DRAFT

Working paper on coherence and coordination: issues related to finance for forests, taking into account different policy approaches

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1. Introduction

1. The Standing Committee on Finance (SCF) decided to prepare a working paper on financing for forests, which will also serve as a background paper for the third SCF forum, in order to help the SCF deliberate on how to improve coherence and coordination for financing for forests, taking into account different policy approaches.[1]

2. The SCF aims to unpack "coherence" and "coordination", in terms of climate finance for forests. They can be seen as elements that are "soft" and "hard": Coherence refers to knowing and understanding what climate finance for forests exists, and how different sources could be complementary. 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. This working paper presents an indicative mapping of finance for forests which is based on previous work undertaken by the SCF in 2014 that was discussed at the eighth meeting of the SCF.[2] This is not an exhaustive mapping, but it demonstrates the diversity of sources of forest finance, . This working paper is an ongoing work by the SCF. As agreed at its eighth meeting, the SCF will continue to consider the inputs and cases

[1] SCF meeting documents are available at: <www.unfccc.int/6881>.
[2] SCF/2014/7/5/Rev.1.

studies received in further elaborating this working paper and in preparing for the 2015 forum. All received inputs can be accessed online.[3]

4. The SCF notes that there are gaps in information, and uncertainty about actual resources flowing. According to input provided by 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 lack of coordination between data gathering systems."[4]

5. Moreover, 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."[5] Rather, the paper tries to highlight some of the key information that already exists, compiling it in such a way that it adds value.

2. Various policy approaches and processes related to forests under the UNFCCC

6. The COP encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking five activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; enhancement of forest carbon stocks (also known as REDD-plus activities).[6] Since COP 16, Parties have agreed upon a series of decisions relevant to REDD-plus, including 2/CP.17, 12/CP.17, and 7 decisions of the Warsaw Framework for REDD-plus (9/CP.19 to 15/CP.19).

7. 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.

8. 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.[7] The COP encouraged entities financing the activities referred to in decision 1/CP.16, paragraph 70, through the wide variety of sources referred to in decision 2/CP.17, paragraph 65, including the Green Climate Fund 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 position to obtain and receive payments for results-based actions.[8] The COP also encouraged entities financing the activities referred to in decision 1/CP.16, paragraph 70, through the wide variety of sources referred to in decision 2/CP.17, paragraph 65, to continue to

[3] <www.unfccc.int/7561.php>
[4] Input recived from the CPI.
[5] Ibid.
[6] Decision 1/CP.16, paragraph 70.
[7] Decision 2/CP.17, paragraph 65.
[8] Decision 9/CP.19, paragraph 5.

provide financial resources to alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests.[9]

9. As REDD-plus activities are implemented in three phases, a high proportion of REDD-plus finance pledged has been focusing on the first phase, also known as the "readiness phase". This first phase is a key requirement for the subsequent phases, focusing on the development of policies, strategies, capacity and enabling environments to implement, measure, report and verify actions supporting REDD-plus programs. According to Norman and Nakhooda, contributor countries have pledged 39 per cent of their REDD-plus finance as bilateral and multilateral support on a payment for performance basis,[10]

10. In addition to the results-based approach, there are alternative approaches in the context of the discussion of policy approaches for the reduction of emissions from deforestation and forest degradation. The COP noted that approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests (JMA) could be developed. According to inputs received from the Plurinational State of Bolivia, JMA "offers an additional alternative to REDD-plus results-based payments, and in order for developing countries having 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". There are also other approaches related to REDD-plus implementation, as presented at the in-session expert meeting on matters relating to non-market-based approaches.[11]

11. By decision 10/CP.19, the COP encouraged national entities or focal points, Parties and relevant entities financing REDD-plus activities to meet on a voluntary basis to address the needs and functions related to the coordination of support for the implementation of the activities and elements related to REDD-plus, as identified in paragraph 3 of decision 10/CP.19. The first voluntary meeting took place on 8 December in Lima, Peru and was attended by Parties, 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.[12] The next meeting will take place in June 2015 during the session of the Subsidiary Bodies of the UNFCCC (exact date t.b.c).

3. Issues related to data and information on forest finance

12. As stated in the beginning of this working paper, there is a lack of reliable data on financing for forests, both at the national and international levels. There is not full information on the range of actitivies 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). Existing tracking systems are unable to fully capture the complexity of the landscape, mainly due to gaps in data availability, inconsistencies in definitions, and a lack of coordination between data gathering systems.

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[9] Decision 9/CP.19, paragraph 8.
[10] Input recived from the CPI.
[11] Presentations and report of the meeting can be accessed at: < http://unfccc.int/8278.php>.
[12] More information about the voluntary meeting can be found here: <http://unfccc.int/8784.php>.

13. The lack of information is a major barrier to improved understanding of the true costs associated with the management of all types of forests and the potential for forests to contribute to local, national and regional development (CPF, 2012). For example, approximately USD 465 million has been reported through Fast-Start Finance and the Voluntary REDD-plus Database 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). There are existing databases established under the UNFCCC, which contain data on financing on forests. These are elaborated below.

14. **The UNFCCC Finance Portal:** From 2011 to 2013, developed country Parties have 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 'fast-start finance' (FSF). The information submitted by developed country Parties on FSF has been compiled into three documents.[13] In three years' 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 module[14] of the UNFCCC Finance Portal.

15. **The Voluntary REDD-plus Database:** As a part of readiness activities for REDD-plus, a number of Parties have worked together in the REDD-plus Partnership, and, inter alia, agreed to set up a Voluntary REDD-plus Database[15] on reported financial flows. The database is hosted by the Food and Agriculture Organization of the UN, and the data is reported both from donor and recipient countries, as well as from IGOs and NGOs. Although currently there is no agreed or coherent reporting system for results-based finance on REDD-plus, this incumbent database could potentially serve as one of the sources of information.

16. **Lima Information Hub for REDD-plus:** Parties by decision 9/CP.19 decided to set up an information hub on results-based actions and payments. The COP also decided that the information hub will contain, inter alia, information on each of the results, including the quantity of results for which payments were received, expressed in tonnes of carbon dioxide equivalent per year, and the entity paying for results. In Lima, at SBI 41 Parties took note of the information contained in the report on the expert meeting on matters relating to the information hub[16] and requested the secretariat to establish the information hub.

4. Towards a landscape of forest finance

17. According to input received from United Nations Forum on Forests (UNFF), a range of forest finance mechanisms exist. They include: **domestic public** finance (i.e. allocation of funds from the national budget); **international public** finance (e.g. bilateral and multilateral support provided to developing countries, including

[13] Contained in FCCC/CP/2011/INF.1, FCCC/CP/2012/INF.1 and FCCC/CP/2013/INF.1.
[14] Available at <http://www3.unfccc.int/pls/apex/f?p=116:13:544485926370909>.
[15] Available at <http://reddplusdatabase.org/>.
[16] FCCC/SBI/2014/INF.13

official development assistance (ODA); **domestic and international private** finance, which can be volatile as it is largely based on fluctuations in demand and market prices; and **blended and innovative** finance.

[Placeholder for information to be received from EFI/CPI/Climate Focus]

4.1. A snapshot of forest finance from public sources

4.1.1. Overseas Development Assistance /Sustainable Forest Management

18. The 2012 Study on Forest Financing by Collaborative Partnership on Forests (CPF) reviewed the flow of financing to forests in light of UNFF's work on sustainable forest management, including forest related financing mechanisms and initiatives under the three Rio Conventions.[17]

19. According to the study, ODA disbursement significantly increased between the period 2002-2004 and the period 2008-2010 by about 125%, which is attributed to an increase of REDD-plus related ODA flows, as well as its pilot programmes, including FSF (Figure 1). The CPF study highlights that numerous financing mechanisms related to forests exist 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). Apart from REDD-plus, which is focusing on the carbon content of forests, many of the national, regional and international carbon initiatives have no or negligible activities related to forests.

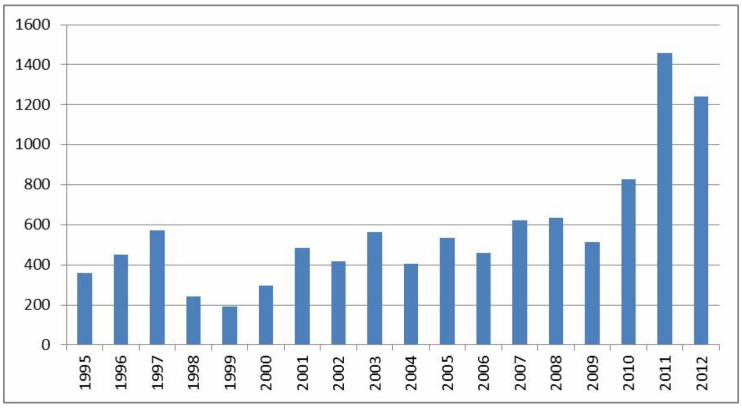
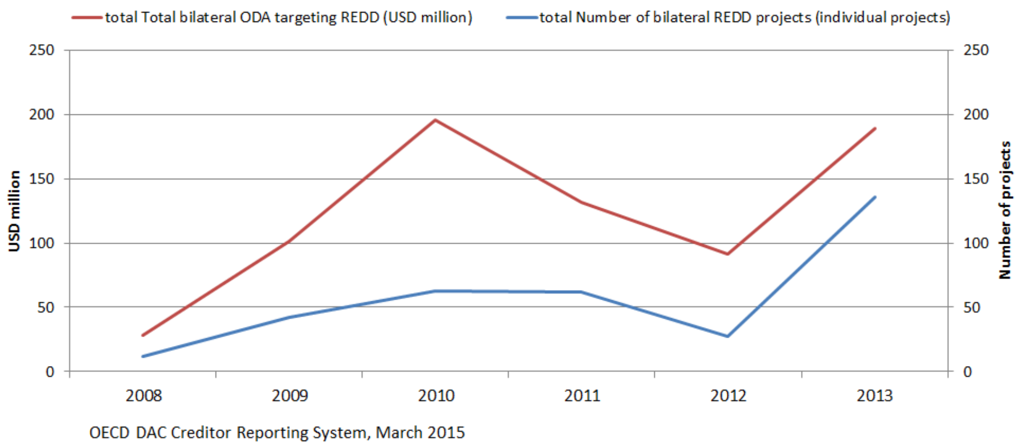


Figure 1. Forestry ODA by year in millions of US dollars (Source: Singer, B. (in preparation). Financing Sustainable Development: The Case of Forests. International Forestry Review.).

20. According to OECD data, the top five bilateral providers committed 82% of climate-related ODA to the forestry sector in 2011-2013 period. Norway is by far the largest donor to bilateral ODA targeting REDD-plus, in terms of number and volume of projects.[18] Norway alone provides 40% of bilateral support targeting mitigation as a principal objective. See Figure 2 describes commitments to REDD-plus projects by the ODA providers over time.

[17] UNFF 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.

[18] Trends in climate-related development finance to forestry. OECD Development Assistance Committee (DAC) Statistics, March 2015. Presentation made by the OECD.



Figures 2: Commitments to REDD projects, including bilateral ODA targetting REDD and bilateral REDD projects, 2008-2013. (Source: OECD DAC Creditor Reporting System, March 2015)

21. Singer notes that provision and receipt of forestry ODA is limited a small number of countries. He notes, "[a]s the developing country with the highest forest cover and the highest deforestation (FAO 2010), Brazil has justifiably received more forestry ODA in the past three years than the other countries pictured on the graph. However, this trend is only very recent, and despite much higher deforestation rates in Brazil in the mid-2000s, it was not receiving anywhere near as much as India, China or even Vietnam at the time."

22. "Clearly, other factors are at play in explaining the allocation of forestry ODA which may include (i) specific bilateral relations between donor and recipient countries and (ii) perceived cost-effectiveness. According to this second hypothesis, donors prefer allocating funds where results will be greatest, therefore maximising additionality. This is most likely in countries with existing institutional and physical infrastructure, which would explain why middle-income countries are more favoured (Figure 4), and why the Democratic Republic of Congo has been unsuccessful at harnessing funds (Figure 5)."

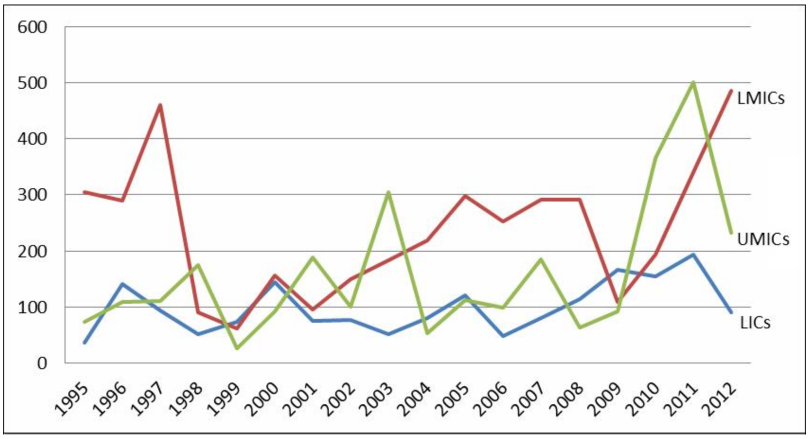


FIGURE 4. Evolution of forestry ODA to lower-income countries (LICs), lower-middle income countries (LMICs), and upper-middle income countries (UMICs) (Source: Singer, B. (in preparation). Financing Sustainable Development: The Case of Forests. International Forestry Review.).

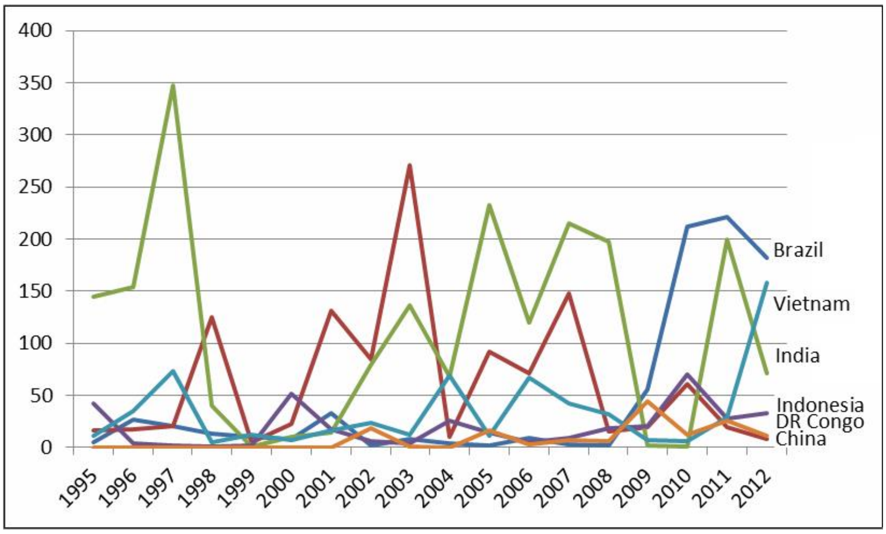
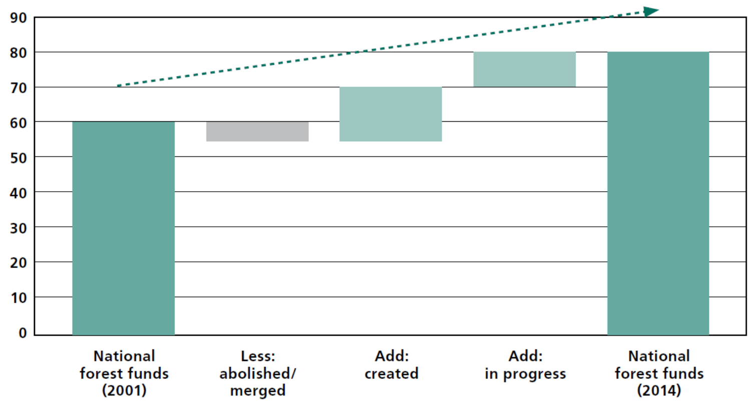


FIGURE 5. Evolution of forestry ODA to Brazil, China, India, Indonesia, Vietnam and the Democratic Republic of Congo (Source: Singer, B. (in preparation). Financing Sustainable Development: The Case of Forests. International Forestry Review.)

23. National forest funds (NFFs) are one of ways that funding for SFM is channeled through. NFFs are "dedicated financing mechanisms established with the main objective of supporting the conservation and sustainable use of forest resources. NFFs have gained the attention of countries for their potential to improve financial performance by increasing access to additional capital and by providing specialized management to support targeted forest-sector investments."



24. "As of 2014, 70 NFFs were operating globally and nine more were in the process of being established. The growing importance of NFFs is due partly to their potential to harness multiple sources of financing, and partly because they offer specialized management – such as flexibility, openness to innovation and focus on results – to support targeted forest investments."[19]

4.1.2. REDD-plus

25. With regards to the estimated financial pledges and disbursements, it is important to note that there are significant limitations to the estimates mentioned here. There are "gaps in information on domestic finance and

[19] Input received from FAO.

broader private sector investments (beyond offsets)" which present areas for urgent additional work.[20] Hence the numbers listed in this section are presented as they are reported. It should, however, be noted that different information is being produced based on differing data and methodologies, and thus aggregate figures can not be deduced.

26. **According to the UNFF report**, almost 90 per cent of REDD-plus finance comes from public sector sources and contributor countries pledged about USD 4 billion REDD-plus finance during the period of 2010–2012. It is estimated by UNFF that REDD-plus finance will be as much as USD 6.2 billion per year in 2020. The UN-REDD programme states that, since 2007, USD 2.72 billion has been pledged to five multilateral climate funds and two bilateral initiatives that support REDD-plus initiatives. The study also indicates that around USD 4 billion were pledged for the period 2010–2012 for measures to reduce greenhouse gas emissions from deforestation and forest degradation in developing countries. **Furthermore according to UN-REDD programme**, "[s]lightly more than half of this amount has been deposited, with Norway being the largest contributor of REDD-plus finance, followed by Australia, the United Kingdom and the United States of America. Only about one third of the pledged funds have been approved, and a much smaller percentage has been disbursed". **According to Norman and Nakhooda**, aggregate pledges for REDD-plus from both public and private finance total more than 8.7 billion USD (2006-March 2014) and could possibly be more, if better data on private sector investments was available. In addition, approximately 465 million USD has been reported with unknown particular channels (Norman and Nakhooda, 2014).

27. Table X below highlights REDD-plus finance data, which is supplied by the ODI. It is important to note that this is only one source of information, and that an agreed total figure on finance pledged or disbursed for REDD-plus does not exist.

28. According to Norman and Nakhooda, the **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 Forest Carbon Partnership Facility (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 3.1 billion USD between 2008 and March 2014 (Norman and Nakhooda, 2014).

29. In relation to **recipient countries**, Indonesia and Brazil receive 40 per cent of allocated funding and ten countries receive the majority of the funding collectively (75 per cent). Global programmes and international research receive about 16 per cent, and 24 per cent of all allocated funding supports REDD-plus activities and programmes in the remaining 71 recipient countries (Norman and Nakhooda, 2014). Information from Voluntary REDD-plus database also shows similar allocation. "[T]op ten countries receiving REDD-plus funding shows that more than 56% of total bilateral and multilateral financing for REDD-plus is reported to be received by just 5 countries, including India, Brazil, China, Indonesia and the Democratic Republic of the Congo. (Figure X)." According to Voigt and Ferreira, since implementation of REDD-plus activities require capacity building in

[20] Input recived from CPI.

developing countries in many aspects, including for operational management and assessment to strategic planning to budgeting, progress may be "slow and concentrated within those actors with the largest capabilities".

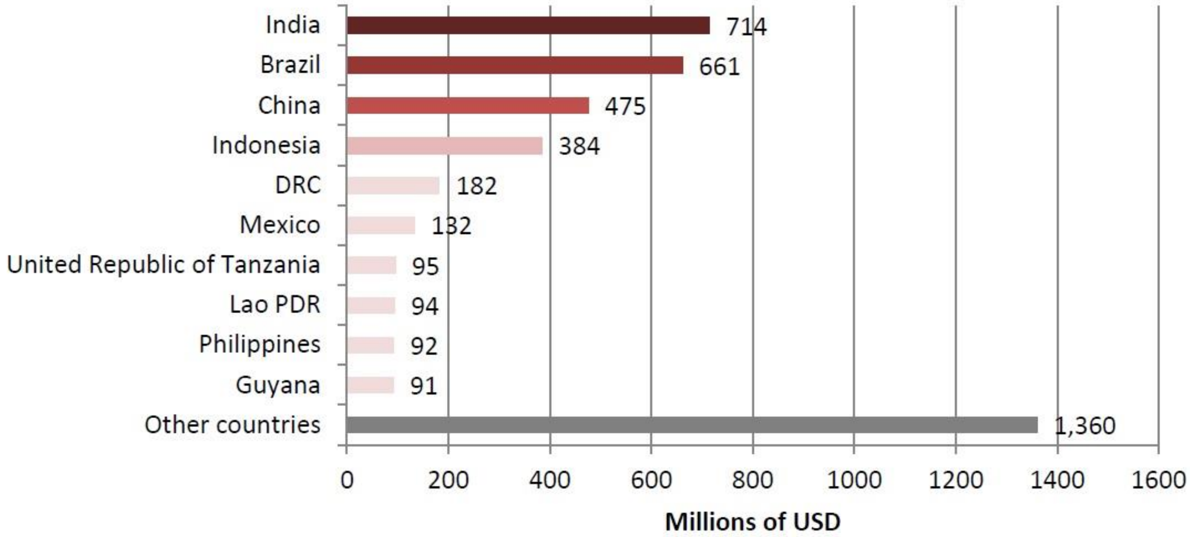


Figure 3: Top ten countries receiving REDD-plus funding from the period 2006 to 2022, as reported by funder countries and multilateral institutions. (Source: Towards Transparency in Public Financing for REDD+: An analysis of data submitted by members of the REDD+ partnership to the Voluntary REDD+ Database, 27 November 2012)

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

Type of funding/donor	*Scope of Data*	*Data Tracking Institution/source*	*Total financial pledge*
Bilateral	21 donor countries[21]	Detailed assessment and compilation using: ODI fast-start finance (FSF) data 2010–2012, voluntary REDD-plus Database of the REDD-plus Partnership (2006–2013)	4,035 Million USD
Multilateral	6 multilateral REDD-plus/forest focused funds[22]	ODI HBI CFU tracking (2008-March 2014)	3,142 Million USD
Multiple channels	21 donors and 6 multilateral REDD-plus/forest focused funds	Detailed assessment and compilation using: ODI FSF data 2010–2012, voluntary REDD-plus Database of the REDD-plus Partnership (2006–2013)	23 Million USD
Unknown	21 donors and 6 multilateral REDD-plus/forest focused funds	Detailed assessment and compilation using: ODI FSF data 2010–2012, voluntary REDD-plus Database of the REDD-plus Partnership (2006–2013)	465 Million USD
Private Foundations	10 REDD-plus countries[23]	Forest Trends' REDDX March 2014	101 Million USD
Private sector	162 projects	Ecosystem Marketplace 2013	900 Million USD
Total			8,666 Million USD

[21] This includes countries self-reporting REDD-plus financial contributions to the REDD+ Partnership's Voluntary REDD+ Database 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.

[22] Multilateral funds include: the FIP, FCPF Readiness Fund, FCPF Carbon Fund, the BioCarbon Initiative for Sustainable Forest Landscapes, the Amazon Fund and the Congo Basin Forest Fund.

[23] Including Brazil, Colombia, DRC, Ecuador, Ghana, Indonesia, Liberia, Mexico, Peru and Tanzania.

[BOX X (Placeholder for Case study): A case where a country outside of tenth ranking received REDD-plus funding, and how coherent and coordinated distribution of support can be made possible]

BOX X: **Country driven coordination of support – case submitted by Japan**

Japan has been providing public finance to developing countries, channeling through various bilateral and multilateral international assistance measures and instruments to finance for forest sector including REDD-plus. Coherence and coordination of support should be interpreted as an effort to create a synergy by tailoring the contributor's support and investment with priority areas and identified needs of each country, in accordance with national strategies/action plans, policies, legislations and roadmaps especially of those related to land uses and forests. In line with this idea, Japan has been following the principle of "Upon Request," which centers around the fact that international assistance is considered to be planned, budgeted and provided based on the specific requests of the developing country that meets the certain criteria. More effective and efficient support can be made available for the country when working together with contributors that have different strength and resources.

For example, in Papua New Guinea, the Office of Climate Change and Development of Environment and Conservation plays the role of the leading **national coordination agency** among other departments and donor representatives on the climate change issues in general. Regarding the juncture of forest and climate change, the PNG Forest Authority has taken the initiative **to allocate human and financial resources to REDD-plus preparation activities** as priority, based on the "Forestry and Climate Change for Action 2009-2015" after its establishment through **a national consultation process**. Such organized structure of aided activities exerts a significant positive impact of synergy for capacity development and hence institutional arrangement in the country under the constraints of a limited availability of human resource.

4.1.3. Operating entities of the Financial Mechanism under the UNFCCC

30. The Global Environment Facility (GEF): The GEF is providing support for its Sustainable Forest Management (SFM)/REDD-plus strategy, which aims to develop synergies through multi-focal area programs and projects across climate change, biodiversity and land degradation focal areas. During the fifth replenishment period of the GEF (GEF 5), in part due to REDD-plus commitments from COP 15 and 16, the GEF received USD 315 million as an incentive mechanism to help countries that wanted to have forests become an important part of their GEF portfolio and leverage other resources.[24] Over the GEF 5 period, SFM/REDD-plus Program has contributed over $650 million toward forest projects to more than 80 countries, encouraging a total of $4.35 billion in co-financing during the same period.

31. For the sixth replenishment period of the GEF (GEF 6), which extends from July 2014 to June 2018, the GEF SFM strategy aims to generate global environmental benefits, addressing the emphasis placed by the three

[24] Information from the presentation made by the GEF representative at SCF outreach event at COP 20.

Rio Conventions. Four objectives of this strategy will drive the GEF SFM portfolio, which are namely: maintained forest resources; enhanced forest management; restored forest ecosystems; increased regional and global cooperation. A resource envelope of USD 250 million has been proposed and approved, in order to meet the programming within the SFM Strategy in GEF 6.[25]

[BOX X (Placeholder for Case study): GEF project related to REDD-plus, on how limited public finance has leveraged private finance]

32. The Green Climate Fund (GCF): The Governing Instrument of the GCF contains provisions on funding windows and fund structure.[26] The GCF Board at its fifth meeting decided that the Fund will initially make allocations under adaptation, mitigation and the Private Sector Facility, and that there will be balance between adaptation and mitigation and the appropriate allocation of resources for other activities.[27] At the same meeting the 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.

33. 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 (PMF) for REDD-plus results-based payments and acknowledged that the initial logic model and PMF are prepared in accordance with the methodological guidance in the Warsaw Framework for REDD-plus.[28]

34. At the ninth meeting held in March 2015, the GCF Board approved seven accredited entities, and requested the GCF secretariat to use best efforts to have applications ready for consideration and possible decision on accreditation by the Board at its tenth meeting.[29]

35. According to Voigt and Ferreira, the Warsaw Framework for REDD-plus allocated a key role to the GCF in channelling results-based finance to developing countries in a fair and balanced manner. “The 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+”.

4.2. A snapshot of forest finance from private sources

36. According to UNFF, the key private sources of forest finance can include forest communities, smallholders, industry and other investors, who are the actors that mostly invest in forests managed for wood production. There are also new private investors that are seeking suitable combinations of financial returns and

[25] More information can be found in the summary of the negotiations of the sixth replenishment of the GEF Trust Fund: GEF document GEF/C.46/07/Rev.01
[26] Annex of Decision 3/CP.17, paragraph 37-39.
[27] GCF document GCF/B.05/23.
[28] Annex X and XI of GCF document GCF/B.08/45.
[29] GCF document GCF/B.09/23.

risk levels, such as institutional investors such as pension funds, who are seeking conservative investments.[30] These new private sector 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.[31]

37. The UN-REDD programme also introduces a similar dichotomy, presenting two main private sector groups: (a) those involved in the supply chains of forest-risk commodities and; (b) those focused on producing verified emission reductions, who have been engaging more in the context of REDD-plus.[32] The first group of private actors can include producers of raw materials, suppliers, manufacturers, traders, retailers, consumers, financiers and technical service providers. Second group of private sector actors can include project developers, technical service providers, financiers and buyers of verified emission reductions.

[Placeholder for inputs received from CIFOR, on private sector responses to changes in markets and consumer demand]

4.2.1. Sustainable Forest Management and Forest commodities

38. Investments in sustainable land-use 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.

39. It has been estimated that the required funding for SFM is in the order of USD 70-160 billion per year globally. Public sources of finance, including the ODA, are not enough to provide enough funding for such needs, so private financing and investments need to increase significantly, both on domestic and international levels.[33]

40. According to Singer, the trend of private investments made in SFM nowadays is channeled towards developing countries. More companies are looking into investing in SFM, as they offer many attractive reasons, such as balance between risk and revenue, additional climate benefits, strong positive externalities in social and environmental terms, portfolio diversification, etc. With help from timber investment management organizations in overcoming some existing challenges, the growth of private investment in SFM is increasing in developing countries, involving diverse range of actors e.g. institutional investors with pension funds, endowments, foundations, insurance companies. With regards to investment flows in the large-scale timber industry in particular, a shift from traditional North-South to South-South pattern has been witnessed. This is in part attributed to emergence of Asian operators in Africa, as the demand for hardwood continues to grow in Asia.

41. 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

[30] UNFF AGF
[31] UNFF AGF, IWC, "Timberland Investments in an Institutional Portfolio" (2008).
[32] UN-REDD Programme Policy Brief #4, The Role of the Private Sector in REDD+: the Case for Engagement and Options for Intervention. Available at: <http://www.un-redd.org/privatesectorpolicybrieflaunched/tabid/106428/default.aspx>
[33] Castrén, Tuukka, Marko Katila, Karoliina Lindroos, and Jyrki Salmi. 2014. Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers. Washington, DC: Program on Forests (PROFOR).

international levels; unfavorable terms for financing; higher up-front costs of preparing investment projects in the forestry sector.[34] With regards to the first barrier, Singer suggests that most of investors recognize the high risk when deciding to invest in SFM, as they have little experience in forests. Much of the risks are attributed to the investment environment of developing countries, including political instability and predictability of policies, and often times risk of investment in the forest sector is not quantitatively assessed by the credit rating agencies.

42. PROFOR proposes the following solutions in order to overcome the identified barriers to financing investments in SFM in developing countries: strengthening the information base; recording and publishing information on domestic investments; improving access to private financing by creating enabling environment such as creating a policy framework for private sector investment in forestry or reducing investment risk through guarantees, public-private partnership, innovative funding schemes and provision of better information. See Figure 7, for a forest investment framework that PROFOR proposes.

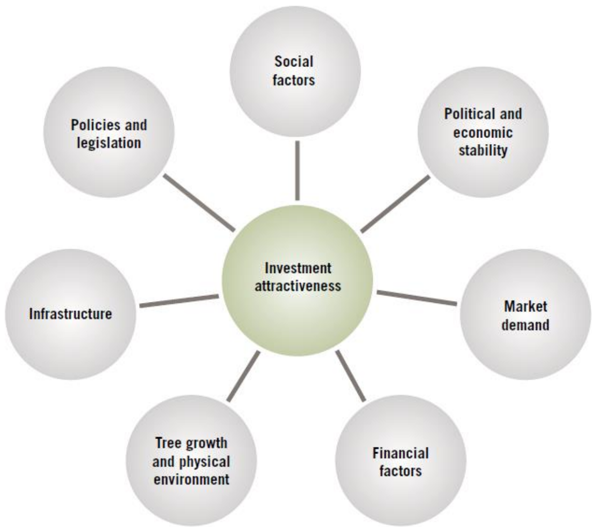


Figure 7. Forest invesment framework. (Source: PROFOR, 2014)

43. National funds can be one of the instrument that can mitigate the risk that the private sector is facing in its SFM investment. Schmidt-Pramov & Matta suggests that national funds, which is 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.

[BOX 4 (Placeholder for Case study): Norwegian case that Stefan suggested – preventing contradicting policies that will finance logging practices while implementing forest conservation policies, and reducing investment available for less sustainable activities

[34] Castrén, Tuukka, Marko Katila, Karoliina Lindroos, and Jyrki Salmi. 2014. Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers. Washington, DC: Program on Forests (PROFOR).

4.2.2. REDD-plus

44. Inadequate data on private sector engagement in forest and climate change projects makes it difficult to estimate the total private sector contribution. According to PROFOR, a small fraction of existing REDD-plus projects have significant investments or other contributions coming from the private sector, which already indicates that a wide range of private actors are currently engaged in REDD-plus. In addition, several REDD-plus funds are recently created to invest in REDD-plus at large scale.

45. In terms of capital markets for financing for forests, according to UNEP-FI, an estimated US$ 225 trillion is currently allocated through the world's capital markets. In order to direct capital resources to play a more important role in the full implementation of REDD-plus activities, in the short term, it is necessary 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, UNEP-FI suggests that financial markets need to be reformed so as to they can become enablers and catalysts of forest finance.[35]

46. Reallocating the capital market to 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.[36]

47. 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. UNEP-FI also stated, specifically related 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 for REDD-plus. UNEP-FI shared the conditions that are needed to scale up private sector investment in REDD-plus (Table 2). [37]

Table 2: Seven conditions that are needed to scale up private sector investments in REDD-plus (UNEP-FI)
(a) private-sector capital will flow at scale if the incentive structure is well designed;
(b) long-term and predictable policy should be long, loud, legal and light;
(c) up-front finance needs to be raised once suitable incentives are in place, to compensate for possible 'first mover' disadvantage;
(d) the large supply of private sector capital need to be readily accessible by REDD-plus private sector investors; (e) the demand side, which are often small and medium sized forest enterprises, should be able to access the funding;

[35] Input received from the UNEP-FI.
[36] Ibid.
[37] Presented during the workshop held in 2013, as part of the work programme on resultsbased 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>

(f) results-based payments are generating considerable interest in other fields of finance, such as in social finance with the Social Impact Bond;

(g) factors driving finance and investmtns into business-as-usual activities need to be re-thought, in light of the bigger picture.

[BOX 6 (Placeholder for Case study): the CIF/FIP case, where catalytic public finance helped in leveraging bigger private finance]

5. The need for coherence and coordination for financing for forests

48. Coherent approaches and methods need to be developed for the estimation of financing needs for different phases of REDD-plus, in order to improve consistency and transparency of financing estimates for different REDD-plus phases.[38] There is a wide variation in assessing the financing needs of REDD-plus estimated by different countries, with some countries underestimating and others overestimating the costs of financing for different phases. 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.

49. 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.[39] In relation to coherence at the country and implementation levels, coordination and good understanding of multiple sources of finance and the diversity of approaches to REDD-plus is fundamental to allow for well-informed decisions and to promote the delivery of adequate and predictable financing for REDD-plus.[40]

50. Coordination effort is needed between national, and where necessary, sub-national agencies involved as well as financial entities, in obtaining and receiving results-based payments. Coordination in the designation of entities who will receive the results-based payments will ensure that the payments go to actors that are responsible for implementing and strengthening REDD+ actions, in a fair and balanced manner.[41]

51. Coherence and coordination on the national level can lead to an organized structure of aided activities, which can provide a "significant positive impact of synergy for capacity development and hence institutional arrangement" on the national level, under the constraint of limited of human resources. Japan is providing their assistance for forests/REDD-plus, based on the principle of "upon request", by which their assistance is planned, budgeted and provided. According to them, 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, and lessons can be shared among different contributors and recipients.[42]

[38] Input received from the World Bank.
[39] Inputs received from the World Bank and UN-REDD Programme.
[40] Ibid.
[41] Input received from Voigt and Ferreira.
[42] Input received from Japan.

52. Readiness support provided to the developing countries needs to be coordinated and such support should cover for all elements needed to be in place for developing countries to access results-based finance. 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.[43]

53. According to the World Bank, the lack of clear procedures for payments for results-based actions leads to heterogeneity in methods and procedures adopted for performance-based payments of REDD-plus programs and increases the burden for developing countries when combining different funding sources for REDD-plus.[44]

54. 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.[45] 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.

55. According to CPF, there is a need to improve statistics and data collection for financing for forests. Working coherently to fill the gap in information and knowledge concerning forests and their financial and economic opportunities would assist countries and also donors. This needs to reflect national situations and also take into account the full multifunctional range of contributions that forests can make to national development (2012). CPF also argues that here is also a need for extensive coordinated efforts to collect and extract national data on the private sector's investments, as information on these types of investments is not easily identified in a comprehensive manner. There are emerging studies on private sector investments related to forests and carbon markets, but there needs to be a more coordinated effort to solve the problem of the lack of national data on private sector investments (CPF, PROFOR). Enhanced 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.

[43] Input received from Voigt and Ferreira.
[44] Input received from the World Bank.
[45] Input received from the World Bank.

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