countries, organizations and programmes incorporate all data on the programming, sourcing, allocation and disbursement of forest sector expenditure (CPF, 2012). Similarly, existing tracking systems are unable to fully capture the complexity of the landscape, mainly due to gaps in data availability, inconsistencies in definitions,

¹² Decision 9/CP.19, paragraph 5.

¹³ Decision 9/CP.19, paragraph 8.

¹⁴ FCCC/SBSTA/2015/2/Add.1, page 4. This draft decision will be adopted at COP 21.

¹⁵ More information about JMA can be found in the input provided by Bolivia: <www.unfccc.int/7561>.

¹⁶ More information about the in-session expert meeting can be found here: <<http://unfccc.int/8278>>.

¹⁷ Decision 10/CP.19, paragraph 3.

¹⁸ More information including summaries of the voluntary meetings can be found here: <<http://unfccc.int/8784>>.

¹⁹ CPF is an informal, voluntary arrangement among fourteen international organizations and secretariats with substantial programmes on forests. More information can be found at <<http://www.cpfweb.org/en>>.

and a lack of coordination between data gathering systems.²⁰ For example, approximately USD 465 million has been reported through Fast-Start Finance (FSF) and the Voluntary REDD-plus Database (VRD) in terms of REDD-plus and forest focused funds, but there is no information as to what channels these funds were channeled through (Norman and Nakhooda, 2014).

13. According to input received from EU REDD Facility, Climate Focus and CPI, understanding of the scale and nature of finance available for land use mitigation and adaptation also remains uncertain, incomplete and inconsistent, and finance for *unsustainable* land use activities is equally unclear. There are, however, opportunities to redirect the hundreds of billions spent globally on brown activities and incentivizing brown activities, toward those with a more sustainable emissions profile (which are commonly termed as green activities) without sacrificing either productivity or economic development.

14. Databases containing data on financing for forests have been established under the UNFCCC. These are elaborated below.

15. **The UNFCCC Finance Portal:** From 2011 to 2013, developed country Parties annually submitted information on the resources they provided to meet the collective commitment of providing new and additional resources, including forestry and investments, approaching USD 30 billion for the period 2010–2012, with balanced allocation between mitigation and adaptation, which is better known as FSF. The information submitted by developed country Parties on FSF has been compiled into three documents.²¹ In the three years of FSF submissions, most developed country Parties provided examples of concrete mitigation and adaptation projects, including specific REDD-plus initiatives, and how they have provided resources for them. Many Parties also indicated the overall distribution of their funding in each sector, for which several Parties also included information on designated funding schemes for REDD-plus. Information provided by developed country Parties on their respective contribution to REDD-plus activities in developing countries during the FSF period is presented in the FSF module²² of the UNFCCC Finance Portal.

16. **Lima Information Hub for REDD-plus:** At its 19th session, the COP decided to set up an information hub on results-based actions and payments.²³ It also decided that the information hub would contain, inter alia, quantity of results for which payments were received, expressed in tonnes of CO₂ equivalent per year, and the entity paying for the results. The information hub is expected to be operational in late 2015, before COP 21.

17. Outside UNFCCC, as a part of readiness activities for REDD-plus, a number of developed and developing countries have worked together in the REDD-plus Partnership, and, inter alia, agreed to set up **the VRD**²⁴ on reported financial flows. The database is hosted by the Food and Agriculture Organization of the United Nation, and the data is reported both from donor and recipient countries, as well as from IGOs and NGOs.

18. **Organisation for Economic Cooperation and Development (OECD) statistics on forestry official development assistance (ODA):** Since 1995, the Development Assistance Committee (DAC) of the OECD has

²⁰ Based on the input received from CPI.

²¹ Contained in FCCC/CP/2011/INF.1, FCCC/CP/2012/INF.1 and FCCC/CP/2013/INF.1.

²² Available at <<http://www3.unfccc.int/pls/apex/f?p=116:13:544485926370909>>.

²³ Decision 9/CP.19.

²⁴ Available at <<http://reddplusdatabase.org/>>.

compiled systematic data on ODA in the forest sector. This can be broken down by year, thematic category, donor and recipient country.²⁵

19. **Other relevant voluntary datasets** include REDDX²⁶, the Climate Funds Update²⁷ and the financial reports of leading multilateral initiatives such UN-REDD, the Forest Carbon Partnership Facility (FCPF) and the Forest Investment Programme. Actual tracking would require sustained efforts to source, validate, and present information in a comparable way. Initiatives such as Overseas Development Institute (ODI)'s, the REDD Desk, UNEP FI, European Forest Institute or Climate Knowledge Brokers work towards this end. Current discrepancies in REDD-plus finance numbers reflect different scale, data sources, and focus of the stage and type of finance, different definitions to count REDD-plus activities, and different terminology for whether the money has been spent or not.

4. Towards a landscape of forest finance

20. Forest finance is generally classified by source into the following categories: domestic public finance (i.e. allocation of funds from the national budget plus direct and indirect incentives pertaining to forest management); international public finance (e.g. bilateral and multilateral support provided to developing countries, including ODA); domestic and international private finance, which can be volatile as it is largely based on fluctuations in demand and market prices, yet remains correlated to long term trends in production and consumption of forest-sensitive commodities; and blended and innovative finance (a residual but fast-growing category which includes REDD-plus, payments for ecosystem services and national forest funds, green bonds and concessional finance for land owners investing in more sustainable practices). This classification is used by, for example, the United Nations Forum on Forests (UNFF).

21. Total financial flows to agriculture and forestry activities in developing countries amount to hundreds of billions of dollars per year, according to the CPI, Climate Focus and EU REDD Facility. They claim that the majority of land use finance originates from domestic private actors supported heavily by public subsidies and incentives. It is crucial that public subsidies and incentives for the productive use of forests and land incentivize sustainable production methods and help to shift private investment towards sustainable production practices. Public subsidies and tax incentives for forest and agricultural production should be coherent with the policy objective to protect forests and reduce deforestation.

22. Annual flows of finance for land use mitigation and adaptation constitute only a small portion of total land use investments, with estimates ranging widely from USD 1.3 billion to 51.8 billion²⁸ per year, but the different estimation approaches²⁹ used mean that the numbers are neither comparable nor comprehensive. The EU REDD Facility, Climate Focus and CPI look at finance across the forest (timber, pulp and paper, wood energy

²⁵ <<http://www.oecd.org/dac/stats/>>.

²⁶ <<http://reddx.forest-trends.org/>>.

²⁷ <<http://www.climatefundsupdate.org/themes/redd>>.

²⁸ For instance, Norman and Nakhooda (2014) estimated cumulative public and private REDD-plus finance pledges at USD 8.7 billion between 2006-2014, 90 per cent of which came from public sector. Streck and Parker (2012) estimated USD 14.5 billion REDD-plus finance in 2010, almost entirely public and mostly from domestic sources. Parker et al (2012) estimated USD 51.8 billion globally 'available for conservation' (2012), more than USD 25 billion of which is domestic public money. Finally, CPI (2012) tracked USD 1.3 -11.8 billion of REDD-plus finance in 2011, most of which was bilateral commitments.

²⁹ Sectoral scope, pledges vs. commitments vs. disbursements, time period, country coverage etc.

and protected areas), agriculture (livestock, crops, bioenergy) and other land use sectors (transport, settlements, mining and protected areas), to capture the full range of primary sources of land use emissions and sinks.

23. The CPI's most recent Landscape of Climate Finance captures USD 5.8 billion of annual financial commitments from international public actors for land use mitigation and adaptation in 2012/2013, representing about 3.5 - 5 per cent of total public climate finance (USD 137 billion) tracked in 2013 (Falconer et al., 2015) (see Figure 1).

Standing Committee on Finance

THE LANDSCAPE OF LAND USE CLIMATE FINANCE 2014

>USD 5826 MN TOTAL



CLIMATE POLICY INITIATIVE

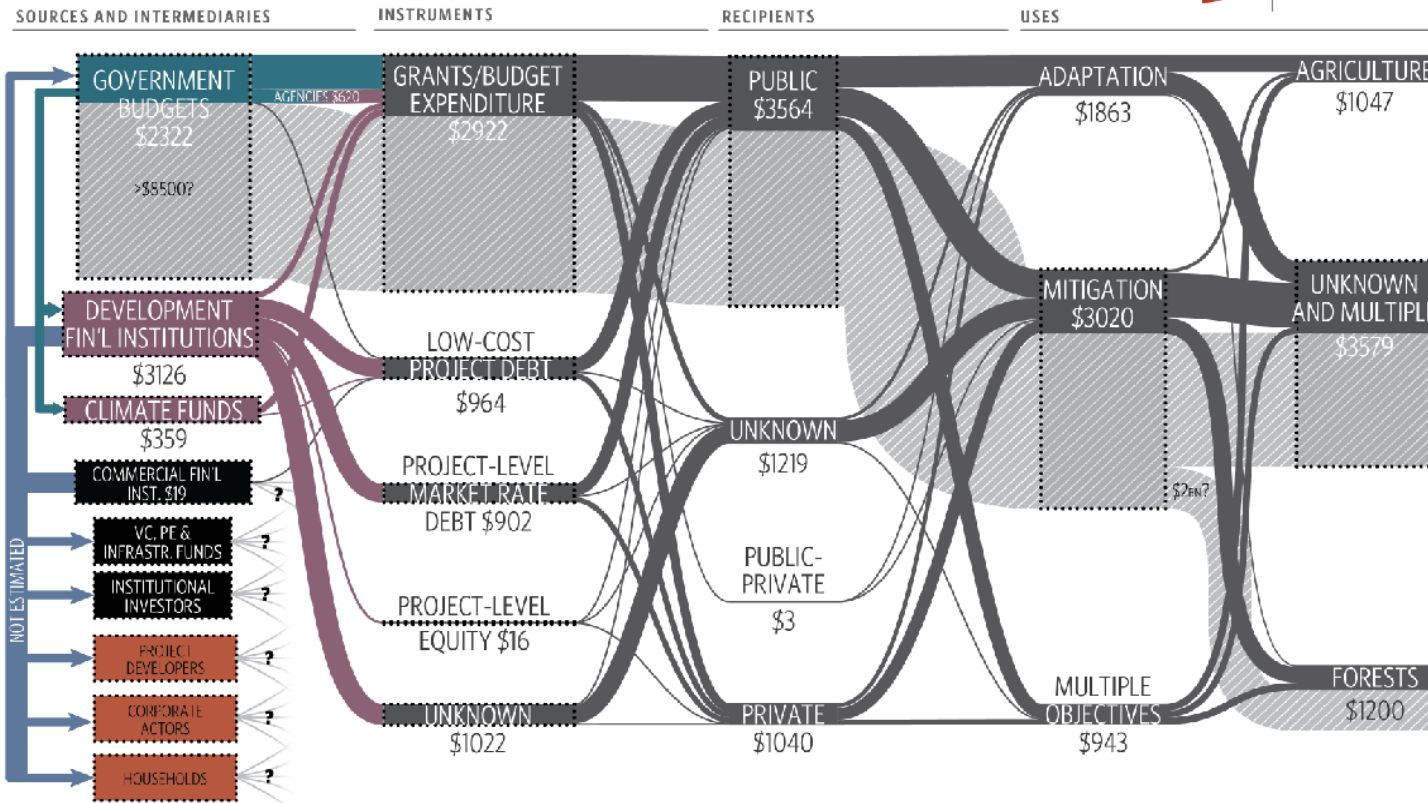


Figure 1 Estimated finance for land use mitigation and adaptation in 2012/2013 (Source: Falconer et al., 2015)

24. This includes USD 2.3 billion of finance from bilateral donors and USD 3.1 billion from development finance institutions, plus an additional USD 0.4 billion through a plethora of multilateral, bilateral and national climate funds. An estimated 71 per cent of the finance captured flows from OECD to non-OECD countries.³⁰ The data suggests a 40:60 ratio between adaptation and mitigation spending and a slight bias toward financing forests (USD 1.2 billion) as opposed to agricultural activities, but there is also a significant proportion of finance flowing to multiple objectives and sectors.

25. Bilateral donors provided finance almost wholly (99 per cent) in the form of grants while development finance institutions provided finance for land use mitigation and adaptation mostly in the form of low cost (29 per cent) and market rate debt (29 per cent) loans, with smaller portions in the form of grants (9 per cent) and equity (1 per cent). As well as providing direct support, many donors provide grants through multilateral, bilateral and national climate funds. The Landscape tracks grants totaling USD 346 million for land use mitigation and adaptation in 2012/2013.

26. Due to limited data availability, these estimates only include international public finance for land use mitigation and adaptation. Estimates of domestic government budgets are shown in grey crosshatch since less robust data is available and for only four countries (Indonesia, Mexico, Brazil and China). Nonetheless, the estimate is likely to be an underestimate. Figure 1 also omits data on South-South flows, philanthropy and, most importantly, private sector flows, which represents the majority of land use finance. The CPI report estimates that private sector may be investing around USD 4.2 billion annually in selected certified timber and palm oil practices alone.³¹

4.1. A snapshot of forest finance from public sources

Broader financing for forests – Forestry ODA

27. The 2012 Study on Forest Financing by CPF reviewed the flow of financing to forests in light of UNFF's work on sustainable forest management (SFM), including forest-related financing mechanisms and initiatives under the three Rio Conventions.³²

28. According to the study, ODA disbursement significantly increased between the period 2002-2004 and the period 2008-2010 by about 125 per cent, which is attributed to an increase of REDD-plus related ODA flows, as well as its pilot programmes, including those funded by FSF (Figure 2). The CPF study highlights the existing numerous financing mechanisms related to forests and the prominence of REDD-plus in terms of its large potential and the unprecedented attention it has drawn to the carbon potential of forests (CPF, 2012). The significant increase in both bilateral and multilateral commitments and disbursements is largely due to REDD-

³⁰ Just two thirds of our public land use climate finance data has geographic source and destination information. We assume that the remaining one third has a similar geographic source/destination profile.

³¹ Investment data is not available. USD 4.2 billion is a mid-point between two "back of the envelope" estimates from Streck and Parker (2012) and Parker et al (2012)

³² CPF report performed the analysis on the ODA flows, noting in particular the difference between forestry ODA and forest ODA, with an aim to see the trend of the financing for forests on the international level.



plus readiness activities and its pilot programmes including fast-start funding. Funding for REDD-plus related activities accounted for 40.6 per cent of the total funds to forests (USD 416.34 million of a total USD 1.2 billion).³³

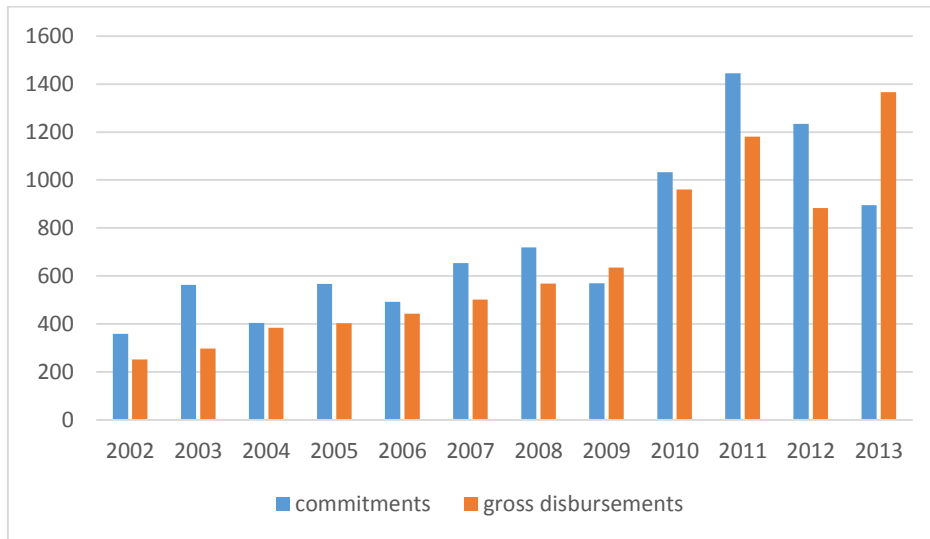


Figure 2. Total Forestry ODA³⁴ by year in millions of US dollars (Source: Singer, forthcoming).³⁵

According to OECD data, the top five bilateral providers committed 82 per cent of climate-related ODA to the forestry sector in the 2011-2013 period. Norway is by far the largest donor to bilateral ODA targeting REDD-plus.³⁶ Norway alone provides 40 per cent of bilateral support targeting mitigation as a principal objective.

29. Forestry ODA is limited to a small number of countries – both on the recipient and donor side (Singer, forthcoming). This is shown in Figure 3.

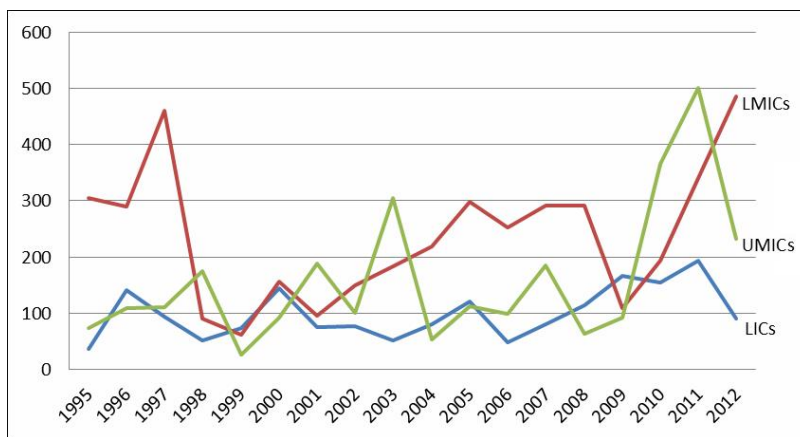


Figure 3. Evolution of forestry ODA to lower-income countries (LICs), lower-middle income countries (LMICs), and upper-middle income countries (UMICs) (Source: Singer, forthcoming).

³³ Input from the CPF.

³⁴ CPF noted the difference between forestry ODA and forest ODA. Whereas the former refers specifically to the OECD classification of ODA to the forestry sector, the latter is inclusive of forestry ODA as well as other financing activities related to forests. CPF further noted there are many different kinds of forest-related activities that take place under ODA-funded programmes that can also fall within different categories of financing related to forests.

³⁵ This chart does not take account of any Rio marked funds, although a large proportion of forestry ODA is marked as contributing to mitigation, adaptation, biodiversity and sustainable land management. There is therefore some overlap between forestry ODA and Rio-marked ODA, but the overlap is not total.

³⁶ Trends in climate-related development finance to forestry. OECD DAC Statistics, March 2015. Presentation made by the OECD.

30. Brazil, as the developing country with the highest forest cover and the highest deforestation (FAO, 2010), has received more forestry ODA in the past three years than the other countries, as shown in Figure 4. This trend, however, is very recent, and despite Brazil’s much higher deforestation rates in the mid-2000s, it received less forestry ODA than India, China or Vietnam at the time.”

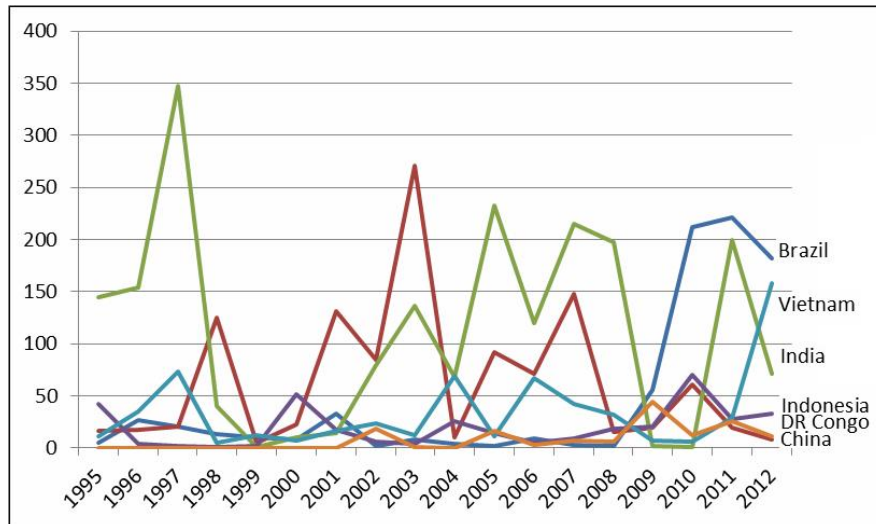


Figure 4. Evolution of forestry ODA to Brazil, China, India, Indonesia, Vietnam and the Democratic Republic of Congo (Source: Singer, forthcoming).

31. On the national scale, national forest funds (NFFs) have emerged as an important financing mechanism to finance forest activities. According to FAO, NFFs form a financing mechanism that supports sustainable forest management, and incorporates climate change mitigation, biodiversity conservation and REDD-plus objectives. Their main objective is to support the conservation and sustainable use of forest resources. NFFs can “increase access to additional capital and provide specialized management to support targeted forest-sector investments.” Their funding originates from a variety of sources, as set out in Table 1 below.

	National	International
Public	<ul style="list-style-type: none"> • General government revenues • Forest-sector revenues, including forest-related taxes • Revenues from state-owned forests • Fines, penalties and seizures • Fees and taxes not tied to forest commodities 	<ul style="list-style-type: none"> • Bilateral aid • Multilateral grants/financing • International financing mechanisms (e.g. REDD+)
Private	<ul style="list-style-type: none"> • Forest industry • Corporate contributions (e.g. corporate social responsibility schemes) • Philanthropic funds/donations • Non-governmental organizations 	<ul style="list-style-type: none"> • Philanthropic funds/donations • Non-governmental organizations • Bonds and loans

Table 1. National forest fund capitalization sources. (Source: FAO, 2015)

32. In 2014, 70 NFFs were operating globally and nine more were in the process of being established. See Figure 5. The NFFs can harness multiple sources of financing, and offer specialized management – such as flexibility, openness to innovation and focus on results – to support targeted forest investments.³⁷ Capitalization of NFFs depends on their ability to mobilize, harmonize and consolidate financial resources from all sources, and

³⁷ Based on the input received from FAO.

the scale of capital resources they mobilized vary – some funds succeeded in generating more funding than others.

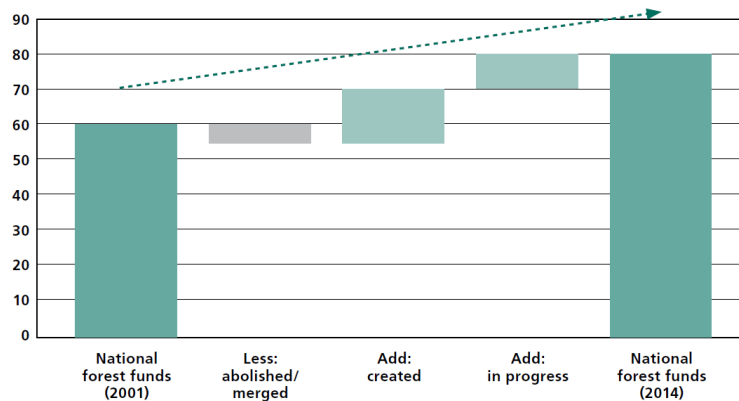


Figure 5. Growth in the number of national forest funds, 2001-2014. (Source: FAO, 2015)

REDD-plus finance

33. There are significant limitations regarding the estimated financial pledges and disbursements of REDD-plus finance. The main gaps relate to information on domestic finance and broader private sector investments (beyond offsets). These two could be areas for further work.³⁸ Hence the numbers in this section are quoted as they have been reported by the authors and data providers. It should also be noted that the different estimates are based on different datasets and methodologies, and thus aggregate figures cannot be deduced. Furthermore, there is no agreed figure on finance pledged or disbursed for REDD-plus.

34. The total amount from multilateral, international and regional programmes estimated to be available for REDD-plus (in 2012) was about USD 6.2 billion. For the period 2010-2012, the UNFF report finds that contributor countries pledged about USD 4 billion REDD-plus finance (CPF, 2012).

35. REDD-plus finance figures vary depending on which channels are included. While many countries received REDD-plus finance for readiness activities, the funding often concentrated on a specific region, with a few countries receiving most of the support. It would be useful to analyze the data in order to understand why this is the case. It would also appear that only a fraction of the pledged funds has been approved, with even a smaller percentage disbursed.³⁹

36. Bilateral and institutional financial commitments for REDD-plus, as reported by contributors and recipients, has been compiled by VRD for the period 2006–2019. Support reported by the contributors totaled USD 7.59 billion, while recipients reported USD 4.68 billion.⁴⁰ Information on the regional distribution⁴¹ of financial support for REDD-plus shows a discrepancy between contributors’ and recipients’ figures. The contributor countries report more evenly distributed funding to Africa, Asia and Latin America and the Caribbean region, whereas the recipient countries report more support being provided to the Latin America and

³⁸ Based on the input received from CPI.

³⁹ Input from UN-REDD Programme.

⁴⁰ <http://www.fao.org/forestry/vrd/> (accessed on 10 July 2015).

⁴¹ http://www.fao.org/forestry/vrd/by/recipients#graphs_and_stats (accessed on 10 July 2015).

the Caribbean region. The 2013 REDD-plus Partnership report shows that five countries – Brazil, India, Indonesia, China and Mexico – received more than half of the total support. (Figure 6).

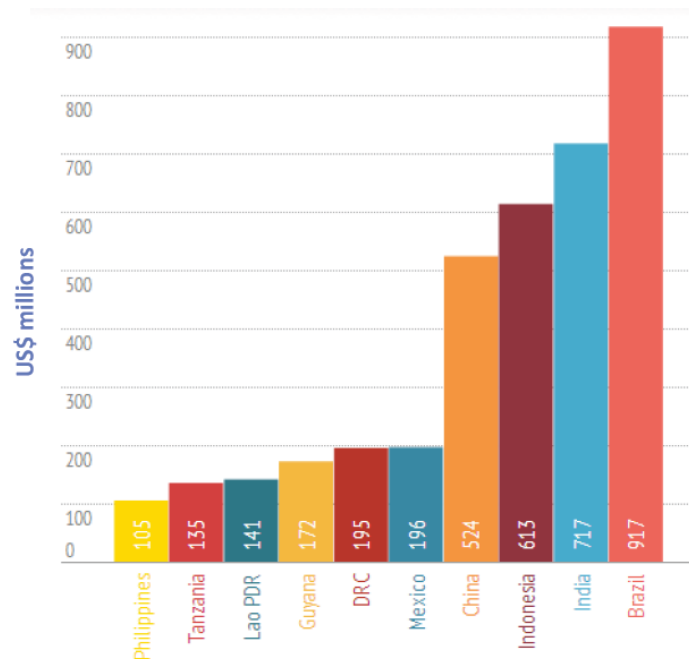


Figure 6. Top ten countries receiving REDD-plus financing, as reported by funders for the period 2006–2020. (Source: REDD-plus Partnership, 2013)

37. Norman and Nakhooda found aggregate pledges for REDD-plus from both public and private sources to amount to over USD 8.7 billion (2006-March 2014) (Norman and Nakhooda, 2014). The figure is likely to be an underestimate due to poor data on private sector investments. ODI data on REDD-plus finance is shown in Table 2 below. Bilateral institutions manage 56 per cent of finance pledged since 2006 and represent the largest sources of finance for REDD-plus, particularly in countries rich in forests. There are more than 20 REDD-plus donors, with Norway, the United States of America, Germany, Japan and the United Kingdom providing 75 per cent of identified funding (Norman and Nakhooda, 2014). Multilateral funds dedicated to financing for forests include the FCPF Readiness Fund and Carbon Fund, the Amazon Fund, the Forest Investment Program, the Congo Basin Forest Fund and the BioCarbon Fund Initiative for Sustainable Forest Landscapes. The finance flowing through these funds totaled USD 3.1 billion between 2008 and March 2014 and they have committed 59 per cent (of the overall USD 3.1 billion pledged) to countries or projects, with 29 per cent of the total finance formally approved and just 11 per cent actually disbursed (Norman and Nakhooda, 2014). Contributor countries have pledged 39 per cent of their REDD-plus finance as bilateral and multilateral support on a payment for performance basis. According to the CPI, while much finance is currently labeled as results-based, much of it could be readiness-based.

38. Like other authors, Norman and Nakhooda, also find that REDD-plus support is relatively concentrated on a few countries. Indonesia and Brazil receive 40 per cent of allocated funding, global programmes and international research receive about 16 per cent, and 24 per cent of allocated funding supports REDD-plus activities and programmes in remaining 71 recipient countries (Norman and Nakhooda, 2014).

<i>Type of funding/donor</i>	<i>Total financial pledge</i>	<i>Scope of Data</i>	<i>Data Tracking Institution/source</i>
Bilateral	4,035 Million USD	21 donor countries ⁴²	Detailed assessment and compilation using: ODI FSF data 2010–2012, VRD of the REDD-plus Partnership (2006–2013)
Multilateral	3,142 Million USD	6 multilateral REDD-plus/forest focused funds ⁴³	ODI HBI CFU tracking (2008-March 2014)
Multiple channels ⁴⁴	23 Million USD	21 donors and 6 multilateral REDD-plus/forest focused fund	Detailed assessment and compilation using: ODI FSF data 2010–2012, VRD of the REDD-plus Partnership (2006–2013)
Unknown	465 Million USD		
Private Foundations	101 Million USD	10 REDD-plus countries ⁴⁵	Forest Trends' REDDX March 2014
Private sector	900 Million USD	162 projects	Ecosystem Marketplace 2013
Total	8,666 Million USD		

Table 2. Summary of reported REDD-plus finance data by donor/funding channel (Norman and Nakhooda, 2014).

⁴² This includes countries self-reporting REDD-plus financial contributions to the REDD-plus Partnership's VRD for the period between 2006 and 2013, as well as those reporting FSF contributions for the period 2010 to 2012. The two datasets have been compared in detail to prevent double counting of commitments over the FSF period. The 21 donor countries included in this report are: Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Slovakia, Spain, Sweden, Switzerland, the UK and the US.

⁴³ Multilateral funds include: the Forest Investment Programme, FCPF Readiness Fund, FCPF Carbon Fund, the BioCarbon Initiative for Sustainable Forest Landscapes, the Amazon Fund and the Congo Basin Forest Fund.

⁴⁴ Involving both bilateral and multilateral programmes. Figure in this row is based on the data from <http://www.climatefundsupdate.org/data>, according to Norman and Nakhooda.

⁴⁵ Including Brazil, Colombia, Democratic Republic of Congo, Ecuador, Ghana, Indonesia, Liberia, Mexico, Peru and Tanzania.

Operating entities of the Financial Mechanism under the UNFCCC

Global Environment Facility

39. The GEF offers support for the maintenance and provision of multiple forest benefits, in its role to support countries in implementation of the three Rio Conventions. The GEF-5 SFM/REDD-plus Incentive Mechanism was established to expand on the experience gained under the Tropical Forest Account within the largest tropical forest areas, to provide SFM/REDD-PLUS support to all types of forest accessible to over 140 countries. It has a separate incentive funding envelope of USD 250 million for countries to enhance financing of their forests and this encouraged countries to develop synergy between biodiversity, climate change and land degradation through multi-focal area approaches for more comprehensive SFM/REDD-PLUS projects and programs to generate multiple global environmental benefits.

40. During GEF-5 (2010-2014), over 80 countries took advantage of the SFM/REDD-PLUS Incentive Mechanism to develop 69 projects and programs investing over USD 700 million in total. These investments have leveraged USD 4.6 billion in co-financing from a range of other sources. This provided support to developing multiple benefits in a range of forest types around the world, including dry forest areas and in low forest cover countries. All projects developed under the incentive were required to develop carbon benefits either in the form of reducing emissions from deforestation or degradation, improved forest management or the development of forest carbon accounting infrastructure.

41. Within GEF-6 (2014-2018) the SFM Strategy reinforces the drive for multiple benefits from forests providing options for tackling the drivers of deforestation and forest degradation while supporting forests' role in national and local sustainable development plans. The Strategy operates through a USD 250 million incentive envelope to encourage the development of multifocal area projects focused through objectives to maintain, manage and restore forest resources for multiple benefits. An additional objective seeks to foster increased regional and global cooperation and learning within.

Green Climate Fund

42. The Governing Instrument of the GCF contains provisions on funding windows and fund structure.⁴⁶ The GCF Board at its fifth meeting in 2013 decided that the Fund will initially make allocations under adaptation and mitigation funding windows and the Private Sector Facility, and that there will be balance of resources allocation between adaptation and mitigation and the appropriate allocation of resources for other activities.⁴⁷ At the same meeting, the GCF board also took a decision on the initial result areas for the Fund, including the following areas related to forests: sustainable forest management to support mitigation and adaptation including afforestation and reduction of forest degradation; and REDD-plus implementation.

43. The GCF Board at its eighth meeting held in October 2014, inter alia, adopted the initial logic model for REDD-plus results-based payments and the performance measurement framework for REDD-plus results-based payments and acknowledged that the initial logic model and performance

⁴⁶ Annex of decision 3/CP.17, paragraph 37-39.

⁴⁷ GCF document GCF/B.05/23.

measurement framework are prepared in accordance with the methodological guidance in the Warsaw Framework for REDD-plus.⁴⁸

44. At the ninth and tenth meetings held in 2015, the GCF Board approved a total number of twenty accredited national and international entities to act as channels through which the GCF can deploy its resources to developing countries.⁴⁹ More entities are expected to get accredited upon Board's decision in its future meetings.

45. The Warsaw Framework for REDD-plus allocated a key role to the GCF in channeling results-based finance to developing countries in a fair and balanced manner. "[T]he explicit attribution of such role to the GCF seeks to offer some degree of assurance to developing countries on the scale, adequacy and predictability of results-based finance for REDD-plus" (Voigt and Ferreira, forthcoming).

4.2. A snapshot of forest finance from private sources

46. Lack of data on private sector engagement in forest and climate change projects makes it difficult to estimate the total private sector contribution (PROFOR, 2014).

47. The key private sector sources of forest finance range from large-scale industries and multi-billion dollar institutional investors to small and medium enterprises, smallholders and even forest communities. Many, if not most of these, invest in the productive functions of natural and planted forests, especially wood production. New private investors, such as institutional investors including pension funds, focus on seeking suitable combinations of financial returns and risk levels, and often prefer conservative investments given the high level of perceived risk in forests in developing countries (CPF, 2012). These new private sector actors developed forest-related financing initiatives, with the intention of improving the investment climate to attract new investors. These initiatives are linked to new market investors and forest cover as assets. The idea is to diversify portfolio investments of institutional investors, offering a long-term low risk (low standard deviation) investment alternative, with a relatively high return (CPF, 2012).

48. The UN-REDD programme also introduces a similar dichotomy, presenting two main private sector groups: (a) those involved in the supply chains of forest-related commodities and; (b) those focused on producing verified emission reductions, who have been engaged more with REDD-plus. The first group of private actors can include producers of raw materials, suppliers, manufacturers, traders, retailers, consumers, financiers and technical service providers. The second group of private sector actors includes project developers, technical service providers, financiers and buyers of verified emission reductions.⁵⁰

Scaling up private investment in SFM

49. According to PROFOR, the investment required for sustainable forest management amounts to USD 70–160 billion in investment per year globally. This investment need cannot be met only with public

⁴⁸ Annex X and XI of GCF document GCF/B.08/45.

⁴⁹ GCF document GCF/B.09/23.

⁵⁰ UN-REDD Programme Policy Brief #4, The Role of the Private Sector in REDD-plus: the Case for Engagement and Options for Intervention. Available at: <<http://www.un-redd.org/privatesectorpolicybrieflaunched/tabid/106428/default.aspx>>.

sources of finance, including the ODA. Consequently, private financing and investments need to increase significantly, both at the domestic and international levels (PROFOR, 2014).

50. Private investments in SFM are increasingly channeled towards developing countries. More companies are looking to invest in SFM for reasons such as balance between risk and revenue, additional climate benefits, strong positive externalities in social and environmental terms, portfolio diversification, etc. With timber investment management organizations helping to overcome some existing challenges, the growth in private investment is coming from institutional investors, such as pension funds, endowments, private foundations and insurance companies. Investment in the large-scale timber industry is shifting to a North-South *and* South-South pattern. This is in part due to emergence of Asian operators in Africa, as the demand for hardwood continues to grow in Asia. (Singer, forthcoming)

51. Some of the identified barriers to financing private investments in SFM in developing countries include: higher real and perceived risks; weak availability of equity and loan financing both on domestic and international levels; unfavorable terms for financing; higher up-front costs of preparing investment projects in the forestry sector. Many of the risks are attributed to the investment environment of developing countries, including political instability and unpredictability of policies, unclear land tenure systems and the fact that risk in the forest sector is not quantitatively assessed by credit rating agencies. (PROFOR, 2014)

52. These investment barriers can be addressed by, inter alia: strengthening the information base; recording and publishing information on domestic investments; improving access to private financing by creating enabling environments such as by creating a policy framework for private sector investment in forestry or by reducing investment risk through guarantees, public-private partnership, innovative funding schemes and the provision of better information. A possible framework for forest investment is presented in Figure 7.

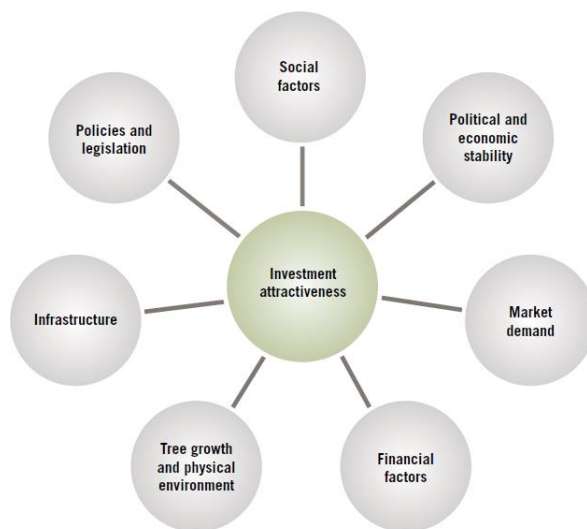


Figure 7. Forest investment framework. (Source: PROFOR, 2014)

53. National funds can be one of the instruments that can mitigate the risk that the private sector is facing in its SFM investment. Schmidt-Pramov & Matta suggest that national funds, a financing instrument that can be sustained by public finance or levying fees, can assist the companies by leveraging additional

sources of finance in meeting the long-term investment needs, or by being used as collateral. National funds, which exist in over 40 countries worldwide, have the potential to scale-up private finance into SFM, if a number of conditions are met to raise additional funds from both public and private domains (Schmidt-Pramov & Matta, 2013).

54. Investments in sustainable land-based mitigation and adaptation activities reduce the pressure on the forests and therefore are an important aspect of forest financing. Progress is being made on leveraging large international companies whose global investments in agriculture and forestry are worth billions of USD a year to promote sourcing of deforestation-free commodities.

55. The GEF within GEF-6 is supporting the Integrated Approach Pilot: Taking Deforestation Out of Commodity Supply Chains, a USD 45 million program focused on reducing the global impacts of agricultural commodities expansion. This program uses a supply-chain approach, supported by over USD 440 million of largely private sector co-finance through a multi-stakeholder global initiative to develop approaches to ensure increased production in key agricultural commodities can be achieved without deforestation and the attendant impacts on biodiversity, livelihoods and climate change.

REDD-plus

56. The world capital market is currently in the scale of trillions of USD. In order to direct capital resources to play a stronger role in the full implementation of REDD-plus activities, it is necessary, in the short term, to have a better understanding of what is the most effective and efficient way to strategically deploy limited public funds available through different financial mechanisms to catalyze private financing for forests. In the longer-term, financial markets should become enablers and catalysts of sustainable forest and land use finance.⁵¹

57. Redirecting the capital market towards sustainable forest finance is not a simple task of matching financial resources with expenditure needs. In particular, the vast pools of private finance will generally require a public policy lever to unlock them by creating a financial framework that creates long-term, clear and credible policy signals. This can involve looking at the financial policies, regulations, incentives, standards and norms – and how they can contribute to expand financial resources for forests and sustainable development more broadly. However, the reality today is that the bulk of financial markets remain unaligned with the needs of forests specifically, and a non-extractive, low-carbon and climate-resilient economy more generally.⁵²

58. The majority of private sector entities will invest in forests, if the risk-adjusted profit is clear. Thus, it is important to consider what could be the right incentives and conditions. Singer states that public finance could play a catalytic role by creating incentive structures that will leverage private investments and disincentive structures to minimize unsustainable investments (Singer, forthcoming). UNEP-FI also stated, with specific reference to private investments in REDD-plus, that an attractive risk-reward profile or a compelling business case should be created, in order to scale up private sector capital

⁵¹ Based on the input received from the UNEP-FI.

⁵² Ibid.

for REDD-plus. The conditions needed to scale up private sector investment in REDD-plus are summarized in Box 1.⁵³

Box 1: Seven conditions to scale up private sector investments in REDD-plus (UNEP-FI)

- (a) A well-designed incentive structure;
- (b) long-term and predictable policy should be long, loud, legal and light;
- (c) up-front finance to compensate for possible 'first mover' disadvantage;
- (d) readily accessible capital for REDD-plus private sector investors;
- (e) small and medium sized forest enterprises should be able to access the funding;
- (f) payments by results;
- (g) rethinking of drivers behind business-as-usual activities.

5. Possible areas where coherence and coordination of financing for forests could be improved

59. The SCF, through a series of inputs that it received from its members, Parties and stakeholders, identified several public and private actors in the forest sector and various sources of financing for forests, including REDD-plus finance. Coherence and coordination between those different actors and sources of finance is a further key area of analysis. The list below includes issues that the SCF identified, which would benefit from further analysis and discussions at the forum.

Coherence and coordination on international and national levels of financing for forests

- In terms of coherence and coordination at the international level, as the GCF develops operating modalities and procedures to provide support to REDD-plus efforts, guidance on the coordination of the GCF and other financing sources for delivery of finance to forests can promote effective coordination between the GCF and other financing sources.⁵⁴ In relation to coherence, at the country and implementation levels, coordination and good understanding of multiple sources of finance is fundamental to allow for well-informed decisions and to promote the delivery of adequate and predictable financing for REDD-plus.⁵⁵
- Coordination effort is needed between: national, and where necessary, sub-national agencies; financial entities receiving results-based payments; and those entities involved in the sustainable management of forests and in addressing the drivers of deforestation. Coordination in the designation of entities who which receive the results-based payments will ensure that the payments go to actors that are responsible for implementing and strengthening REDD-plus actions, in a fair and balanced manner in coordination with other relevant government bodies.⁵⁶
- Coherence and coordination at the national level can also lead to an organized structure of activities, which can increase synergies in capacity development and institutional arrangements. This is especially important given the limited human resources. Japan, for example, is providing its assistance for forests/REDD-plus, based on the principle of "upon request", by which its

⁵³ Presented by UNEP FI during the workshop held in 2013, as part of the work programme on results based finance to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70. Report of the work programme available at: <<http://unfccc.int/resource/docs/2013/cop19/eng/05.pdf>>.

⁵⁴ Inputs received from the World Bank and UN-REDD Programme.

⁵⁵ Ibid.

⁵⁶ Based on the input received from Voigt and Ferreira.

assistance is planned, budgeted and provided. Coherence and coordination should be an effort to create synergy by providing effective and efficient support in accordance with national strategies/action plans, policies, legislations and roadmaps identified by the recipient countries. Lessons can then be shared among different contributors and recipients.⁵⁷

Coherence and coordination for different phases of REDD-plus

- Readiness support needs to be coordinated and cover for all elements needed to access results-based finance, which then should incentivize sustainable production systems in forestry and land use. Financing readiness support for each element in isolation, without consideration for their coherence, may fail to deliver results-based actions and thus it can hinder access to results-based finance.⁵⁸
- Coherence and coordination of procedures for payments for results-based actions is desirable to keep transaction costs low.⁵⁹

Coherence and coordination for estimation of financing needs for REDD-plus

- The estimation of financing needs for different phases of REDD-plus needs coherent approaches and methodologies. According to the CPF analysis of readiness plans of 21 countries that report to the FCPF, UN-REDD or both, the average costs of readiness phase vary from USD 4 to 27 million per country. Sharing of best practices and lessons learnt in estimating the needs and effective use of REDD-plus finance would be useful. Given the diversity of country circumstances however, a one-size-fits-all approach to estimating the cost of REDD-plus action would not be useful.

Coherence and coordination for reporting data on financing for forests

- To enhance coherence in terms of the data on REDD-plus financing, more consistent and coherent reporting on sources and uses of financing for results-based actions is needed.⁶⁰ In this context, guidelines for reporting of data on REDD-plus financing and results-based payments need to be developed to promote consistency, comparison and transparency of the results-based actions across countries.
- There is also a need to improve statistics and data collection for financing for forests.⁶¹ Working coherently to fill the gap in information and knowledge concerning forests and their financial and economic opportunities would help all stakeholders stay better informed. This needs to reflect national situations and also take into account the full multifunctional range of contributions that forests can make to national development. Furthermore, an extensive coordinated effort to collect and extract national data on the private sector's investments is needed, as this information is not easily identified in a comprehensive manner. There are emerging studies on private sector investments related to forests and carbon markets, but a more coordinated effort would help improve national data on private sector investments (CPF, PROFOR). Enhanced

⁵⁷ Based on the input received from Japan.

⁵⁸ Based on the input received from Voigt and Ferreira.

⁵⁹ Based on the input received from the World Bank.

⁶⁰ Based on the input received from the World Bank.

⁶¹ Based on CPF literature.

systematic data on forestry investments and private forest financing at global, regional, and national level will benefit all stakeholders involved, including policy makers and institutional investors and financiers.

Coherence and coordination for sustainable investments in forests

- At the macro level, public policies, subsidies and tax incentives in the forestry sector and in sectors that drive deforestation should be coherent with the policy objective to protect forests and reduce deforestation. This can be achieved, for example, by incentivizing investment in sustainable production methods in the logging sector and in the agricultural sector.
- From a national perspective, the variety of financing sources and the complexity in accessing these funds is a challenge. National stakeholders are often at a loss as to how to mobilize new and existing financing sources. Developing national forest financing strategies can be a useful way of overcoming this obstacle by identifying challenges and opportunities, but also by enhancing coherence and coordination among financing sources and stakeholders. In response to this, member States of the UNFF, at its eleventh session in May 2015, decided to strengthen the UNFF's Global Forest Financing Facilitation Network, including by calling for support in establishing national forest financing strategies in developing countries.⁶²

60. Based on the technical findings listed above, the SCF proposes the following questions for further discussion at the forum,

- What are the best practices and lessons learnt in terms of estimating the financial needs for different phases of REDD-plus and in terms of effective use of REDD-plus finance?
- How can different sources of financing for forests be delivered and used more coherently, taking into account the key role of the GCF?
- How can national entities be more coordinated in terms of mobilizing REDD-plus finance and other types of forest finance, and what policy frameworks need to be in place?
- How can readiness support be better coordinated, from both contributors and recipient's end, to ensure comprehensive readiness-building in a developed country?
- How can procedures for results-based payments be harmonized among the contributors/intermediaries?
- How can measurement, reporting and verification be more consistent and coherent, and as a result more conducive to the transparent sharing of information?
- How can results-based payments, public subsidies and tax incentives in the forestry sector and in sectors that drive deforestation be used in a coherent way towards the objective of reducing deforestation and forest degradation? How can sustainable production methods in forestry and land use be incentivized, e.g. by preferential lending rates, guarantees or fiscal incentives?

⁶² Based on the input received from the UNFF.

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