Inputs to the Standing Committee on Finance Working Paper on Coherence and Coordination for Financing for Forests

Views submitted by the World Bank Group

Introduction

In response to the call of the Standing Committee on Finance (SCF) of the UNFCCC for inputs to the working paper on coherence and coordination for financing for forests, the World Bank is pleased to contribute inputs on the use of resources and transfer of payment within the phased approach adopted by the UNFCCC.

This submission draws upon the World Bank's experience in extending finance and in implementing projects and programs supporting multiple priorities of forests, including for reducing deforestation and forest degradation and sustainable forest management. It is hoped that this submission is helpful to the deliberations of the SCF in its work on the issue of financing for forests.

This submission is organized in four parts: (i) committing resources to REDD+ readiness; (ii) augmenting resources for investment; (iii) financing results-based actions; and (iv) improving coherence and coordination in the delivery of finance for forests.

I. Committing resources for REDD+ readiness

Readiness is the basis for implementation of REDD+ programs. Readiness focuses on development of policies, strategies, capacity and enabling environment to implement, measure, report and verify actions supporting REDD+ programs. Since 2008, the World Bank's Forest Carbon Partnership Facility (FCPF)[1]through its Readiness Fund has committed USD 370 million in 47 countries to readiness activities related to design and development of national REDD+ strategies; reference emission levels (RELs); measurement, reporting, and verification (MRV); and setting up REDD+ national management arrangements, including environmental and social safeguards . Additionally, the Forest Investment Program (FIP) of the Climate Investment Funds committed about USD 260 million in eight countries for building capacity, reforming institutions and strengthening governance mechanisms, enhancing the enabling environment for forest landscape management and conservation and enhancing forest monitoring.

Resource needs for readiness vary depending on national circumstances. Factors such as size and diversity of a country, policy and institutional capacity, governance, and drivers of deforestation and forest degradation influence the resources needed for promoting readiness. Guidance on variables to be considered in readiness assessments can help improve clarity on readiness needs specific to a country.

Guidelines on approaches and methods used for assessing resource needs for readiness can improve confidence in the estimated costs. A factor contributing to large variation in readiness costs is the different approaches and methods used in the estimation of resource needs. Early experience suggests that the costs of REDD+ readiness can be significant in several countries requiring additional financing to

[1] https://www.forestcarbonpartnership.org/sites/fcp/files/2014/July/FCPF%20Update%20EN%20July%202014.pdf

advance the readiness process. Development of guidelines on approaches, methods, data and procedures to be followed in readiness assessments can enhance the transparency of resource needs for readiness.

II. Augmenting resources for investment

Investments on the ground are critical to ensuring successful REDD+ implementation. Constraints on access to finance for investments is a major limiting factor to realize the potential of REDD+ actions in most developing countries. In this context, guidance on phase 2 financing for investment is a major priority to ensure effective REDD+ implementation.

Official Development Assistance continues to be a major source of financing for forest sector investment in developing countries. The World Bank Group has been the largest multilateral source of finance for forests globally with more than USD 3.0 Billion since 2002. In addition, multi-donor commitments through the Forest Investment Program (FIP)[2] executed by the World Bank and other financial institutions total around USD 820 million. The FIP focuses on investments to support REDD+ implementation (phase 2) through a combination of grants and loans bridging the gap between REDD+ readiness (phase 1)[3] and results-based activities (phase 3) to harness GHG mitigation and other co-benefits. The FIP has contributed to leverage substantial multilateral and bilateral financing sources. Currently the 38 projects (USD 501 million) included into the pipeline have raised more than USD 1 billion in co-financing. The share of forestry in bilateral and multilateral Official Development Assistance (ODA) has improved during the past decade partly due to the emphasis placed on the climate change agenda. However, there is a significant need to increase ODA support to forests in multiple priority areas of investment such as addressing the direct and indirect drivers of deforestation and forest degradation, sustainable forest management, landscape and forest restoration, and improvement in livelihoods. Stimulating private sector investments have proven to be challenging as part of a comprehensive climate finance approach and further efforts are needed to stimulate public-private partnership models.

Guidance on the investment needs and sources can facilitate matching of financing sources and investment needs for REDD+ implementation. Development of guidance on the investments needs and potential sources of financing for REDD+ investment can facilitate matching of financing sources to meet the investment needs on the ground. As per the decision 9/CP.19, paragraph 9, an information hub on the web platform of the UNFCCC website has been established to publish information on the REDD+ activities implemented by countries. In this context, the information hub can be used to share information on the details of financing sources and investment needs for REDD+ implementation and associated results-based payments.

III. Financing results-based actions

Results-based payments are critical to sustaining REDD+ activities on the ground. The results-based payments for measurable and verifiable mitigation actions recognize and sustain REDD+ activities. The World Bank trust funds - Forest Carbon Forest Facility Carbon Fund[4] and the BioCarbon Fund Initiative for Sustainable Forest Landscapes[5] totaling approximately USD 460 million and over USD 310 million, respectively support results-based actions involving a range of stakeholders – public agencies, forest-dependent indigenous peoples, other forest dwellers and the private sector for achieving the REDD+ priorities in developing countries.

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[2] https://www.climateinvestmentfunds.org/cif/Forest_Investment_Program

[3] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Linkages_between_REDD_readiness_and_FIP_Nov2014.pdf

[4] https://www.forestcarbonpartnership.org/sites/fcp/files/2013/june2013/Carbon%20Fund-web_1.pdf

[5] http://www.biocarbonfund-isfl.org/.

Investment in forest sector and results-based payments are complementary. Considering the large upfront investment needed to unlock the potential of results-based payments for GHG mitigation actions in forestry, there is a need to ensure complementarity between forest sector investment and results-based payments for REDD+.

Financing arrangements that recognize the progress in achieving results can alleviate investment needs to a certain extent. Financing arrangements that recognize the progress made in achieving results-based actions can facilitate early transfer of results-based payments potentially supplementing the resources for investment. For example, countries can be assisted to design financial intermediation arrangements through guarantees, insurance and other mechanisms to secure financing against future streams of performance payments to meet the investment needs of REDD+ implementation. The World Bank Group is exploring possible arrangements that can bridge financing needs for investment.

IV. Improving coherence and coordination for financing for forests

A phased approach recognizing the interrelationship of readiness, investment and result-based phases is needed to sustain the impact of REDD+ activities. Financing to the three phases **-** technical assistance for readiness, investments for implementation, and payments for results-based action is crucial for demonstrating the REDD+ implementation on the ground. In this context, all phases of REDD+ referred in the decision 1/CP.16, paragraph 73; and reaffirmed in the decision 9/CP.19, paragraph 2, should be recognized for the package of finance to all phases of the REDD+ under the UNFCCC.

Guidelines on approaches and methods for estimation of financing needs for readiness, investment and results-based financing can improve consistency and transparency of the estimates. There is a wide variation in the financing needs estimated by countries with some countries underestimating and others overestimating the costs of financing for different phases. Comparative assessment of resource needs for REDD+ readiness phase show significant variation among countries, while estimates for phases 2 and 3 are inconsistent or unavailable for most countries. In this reference, there is a need for assessing REDD+ financing for all three phases using consistent approaches. Guidelines on approaches and methods used for estimation of financing needs for different phases of REDD+ need to be developed in order to improve consistency and transparency in the financing estimates for different phases.

Coordination of multiple sources of finance at the country and implementation levels is needed to promote the delivery of adequate and predictable financing for all three phases. Investment needed to address the drivers of deforestation and forest degradation are long-term. The wide range of fiduciary and reporting procedures of financing sources contributes to uncertainty, increase transaction costs and contributes to delays in the flow of finance to implementing agencies on the ground. Coordination and blending of multiple sources of financing are needed to ensure the delivery of adequate, timely and predictable financing for all phases of REDD+ implementation, including coordination of different sources of financing and financing mechanisms at the country and implementation levels.

Guidance on the coordination of Green Climate Fund (GCF) and other sources of financing can improve clarity on the modes financial flows to countries. The decision 9/CP.19, paragraph 5, refers to the wide variety of financing sources with the GCF in a key role to collectively channel adequate and predictable results-based finance. In this context, guidance on the coordination of the GCF and other financing sources for delivery of finance to forests can promote effective coordination of GCF and other financing sources.

Guidance on ways and means to transfer payments for results-based actions can promote consistency in the procedures of results-based payments. Absence of guidance on procedures for payments of results-based actions leads to heterogeneity in methods and procedures adopted for performance-based payments of REDD+ programs. As per the decision 1/CP.18, paragraph 29, and the decision 9/CP.19, paragraph 20, there is a need for guidance on ways and means of transfer of payments for results-based actions to ensure consistency and coherence in the procedures followed for transfer of payments in the REDD+ programs of different countries.

Need for clarity on the recognition of non-carbon benefits. REDD+ programs in addition to achieving GHG mitigation, contribute to adaptation, enhance resilience of environment and communities to climate change risk, and contribute to environmental and social benefits. Although the decision 9/CP.19, paragraph 22, recognizes the importance of incentivizing non-carbon benefits for long-term sustainability of REDD+ activities, lack of progress on methodological issues limits their consideration in the financing of REDD+ programs. Promoting consultations on non-carbon benefits can enhance clarity on the relationship between carbon and non-carbon benefits as well as clarity on the provision of financial resources for alternative approaches referred in the decision 9/CP.19, paragraphs 8 and 20.

Guidelines on reporting of data on REDD+ financing and results-based payments promote transparency. The data on REDD+ financing requires consistent reporting on sources and uses of financing for results-based actions. As per the decision 9/CP.19, paragraph 13, information on results-based payments needs to be reported to the information hub to enhance transparency of results-based actions and transfer of payments. In this context, guidelines for reporting of data on REDD+ financing and results-based payments need to be developed to promote consistency, comparison and transparency of the results-based actions across countries.

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