Tracking REDD+ Finance:

2009-2012 - Finance Flows in Seven REDD+ Countries

Kerstin Canby, Gustavo Silva-Chávez, Jessica Breitfeller, Christine Lanser, Marigold Norman, Brian Schaap

A REDDX Report | November 2014

FOREST TRENDS

About Forest Trends

Forest Trends' mission is to maintain, restore, and enhance forests and connected natural ecosystems, which provide life-sustaining processes, by promoting incentives stemming from a broad range of ecosystem services and products. Specifically, Forest Trends seeks to catalyze the development of integrated carbon, water, and biodiversity incentives that deliver real conservation outcomes and benefits to local communities and other stewards of our natural resources by analyzing strategic market and policy issues, catalyzing connections between producers, communities, and investors, and developing new financial tools to help markets work for conservation and people.

Since 2000, the Forest Trade and Finance (FTF) program of Forest Trends has sought to encourage sustainable forest management and forest trade policies by aligning conservation with commercial incentives. Through its innovative initiatives, the FTF program also seeks to increase international transparency and accountability, ultimately improving the financial practices and mechanisms used in forestry investment.

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This REDD*X* report tracks the 2009-2012 flow of REDD+ finance from a variety of donors to seven[1] tropical forest countries for various types of REDD+ activities. It is based on the hard work and dedication of seven teams of national partners and other experts who surveyed donors, government agencies, implementing agencies, NGOs, and consulting firms involved in the management of REDD+ finance in key REDD+ recipient countries. National partners involved in the data collection and validation processes include:

Brazil: Mariano Cenamo and Gabriella Albujah at the Instituto de Conservação e Desenvolvimento Sustentável do Amazonas (IDESAM)

Colombia: Roberto León Gómez and Michelle Hernández at Fundación Natura

Ecuador: Jacob Olander at EcoDecisión

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This report and other information can be found on the REDD*X* website at: http://reddx.forest-trends.org/

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[1] As of December 2013, REDD*X* has been active in fourteen countries. However, seven of these countries joined REDD*X* in 2013 and are not included in this report. They will be included in the REDD*X* annual report for 2014, which will feature 2009-2013 data.

Foreword

I recently had the honor to attend the UN Climate Summit that Ban-Ki Moon convened in New York City in September 2014. One of the key outcomes was the UN Declaration on Forests, which many organizations, including Forest Trends, worked to develop and endorse. Although it is a non-legally binding political declaration, governments, companies, and civil society worked together and agreed to cut natural forest loss in half by 2020 and strive to end it by 2030. Shortly afterwards, the world's attention has turned towards the UN climate meeting in Lima, Peru, where negotiators will start to draft a new global deal to be finalized in 2015 in Paris, France.

While these developments are welcome, it is not yet known if the UN Declaration on Forests will result in actual financial commitments and how much of the money will actually reach the ground to stop deforestation in the tropics. Overall climate finance, for example, flows into the Green Climate Fund, will face similar hurdles. One of the key issues when it comes to paying countries to stop deforestation is transparency and being able to track these financial flows from beginning to end.

In 2011, Forest Trends launched the REDD*X* initiative to track REDD+ finance flows, and it has brought transparency to REDD+ finance flows in the seven REDD*X* countries during 2009-2012. Although there are significant challenges to tracking the estimated USD$7 billion dollars pledged for REDD+ by 2015, as this report shows, it is possible to do so.

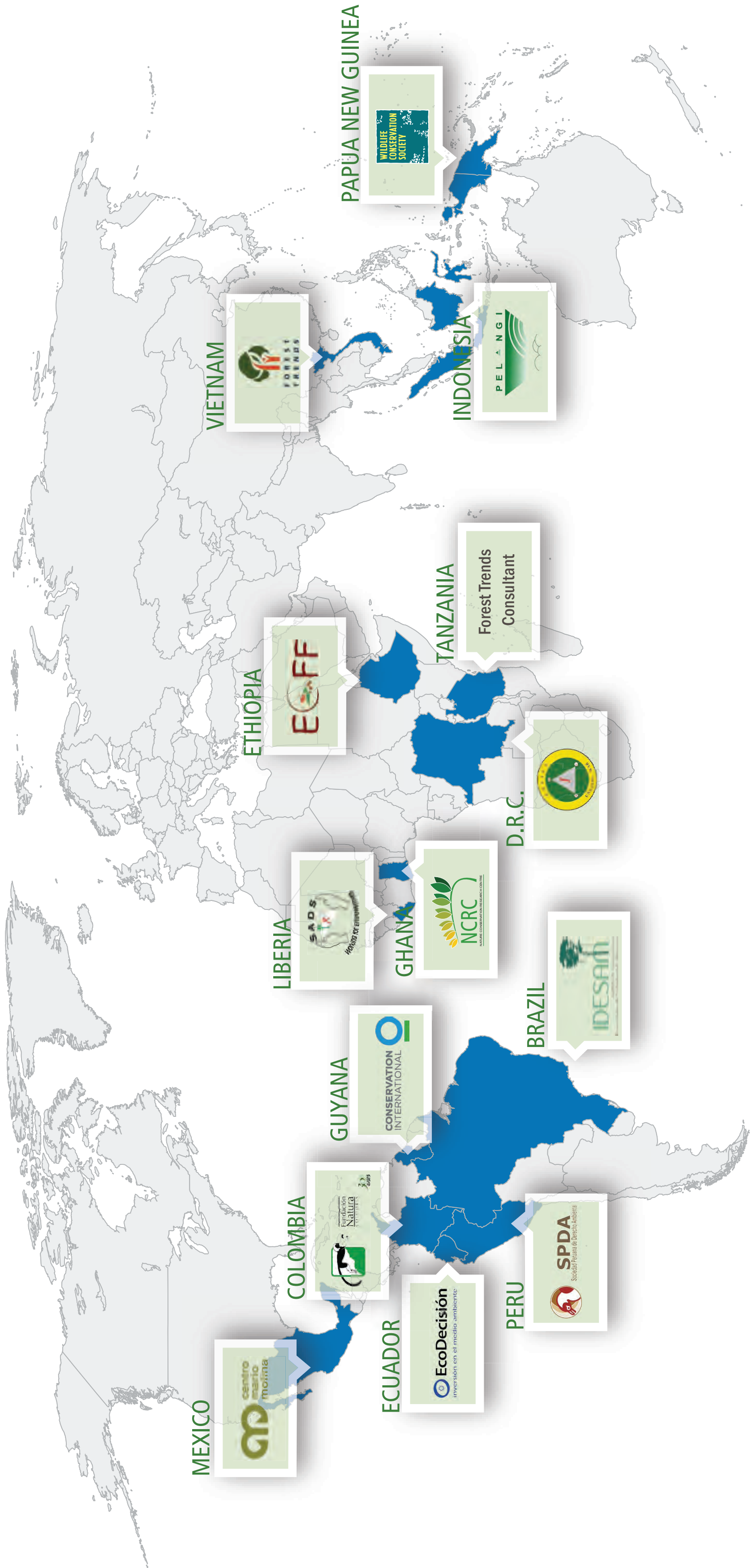
Next year will be a crucial year in the global climate agenda, especially for REDD+. In early 2015, we will release an updated report for all fourteen REDD*X* countries. Policy makers should have confidence that we are capable of tracking the money and that REDD+ should be included as part of the 2015 Paris global climate deal.

Michael Jenkins,

President

Forest Trends

Figure 1: REDDX Civil Society Partner Institutions by Country



Executive Summary

The Forest Trends REDD+ E*X*penditures Tracking Initiative (REDD*X*) was launched in 2011 to provide greater transparency around the financial flows that have been committed for Reducing Emissions from Deforestation and forest Degradation (REDD+) programs. Despite over US$7.3 billion pledged[2] to support REDD+ Readiness by 2015, information has remained limited on how much of this finance has actually flowed to national initiatives prioritized within national strategies and the organizations managing and actually implementing REDD+ on the ground.

In partnership with national government and civil society organizations, REDD*X* currently operates in fourteen countries collectively representing around 1.1 billion hectares of forest, or about 72% of the global tropical forest cover[3]:

- Latin and South America: Brazil, Colombia, Ecuador, Guyana, Mexico, and Peru
- Africa: The Democratic Republic of Congo, Ethiopia, Ghana, Liberia, and Tanzania
- Asia-Pacific: Indonesia, Papua New Guinea, and Vietnam

The REDD*X* Methodology

The REDD*X* model is based on annual cycles of primary data collection through surveys and in-person interviews, as well as national validation and consultation processes to confirm the results in each of the REDD*X* fourteen participant countries.

REDD*X* tracks the flow of committed REDD+ funds, focusing on the following aspects:

- Timing of the flow of committed REDD+ funds, starting with original disbursements to first recipients and then down to secondary or even tertiary disbursements, if applicable, tracking the flow of funding through to final REDD+ activity implementation.
- Listing and categorization of recipient organizations which receive or manage REDD+ funds, and/or implement the REDD+ activities. (e.g., government, NGOs, large international consulting firms and consultants, community organizations, etc.)
- Listing and categorization of REDD+ activities being implemented, such as actions for REDD+ Readiness or on-the-ground payments for performance.

[2] Pledges of REDD+ finance are often made as announcements of support from donor governments with no legal or formal indication that this funding will be released, no terms for how it might be spent, and whether it will be fully spent on REDD+ activities. Some donors pledge an amount and actually end up committing less. The REDD*X* initiative does not specifically track pledges, but if any are known, they are recorded to compare with amounts actually committed.
[3] FAO, Forest Assessment Data, 2010. Based on the total forest cover of recipient partner countries of the REDD+ Partnership in 2013.

The national REDD*X* survey and review processes are carried out by national partners (typically civil society organizations) in collaboration with governmental agencies (typically offices of REDD+ Focal Points). National partners are trained on interview and survey techniques, donor financial management processes, and database management. Training is often provided by partners from neighboring countries who participated in the early pilot stages of REDD*X*. The typical annual cycle of data collection and validation includes the following steps:

Primary data collection at national and sub-national levels: REDD*X* teams work with national civil society partners and national REDD+ Focal Points to collect information on REDD+ pledges, commitments, disbursements, and expenditures at the national, state, and local levels. This is conducted via primary surveys and in-person interviews. Often the funds are tracked through multiple organizations as they make their way down to the ultimate beneficiaries or implementing organizations.

Data validation: Survey responses are entered into the centralized REDD*X* database and checked for consistency. Data may be cross-checked with or clarified by donor program headquarters (particularly on disbursement schedules which are updated frequently but usually never publicly available). Analytical statistics, charts, and graphics are produced to form the basis of draft findings for review at national-level workshops. These review workshops are typically co-hosted by REDD*X* partners and government agencies (typically REDD+ Focal Points) and attended by national stakeholders, including donors themselves. Often these meetings initiate discussions on the gaps and needs of national REDD+ programs, starting with the comparison of the REDD*X* findings against the stated objectives and needs of national REDD+ strategies.

Dissemination: REDD*X* results are disseminated via a publicly available database on the REDD*X* website, country reports drafted by government and REDD*X* national partners, and other publications are issued which highlight key trends relevant to REDD+ policy makers and stakeholders.

In 2013, seven of the fourteen REDD*X* countries participated as early partners of the REDD*X* initiative: Brazil, Colombia, Ecuador, Ghana, Liberia, Tanzania, and Vietnam. Local partners and government agencies, working with REDD*X* in these seven countries, tracked US$1.2 billion in donor commitments and followed the chain of disbursements to in-country recipients who managed, transferred the funds, or implemented activities. This report summarizes the findings and implications of this first year of reporting under the REDD*X* initiative.

International and national stakeholders – from recipient governments, non-governmental organizations (NGO), and community beneficiaries to international donors themselves -- have welcomed the detailed information REDD*X* has been providing publicly since the launch of its website in March 2013. Greater understanding of the funds available and their use is helping to reduce duplication of efforts, and identify gaps and needs that can be filled by domestic REDD+ contributions, additional overseas development assistance (ODA), or private sector investment. REDD+ policy makers need to see tangible evidence of how REDD+ finance has been used, that REDD+ is being successfully implemented, and that these programs are, or have a high potential, to reduce deforestation.

Findings of 2009-2012 Data Collection Cycle

This report focuses on the years 2009-2012, covering the major developments of the Fast Start Finance period in the initial seven REDD*X* pilot countries: Brazil, Colombia, Ecuador, Ghana, Liberia, Tanzania, and Vietnam. The consolidation of the major trends and findings in each of the seven REDD*X* pilot countries presents a microcosm of the global picture of REDD+ finance. The overall trend in REDD+ investments is a positive one, as donor countries have continued to make financial commitments in the seven REDD*X* pilot countries from 2009 through 2012.

Increasing commitments to REDD+: Between 2009 and the end of 2012, total REDD+ finance commitments increased steadily to US$1.2 billion. The timing of commitments in each individual country, however, followed no universal trend, with some countries receiving funds early in the Fast Start Finance period (Tanzania) and others not receiving their first major commitments until 2011 or 2012. Of the seven countries, Brazil received the most and largest commitments, totaling at least US$819 million, primarily via the Amazon Fund.

Large gap between commitments and disbursements for REDD+: In the seven pilot REDD*X* countries, large commitments by donors for REDD+ were often followed by long delays before initial disbursement of funds. Of the US$1.2 billion tracked by REDD*X* in seven countries, less than a third (US$378.3 million) had been disbursed by the end of 2012.

Disbursements typically are scheduled to flow more or less evenly across the life of multi-year projects, with the first year of implementation being usually the slowest. Thus, to some degree, a lag of disbursements behind commitments should be expected. In some countries however, extremely slow disbursements may be signaling implementation problems or possible inefficiencies in financial delivery mechanisms.

Figure 2: REDD+ Commitments and Disbursements by Country, 2009-2012

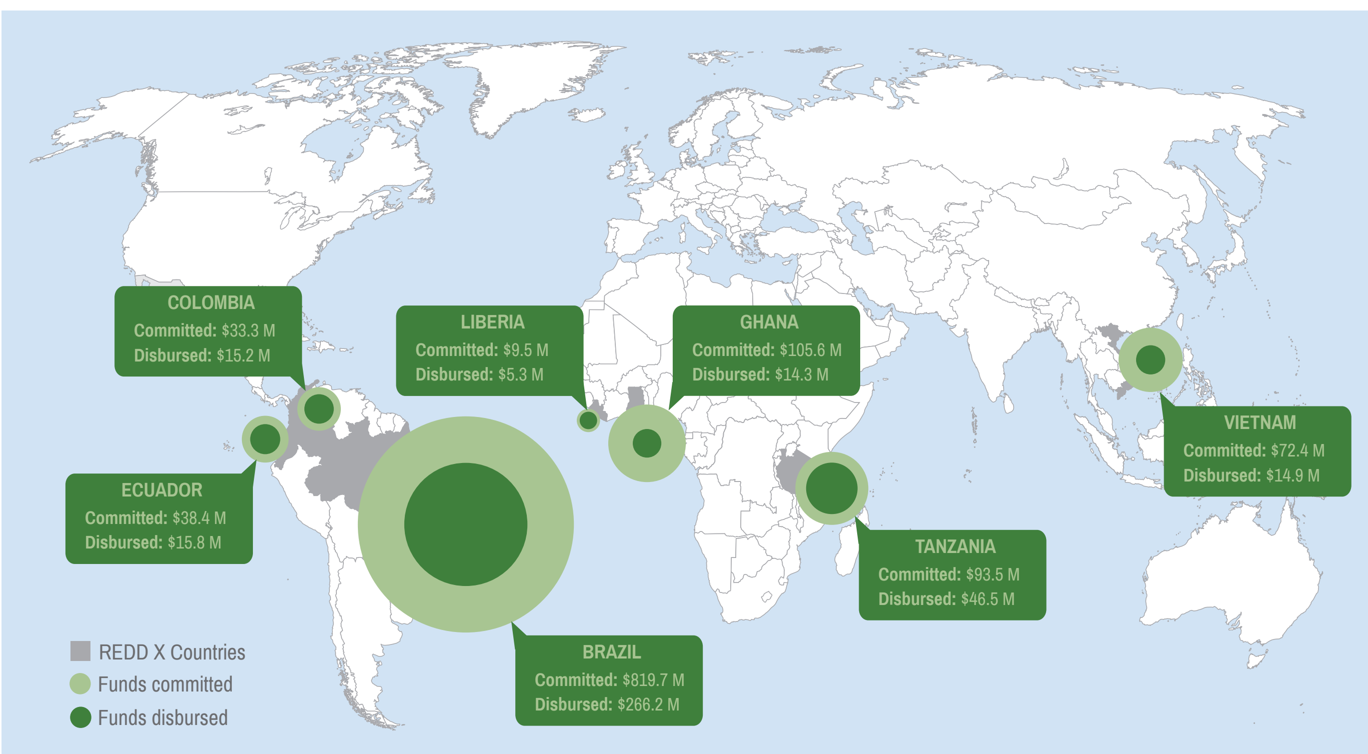


Figure 3: Cumulative Commitments and Disbursements of REDD+ Finance in Seven REDD*X* Countries, 2009-2012

Multilateral sources of funds are beginning to overshadow the bilateral donors and private foundations that had supplied early REDD+ finance: In the time period tracked in the seven REDD*X* countries, approximately 78% of all REDD+ finance was committed by bilateral government donors, with the governments of Norway and Germany responsible for over 91% of these commitments. Multilateral institutions contributed US$132.2 million, or 11.3%, of all REDD+ finance tracked in the seven REDD*X* countries. Private foundations were responsible for 5% of commitments. Private sector investments have remained low (0.1% of total commitments) throughout the survey period. Financial information related to these private investments is difficult to obtain.

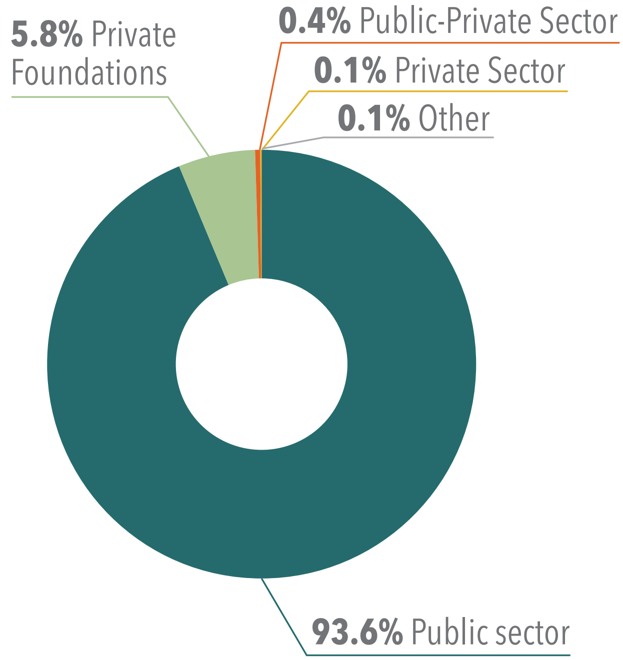
In the earlier years of the time period tracked, 2009 and 2010, direct bilateral aid and private foundation financing dominated REDD+ finance – in both the number and value of their commitments. While commitments from bilateral donors and private foundations continued to rise in 2011-12, they have gradually become overshadowed by the large-scale commitments from multilateral institutions such as the World Bank and UN-REDD.

Commitments from multilateral institutions such as the World Bank's Forest Carbon Partnership Facility (FCPF) and UN-REDD increased slowly through 2011 focusing on REDD+ Readiness and taking the lead in supporting the design of methodologies and REDD+ frameworks at both the international and national levels. These multilateral institutions did not channel large amounts of finance to pilot projects or payments for performance, preferring to lay the foundation for projects that were expected to be financed after the REDD+ Readiness phase was complete.

As countries made progress in REDD+ preparedness, multilateral funds started to flow. In 2012, commitments from multilateral institutions increased significantly. This availability of multilateral funding for REDD+ is expected to significantly increase and dominate over those donors who, in the early years, were able to respond quickly with innovative but relatively small amounts of funding.

The role of domestic contributions by REDD+ countries is increasingly recognized: The extent to which national governments are themselves supporting activities for REDD+ has not been comprehensively quantified, yet domestic financing is increasingly being recognized as an important piece of the REDD+ finance landscape.

Figure 4: REDD+ Financing by Sector in the Seven REDD*X* Countries



Preliminary data presented in this report highlights that some national governments have been prioritizing REDD+ within their own national budgets and, in some cases, are investing more than the international donors. In 2014, REDD*X* began tracking domestic contributions in a few pilot countries, and initial findings reveal that in Colombia and Ecuador alone, national and provincial governments have self-financed over US$48 million[4] through direct payments to communities, programs or consultancies, operational management costs, in-kind costs and/or subsidy programs. This represents approximately 4% of total commitments by the end of 2012.

REDD+ Readiness activities have been the focus of the 2009-2012 funding: As could be expected, REDD+ finance in the 2009-2012 period funded primarily REDD+ Readiness activities. Over 70% of REDD+ activities supported stakeholder consultation and participatory processes, with a focus on the participation of non-governmental stakeholders. Over 50% of all activities at least partially supported institutional strengthening and coordination as well as policy, law, and national strategy development. Very little REDD+ finance was used to develop carbon projects. While 11% of donor initiatives financed forest carbon project design, only 7% supported carbon offsets and performance-based payments for improved forest and land management.

Although this was to be expected given the focus of the Fast Start Financing on REDD+ Readiness, many have been frustrated that after a decade of research, negotiations, early implementation, and a substantial transfer of finances, most countries are still in the early and intermediate stages of REDD+. Because of this, as well as the rather low disbursement rates by the end of 2012, it is too early to be able to accurately measure the impacts of REDD+ finance in lowering deforestation rates.

In the seven REDD*X* countries, the majority of funding went to activities characterized as REDD+ Readiness -- Phases 1 or 2 of REDD+, such as national REDD+ strategy development and pilot-project early implementation.

Significant benefits of information for national REDD+ program coordination: The REDD*X* national review and validation workshops are providing a valuable opportunity for national stakeholders to not only review and

[4] This is more than seven times the combined total REDD+ financial commitments of France, Denmark, Switzerland, the UK, and the Netherlands in the seven REDD*X* countries.

validate the REDD*X* data, but more importantly to begin to better understand the overall landscape of REDD+ activities and trends in their respective countries.

The presentation and review of findings, analytical charts, and graphics has often immediately triggered discussions comparing the objectives and scale of existing REDD+ funding with the stated needs of national REDD+ strategies – the beginning of a true gaps-and-needs analysis at a level of detail necessary for effective planning. At least one REDD+ Focal Point (Ghana) has used the REDD*X* data analysis to better target the **government's own domestic financing** towards expected gaps in critical implementation activities during a period of delay in disbursements from a large multilateral program.[5]

For donors, REDD*X*'s comprehensive data is serving as a vital feedback loop on the effectiveness of financing mechanisms/channeling structures and allowing them to make adjustments to ensure these critical investments are achieving optimal impacts in a rapidly changing local context.

Increasingly, validated REDD*X* data is being used by national **REDD+ Focal Points** to inform official submissions of country-level REDD+ financial arrangements to the REDD+ Partnership's Voluntary REDD+ Database (VRD).[6]

Value of partnerships with civil society organizations: REDD*X*'s partnering approach helps in-country civil society organizations gain experience in tracking forest investments. The REDD*X* initiative's support for partners to convene national validation workshops and working group meetings have resulted in a shared understanding of the REDD+ finance landscape and a stronger alignment between government agencies and civil society organizations in countries such as Colombia, Ghana, and Liberia.

Political dynamics can determine which activities are labeled as REDD+ and thus influence overall findings: The precise definition of REDD+ has been debated and negotiated since its very inception. REDD*X* partners have noted that there have been occasions where some government agencies are disagreeing with either donors themselves or other government agencies on whether a certain program should be labeled REDD+ or otherwise. In some cases, it is noted as a true difference in conceptual framing; in others, it appears to be a staking of claim over the authority and funds for REDD+ implementation.

Low level of private sector financing: The private sector is still not making large-scale REDD+ investments[7] – with only US$1.2 million identified in the seven countries. However, it is important to note that REDD*X* does not track voluntary carbon market investments, and in many cases where the voluntary forest carbon market included REDD+ and forestry projects, they may not be classified as REDD+ by the national governments. Complementary data from the voluntary carbon market indicates that the private sector spent US$379 million in carbon offsets in 54 countries during 2013.[8] Overall, information from the private sector has been difficult to obtain. Many private sector investors appear to be waiting for REDD+ countries to generate compliance-grade REDD+ credits before making investments and relying on donor and government programs to lay the investment climate through REDD+ Readiness activities: setting of baselines and measurement, reporting, and verification (MRV) systems, sorting land rights issues that make investments problematic, etc. REDD+ investments by the private sector will be arguably one of the most important sources of finance needed for the long-term success and maintenance of REDD+; this is therefore an area that will need to be prioritized among donors and policy makers in coming years.

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[5] http://www.international-climate-initiative.com/en/news-detail/article/keeping-track-with-reddx

[6] In January 2014, the REDDX team and Colombian REDD+ Focal Point collaborated in the preparation of the Government of Colombia's official submission to the REDD+ Partnership's VRD. While the Government of Colombia had reported to the VRD in previous years, the data was not as comprehensive and had not had the benefit of a national stakeholder review and validation process prior to submission.

[7] REDD*X* tracks funding and activities associated with national level REDD+ development. For private sector projects that are not linked with jurisdictional REDD+ programs, please refer to Ecosystem Marketplace state of the voluntary carbon market report 2014.

[8] http://www.forest-trends.org/documents/files/doc_4501.pdf

Acronyms

COP	Conference of the Parties to the UNFCCC
FAO	Food and Agriculture Organization of the United Nations
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
GEF	Global Environmental Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit, or the German Federal Enterprise for International Cooperation
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
KfW	Kreditanstalt für Wiederaufbau, German Development Bank
MRV	Measurement, Reporting, and Verification
NGO	Non-governmental Organization
ODA	Overseas Development Assistance
REDD	Reducing Emissions from Deforestation and Forest Degradation
REDD+	REDD as above but the + part refers to REDD plus new activities including conservation of forest stocks, sustainable management of forests, and enhancement of forest carbon stocks
UN	United Nations
UN-REDD	United Nation’s REDD Programme
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
VRD	Voluntary REDD+ Database of the REDD+ Partnership

Glossary of Terms

During the survey design process, the REDD*X* initiative found there was a need to define commonly used REDD+ and finance terminology in order to promote greater understanding and overall consistency across in-country partners and between collaborators, including national governments, donors, and recipients. The definitions below are definitions commonly used by the REDD+ policy community except where noted.

General and Financial Terms

REDD+: REDD+ is a global effort to create a value on the carbon stored in forests and provide incentives to compensate countries for policies that result in fewer emissions and forest conservation. It is defined by the UNFCCC as "reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries". REDD+ countries have the flexibility to determine what exact activities they will implement in their countries based on national circumstances and development/conservation priorities.

REDD+ Finance: A working definition of "REDD+ Finance" remains heavily debated within the international policy context. For the sake of this project and to promote consistency with other REDD+ tracking initiatives and broader international approaches to REDD+, it was agreed that REDD+ finance will include:

1. International REDD+ Finance: Any international financial transfers earmarked to support REDD+ mechanisms or initiatives, as currently defined by the UNFCCC, that are developed with the aim of reducing net GHG emissions from the forestry sector.
2. National REDD+ Finance: Monies earmarked and spent for any activities or actions that fall within the scope of the REDD+ definition found within an individual country's approved REDD+ Readiness Preparation Proposal or other existing country REDD+ strategy.

Public Finance: Revenue generated through mechanisms (e.g., taxes, carbon markets, etc.) controlled by a public entity such as a national government. Public finance can be international or national in nature and generally supports REDD+ Readiness, policy development, and results-based payments.

Private Finance: In the context of REDD+, private finance constitutes funds provided by a private sector entity or business, which tend to support forest management and carbon project development, and can include PES-triggered investments or investments that address drivers of deforestation.

Public–private Finance: Instances where a REDD+ project or business venture is funded through a partnership between a public sector authority, and one or more private sector companies.

Pledge: Pledges of REDD+ finance are often made as announcements of support from donor governments with no legal or formal indication that this funding will be released, no terms for how this might be spent, and whether this will be fully spent on REDD+ activities. Some donors pledge an amount and actually end up committing less. The REDD*X* initiative does not specifically track pledges, but if any are known, they are recorded to compare with amounts actually committed.

Commitment: REDD*X* defines "commitment" as a formal indication from a donor that they will fund REDD+ activities in a country. This "commitment" will be backed up by a legal or formal agreement specifying the total amount of funding for the recipient, a timeline for activities, and a schedule for when finance will be spent. ("Commitment" is not to be confused with a "pledge".)

Disbursement: In the context of the REDD*X* initiative, "disbursement" is the transfer of funds from a donor to a recipient or from a recipient to an additional recipient further down the funding chain.

Expenditure: In the context of the REDD*X* initiative, an "expenditure" is when REDD+ finance is actually spent or expended on REDD+ activities on the ground.

Institutions

International donor government agency: A federal agency or ministry in the donor country. NORAD (Norway), GIZ (Germany), KfW (Germany), USAID (USA), JICA (Japan), DEFRA (UK), and FORMIN (Finland) are some of the biggest international government donor agencies. The arrangements that international donors utilize can include traditional bilateral and multilateral funding mechanisms, in-kind technical assistance, or direct financing of civil society or private sector consulting firms.

Domestic donor government agency: REDD+ countries are increasingly allocating funds for REDD+ activities in their own country, either through self-financing out of central budgets, or as required co-financing of multilateral institutional grants.

Multilateral financing institutions and programs: International organizations that are comprised of members from many countries. Examples include the World Bank, UN-REDD, IDB, ADB, IFAD and ITTO. These multilateral organizations often manage large REDD+ programs such as the UN-REDD Programme, the FCPF, and the Green Climate Fund. For example, the UN-REDD Programme builds on the convening role and technical expertise of its three participating UN organizations: the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP).

Private foundation: A charity that receives the majority of its support from individual and corporate donations, (not public funds) and whose funds and programs are managed by its own trustees or board of directors. Private foundations which have been active in the REDD+ realm include Climate Works, Ford Foundation, Rockefeller Foundation, Moore Foundation, and Packard Foundation.

International NGO/Academic institution: International, non-governmental organizations (NGOs) such as environmental organizations and/or independent academic institutions with headquarters outside the recipient country. Many international institutions receive donor funding for REDD+ activities to be implemented at the international, regional, and/or national level. Their finance is typically spent in the following ways:

- At headquarters on their own staff and operations supporting donor and/or recipient country objectives;
- At regional or national offices on their own staff and operations supporting donor and/or recipient country objectives;
- Passed on to other international organizations through sub-grants or consultancies to implement activities (and who may, in turn, pass on to additional organizations);
- Passed on to other national organizations through sub-grants or consultancies to implement activities (and who may, in turn, pass on to additional organizations);
- Passed on directly to local communities or households for payments for environmental services.

Local NGO/Academic institution: Civil society organizations and academic institutions based in the REDD+ recipient country.

Consulting firms: Private sector businesses made up of a group of experts (i.e., consultants), which provide professional project management services and implementation for a fee. Consulting firms contributing to REDD+ processes and implementation can be based internationally and/or locally in-country.

Funding Mechanisms

Dedicated regional funds: Funds collected from a specific revenue source that must be appropriated for a specific expenditure or region. Examples are the Amazon Fund and Congo Basin Forest Fund (CBFF).

National trust funds: National Environmental Trust Funds are a mechanism through which to regularly provide financial support for conservation activities and efforts. Funds are managed by an independent entity (e.g., board) kept separate from other funding sources such as ministerial budgets. Examples include the Peruvian Trust Fund for National Parks and Protected Areas, the Colombian Environmental Action Fund, and the National Environmental Fund in Ecuador, among others.

1. Overview of Global REDD+ Developments 2005-2014

In 2005, government negotiators at the 11th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) (Montreal COP 11) highlighted actions to reduce emissions from deforestation in developing countries as a key issue to addressing climate change. Discussions centered not only on the mitigation potential of forests, which would help to reduce ~20% of global emissions, but also on compensating and creating positive incentives for forest conservation and protection. The Coalition for Rainforest Nations, led by Papua New Guinea and Costa Rica, formally put this issue on the negotiating agenda with the suggestion that REDD+ countries showing a real reduction in emissions from historical baselines could receive monetary compensation. From the beginning, compensation (i.e., payments from a variety of sources, including carbon markets) was a fundamental component of REDD+.

In the early years of 2005 through 2009, countries started REDD+ activities often with their own financing. Donors then started to mobilize additional funding for "REDD+ Readiness". As it became apparent that many countries needed to first lay the foundation for REDD+ implementation (development of baselines, monitoring frameworks, etc.), financing began to flow from a multitude of sources for a wide range of REDD+-related activities – some directly related and others less so.

Early within the REDD+ Readiness period, the REDD+ policy community began to realize that there was very little information other than publicly announced pledges and a few large commitments. Further details on existing and planned financial support for REDD+ was hard to find, especially which donor pledges were being converted into legal commitments that were actually disbursing, what was being funded, and who was receiving and managing these early and relatively small amounts of financing.

Last year's UNFCCC negotiations in Warsaw made some significant progress in efforts to conserve tropical forests. Country negotiators continued building the policy and technical elements needed for REDD+, and new financial pledges of support from developed countries were made in 2013. For example, Norway, the United Kingdom, and the United States announced a US$280 million BioCarbon Fund Initiative for Sustainable Forest Landscapes Program, highlighting their continued support for REDD+ implementation. The Warsaw REDD+ decisions complement previous UNFCCC decisions and most of the elements have been decided. This year the COP will be held in Peru and is not expected to produce any major REDD+ decisions. Some issues will be discussed, including non-market mechanisms, non-carbon benefits, and safeguard information systems. However, other outstanding issues, such as what the specific financial mechanisms for REDD+ are, whether market-based REDD+ is to be allowed, and whether REDD+ credits can be used by developed countries to meet their post-2020 commitments, will be discussed and negotiated during 2015 and will come to a final resolution in Paris.

Throughout this entire period, it has become clear that countries have been getting ready for REDD+ by using these financial flows to design and implement their national and jurisdictional programs. All of the REDD*X* countries in this report are at different stages of REDD+ Readiness, and have aid for these readiness and early implementation activities with REDD+ finance flows. The policy guidance and discussions originally started under the UNFCCC helped countries understand what would be considered REDD+ and how to get ready for it. Over the years, via workshops, calls for submissions, and formal negotiating sessions, technical and policy guidance has emerged and has gradually created the policy framework needed for successful national and jurisdictional REDD+ programs. Countries and multi-lateral institutions, such as the FCPF and the UN-REDD Programme, have used this guidance to design and implement their programs.

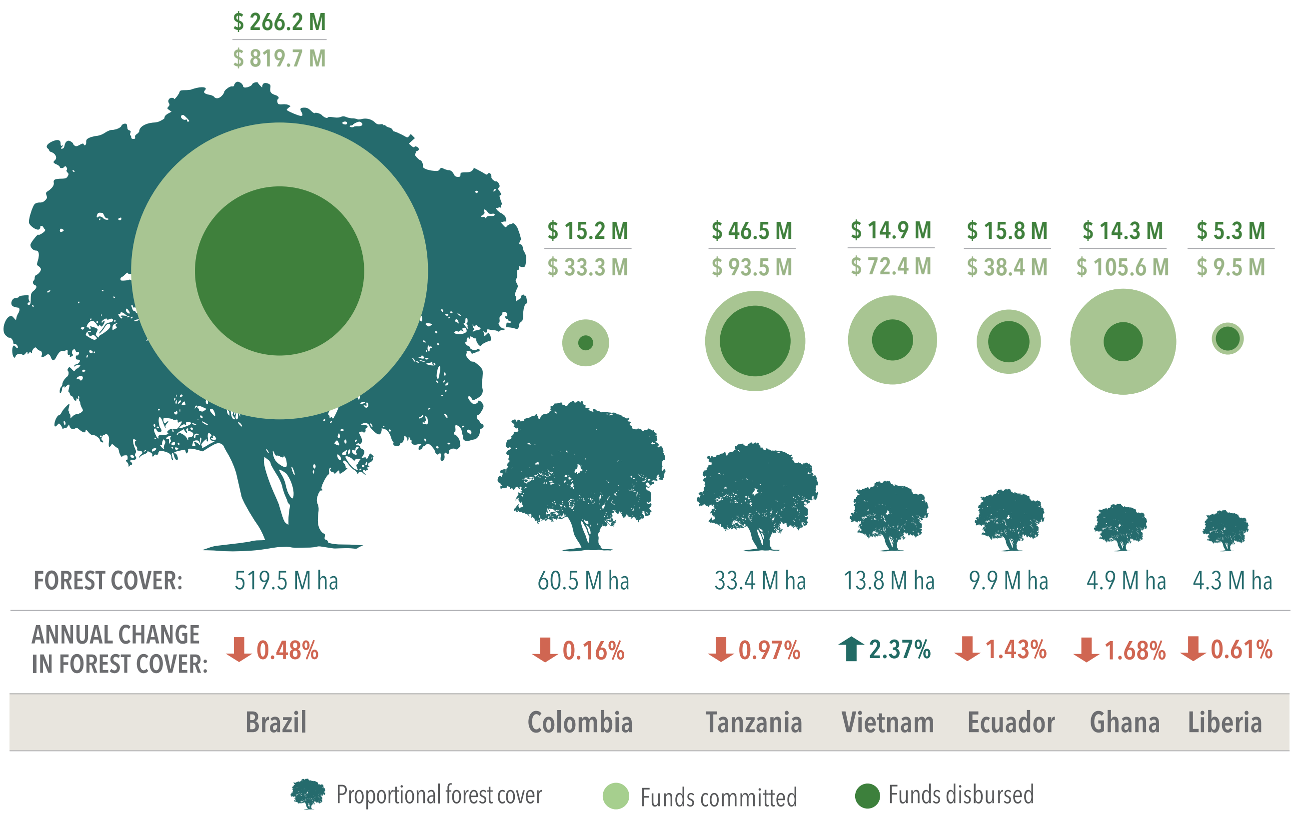
Looking ahead, REDD*X* hopes to provide policy makers with the information they need as they head first into the 2014 United Nations climate meeting in Peru and then into the 2015 UN climate change meeting in Paris, as countries gather to finish constructing the REDD+ mitigation mechanism under the UNFCCC. REDD*X* findings may also be of use to other jurisdictional programs, such as California's emerging cap-and-trade mechanism, which are exploring ways to link up with jurisdictional REDD+ approaches.

2. Commitments and Disbursements of REDD+ Finance in Seven REDD*X* Countries (2009-12)

Since 2009, there has been a continuous growth in global REDD+ financing, as donors have stepped up with commitments and disbursements for an increasing number of REDD+ countries. Between 2009 and 2012, REDD*X* tracked US$1.2 billion in REDD+ commitments in seven tropical forest countries: Brazil, Ecuador, Colombia, Ghana, Liberia, Tanzania, and Vietnam. All countries saw an overall increase in funding during this period.

Levels of REDD+ finance varied significantly across the seven countries, as could be expected given the vast differences in total forest area, deforestation rates, and the different stages of efforts to address deforestation and forest degradation nationally. Brazil received the largest number and value of commitments with over US$800 million committed, primarily via the Amazon Fund. Liberia received the smallest amount at under US$10 million (Figure 5).

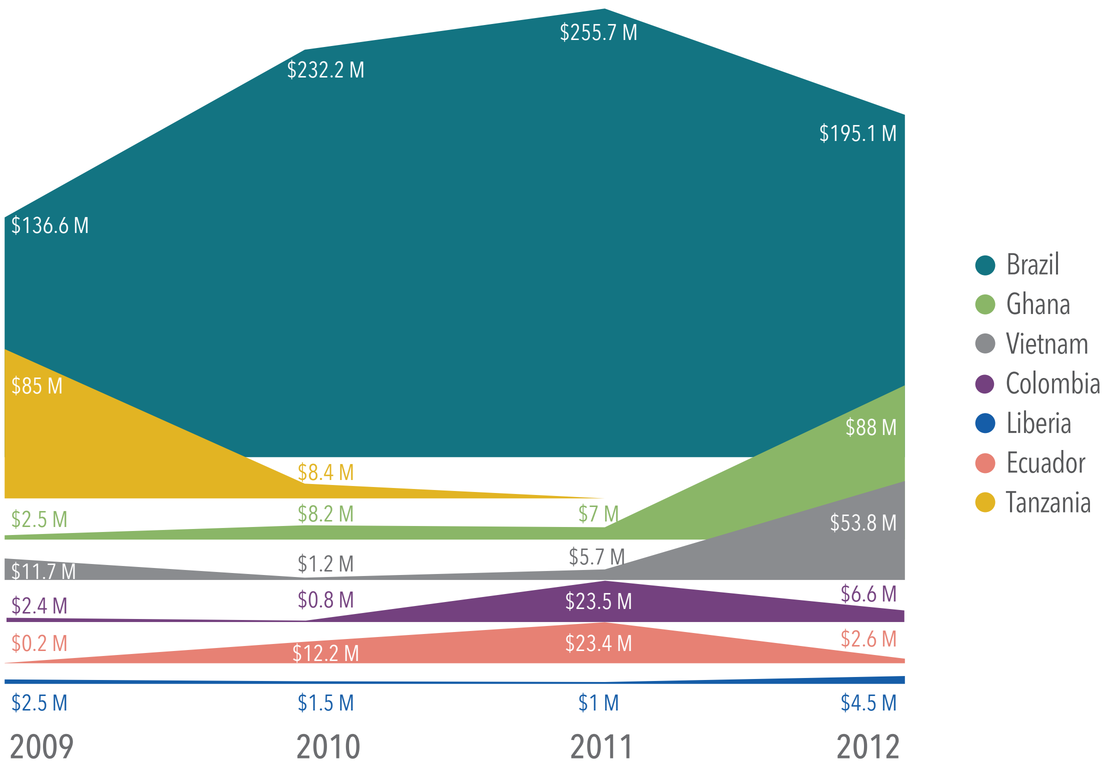
Figure 5: Total Commitments, Disbursements, Forest Cover, and Rate of Forest Cover Change in Seven REDD*X* Countries, 2012



2.1 The Slow but Steady Growth of REDD+ Finance

Between 2009 and 2012, cumulative commitments for REDD+ activities in the seven REDD*X* countries increased each year, a 386% increase from 2009 levels. When the data is disaggregated to the national level, annual commitments followed no universal trend. Some countries received funds early in the Fast-Start Finance period and others did not receive their first major commitments until 2011 or 2012. For example, Tanzania received large REDD+ commitments in the early years, but did not secure any additional commitments thereafter. Liberia received small levels of funding early on, but larger commitments only arrived in 2012. Similarly, Colombia and Ecuador also saw a slow financing start until the arrival of larger commitments in 2011. Vietnam and Ghana received the vast majority of their commitments in 2012 when total commitments jumped by 289% and 500% from the previous year. Brazil had its own unique pattern of commitments with large commitments arriving steadily from 2009 through 2012 (Figure 6).

Figure 6: Annual Commitments by Country, 2009-2012 (Non-Cumulative)



2.2 The Disbursement Lag

REDD*X* findings clearly show a large gap between commitments and disbursements for REDD+. In the seven pilot REDD*X* countries, large commitments for REDD+ by donors were often followed by long delays before initial disbursement. Of the US$1.2 billion tracked by REDD*X* in seven countries, less than a third (US$378.3 million) had been disbursed by the end of 2012 (Figure 7). This message, however, is not so simple. A deeper look at REDD+ project management practicalities creates a more nuanced and complex understanding of the apparent lag between commitments and disbursements:

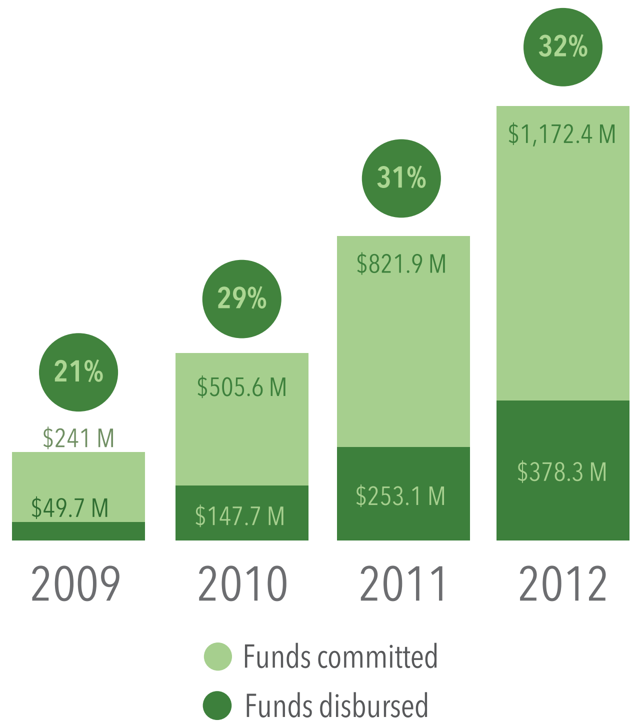
a. **Disbursement schedules are often spread across multiple years:** Tracking disbursements against planned annual disbursement schedules would be ideal to detect delays in disbursements. However, REDD*X* has found that disbursement schedules change frequently, but these changes are often not made publicly available. Thus, REDD*X* has had to track disbursements against the total amount legally committed, rather than against annual disbursement projections. For multi-year donor initiatives, this method of tracking initially shows large discrepancies between commitments and disbursements. However, over time the gap should begin to close.

b. **Expected time lags at project onset:** Time lags between commitments and disbursements are typically expected, given the time required to create work plans, set up financial management and procurement systems, and ensure proper development of operational policies.

c. **Reimbursable expenditures:** In some cases, such as for the World Bank's Forest Carbon Partnership Facility (FCPF), activities may actually commence prior to official disbursements, which are on a reimbursable schedule.

However, the discrepancy between committed and disbursed funds has been larger than even the most conservative of expectations and has at times caused tensions between donor programs and expectant recipients. Delays in these financial flows have essentially led to a scenario in which early-stage planning activities were only just starting to be financed in some countries by 2012, while others are waiting for greater clarity on performance-based payments in Phase 3 before moving forward.

Figure 7: Cumulative Commitments and Disbursements of REDD+ Finance, 2009-2012



Disbursement trends also vary significantly across all countries, and in some cases are skewed by significant increases in new REDD+ commitments in recent years. Vietnam and Ghana, for example, received significant commitments in late 2012 and therefore would not yet be expected to have high rates of overall disbursements. Liberia also received large new commitments in 2012 but its donors have been rapidly disbursing for earlier projects committed in 2009-2011, leading to a relatively high overall disbursement rate of 56% (Table 1).

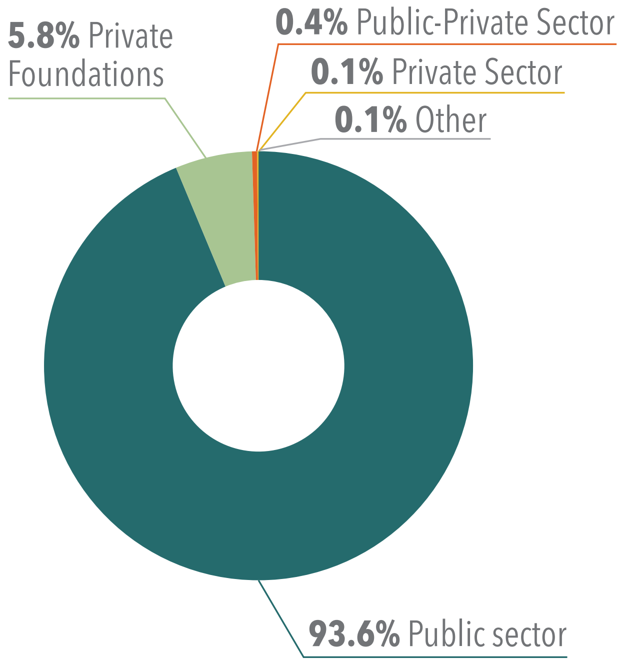
Table 1: Disbursements of Total Commitments by the End of 2012

Country	REDD+ Disbursements (USD millions)	Disbursement Rate
Liberia	5.3	56%
Tanzania	46.5	50%
Colombia	15.1	46%
Ecuador	15.9	41%
Brazil	266.2	32%
Vietnam	14.9	21%
Ghana	14.3	14%

3. Donors: Who Is Funding REDD+?

While private foundations were able to rapidly mobilize funding in the early years of REDD+, by the end of 2012, overseas development assistance, either through bilateral donor programs or multilateral donor institutions, dominated as the primary source of REDD+ finance, committing 93.6% of all REDD+ finance tracked across the seven REDD*X* countries between 2009 and 2012. Private foundations (5.8%), the public-private sector (0.4%), and the private sector (0.1%) provided the remainder of REDD+ funding (Figure 8).

Figure 8: REDD+ Financing by Sector in the Seven REDD*X* Countries



3.1 Bilateral Donor Commitments

Bilateral agreements between donor governments and REDD+ recipient country governments and institutions totaled US$936 million or 78% of all REDD+ finance tracked between 2009 and 2012. Bilateral support for REDD+ in the seven REDD*X* countries dominated through 2012 even as multilateral and domestic contributions increased in later years. The majority of bilateral grants focused on REDD+ Readiness activities.

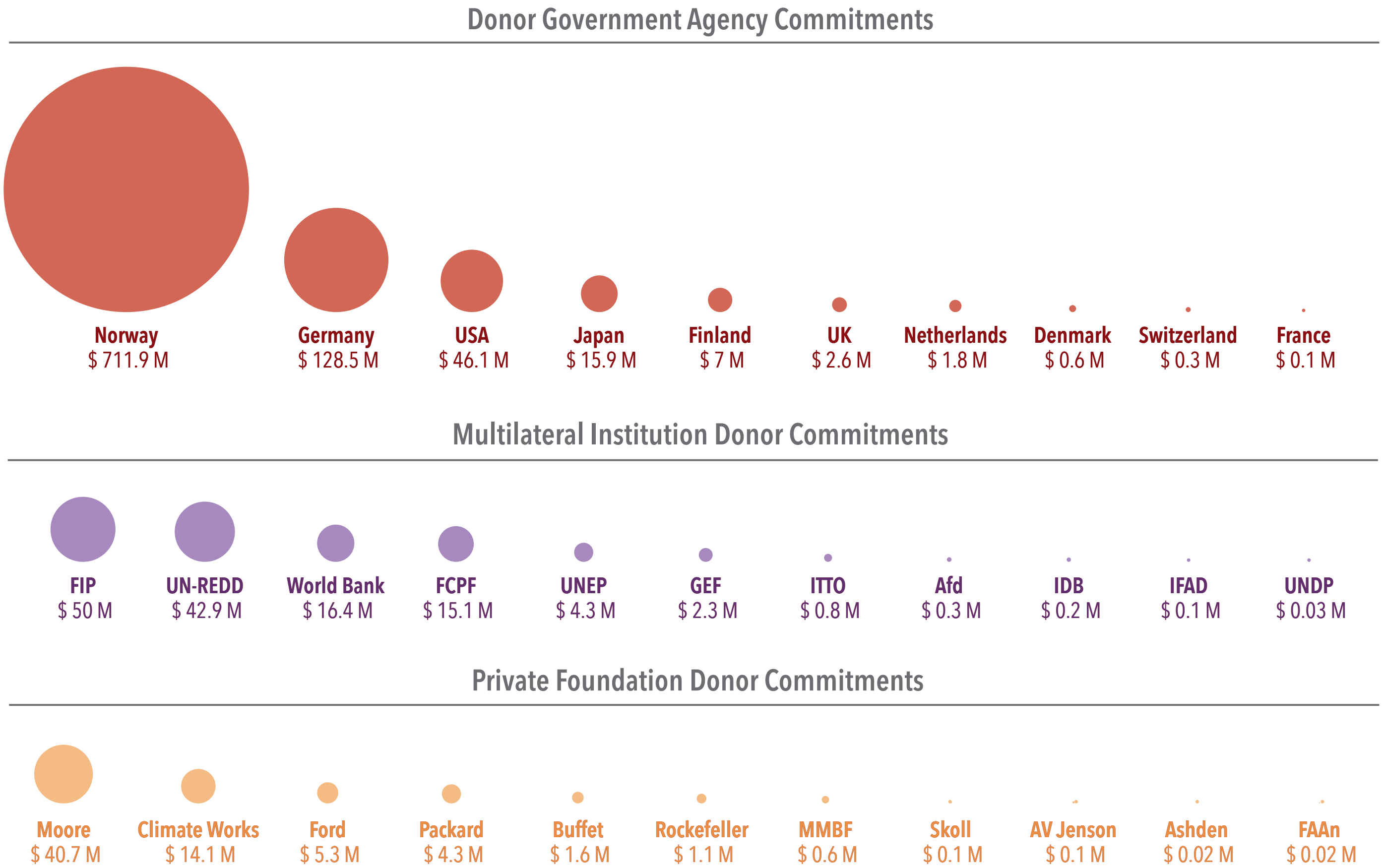
The Government of Norway provided the most significant levels of support via bilateral agreements, committing over US$712 million over the four-year period -- 78% of all donor country government funding (Figure 9).[9]

3.2 Multilateral Funding

At the end of 2009, funding channeled through the large multilateral institutions such as the World Bank or UN-REDD represented only 2% of all commitments. Despite this slow start, annual commitments by multilateral

[9] Several of these countries, such as Japan and France, have committed Fast-Start Finance to multilateral donors such as the FCPF, the World Bank's Forest Investment Program (FIP), UN-REDD, Inter-American Development Bank (IDB), etc. Due to the complexity, REDD*X* does not track these preliminary donations. Therefore, although their direct bilateral commitment may appear low, overall commitments may be higher due to indirect contributions to multilateral institutions, mechanisms, or funds.

Figure 9: Total Commitments by Donor Type, 2009-2012



institutions increased exponentially over the four-year period, growing especially rapidly from 2011 to 2012, when multilateral commitments rose from US$26 million to US$88 million (Figure 10). Two major commitments announced in 2012 drove this sharp increase: the World Bank's Forest Investment Program (FIP) for the Government of Ghana (US$86 million),[10] as well as major contributions from the UN-REDD Programme in Vietnam.[11] By the end of 2012, multilaterals were responsible for 25% of all new commitments made that year.

3.3 Private Foundations

In the early years of the Fast-Start Finance period, private foundations played a significant role in quickly mobilizing smaller amounts of grant funding and filling a crucial funding gap as bilateral and multilateral funding mechanisms took time to develop. Private foundation commitments remained steady over the four-year period

[10] A total of US$86 million has been committed under the FIP to Ghana, with contributions from the World Bank (US$30 million), International Finance Corporation (IFC) (US$10 million), and African Development Bank (AfDB) (US$10 million). The Ministry of Lands and Natural Resources (MLNR) committed an additional US$36 million in co-financing. Activities to be targeted under the FIP include mitigation actions related to forests, investments outside the forest sector to reduce pressure on forests (primarily the agriculture and cocoa sector), and institutional capacity building for forest management and information management.

[11] The UN-REDD Programme accounts for over US$34.7 million of REDD+ financing to Vietnam with UNDP, FAO and UNEP as the recipients. The UN-REDD Programme assisted the Vietnamese government in establishing a national REDD+ Network, which facilitates coordination and exchange of information among REDD+ stakeholders in the country. Phase 1 of the Programme was completed in late 2012, and a funding agreement for Phase 2 was signed in December 2012. Phase 2 will aim to reduce emissions in six provinces, working with subnational government authorities, local communities, and the private sector. UN REDD Program, Vietnam. http://www.un-redd.org/CountryActions/VietNam/tabid/1025/language/en-US/Default.aspx

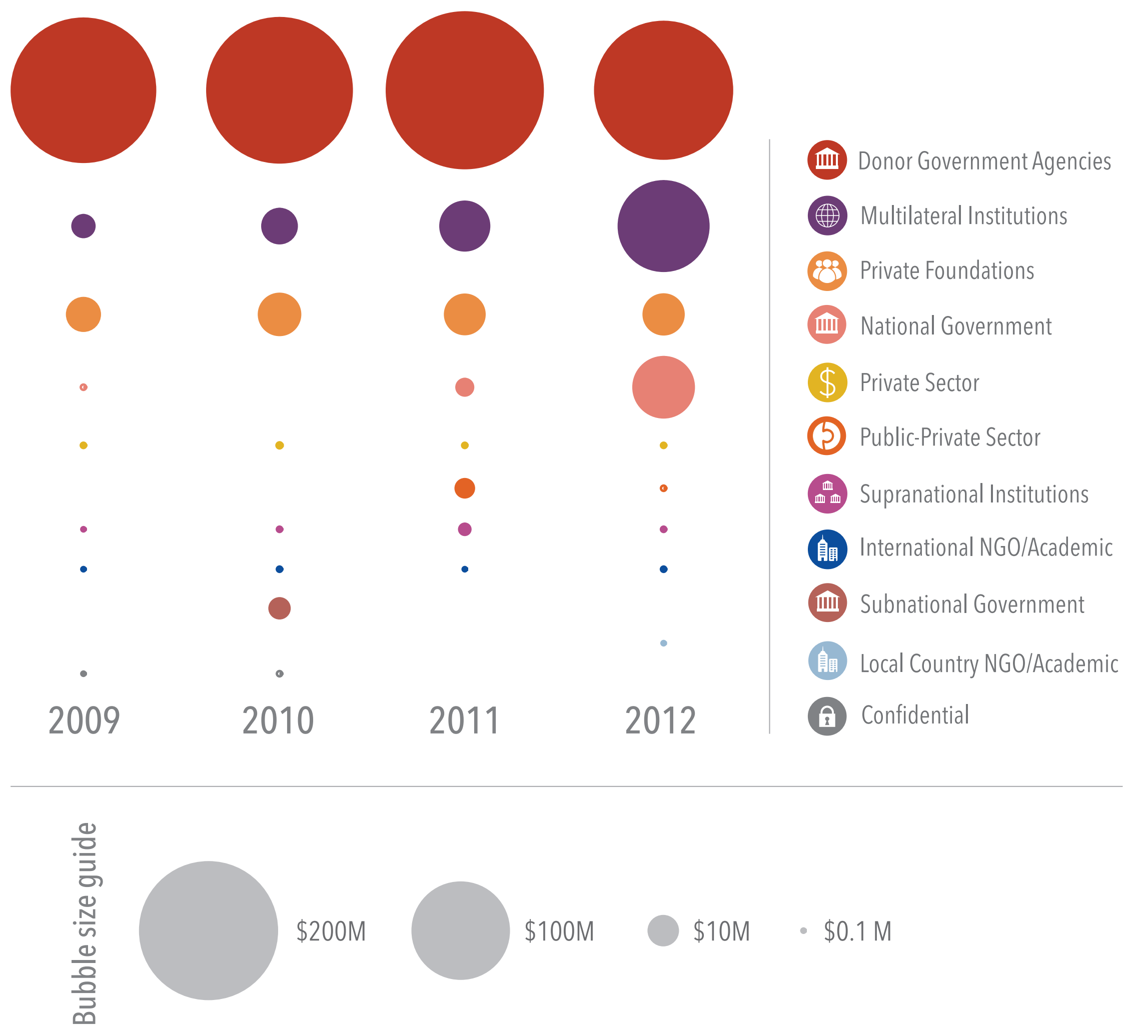
and accounted for approximately 6% of the total REDD+ finance tracked in the seven REDD*X* countries between 2009 and 2012.

The Gordon and Betty Moore Foundation was the largest private foundation donor, contributing 60% (over US$40 million) of total foundation commitments to REDD-related projects. This is comparable to the funding provided by the UN-REDD Programme across the seven REDD*X* countries during this period -- highlighting the importance of private foundation financial support for REDD+ climate and development initiatives (Figure 9).

3.4 Private and Public-Private Investments

REDD*X* has tracked very little private and public-private investments, only around US$1.2 million. Data from the voluntary carbon market indicates that the private sector spent US$379 million in carbon offsets during 2013. One reason for this discrepancy is that the REDD*X* methodology does not track voluntary carbon market investments. Another reason is that the voluntary forest carbon market included REDD+ and forestry projects that may not be classified as REDD+ by REDD*X* countries. For example, the Government of Tanzania does not include Afforestation/Reforestation (A/R) as part of its national REDD+ program, and the Government of Ecuador does not count the funding dedicated to the Socio Bosque program as REDD+ (even when some international donors do consider their contributions to these programs as REDD+). Finally, while the voluntary forest carbon market has the participation of fifty-four countries, this report only covers seven countries.

Figure 10: New Commitments by Donor Type and Year



3.5 Other Donors

The remaining 0.8% of total REDD+ commitments in the period between 2009 and 2012 were made by the European Commission, international NGOs, and other donors that requested confidentiality. It should be noted that most international NGOs receive their funding from other sources, but that the REDD*X* methodology does not capture their donor sources.

Domestic Contributions for REDD+

Domestic contributions have played an important role throughout the Fast-Start Finance period. Preliminary REDD*X* data highlights that financing for REDD+ is not a simple North-to-South transfer of funds, but that many national governments have been prioritizing REDD+ within their own national budgets and, in some cases, are investing more than international donors. Out of the seven countries covered by this report, Colombia and Ecuador have self-financed over US$48 million during the 2009-2012 period (about 4% of the total REDD+ funding tracked). For example, the Government of Ghana expended a large amount of its own funds to make up for the slow arrival of major bilateral and multilateral commitments. Ghanaian government agencies constituted the second-largest funder of REDD+ activities in Ghana, with more than US$39 million in co-funding alone, representing 37% of total commitments to the country between 2009 and 2012.

Yaw Kwakye, Manager of the Climate Change Unit in Ghana's Forestry Commission, explains this trend by suggesting that "there is increasing appreciation among governments of forest-endowed developing countries of the potential of the emerging REDD+ mechanism to tackle forest loss and degradation, while at the same time expanding opportunities for rural livelihoods…These are fundamental developmental goals that every government should be working towards. Therefore, [domestic] government investments in REDD+ [equates] to putting one's money where one's mouth is, so to speak."

4. Recipients: Where Do the Funds Go?

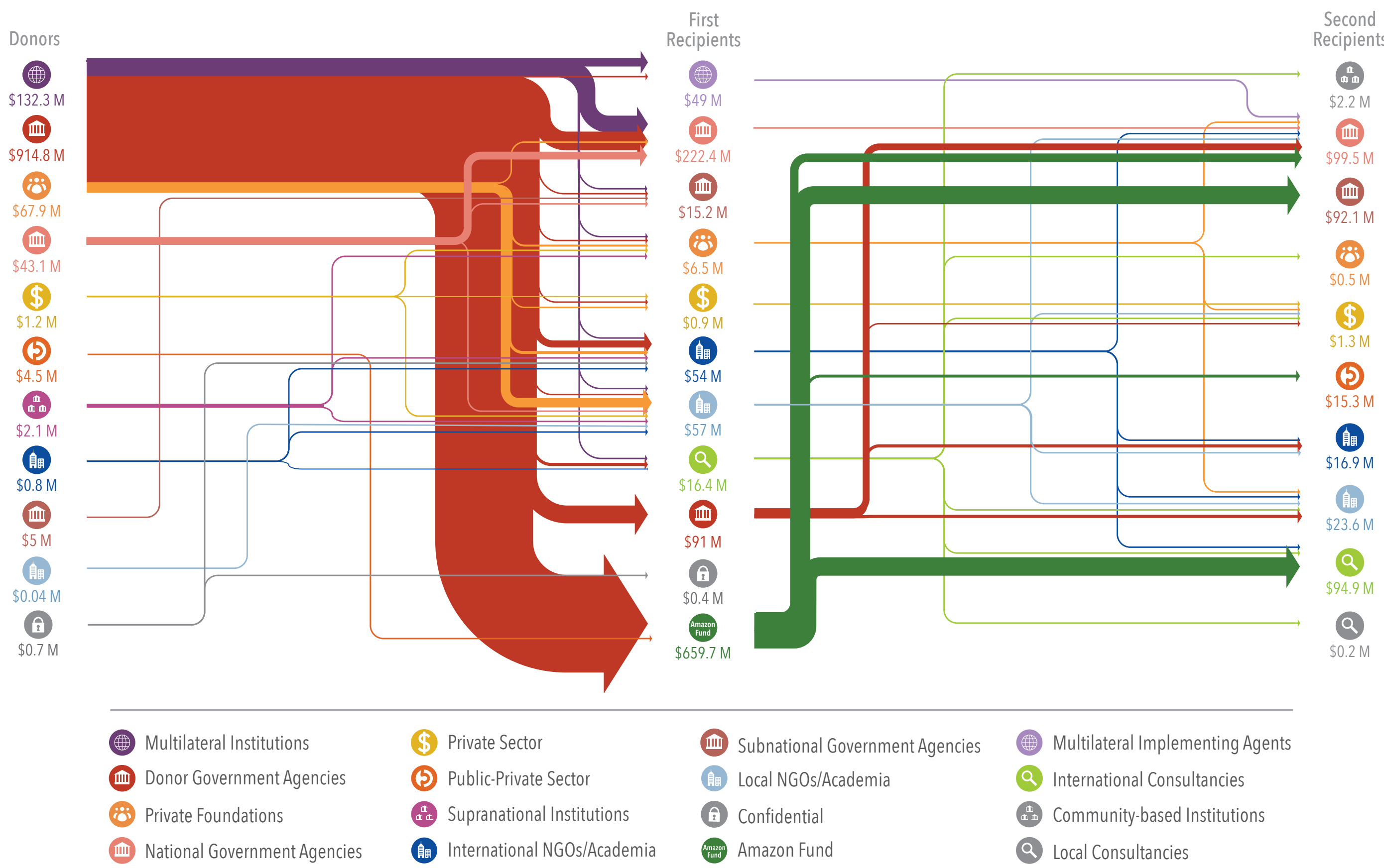
4.1 Revealing the Full Chain of Recipients

REDD+ funds rarely flow as simple transactions between one donor and one recipient. Large grants in particular often pass through one or more intermediary entities before an activity is implemented.

REDD*X* methodology distinguishes between "tiers" of recipients:

- **First-tier recipients** are institutions receiving funds directly from donor entities. These first-tier recipients might then either directly expend all of the funds received as they implement activities, or instead pass on all or some of these funds to additional second-tier recipients.
- **Second-tier recipients** either implement and spend all of this funding, or pass on all or a portion of it to third-tier recipients.

Figure 11: REDD+ Finance Commitments from Donors to First- and Second-Tier Recipients by Sector



Approximately 70% (US$826 million) of the funding tracked by REDD*X* has not yet been tracked beyond first-tier recipients, although in some instances financing arrangements have involved at least three tiers of recipients. Where funds appear to have terminated with the first-tier recipient, this implies that either first recipients are implementing activities and expending all funds on their own, or that REDD*X* was unable to further track to the subsequent tier. In some cases, grants are relatively new, and sub-grants between first and second recipients have not yet been contracted. As the large-scale multilateral projects launch into implementation phase, multiple pass-throughs will likely become more common, as recipient governments are required to tender large contracts through international public procurement processes. A clearer picture will emerge each year as REDD*X* captures these types of subsidiary transactions in the annual surveys.

Cumulatively between 2009 and 2012, the Amazon fund dominated as the largest recipient of REDD+ financing, with commitments of nearly US$660 million by the end of 2012 -- representing 56% of all commitments in the seven REDD*X* countries. Government agencies of the seven REDD+ recipient countries received the next largest portion of commitments, at US$222 million (19%). The remaining 25% of commitments went to in-country offices of donor government agencies (for example, the Royal Norwegian Embassy in Tanzania) (7.8%), domestic NGOs and academic institutions (4.9%), international NGOs and academic institutions (4.6%), multilateral implementing agents such as the United Nations Development Programme (UNDP), Food and Agriculture Organization of the United Nations (FAO) and United Nations Environment Programme (UNEP) (4.2%), international consulting firms (1.4%), domestic subnational government agencies (1.3%), private foundations (0.6%), and the private sector (0.1%) (Table 2 and Figure 11).

Table 2: Amount and Proportion of REDD+ Finance Committed to Various Recipient Types

First-Tier Recipients	Amount Received (million USD)	Proportion of Total (%)
Amazon Fund	660	56.0
National Government Agencies	222	19.0
Donor Government Agencies	91	7.8
Domestic NGOs and Academic Institutions	57	4.9
International NGOs and Academic Institutions	54	4.6
Multilateral Implementing Agents (e.g., UNDP, UN-FAO, UNEP, etc.)	49	4.2
International Consulting Firms	16	1.4
Domestic Subnational Government Agencies (e.g., states or provinces)	15	1.3
Private Foundations	7	0.6
Private Sector (other than consultancies)	1	0.1

The flow of 70% of the funds have not been tracked beyond first recipients; the remaining 30% (US$346.4 million) of committed funds pass through a first recipient and on to one or more second recipients. Of these funds, the largest secondary recipients included national government agencies of REDD+ recipient countries (28.7%), international consultancies (27.4%), and domestic subnational government agencies (26.6%). Various other sectors received a smaller portion of secondary commitments, including domestic (6.8%) and international (4.9%) NGOs and academic institutions, and public-private consortia (4.4%). Community-based institutions, the private sector, private foundations, and local consultancies each received less than one percent of secondary commitments.

4.2 The Rise of National Offices of International Donors, Embassies, and Multilateral Agencies as Intermediaries

National offices of international donor cooperation agencies, embassies, and multilateral agencies are becoming more active in the management of REDD+ funds. Together with dedicated national or regional funds, these "management intermediaries" are now recipients of more than 68% of all donor commitments tracked. In many instances REDD*X* has not yet been able to track the specific intentions for how they will pass funding along to second recipients, but it is expected that the vast majority of funding given to them will be passed on to government agencies, consultancies, and NGOs for the implementation of REDD+ activities.

This trend of commitments increasingly passing through in-country donor offices perhaps reflects donor concerns around the efficiencies and transparencies of government institutions in some REDD+ recipient countries. Yaw Kwakye, Manager of the Climate Change Unit in Ghana's Forestry Commission, explains that perceived public sector "inefficiencies, needless red-tapism, and weak institutional governance systems constitute risk[s] that donors may seek to avoid by opting for alternative disbursement channels."

Multilateral Implementing Agents: Our data shows that 32% of multilateral donor commitments are channeled through in-country offices of multilateral implementing agents such as the UNEP, UNDP, and FAO. The UN-REDD Programme, for example, channels all of its funding through in-country offices of UNEP, UNDP, and FAO. These agencies typically do some program implementation and therefore expend a portion of this funding, but they often pass a majority of the funds on to additional recipients.

Regional funds: Over 56% of all commitments tracked through REDD*X* are directed to the Amazon Fund in Brazil which receives contributions from Norway, Germany's Kreditanstalt für Wiederaufbau Bankengruppe (KfW) and the Brazilian public-private oil company Petrobras. By the end of 2012, commitments formalized from the three contributors to the Amazon Fund totaled US$659.7 million with US$120.7 million disbursed.[12] The Amazon Fund subsequently approved projects valued at US$244.3 million to NGOs and state governments within Brazil. Only US$78.9 million (12%) had been disbursed by the Amazon Fund to recipients by the end of 2012.

Embassies and Cooperation Agencies of Donor Governments: Between 2009 and 2012, about 10% of all donor government finance tracked was committed to in-country offices of their own donor programs. Donors are likely to choose low-risk financing mechanisms, and channeling finances through one of their own intermediaries ensures that activities and management of funds will comply with their own standards and practices.

As REDD+ enters new phases of implementation, a clear understanding of the trade-offs between various mechanisms to channel REDD+ funds to ultimate beneficiaries needs to be considered. Direct grants to project implementers have advantages in terms of speed and the least amount of fund management and overhead costs. On the other hand, while funding mechanisms that utilize multiple intermediaries may result in slower disbursement rates and higher transaction costs, these arrangements are hoped to increase ownership and inclusiveness by national stakeholders.

4.3 Activities and Projects: What Is Actually Happening with All the REDD+ Finance?

In the seven REDDX countries, the majority of funding went to activities characterized as REDD+ Readiness -- Phases 1 or 2 of REDD+, such as national REDD+ strategy development and pilot-project early implementation. This would seem appropriate, given the early stage of many countries within the REDD+ process as of 2012. Building national and jurisdictional REDD+ programs takes time and this emphasis on the first and second phases of REDD+ should not be seen in a negative light. REDD+ programs will succeed when the building blocks are designed properly and early investments in these areas is essential.

Within phases 1 and 2, over 70% of donor initiatives at least partially supported stakeholder engagement and consultations, typically focusing on engaging non-governmental stakeholders in the design, implementation, and monitoring phases of REDD+. Over 50% of projects and activities supported institutional strengthening, as well as policy, law, and strategy development, including research, advocacy, outreach to policymakers, and developing in-country public institutions. This breakdown of resources matches well with national REDD+

[12] However, the government of Norway actually has pledged up to US$1 billion for the Amazon Fund through the year 2021: http://www.cgdev.org/publication/brazil-norway-agreement-performance-based-payments-forest-conservation-successes

programs that have emphasized early investments in these areas.

Very little REDD+ finance tracked between 2009 and 2012 supported activities associated with Phase 3 of REDD+ (performance-based payments). In fact, just 11% of donor initiatives financed between 2009 and 2012 were supporting forest carbon project design, and just 7% were supporting carbon offsets and performance-based payments for improved forest and land management. In the relatively few instances in which these activities have been supported, it has been predominantly bilateral donor governments and private foundations funding forest carbon project design, carbon offset development, and performance-based payments.

Many REDD+ programs are ostensibly waiting for the basic preparatory phase to be completed, even as it has been widely acknowledged that the multilateral programs have been slow on both commitments and disbursements. Multilateral financing through programs like the Forest Carbon Partnership Facility and the Forest Investment Program have been critical in providing financial and technical support to tropical countries in developing and implementing their Phase 1 and Phase 2 activities. Brazil, for example, has forged ahead and has been securing financing for performance-based payments through the Amazon Fund.

While the private sector has apparently played a minor role in national-level REDD+ activities to date, what little funding they are providing has typically been for the support of forest carbon project design and carbon offsets. These efforts are in most cases not well integrated within national-level REDD+ planning and development.

5. REDD+ in 2015 and Beyond

5.1 Looking Ahead to the Future of REDD+ Finance

This report suggests that in moving forward, significant focus should be placed on the support of results-based finance in order to generate and maintain real reductions in deforestation and forest degradation, as funding for this final phase of the REDD+ process has been limited. Of course, in the absence of binding emissions reductions agreements at the international, national, or subnational level, this will be difficult, as funding will continue to be dependent upon the good will of donors, which may not be sustainable over the long term. As of the end of 2012, significant progress has been made in developing national REDD+ strategies and in exploring possibilities for implementing these strategies. However, without the expectation of reliable future funding sources, further progress is likely to be stymied. Additionally, an emphasis on increased donor coordination will be a critical component to ensuring that future finance is used effectively and efficiently. This includes the harmonization of funds and aims outlined in finalized strategies. Addressing these two main issues, in addition to the issue of minimal private sector engagement, will be imperative in solidifying the long-term sustainability of REDD+.

Outside of the UNFCCC REDD+ policy process, there are exciting and positive signs that REDD+ is moving forward. Brazil has achieved significant reductions in national deforestation emissions, yet it still remains to be seen if these can be sustained over the long-term as food production demand increases and other factors put pressure on forest resources. The number of countries receiving funds from the World Bank FCPF program has increased. In California there is currently a debate around how, and under what circumstances, to include REDD+ into its cap-and-trade program. California signed an MOU with Acre in Brazil and Chiapas in Mexico, and both jurisdictions have made progress in getting ready for REDD+. If California allows jurisdictional REDD+ credits to be used for compliance in its cap-and-trade system, it could be a game changer, potentially funneling large amounts of money for REDD+ project implementation in return for carbon offsets. This could be the first successful jurisdictional program that could show REDD+ working in the real world. A forthcoming REDD*X* Synthesis report will summarize developments on these and other issues, and provide updated data and analysis on the state of REDD+ finance through 2013 in each of the fourteen countries currently involved in the initiative.

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the katoomba group
Building capacity for local communities and governments to engage in emerging environmental markets

Communities and Markets
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