



INTERNATIONAL SUSTAINABILITY UNIT

INTERIM REDD+ FINANCE

Current Status and
Ways Forward for
2013-2020

NOVEMBER 2012

Executive Summary

Tropical forests are home to, and support the livelihoods of, many of the world's poorest and most vulnerable people, chief among them forest dwellers and indigenous communities. They are also of vital importance to humanity and the planet at large, due to their biodiversity, cultural value, and role in the regulation of the global water cycle. Tropical forests also provide a unique opportunity in global efforts to mitigate dangerous climate change, through carbon sequestration and the avoidance of greenhouse gas emissions from deforestation.

There have been significant advances in forest protection, regeneration and sustainable forest management in recent years, and many tropical forest countries are willing to take further action. Nevertheless, the world is at a crossroads as new challenges create new threats to forests. Progress on an international climate change agreement is moving more slowly than envisaged, with implications for the global climate and the world's forests. Growing pressures on limited natural resources due to population growth and changing diets will increase the demand for, and price of, commodities, and therefore the incentive to convert forests to other land uses.

Forest countries and donors have increased both finance and action in support of forests in the past three years of 'fast-start' climate finance. These include activities designed to 'reduce emissions from deforestation and forest degradation, conservation and the enhancement of forest carbon stocks' (REDD+). But much more needs to be done. The world is at a juncture where future financing for forests and REDD+ seems uncertain, and there is a clear risk of a narrative of disappointment setting in. These pressures demand a redoubling of international efforts.

In light of the new challenges and the lessons learned during the past three years, this paper suggests several pathways to be considered for the next phase of financing of efforts to protect forests, and to enable forest countries to adopt alternative development pathways in which deforestation is reduced. These pathways include the need to:

Clarify a vision of REDD+ and how it can best be achieved. REDD+ could be reframed as an outcome, rather than as a process, allowing countries the flexibility to define their best pathway forward, to set out their own 'theory of change', and to identify the resources they most need to slow, halt and reverse deforestation. The focus of REDD+ finance would therefore be country-driven and expanded to meet nationally identified needs.

Catalyse longer-term funding. Donor countries could send a powerful signal by making multi-year commitments to REDD+ in forest countries. Donor and rainforest countries could also consider the use, and better integration, of a range of domestic fiscal, legislative and financial tools and instruments to reduce deforestation. Consideration could also be given to testing current REDD+ approaches within existing and emerging carbon markets.

Integrate REDD+ into broader rural and economic development frameworks. Forest protection needs to move from the margins to the mainstream of a country's sustainable development plans in order to be financially and politically sustainable over time, and to have cross-governmental participation and ownership.

Reward innovation and success. In the period before a new international climate change agreement is ratified, public funds could provide critical positive momentum, and build confidence in a future system that would include the mitigation potential of forests. Donors could consider allocating a percentage of total REDD+ public funding to reward actions to reduce deforestation based on results.

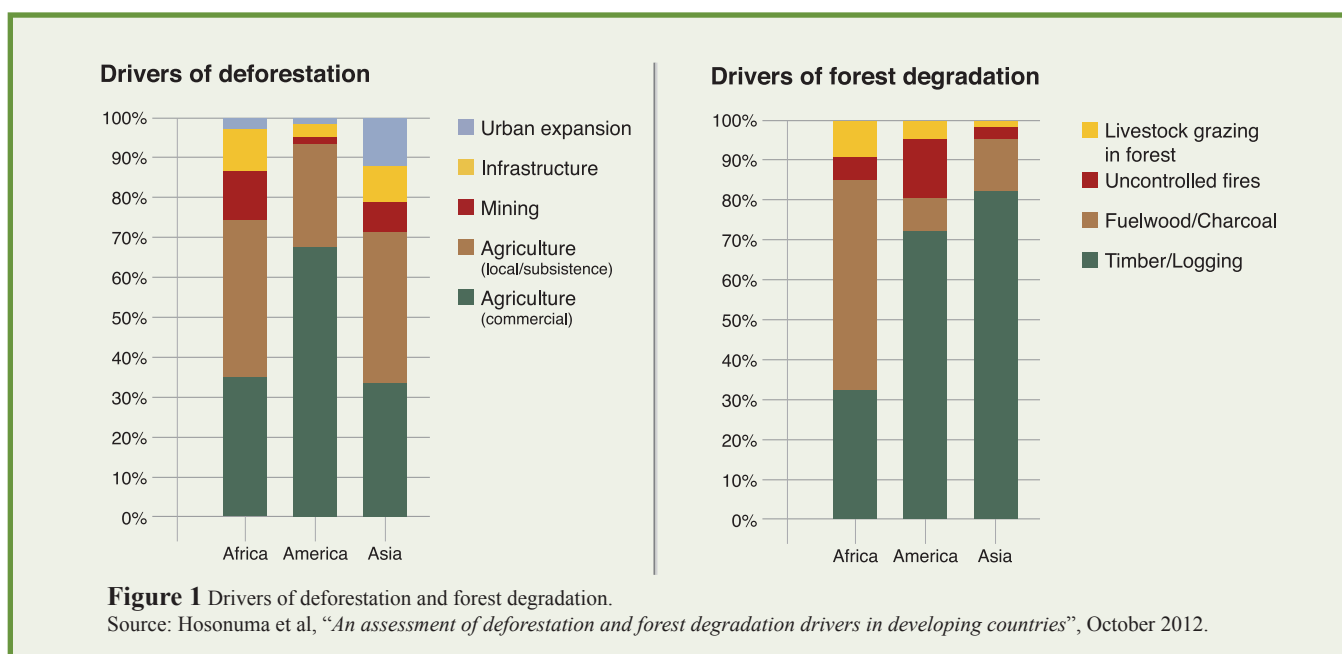
Ensure that funding is effectively deployed. Communication and information flow could be improved. Focus on addressing the drivers of deforestation could be increased, and the willingness to invest in the long-term capacity of countries, local forest-dwelling communities and civil society could be enhanced.

Engage the private sector. There are multiple roles that the private sector plays with regard to both deforestation and forest protection. This paper suggests a greater focus be placed on understanding the many actors within, and potential ways to engage, the private sector; and identifies ways to mobilize the resources, tools, and power of private finance in supporting efforts by countries to protect the world's remaining tropical forests.

Introduction

1.1. Why tropical forests matter

Tropical forests are home to, and support the livelihoods of, many of the world's poorest and most vulnerable people, including indigenous and forest-dwelling peoples across South East Asia, Sub Saharan Africa and South America¹. They also provide important ecosystem and other services, from fresh water and erosion control, to biodiversity habitat and pharmaceutical resources. However, over the past several decades these vital ecosystems have been replaced or degraded by agriculture, mining and infrastructure, or degraded through commercial logging and the use of timber as fuel-wood as countries and communities seek economic opportunities and strive to develop². The drivers of deforestation and forest degradation are illustrated in Figure 1. Through careful and supported planning and a better understanding of long-term benefits, however, the protection of the world's remaining tropical forests could form a lynchpin in the transition towards more sustainable, resilient, 'climate compatible' economies.



In addition to providing local services that benefit human well-being, **forests provide a unique opportunity in global efforts to mitigate dangerous climate change caused by greenhouse gas (GHG) emissions**. Protecting forests in many cases requires no new technologies, is consistent with existing national and international policies, and is frequently a cost-effective means to reduce emissions. Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have recognised the critical role of REDD+ – defined as 'reducing emissions from deforestation and degradation, conservation of forest carbon stocks, the sustainable management of forests, and enhancing forest carbon stocks' – in tackling global climate change.

The impacts of climate change are already being felt around the world, highlighting the urgent need for immediate action. Climate impacts have been manifested globally through a host of extreme events, including flooding, drought and life-threatening heat waves. To achieve the goal of mitigating the worst impacts of climate change, by keeping net global temperature change to two degrees Celsius, rapid action is necessary. The protection of the world's remaining tropical forests provides immediate *mitigation* potential, serving as a bridge to help the world achieve its mitigation targets while finding ways to meet sustainably its water, food and energy needs and move towards a greener, more resource-efficient, low carbon economy. Forest protection can also play a critically helpful role in the world's efforts to *adapt* to the changes in climate that are already underway.³ In both cases, action is needed urgently to maximise the contribution of forests to these dual efforts.

The reduction of deforestation is already playing a role in efforts to mitigate global climate change. According to the most recent scientific analysis, deforestation constitutes between 8 – 15% of total global GHG emissions⁴, down from the 2007 Intergovernmental Panel on Climate Change (IPCC) assessment report estimate of 17%. Significant mitigation steps taken by tropical forest countries, as well as increasing overall emissions from fossil

fuel combustion, have decreased the relative proportion of annual global GHG emissions caused by deforestation. Brazil, in particular, has been able rapidly to reduce deforestation rates in the Amazon, nearly reaching the country's goal of an 80% reduction in emissions from deforestation by 2020, ten years ahead of schedule⁵. In addition, carbon sequestration through reforestation has occurred in tropical forest countries such as Cameroon, Costa Rica, and Vietnam.

1.2. Challenges ahead: Forests remain under threat

Despite recent successes, the world may be at a crossroads as new challenges create new threats to forests. Slow progress on international climate negotiations, rising commodity prices, and uncertainties about the structure of future economic incentives for REDD+, are in some instances conspiring against the conservation of standing forests. Pressures on land are rising as populations increase and diets change, demanding more from limited natural resources. In addition, a number of governments that have begun to lay the groundwork to protect their forests, through the elaboration of integrated rural development and low carbon development strategies in their countries, are currently uncertain as to whether, or when, a new international climate agreement will deliver the scale of financial commitments required to support their efforts to implement such plans.

Negotiations towards a new global agreement are moving much more slowly than envisaged. Following the adoption of the Bali Action Plan at the UNFCCC conference in 2007, it was hoped that a new international treaty on climate change would be adopted at the Copenhagen climate summit, COP15, in 2009, and that this would fully recognise the mitigation potential of forests. Not only did this fail to occur, but subsequent negotiations in Cancún and Durban have resulted in a time horizon that indicates that the adoption of a new 'agreed outcome with legal force' will likely not happen until 2015, with implementation starting in 2020.

This delay has implications for forests, not least of which is that the creation of **an international architecture to provide financing at scale for countries that reduce emissions through forest-related activities is unlikely until 2020**. Financing that encourages countries to reduce emissions from deforestation in the near term is therefore likely to come from a 'mosaic' of sources, including both domestic budgets and official development assistance (both bilateral and multilateral). In addition, funds from sources such as auctioned allowance revenues, voluntary carbon markets, private foundations and potential demand from compliance markets (such as California), may also contribute to forest protection. The absence of coherence and coordination between the different sources of funding above could negatively affect both the scale and effectiveness of REDD+ finance.

Developed countries have not created complementary domestic policies to support scaled-up financing for forests in developing countries. To date, no developed country has established a system that creates long-term value at scale for standing tropical forests and the carbon sequestration they provide. The European Commission has signalled that it is unlikely to consider forest-related credits in Europe's Emissions Trading Scheme prior to 2020, although earmarking revenue from the EU ETS allowance auctions, as recommended by the EU Emissions Trading Directive, remains an option. The United States is unlikely to have comprehensive climate change legislation in the near term. Despite recent encouraging developments in the EU, legislation to increase commitments to the sourcing of sustainable, low- or zero-deforestation commodities remains weak at present. In addition, tight fiscal budgets due to the global economic recession will put pressure, both economic and political, on scaling up public finance for REDD+ in developed countries.

The growing pressure on limited natural resources due to population growth and rising demand is increasing the price of commodities. The index price of 33 commodities has increased so rapidly over the last eight years that a 100-year trend of downward prices has been erased.⁶ A recent paper estimates that international trade in forest products, for example, is expected to reach \$450 billion per year by the end of the decade, up from \$257 billion in 2005.⁷ Similar increases are expected for gold, coal, aluminium, soya and rare metals. Compounding these trends is the fact that market incentives for many key commodities that drive deforestation currently encourage extension of land use, rather than intensification of production.

Without adequate planning, existing tensions concerning land use and increasing global food, energy and water demand are likely to increase. The global population has already exceeded 7 billion, and is set to grow to more than 9 billion by 2050 before levelling off. At the same time, according to some estimates, per capita income is expected to increase nearly 3 times during the same period. The FAO estimates that food production and availability needs to increase by 50% by 2030 and 70% by 2050⁸. And aside from food there are increasing demands

Past Amounts and Future Projections of per Capita Consumption of Livestock

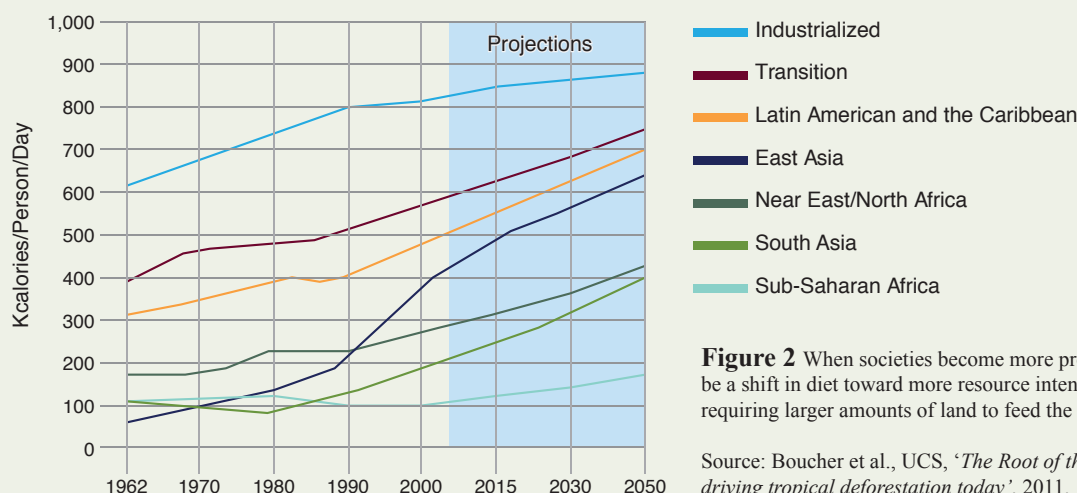


Figure 2 When societies become more prosperous, there tends to be a shift in diet toward more resource intensive food (e.g. meat), requiring larger amounts of land to feed the same number of people.

Source: Boucher et al., UCS, *The Root of the Problem: what's driving tropical deforestation today*, 2011.

on land use coming from the energy industry for biofuels, animal feed for changing diets (towards higher meat consumption: see Figure 2), and from the packaging industry for bio-polymers — resulting in agricultural area expansion, often directly or indirectly replacing tropical forests.⁹ There is an urgent need for countries around the world to approach these challenges with integrated, resilient approaches¹⁰ which, inter alia, drastically reduce food waste, and which find socially and environmentally sustainable ways to balance the competing demands of the energy-food-water nexus¹¹.

This new scenario presents serious challenges for countries wanting to manage their forests sustainably and which have embarked on programmes to reduce deforestation. The pressures on standing forests should not be underestimated and demand a redoubling of international efforts – by donor and rainforest countries alike – to protect the world's remaining forests. This paper suggests several pathways, in light of these new challenges and the lessons learned over the past several years, to be considered for the next phase of REDD+ financing.

1.3. About this paper

1.3.1. The Prince's Rainforests Project and tropical rainforests

The Prince's Rainforests Project (PRP) is part of The Prince's Charities' International Sustainability Unit (ISU), a charitable organisation that works to build consensus around durable solutions to meeting the challenges of climate change, sustainable development and natural resource depletion.

The PRP was established in 2007 by His Royal Highness The Prince of Wales to encourage consensus on how the rate of tropical deforestation might be slowed. Following extensive consultation, the PRP published a report in March 2009 entitled 'An Emergency Package for Tropical Forests'¹² (see Box 1). At the core of the report's proposal stood the idea that, in the absence of an international climate agreement, there was a need for significant interim REDD+ finance to be catalysed at scale in order to support rainforest countries wishing to redirect their development paths away from deforestation. Such funding would, it was argued, act as a 'bridging mechanism' to a future international agreement defining how REDD+ would operate and be financed at scale and in the long-term.

The Emergency Package reviewed potential innovative financial mechanisms that would provide funds for rainforest nations to use to pay for the transition to a low carbon alternative development path. It was anticipated that the funding would need to be long-term in nature and linked to reduced rates of deforestation.

Box 1: Ten core principles and ideas set out in the PRP's 'Emergency Package':

1. payments to rainforest nations for not deforesting;
2. multi-year 'service agreements' based on clear performance targets;
3. payments used to fund alternative, low carbon economic development plans;
4. transparent, multi-stakeholder disbursement mechanisms in-country;
5. a 'Tropical Forests Facility' focused on results;
6. developed country financing from public and private sources;
7. 'Rainforest Bonds' issued in private capital markets;
8. rainforest nations participate when ready;
9. facilitating and accelerating a long-term UNFCCC agreement on forests, and
10. global action to address the drivers of deforestation.

Source: Prince's Rainforests Project, Emergency Package, 2009.

World leaders discussed the proposal at a meeting convened by His Royal Highness The Prince of Wales in April 2009, and went on to form the 'Informal Working Group on Interim Finance for REDD+' (IWG-IFR). The deliberations of this group in the run-up to, and in the months after, the Copenhagen Climate Summit (COP15) in December 2009 led to pledges of US\$4.5 billion being made in 'Fast Start Finance' for Reduced Emissions from Deforestation and Forest Degradation (REDD+) activities for the 2010 – 2012 period, and the formation of the 'REDD+ Partnership' at the Oslo Climate and Forests Conference in May 2010¹³.

Since 2010, the PRP/ISU has continued to support discussion of a range of mechanisms to support the protection of the tropical forests. In addition, the PRP/ISU has carried out further work seeking to understand the interventions required to promote sustainable agricultural growth that does not drive deforestation¹⁴. This work recognised that REDD+ activities involve a range of integrated sectoral responses (including those directed at the food, water and energy 'nexus') that are essential to addressing deforestation.

1.3.2. Scope and purpose of this paper

The approaching end of the 2010 – 2012 'fast start' climate finance period offers an opportune moment to take stock of the finance that has been pledged, allocated and disbursed for reducing emissions from deforestation and degradation, and to consider both how the global community has tackled this critical global issue to date, and how it might improve in the future. Many REDD+ programmes are in their infancy, and in many cases it is too early to declare definitively whether certain initiatives are working well or not. However, what can be said is that all involved in REDD+ planning, finance, and/or implementation continue to make significant achievements and learn new lessons¹⁵. The hope is that this paper may contribute to the continuous learning and adjustment process necessary for success.

1.3.3. Methodology

The information provided in this paper on interim REDD+ finance was gathered from a series of interviews and meetings with over 70 stakeholders, including representatives from donor and recipient forest countries, members of civil society, intergovernmental and multilateral institutions, research organizations, and the private sector. It also draws on recent academic, scientific and policy literature. It is not meant to be a comprehensive analysis of REDD+ financing, but rather to provide a snapshot in time intended to 'take the pulse' of the REDD+ community and reflect back the viewpoints in a document written for policymakers both familiar and unfamiliar with REDD+. The paper concludes with considerations as to ways forward to accelerate progress in the coming period.

2. Status of, and reflections on, fast-start REDD+ Finance

2.1. Introduction

The potential of forests to contribute to climate change mitigation and adaptation has renewed a global interest in their protection, and thereby led to an increase in financing from developed countries and a raised level of attention to the need to conserve this natural resource in forest countries. In 2009, developed countries pledged nearly \$30 billion in total climate finance assistance for the 2010-2012 ‘fast start’ period, intended as a form of upfront payment while a new climate agreement was ostensibly being forged. This pledge, and the recognition of the importance of forests in the context of climate change, resulted in an increase in funding commitments for forests during the 2010-2012 period.

However, while significant funding has been made available over the past three years for REDD+ ‘readiness’ activities (the development of national REDD+ strategies and action plans, policies and measures, and capacity building) and, in some cases, implementation (addressing land tenure, forest governance, and the drivers of deforestation), the world is now entering a transition period in which two key uncertainties risk undermining progress made to date. The first is the deep uncertainty as to whether – and, if so, how – a future international climate agreement, coupled with the domestic policies of countries, will put a value on the carbon sequestration provided by forests. The second is a lack of clarity on the scale of finance that will be available in future years. Some countries currently engaged in REDD+ ‘readiness’ activities are therefore uncertain about ‘what it is exactly that they are getting ready for’.

This section of the paper is a backwards look at REDD+ finance over the past three years, offering a quantitative snapshot of such finance, qualitative reflections from over 70 stakeholders interviewed, and several case studies that illustrate the many possible pathways to REDD+ success. The qualitative reflections include in some instances direct quotations from samples of the interviews undertaken and are not always consistent one with the other — reflecting the diversity of views within the community.

2.2. Quantitative snapshot of interim REDD+ finance¹⁶

Funding commitments and allocations for forest protection generally, and REDD+ in particular, have increased in recent years. According to data collected from donors and the Voluntary REDD+ Database (see Table 1), nearly USD\$4 billion has been allocated or approved as of September 2012 in overseas development assistance budgets for forest-related and REDD+ activities during the fast-start (2010-2012) period. This figure is likely to be exceeded when reporting is completed for 2012. It includes both bilateral and multilateral contributions, and represents a significant increase in finance for activities to reduce deforestation.

Disbursement of funds remains a challenge. Many of the same issues reported in the PRP’s October 2011 paper, *‘Two Years On: Is Interim REDD+ Finance Being Delivered as Needed?’*¹⁷ still exist. The result is that the perception of many developing countries with respect to the funding available is significantly different to that of donors. Lack of capacity results in difficulties in funding being absorbed by local institutions, resulting in significant funding being provided to intermediaries—including international NGOs and consultants—rather than directly to host government institutions or local civil society organizations.

There are methodological difficulties in determining how interim REDD+ finance has been allocated and spent. While transparency and reporting on REDD+ finance have improved, even the best data remains imperfect. The Voluntary REDD+ Database (VRD) created for and by the REDD+ Partnership¹⁸ is one of the most comprehensive data sets of REDD+ financing and provides useful information on a variety of ‘arrangements’ between donors and recipients. As of July 2012¹⁹, for the period 2010-2012, a total of US\$1.32 billion in bilateral ‘arrangements’ was reported to the VRD by donors, while recipients of such funds reported US\$345 million. While an estimated 75% of such discrepancies is due to non-reporting from recipients, there are also other reasons, including²⁰:

- **Inevitable discrepancies due to the flow of funding.** Money moves from a donor’s original budget, to being allocated to a developing country, to allocation to a programme in which it must be disbursed, and finally to being spent. This “flow” of finance often means there is a significant time lag from the original budget decision taken, to when the funding is delivered on the ground. In addition, there are transaction and other costs, at times quite significant, which are lost during each step.

- **Differences regarding what is counted as REDD+ finance.** There are a variety of interpretations amongst countries with respect to what is counted as REDD+ funding, as well as what counts as fast start finance. By nature, donors tend to take a more expansive view on what counts as REDD+ and fast-start finance; and among donors there are variations — with some counting all forest conservation activities as REDD+, and others taking a narrower approach (i.e. only funding directly related to emissions reduction programmes or a country's REDD+ programme).
- **A lack of separation between 'new and additional' versus business-as-usual funding.** The concept that funding for climate change needs to be 'new and additional' (as discussed under the UNFCCC) – i.e. beyond business-as-usual allocations already committed as part of international development assistance budgets – is not clearly defined. A significant portion of the funding in Table 1 likely falls within such an ill-defined space, or could be funding used to maintain an existing forest programme within a developing country, which may not be categorized as 'new REDD+ funds' by a recipient country.
- **Difficulties remain with comparability.** Beyond differences in the definition of REDD+, there are also difficulties comparing financing due to variations in time periods for spending. Governments operate on different fiscal calendars and disburse funds based on single years or spans of years, with the result that annualizing data can be a challenge.

With these caveats, Table 1 was constructed based on data collected directly from donor countries (where indicated) and from the VRD, in an attempt to provide the best update of recent and future pledged, allocated or approved financing for REDD+ in the 2010-2012 period. As noted above, levels of disbursement and spending are much less transparent, and therefore not included. Finally, these numbers should be seen as estimates: due to exchange rate fluctuations, multi-year financing and other reasons, many of the amounts are not exact.

Table 1: REDD+ financing reported as of September 2012

As reported directly by donors or through the VRD	Pledged for 2010-2012 (USD million)	2010-2012 allocated (USD million) ^b
Australia	144	116
Belgium	14	14
Canada ^a	–	73
Denmark ^a	–	32
European Commission ^a	–	22
Finland ^a	76	48
France ^a	322	346
Germany ^a	452	232 ^b
Italy	–	44
Japan	500	491
Netherlands	21	264
Norway ^a	1,000	886 ^b
Spain	–	26 ^b
Sweden ^a	73	97
United Kingdom ^a	475	458
United States	1,000	783 ^c
Other reporting countries	–	26
TOTAL	4077^d	3958

Note: Loans and domestic funding are not included in the table.

^aCountry or organization self-reported figures for this table; if given in local currency, the most recent exchange rates were used at the time of reporting (during September 2012), even if pledges were made in earlier years. Other numbers not otherwise notated were gathered from the Voluntary REDD+ Database and, where an arrangement was over a period different than the 2010-2012 period, annualized to create a 2010-2012 figure. Figures for France include projects due for final approval in the last quarter of 2012.

^bGermany, Norway, and Spain's allocated figures only cover the 2010-2011 period; 2012 reporting was not available at the time of publication of this paper.

^cThe US estimate is from Wolosin, 2012, "US Forest-Climate Assistance: An Assessment", Washington, DC; it does not include potential funding from the Millennium Challenge Corporation.

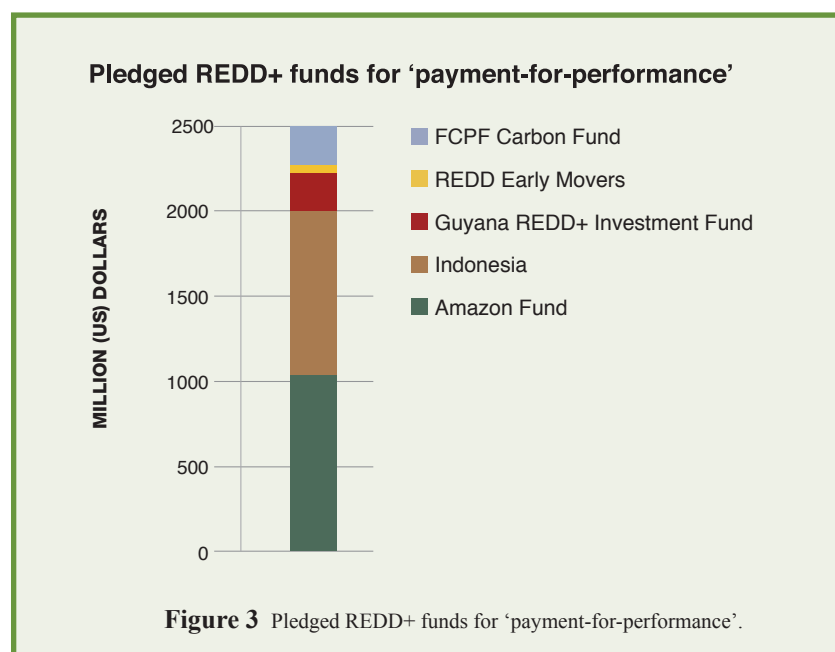
^dThe total pledged in USD has decreased over the past two years due to exchange rate fluctuations.

Note: Loans and domestic funding are not included in the table.

Domestic funding is also significant and can be critical, but its extent is largely unknown. Domestic funding for REDD+ has been only sporadically reported by developing countries to the VRD, with only eight countries²¹ reporting such self-finance, to a total of US\$2.4 billion between 2008-2015. Domestic investments across the over 40 developing countries pursuing REDD+ strategies or activities that are directly tied to REDD+ programmes, or that support them, are likely to be much higher than this amount. Several developing countries interviewed said domestic financing is significant, but difficult to quantify. Many experts suggest that domestic finance is critical, but still a largely untapped source of financing, particularly in addressing the sectors that drive deforestation.

Allocation and disbursement of dedicated funding for results-based actions is lacking. With the exception of Norway's pledges for Brazil, Guyana and Indonesia, a minority of donor funding designated as forest or REDD+ finance has been allocated for payment-for-performance programmes, while the majority has targeted technical assistance programmes for 'REDD+ readiness'. Developing country perceptions concerning the sufficiency of 'readiness' funds vary, with some suggesting they have enough (or too much) for 'readiness', while others cite a need for additional assistance for capacity building and strategy development. Almost all forest countries agree, however, that funding for demonstration and results-based programmes has so far been lacking.

Figure 3 illustrates the currently available pledged 'payment-for-performance' funds. Norway has pledged the majority of such funds, including \$1 billion for the Amazon Fund, \$250 million for the Guyana REDD+ Investment Fund, and up to \$970 million for future emission reductions from Indonesia. Beyond these funds are the FCPF Carbon Fund (currently capitalized at \$218 million), and the German Government's REDD+ Early Movers (REM) programme (approximately USD\$47 million for ex-post incentive payments). Not included is potential funding through the CDM (for afforestation and reforestation), the BioCarbon Fund, or through voluntary carbon markets - which all provide performance-based funding, but for which the scale and source of 'dedicated funding' is currently unknown for the post-2012 period.



There is no known estimate for the total amount of private sector contributions to date to REDD+ programmes. While many countries interviewed point to the critical need to engage private finance, there are relatively few positive examples of doing so to date, and relatively little knowledge of the extent to which current private investments have contributed to REDD+ activities. While there is no reliable estimate, most agree private finance dedicated to REDD+ is likely to be dwarfed by public sector funding at the current time. The only documented, quantified amount of private sector financial contributions to REDD+ is the number of tonnes of carbon sold in voluntary forest carbon markets, and from this one can estimate a value of around \$87.6 million sold in 2011, a 'high-water mark' compared to previous years.²²

Comparison of bilateral & multilateral funding arrangements in the VRD

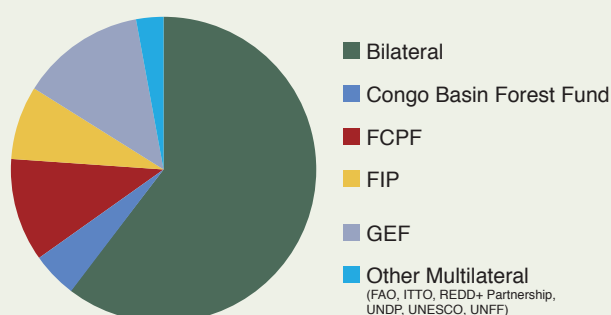


Figure 4 Comparison of bilateral & multilateral funding arrangements in the VRD.



photograph copyright Briony Mathieson

Bilateral, multilateral and self-financing are all important and significant parts of overall REDD+ finance.

Bilateral funding has been, and continues to be, larger than multilateral funding (see Figure 4). Many developing countries continue to be frustrated by what has been characterized as the excessively burdensome procedures of multilateral institutions resulting in slow disbursement, sometimes not keeping pace with evolving national REDD+ programmes. Other observers – despite being cognizant of these delays – make reference to the achievements of these funds in helping to create inter-ministerial REDD+ strategies, encourage stakeholder consultations, set social and environmental frameworks and safeguards, and create useful international norms around REDD+. Many, though not all, suggest that bilateral funding is easier to procure, that the procedures are well-known and that the funding is relatively direct.

Finally, the future financing picture remains uncertain. Notwithstanding concerns about the rate of disbursement, it is notable that pledges made in December 2009 in Copenhagen at COP15, and in 2010 at the Oslo Climate and Forests Conference, have largely been allocated by donors. However, there is little clarity on future finance, as only a few donor countries have, as yet offered predictability on funding for REDD+ beyond the 2012 period. The United Kingdom has pledged a total of USD\$1.1 billion up to 2015 (including the fast start period); Germany suggests it will continue to put strong emphasis on REDD+ within a steadily increasing budget for biodiversity conservation and forests that will reach a level of 500 million euros per annum starting in 2013; and Norway has also publicly reiterated its long-term commitment to REDD+ finance. Most agree, however, that private finance is key to reaching a scale commensurate with the contribution that forests can make to limiting global warming to 2 degrees, and there is currently no clarity on whether forests will be included in the compliance and regulatory systems that would generate such finance.

2.3. Early reflections from fast-start REDD+ finance

The following section also draws on a compilation of views gathered from a series of interviews and meetings with over 70 stakeholders within the ‘REDD+ community’ — including donor governments, recipient and/or forest countries, civil society, research organizations, multilateral institutions, and members of the private sector.

2.3.1. What is REDD+ and is finance for it on track?

There remains confusion on what REDD+ is, and how best to finance it

REDD+ means different things to different people. Five years since the Bali Action Plan (2007) put forests firmly on the agenda of the UNFCCC, conversations with multiple stakeholders reveal there is still no single understanding of ‘REDD+’, and even a greater diversity of views on how best to ‘slow, halt and reverse deforestation’. For example, some view REDD+ strictly as a mechanism that provides financial payments for verified emission reductions from forest-related activities. For others, it is a broader suite of actions and incentives that, when combined, reduce emissions from deforestation and forest degradation.

The perception of REDD+ finance as only, or primarily, a payment for emission reductions is controversial. The term “REDD+” was created within the UNFCCC, whose objective is stabilization of GHG concentrations in the atmosphere. Therefore, some view REDD+ finance narrowly, as a payments mechanism for verified emission reductions. Others see utility in broadening the view of REDD+ finance, particularly in light of recent discussions on the drivers of deforestation. Those in the latter category suggest a need for a greater understanding of the ways to engage multiple financial resources, as well as types of financial instruments²³. Finally, there are some who would like to find and consolidate ways to merge both these approaches (see Box 2).

Regardless of definitional differences, **there is increasing recognition that REDD+ needs to be better integrated into broader national economic and rural development strategies.** Whether respondents defined REDD+ and/or REDD+ finance narrowly or broadly, all agreed on the need for REDD+ strategies to address and be integrated into national economic and sustainable development frameworks and, in particular, to address the challenges of sustainable rural development.

Box 2: What is REDD+?

Section 3 of this paper suggests that REDD+ could be considered as an *outcome*: namely, reduced emissions from deforestation and forest degradation, conservation, sustainable management of forests and the enhancement of forest carbon stocks. For the purposes of this paper, such an outcome could arguably best be achieved through a combination of the following activities:

- a) improved forest governance, the resolution of customary and collective land rights, and increases in tenure security; integrated rural development, incorporating sustainable agro-ecological intensification, landscape approaches, spatial planning, smallholder yield improvements, and enforcement of the forest frontier;
- b) the promotion of co-benefits, chief among them poverty alleviation, biodiversity conservation and climate adaptation;
- c) payments for verified emission reductions, and investment in the associated monitoring, reporting and verification (MRV) and financial mechanisms necessary to make these payments work.

The Prince’s Rainforests Project does not take a view on the best long-term way to finance REDD+, in terms of a ‘market’ or ‘non-market’ mechanism, but does see it as critical that there is a sufficient supply of reliable, long-term and at scale finance from the different sources under consideration, in order to finance the sorts of activities listed above.

Short-term financing for REDD+ is on track, but higher ambition is needed in the medium - to long- term

The scale of funds offered from existing REDD+ commitments is in most cases too small to be transformational. While funding for forests has increased over the fast-start period, the changes required in forest countries to significantly reduce deforestation require governments to take on strong, vested interests and enter into difficult political spaces. If future REDD+ funding, particularly results-based finance, remains uncertain and appears unlikely to be offered at scale, there is a view among some interviewees that some forest countries are also unlikely to be able to, or to wish to, deliver at scale—in particular, at a scale that maximizes forests’ potential to contribute to climate change mitigation efforts. This view was held by some interlocutors particularly in the case when standing forests are competing with high-value agricultural and mining commodities, and where programmes to protect them need to be sustained through and across political cycles.

Perhaps conversely, while some called for a higher level of ambition with regard to REDD+ finance, others emphasize that **more money alone will not solve the deforestation problem.** There are many barriers to reducing deforestation in developing countries and several, such as institutional, governance, and capacity issues, cannot be solved simply through providing greater amounts of funding. Some interviewees suggested that expectations of more money can, in fact, exacerbate such problems. And, in a related point, some donors feel they are already making considerable efforts to increase REDD+ finance, but are running into problems of absorptive capacity and other barriers.

The majority of funding approaches remain short-term and unfocused. With the significant exception of Norway’s pledges to Brazil, Guyana and Indonesia, established over five-year-long time frames, or multilateral funds such as the Forest Investment Programme or The Forest Carbon Partnership Facility’s Carbon Fund, most funding assistance for REDD+ has come from the annual budget appropriations of donor countries, which are short-term in nature. There remains a sense that public funding still has a tendency to disburse relatively small amounts to isolated and uncoordinated projects, and that it is not always well matched to where the most innovative activities are occurring, and/or where political will is strongest. By contrast with the essentially short-term nature of most

funding approaches, changing the direction of rural development decisions in forest countries is a ‘question of decades, not months or days’, and requires significant quantities of long-term political capital, in addition to finance, in order to succeed.

The weakness of demand for forest-related emission reductions remains a key challenge. Greenhouse gas compliance markets offer one of the best opportunities for providing predictable, scaled-up finance for verified reductions in emissions from forest-related activities. However, no country has yet included international forest carbon in their emissions trading scheme and, with the exception of the U.S. state of California, none has sent a market signal that forests could be included prior to 2020. This has stymied the efforts of many forest nations, and further such uncertainty will compound the problem and drive away private sector investment at scale in verified emission reductions and innovation. The introduction of other types of financial instruments – such as taxes and levies - could make an important contribution here.

While there has been a strong focus on the ‘supply side’ of REDD+ finance, there has not been enough attention paid to what exactly is needed in each case to protect and restore forests. The tendency has been to emphasize top-down views of REDD+ finance: how much money is available, from what sources, and how to access such finance. However, there has been less focus on determining what exactly is needed, and how such funding can best be applied to establish the right incentives and change practices to preserve forests on the ground. In addition, there are too few large-scale demonstrations that show how this can be achieved.

The REDD+ community appears to be entering a transition period, with the danger of a ‘narrative of disappointment’ settling in. Many recognize the significant progress that has been made, but a number also feel what was described by one interviewee as an ‘immense frustration’. Developing countries, in particular, believe finance will not be delivered until 2020, if at all, and some tend to equate progress on REDD+ with disbursements of finance. A few forest countries appear to be shifting priorities-where there may have been high interest two years ago, some are now putting less effort into REDD+ strategies and efforts, while pressures on the forests continue to intensify. Others may be facing difficulties, despite political will from some quarters, in maintaining momentum.

Many desire to move towards demonstration activities. Countries have taken longer than was perhaps originally expected to enter into demonstration activities. However, without predictable funding available, developing countries say they are reluctant to move more quickly. Many in the private sector make a similar point, arguing that they are ready to bring in capital investments if donor governments are willing to absorb some of the risk, for example by serving as a ‘buyer of last resort’ for verified emission reductions from forest activities (see Section 3 for more detail). Meanwhile, many donors are interested in funding demonstration activities or piloting results-based systems, particularly at national or jurisdictional scales; however, because there are no such ready-made programmes, donors have difficulty allocating funds (particularly at scale), with a lack of clarity on where and when these funds might be spent-creating a classic ‘chicken-and-egg’ problem. Finally, where there is evidence that such programmes may be “ready” in the near term, they are often in emerging, middle-income countries that are in many cases being phased out of development assistance.

2.3.2. Practical challenges that remain

There is a need to improve information flow

Lessons learned by early movers on REDD+ are not being as widely shared as they could be. Despite an abundance of REDD+ workshops, few appear to be dedicated to sharing information on what has been achieved, and lessons learned from actual experience, for example by the Brazilian Amazon Fund, the Norway-Guyana partnership, Vietnam’s progress on REDD+, or Gabon’s efforts to develop a low carbon economy. A recent survey of developing countries indicated in some cases a lack of knowledge of such real life examples and knowledge of the full range of options available to them. Donors also suggested they would benefit from such exchanges as many are learning lessons, but have no one forum in which effectively to share such experiences and best practices.

The benefits of REDD+ and success stories to date are not being sufficiently communicated, particularly to audiences beyond those already deeply engaged in REDD+. While it is early in the REDD+ process for many countries, there are a significant number of success stories, especially at the local level, that have yet to be widely shared and understood. Understandable grievances and concerns generated by abuses of REDD+, such as cases of fraud and deceit committed with indigenous communities in South America and elsewhere, have helped create a

perception — prevalent amongst some sectors of civil society, but which has also pervaded the private sector — that REDD+ is too complicated, difficult, and not worth the potential reputational and other risks.

Recent discussions elevating the importance of the drivers of deforestation have been positive, but more can and needs to be done

Discussions on forests within the UNFCCC, and outside the official negotiations, are increasingly focused on both the proximate causes, as well as the underlying and international drivers, of deforestation: population growth, increasing consumption, changes in diet, and so on. Many experts hail this recognition as a positive development, but signal that more needs to be done, both in terms of analysis and in particular the implementation of direct efforts to reduce deforestation—and that funding for such activities is largely lacking. Some developing countries suggest that ‘it is easier to get money for consultations and workshops’ than it is to procure significant funding for activities that genuinely and directly address the drivers of deforestation in practice.

Many countries’ REDD+ strategies still lack a comprehensive approach that fully addresses the principal drivers of deforestation. Many ‘readiness’ programmes focus strongly on elements of a REDD+ payments mechanism (measuring carbon and receiving, managing, and disbursing payments), with relatively little attention paid to how a country plans to cap or reduce deforestation.

Analysis of, and activities that directly tackle, the drivers of deforestation have been underfunded. In some cases, there is a lack of detailed, on-the-ground studies on drivers, both present and future, that could inform REDD+ strategies, in addition to sustainable economic development and land management decisions more broadly. Frequently, donor governments remain focused on funding traditional forest sector activities, and few are finding successful ways to integrate or leverage food security, agriculture, and other sectoral investments in ways that support REDD+ strategies and goals.

Ownership of REDD+ strategies has yet to extend to ministries responsible for the drivers of deforestation. In many countries, REDD+ remains within the domain of forest and/or environment ministries, which have often struggled to engage other ministries critical to success. This includes ministries responsible for drivers of deforestation (agriculture, mining, etc.), as well as the more powerful ministries of planning or finance—which are needed to develop and implement a range of tools necessary for a successful REDD+ programme, including fiscal resources, financial management, and lending instruments which could support a more robust REDD+ strategy.

Improved governance and enforcement is an effective, but underutilized and underfunded REDD+ tool. Better enforcement of forest-related laws, protected areas legislation, land tenure reform and support for community-owned forestry were mentioned a number of times as, in many cases, the best and most cost-effective means to reduce emissions from deforestation alongside efforts to address the drivers of deforestation. Others, however, also suggest that enforcement is difficult if forest protection is not compatible with local political economies’ and vested interests.

Coordination, globally and within countries, remains a challenge

The lack of coordination of REDD+ finance both globally — to ensure funding is allocated strategically — as well as within countries continues to be a barrier to effectiveness. The responsibility to improve coordination falls on both donor and forest countries. In the latter case, the establishment of transparent structures for managing climate finance flows can help coordinate donors’ contributions.

Ideally, developing countries would drive the coordination process. In-country coordination is the most critical element for success and best accomplished by the host government, in a country-led process, consistent with the principles of the Paris Declaration on Aid Effectiveness. However, a number of interviewees suggested that there is a lack of capacity in some developing countries to manage such coordination and little support for building such capacity. ‘Donors tend to prefer funding projects rather than process’, one argued, but making upfront investments in national coordination processes, particularly where there is domestic political will for this to happen, can be a highly effective use of funds.

In some cases, donors continue to pick countries, regions and sets of activities in ways that result in inefficient outcomes. It was felt by some that donor country funding priorities result in inefficient allocations among and

within regions, as well as under- and over-funding specific activities that are not always well-matched to needs. For example, many respondents cited measurement, reporting, and verification (MRV) systems and consultations as receiving relatively larger sums of finance, while there is still a lack of funding to build long-term capacity, improve inter-governmental coordination, invest in large-scale demonstration programs, or to tackle the drivers of deforestation.

The multiple rules and requirements for finance from multiple donors, including multilateral and bilateral organizations, create significant inefficiencies. Many of those attempting to access funds—whether governments, the private sector, or NGOs—can end up spending excessive amounts of resources navigating a complex funding landscape. Each institution or donor has different goals, objectives, processes and reporting requirements, and this remains a continuing challenge for recipients of REDD+ finance.

A focus on building the long-term capacities and commitments of countries is critical

Building the long-term capacity of countries is often at odds with the types of performance metrics required by donors of project finance. However, such capacity is a critical element that can increase the absorptive capacity and effectiveness of funding in countries.

Building local research and analytical capacities is critical. In particular, there is a need not only to build capacity within governments, but also within local civil society organizations that outlast political cycles, and that can provide both political and process memory to REDD+ programmes. The strengthening of capacity on the ground ‘cannot be replaced by consultants coming into the country for two weeks’, but rather requires people who are residents of the country, have a deep understanding of the local environment, and have the technical capacity to contribute to strategic REDD+ planning processes. Building the capacity and engagement of subnational governments is also important, as these will be among the most important actors for delivery of REDD+ results.

There is a need for patience, realism, and flexibility

‘REDD+ readiness’ has turned out to be more challenging, expensive, and time-consuming than originally anticipated. There is a general sense that many people are trying very hard to make progress, but that expectations were unrealistic in the early stages of international discussions surrounding REDD+. Original expectations of significant short-term reductions in emissions from forest-related activities are unrealistic given the longer-term timelines related to the scale of economic transformation associated with REDD+ in many countries. Many cited the fact that building good governance – one of the biggest challenges – is critically important and difficult to achieve in a short period of time. Nevertheless, important progress has been made, and REDD+ has in many cases enabled a high-level national discussion on the need to and means of protecting forests to take place.

Funds come with expectations that are set too high and, in some cases, burdensome and unrealistic requirements. Some respondents to the interviews expressed their frustration with some donors who expected REDD+ finance to be ‘100% transformational’ in early stages, particularly where such expectations resulted in requirements that could take the host government years to meet. Other types of conditions that were cited as burdensome included reporting and monitoring obligations, as well as procedural requirements. In addition, a number of people lamented how much funding has gone into consultation with little follow-up funding available for implementing programmes that actually worked to reduce deforestation. From a donor perspective, however, some argued that a modicum of such requirements was an inevitable prerequisite for any of the support they would give.

The three ‘phases’ of REDD+ (as defined by UNFCCC) are not necessarily sequential. Some noted that the concept of the ‘phases’ of REDD+ was a helpful construct, but that it could also be misleading and sometimes even harmful to progress. Many wondered: ‘when is readiness going to be over?’

Results-based finance can support readiness and demonstration activities. Some also suggested that receiving results-based finance at an early stage could help incentivise improvements to readiness and further investment in demonstration activities. Some noted that if countries are locked into strict sequential framing, it could delay activities into a longer than necessary timeframe.

There needs to be a process of ‘upward harmonisation’ and simplification of vitally important safeguards. While there was widespread acceptance of the concept of social and environmental safeguards *per se*, a number of interviewees argued that it was important for different donors to agree on their definitions of safeguards, so as to avoid the current plethora of standards by bilateral and multilateral donors becoming an obstacle to implementation of REDD+ activities on the ground in forest countries.

Flexibility on performance-based measurements and scale can encourage early successes. Given the complexities and cost of developing full-scale greenhouse gas measurement, monitoring, and inventory systems, some suggested that the use of proxies for results-based incentives could be employed in an interim phase. Others suggested greater flexibility on scale could accelerate demonstration and learning in this period, and noted that the majority of funding appears to be going towards national level programmes, while much is being accomplished at the subnational level, which is relatively underfunded to date. Conversely, however, others argued in favour of maintaining a focus on the benefits of national scale approaches, with others suggesting a combination of both approaches was needed and justified.

2.3.3. Case Studies: Multiple Pathways to Success

A number of tropical forest countries are showing leadership and taking actions to protect their forests. In addition to Brazil’s ambitious goals and achievements, Indonesia has pledged to reduce its national emissions by 26% from business-as-usual by 2020, and by up to 41% if it receives international support. Over 40 developing countries are members of the Forest Carbon Partnership Facility and/or UN-REDD, and pursuing REDD+ strategies which seek to integrate forest protection into national development planning, to gather data on forests and land use change, and to consider new ways to protect this valuable natural resource.

Several of those interviewed suggested that **funding for REDD+ should best be based on empirical evidence of what works.** There are a number of proven approaches to reducing deforestation: the devolution of rights and clear land tenure to local communities and indigenous peoples²⁴; stronger forest governance and enforcement; and complementary policies and programmes in consumer countries (e.g. the U.S. Lacey Act and Europe’s FLEGT program). Community-based forest management—where indigenous peoples and local communities are empowered collectively to develop, plan and implement strategies to manage their forests—was also often cited as a proven approach that lowers deforestation rates while benefiting local populations.

That said, other interviewees suggest that **new and innovative approaches should also be tested**, and that lessons learned from other sectors (such as energy or agriculture) could enrich forest/REDD+ programmes in the future. Many lament the fact that much development assistance over a long period has been invested in ‘traditional’ forest programmes, and yet the world continues to lose forests at an alarming rate. The mitigation potential of forests presents an opportunity to create a new framework around forest financing, one that provides incentives for verified, measurable results. The ability to quantify the carbon storage in forests, its strong correlation to ecosystem value and areas of high biodiversity, and the recognition of the mitigation benefits that forests provide offers a *new* way to approach financing—through ex-post results. This is not to say that such finance should replace programmes with proven impacts (such as those mentioned above), but rather be complementary and provide value for forests where the economic incentives—whether of large- or small-scale agriculture, logging, energy, infrastructure or mining—create powerful incentives to cut and/or degrade the forests. Finally, payment-for-performance programmes are still at an early stage, and the global community is still learning about the impacts of such finance and how best to employ results-based approaches.

Summarized below are five case studies that illustrate different pathways to avoiding deforestation, suggesting there is no ‘one size fits all’ solution for REDD+, but rather that a combination of these approaches can together have the most powerful effect.

Success in Brazil: Political will, national leadership, enforcement and an active civil society

Brazil has been the most successful country at lowering deforestation rates over the past decade, reducing emissions from land use change by over two-thirds, resulting in a larger overall climate mitigation impact than any single developed country has achieved. This effort has required a range of complementary actions by government, business and civil society, suggesting there has been no ‘silver bullet’ that explains Brazil’s success, but rather that it has come about through a range of policies, enforcement, improved technology and public pressure. Furthermore, the success

has not come at the expense of economic development in agricultural sectors, the main drivers of deforestation. Some of the key contributing factors for Brazil's success include:

- **High-level political commitment at national and state levels.** In 2010, President Lula pledged to reduce Brazil's emissions by 80% by 2020 (compared with its average rate over the decade 1996 – 2005), most of which would be achieved through reduced deforestation²⁵. In addition, at the state-level, many Governors have also committed to forest conservation and been instrumental in reducing Brazil's national deforestation rates²⁶. Most recently, for example, Governor Simao Jatene announced a target of zero deforestation by 2020 for the state of Para.²⁷
- **Policy actions at the federal level: land tenure, enforcement, and monitoring.** Brazil has, over the past decade, considerably expanded indigenous reserves and protected areas. Indigenous peoples' land tenure rights have been reinforced and they now control 20% of the Brazilian Amazon. Brazil has also increased and improved law enforcement, cracking down against illegal loggers and corrupt government officials²⁸. Finally, specific federal-level policies such as changes to agricultural subsidies, provision of credit, and the imposition of deforestation moratoria, have also contributed to success²⁹.
- **Transparent monitoring and civil society pressure.** Extensive monitoring and increased transparency by the Brazilian space research agency (INPE) has also been key to success. In 2003, INPE made their data freely available online. Investigative reports by NGOs, and a highly successful 'Zero Deforestation' campaign, generated much attention on the businesses that were causing deforestation, most notably in the soy and beef sectors.
- **Business involvement.** In response to the pressure generated by civil society, businesses have worked together to establish appropriate forest conservation practices. A prominent example is the voluntary moratorium on growing soy in newly deforested areas. While reducing deforestation, businesses were also able to capitalize on technology improvements to increase their yields, and expand onto previously cleared and degraded land, providing the opportunity for soy and beef production to be increasingly decoupled from deforestation.

As with all of these approaches, and every country, Brazil's remarkable successes and leadership with respect to the reduction of deforestation cannot be wholly assured over time. There will be ongoing challenges with respect to the adequate implementation of the Brazilian Forest Code, so as to ensure that its measures do not lead to an increase in deforestation. The same applies to the Amazon Fund which, though it is yet to disburse much money, may still prove critical in terms of providing future incentives as political pressure mounts and commodity prices rise.

The Guyana-Norway Partnership: REDD+ and low carbon development

Guyana's story is evolving and has taken quite a different pathway from Brazil. Guyana began not only with a high-level commitment to reducing deforestation, but with a partnership between a tropical forest country and a committed donor country. As a country with historically low levels of emissions from deforestation, Guyana also presents an interesting case study that illustrates how REDD+ financing can promote overall economic development while averting leakage from neighbouring countries and global pressures as demand for commodities grow³⁰. The key features of the case include the following:

- **Political, high-level commitment to low carbon development.** In 2007 the then President of Guyana, Bharrat Jagdeo, presented a challenge to his country – to create a low carbon development strategy in which standing forests would be valued and turned into investments that benefited the country's sustainable development.
- **Norwegian commitment.** The Norwegian Government then made a US\$250 million pledge to pay \$5/ton for verified emission reductions from deforestation. The Guyana REDD+ Investment Fund (GRIF) was established for this purpose. The predictability of financial resources has been a unique catalyst for change and allows Guyana to place a monetary value on the global benefits that their standing forests provide.

- **Reinvesting in a low carbon economy.** The GRIF incorporates REDD+ into the country's Low Carbon Development Strategy (LCDS) by allowing monies from verified emission reductions in the forest sector to be reinvested in other elements of the strategy. It has the ultimate aim of developing six low carbon economic sectors and improving adaptation and development for indigenous people, forest-dependent communities, and vulnerable groups³¹. The majority of funds are invested in the LCDS with some money also going towards ongoing support for capacity-building directly related to REDD+ and the LCDS.
- **Creating a “green market economy”.** Guyana's LCDS capitalizes and leverages private sector finance and aims to ‘mimic’ and stimulate the market as it creates a green economy in Guyana that includes value for forest climate services. One example of this is the plan to use some of the proceeds from forest protection to catalyse large-scale private investments into a new hydropower facility that is anticipated to reduce consumers' energy bills, as well as reduce national energy emissions, by 92% by 2017.³²

As with Brazil, the success of the Guyana-Norway partnership is not guaranteed, despite a commitment from Guyana's current President to seeing through the work initiated by his predecessor. It is contingent on the resolution of outstanding land tenure challenges; ongoing consultation with indigenous and forest communities; support from the Guyanese electorate; and efforts to mitigate the increases in mining and infrastructure development in parts of the country.

Subnational Approaches: Building blocks to future national REDD+ systems

While the first two case studies, Brazil and Guyana, are national level programmes, it is also worth noting the progress and effort being made at subnational levels. A number of countries recognise that creating operational REDD+ systems at the national level can be quite complex and difficult, particularly where land and resource management has been devolved to local levels or where regional differences within a country make a one-size-fits-all national programme ineffective. In these cases, such countries have chosen to begin planning and implementing REDD+ at a subnational level, while continuing to build capacity and monitoring systems at a national level. It is recognized that even if a country decides to pilot REDD+ at subnational levels, national level coordination of both financial instruments and methodological choices is also critical to scaling up over time.

Nigeria: Piloting REDD+ in Cross River State. Nigeria's REDD+ Readiness programme envisions a two-track approach: (a) developing institutional and technical capacities at the federal level and (b) carrying out intense institutional, strategy-building and demonstration activities in Cross River State.³³ Cross River State, which has more than 50% of Nigeria's remaining tropical high forests, declared a moratorium on timber extraction in 2008 but is also exploring new environmental finance mechanisms to further protect its forests, with a priority on enhancing the livelihoods of forest-dependent communities and rural dwellers³⁴. Nigeria expects the focus on Cross River to help inform the national REDD+ framework and provide a model for replication in other interested states.

Vietnam: Initiating REDD+ in Lam Dong, Dien Bien, Kon Tum and five other provinces. Vietnam is also taking actions to reduce its emissions, including development of a REDD+ National Action Plan that includes key legal and institutional roles. While it is pursuing this national framework, it is also pursuing demonstration activities in at least eight pilot provinces, building provincial MRV capacities, implementation strategies and benefit distribution systems—and exploring the potential of nested approaches to REDD+.³⁵

Peru: A Nested Approach to REDD+. According to Peru's REDD+ strategy: “... the State decentralization process points to the need for a flexible, gradual focus, working with a nested approach at all three levels: readiness, implementation, and payment for results... a nested approach will allow the country to address its implementation at different rates, in accordance with the development of technical capacities, and to add efforts at regional level until moving up to national level... pioneering regions such as Madre de Dios and San Martin...”³⁶ San Martin, for example, has created a REDD+ Roundtable chaired by the regional government to discuss the development of a REDD+ programme, and an Advisory Committee and technical Working Group to analyse the drivers of deforestation, develop reference scenarios, assess carbon stocks, and is considering social aspects of REDD+ including effective stakeholder engagement.³⁷

Brazil: State-level actions and success in reducing deforestation. It would be difficult to mention subnational actions without crediting Brazilian states for their efforts taken to date to reduce deforestation. In 2009, Acre approved a law creating an ambitious Environmental Service Incentive System (SISA) that provides incentives for

reducing emissions from deforestation and forest degradation and is one of the most advanced jurisdiction-wide REDD+ programmes in the world. Its programme involves a new model of rural development that improves the livelihoods of forest-dependent communities, maintains and restores biodiversity, soils, and water resources, while also seeking greater productivity and market opportunities for its farm and livestock sectors.³⁸ Meanwhile, Mato Grosso, the nation's largest agricultural producer, has achieved the steepest decline in deforestation—85% below the 1996-2005 average—while increasing crop and livestock production.³⁹ Emissions reductions since 2005 in the state of Mato Grosso alone are among the largest single reductions of GHG emissions globally.

The importance of Demand-side measures: the Lacey Act and FLEGT

Large-scale illegal logging and associated trade can thwart efforts to reduce emissions from deforestation and forest degradation, and prevent biodiversity loss. One report (Seneca Creek Associates and Wood Resources International, 2004⁴⁰) estimated that 8-10% of global wood products production is illegal in nature, and a roughly similar share of global wood products trade. The World Bank estimates that at least 10% of the world timber trade is illegal, resulting in a loss of US\$15bn to developing countries each year.⁴¹ A more recent report (Lawson and MacFaul, 2010⁴²), however, suggests that illegal logging has been reduced by almost a quarter over the last decade. It argues that 'actions to tackle illegal logging by governments and the private sector in consumer countries have played an important role', particularly in the case of forests in Cameroon and Indonesia.

The Lacey Act is legislation in the United States that is over 100 years old. It prohibits trade in wildlife, fish, and plants that have been illegally taken, transported or sold. In 2008, the Lacey Act was amended to include timber and wood products, becoming a powerful tool to combat illegal logging. As 'illegality' is locally defined, the Act is designed to acknowledge and support other countries' efforts to govern their natural resources and provide incentives for companies trading in such commodities to do the same.⁴³ The full extent of the Lacey Act has yet to be reached, but a recent investigation into a company called Gibson (an American guitar manufacturer) resulted in Gibson paying a US\$600,000 settlement to the US Department of Justice, sending a new signal of real consequences for illegal action in a global timber market. According to the Environmental Investigation Agency: 'This case has had a significant impact on sourcing practices within the music industry. Instrument makers essentially stopped buying Malagasy rosewood and ebony, which had been illegal to harvest in Madagascar since 2006... [it] also led to crackdowns in China on Chinese importers of this material.'⁴⁴

The European Union has spent over ten years working on a comprehensive plan to tackle the problem of deforestation and illegal logging, preparing an EU Action Plan for Forest Law Enforcement, Governance and Trade (or **FLEGT**), aiming to improve forest governance in exporting countries and, at the same time, assuring EU consumers about the legality of timber imports. Central to the workings of FLEGT is the Voluntary Partnership Agreement, or **VPA** – a legally binding trade agreement negotiated between the EU, on behalf of its Member States, and the governments of timber exporting countries. Negotiations leading to a VPA are based on an inclusive multi-stakeholder dialogue, and the EU Council when adopting the Action Plan spelled out that a dialogue with all stakeholders and rights holders on forest sector governance reforms ought to be the starting point for law enforcement efforts. It is argued that FLEGT has made an important contribution to efforts to bolster forest governance in forest countries, and to the reduction of deforestation and illegal logging in countries such as Ghana, Cameroon, the Central African Republic, the Republic of Congo, Liberia and Indonesia. Furthermore, from March 2013, the EU Illegal Timber Regulation will make it an offence to place illegal timber on the EU Market (following the model of the Lacey Act). Bilateral efforts along similar lines – such as the UK Government's longstanding work on forest governance and legality in the context of its Forest Governance, Markets and Climate Programme – have had similar impacts. Nevertheless, important challenges remain.

Forest governance, indigenous communities and community-owned forestry: proven social, economic and environmental benefits

Approximately a quarter of the world's forests are locally controlled, by members of alliances of indigenous communities, forest peoples or private family smallholders. These forests provide wellbeing and livelihoods to upwards of one billion people, and goods and services worth between US\$75–100 billion per year. As reports by the International Institute for Environment and Development (IIED), Greenpeace, the Forest Peoples Programme and the Rainforest Foundations of UK and Norway amply demonstrate, there are a plethora of community-based forestry management approaches that are sensitive to the needs of local communities, and proven in terms of their long-term social, economic and environmental benefits.

One such example, among many, is Mexico's community forestry. According to Greenpeace⁴⁵:

'Mexico offers some of the most successful examples of community-based forest management in the world. Studies have demonstrated that these community-owned and managed forest regions have often provided superior results to formally designated protected areas. The Zona Maya (Mayan Zone) tropical forest, in the state of Quintana Roo and the Central Yucatan Peninsula Region, contains iconic species such as jaguars, spider monkeys, howling monkeys, and ocelots. The indigenous peoples and local communities collectively developed a plan to manage and protect their own forests (*Plan Piloto Forestal*) without any formal legal protected area status. Although the economy of Zona Maya is more dependent on its forests than other nearby areas, the community-based forest management plan has allowed communities to continue some small-scale traditional shifting cultivation and timber extraction practices while restraining large industrial-scale land use conversion. The empowerment of these communities resulted in a reduction in deforestation and benefits for the indigenous peoples and local communities.'

Community forest restoration in Nepal is another. According to the International Institute for Environment and Development⁴⁶:

'In 1978, amid failure to curb widespread deforestation of state-owned forests, the government of Nepal legitimised community forestry, paving the way for legally handing over forested land to local communities. Community-owned forest now makes up around a fifth of all forested land in the country, with 17,685 groups of local community members managing more than 1.6 million hectares. More than two million households are benefiting from the change, with enhanced access to forest products, stronger local institutions, community development and more business opportunities. Across the country, community forestry is helping to conserve biodiversity and improve ecological conditions in Nepal's forests — turning barren mountains into green ones and reversing one of the worst cases of deforestation in recent history. Amritdhara, in the central region of Nepal, is just one example. Established in 1996, this community forest is managed by a group of 814 households that have worked hard to restore degraded forest land. Through sustainable harvesting and silviculture, the group earns approximately three million Nepalese Rupees (US\$36,179) every year — a large part of which is re-invested in forest management or used to support local community development projects.'

While the sorts of approaches with respect to community and locally-owned forestry outlined above are widely held to be of the utmost importance, a number of experts also argue that they are not in themselves sufficient to ensure the protection and sustainable management of the forests in the long-term, if not adequately supported by the kinds of political will, enforcement and legislative approaches at the national and international level which are also described here.

Box 3: Multiple performance indicators for REDD+

There is a proposal from several NGOs – including FERN, Friends of the Earth Norway, Ateneo School of Government, Rainforest Foundation Norway, Greenpeace International and Client Earth – to broaden the performance indicators for REDD+ within the UNFCCC context. The organisations argue that 'an improved incentive structure for REDD+, which defines performance criteria more broadly, monitors progress towards a broad range of outcomes, and makes use of existing commitments and monitoring approaches, may help bring about the transformational change needed to reverse forest loss.'

The organisations argue that 'there is a wealth of experience and evidence which already exists with respect to simple, low-cost monitoring modalities for a broad range of performance indicators, which could be used to monitor outcomes in governance, social and environmental areas, thereby providing results for REDD+ which include both carbon and non-carbon benefits, and ensure available finance is directed at actions which address the underlying causes of forest loss.'

Such an approach – coupled with the bolstering of forest and indigenous peoples' rights, consistent with national and international law – would make a strong contribution to achieving significant further progress in REDD+ in the years ahead.

Source: <http://www.regnskog.no/languages/english/saving-the-rainforest-why-human-rights-is-the-key>;
<http://www.regnskog.no/languages/english/new-report-redd-an-incentive-structure-for-long-term-performance>;
<http://www.rightsandresources.org/blog.php?id=1477>

3. REDD+ Finance: Looking Forward

3.1 Introduction

Section 2 of this paper focused on lessons learned over the past several years of fast-start finance. It also focused largely on public funds, mainly because the vast majority of REDD+ finance deployed to date has come from the public sector. Section 3 looks ahead at near-term prospects for REDD+ finance, and focuses on what has now arguably become an extended ‘interim’ period to 2020 (as originally predicted by the PRP in its Emergency Package report). It then suggests a number of considerations for strategic choices that policymakers may consider in this post-fast start phase of REDD+ finance.

Section 3 also argues that the scale of finance needed to tackle the global deforestation challenge is unlikely to be met through public channels alone, particularly given the current global economic situation and the changing nature of the international political economy. It therefore includes views from members of the private sector, and offers a series of recommendations on practical steps the international REDD+ community can take to better engage both public and private finance at scale in the coming period.

3.2 REDD+ Finance in the post-2012 period

3.2.1. Near-term outlook for REDD+ finance

Financial and budgetary conditions pose challenges for dramatically scaling up REDD+ funding in the near term. The economic downturn in most developed countries has led to tight fiscal constraints, which present uphill challenges to securing new financing commitments for overseas development assistance more generally, and for climate change and REDD+ in particular. Many developed countries have been forced to take difficult spending cuts at home, making increases to funding abroad and meeting climate change commitments at home a greater political challenge.

Raising the level of ambition for GHG abatement could create more demand for results-based REDD+ finance, but also faces challenges. Raising emissions limitation targets during an economic downturn—despite the scientific evidence that doing so is vitally important—is also a significant political challenge. The collapse of carbon prices and the oversupply of Certified Emission Reductions signal a need for deeper targets. At the same time, however, this also makes it far less likely that any new type of offset, particularly those seen as ‘giving industrialized countries some flexibility in how they meet their emission reduction limitation targets’⁴⁷, such as forest carbon, will be integrated into existing climate markets in the near-term.

Additional sources of finance need to be found and new demand for ‘REDD+ credits’ created in this bridging period. In spite of these challenges, there is justification for raising the level of ambition for REDD+ finance, particularly given the multiple benefits that forests provide. As stated by former President of Guyana, Bharrat Jagdeo: ‘It is true that ambitious action is not risk free, but the status quo is not risk free either’ In this regard, new sources of both public and private finance must be found, while also increasing the delivery and effectiveness of available finance.

There is a critical need to mobilise private finance. As one developing country stated: ‘It is illusory to expect that public money will be sufficient for investment beyond preparedness... We will need to access private finance to make more serious investments in REDD’. There is a strong sense across the sector that there is a critical need to engage private finance, but little success to date in doing so. In this regard the REDD+ community needs to take steps to analyse how the private sector operates and how best to create an environment that mobilizes private investments: a further discussion of this, including several recommendations, is included in Section 3.3.

3.2.2. Considerations for REDD+ finance to 2020

Taking into account the reflections on REDD+ to date (summarised in Section 2) and the outlook for REDD+ finance, the following are a series of considerations intended to stimulate discussion around how to catalyse positive action while meeting the spectrum of challenges faced by REDD+ in the post fast-start phase.

Is it possible to clarify a vision of REDD+ and how it can best be achieved?

Conceptualise REDD+ as an outcome, not as a mechanism. In this regard, REDD+ could be characterised as the outcome of ‘reducing emissions from deforestation and forest degradation, forest conservation, and the enhancement of forest carbon stocks’. Defining REDD+ as such an outcome allows countries the flexibility to decide *how* they might best achieve and/or finance such reductions or removals of greenhouse gas emissions, including (but not limited to) results-based finance through the creation of verified emission reductions. Such a definition could also enable and mobilise financing of REDD+ from a range of international sources, including funds destined for integrated rural development, agriculture, water, or energy programmes.

Direct more attention to country-driven REDD+ finance rather than ‘supply’-side issues. Much attention has been given to how much donors have pledged and disbursed, to global models and top-down opportunity cost analysis. By comparison, there has been relative neglect of the need to carry out better assessments, from the bottom up, of the cost and financial mechanisms needed to “slow, halt and reverse deforestation” at the national, subnational, and local levels. Costs are likely to be location-specific and should be woven into a clear ‘theory of change’ that is sensitive to the level of capacity, social environment, community needs, and the chosen economic development path of each given case. It should also take into account and integrate the multiple financial instruments available to a country.

Expand the vision of REDD+ finance. There is a false dichotomy between payment for emission reductions and other types of finance, activities, and incentives that protect forests. Various approaches to financing forest conservation and/or restoration can be, and should be seen as, complementary.

Recalibrate expectations. Creating an enabling environment can take time and having realistic expectations of government capacities can help funding to flow more effectively. There is a need to be realistic about timelines and what can be accomplished in countries with challenging operating environments or low absorptive capacity.

How can longer-term funding be catalysed?

Send new signals of multi-year commitments to REDD+. There is little certainty at this point about the scale and provenance of future REDD+ finance. Some level of predictability could catalyse additional actions and, if paired with the right incentives, ‘crowd in’ private finance (see Section 3.3). For example, new pledges of REDD+ finance beyond the fast-start period, advance market commitments, or pledging to use a set portion of auctioned allowance revenue for results-based REDD+ payments, could generate further actions and private sector involvement.

Embed REDD+ strategies more firmly into national ‘climate-smart’ development planning, including leveraging domestic fiscal and financial tools. In some countries, REDD+ is “marginalized from the mainstream” and therefore unable to leverage a range of funding opportunities related to international and domestic development finance. REDD+ strategies should be included in domestic legal, regulatory, and institutional frameworks. They should also consider how to integrate the suite of domestic fiscal and financial tools, often controlled by the Ministry of Finance and/or Planning, which could be a significant and sustainable source of finance. These include fiscal instruments (taxes on goods and services, budget assignments, expenditure reviews) and/or domestic financial tools and resources, such as the use of national development banks and the lending instruments they can provide, or national carbon markets such as those in preparation in Brazil and Mexico. Engagement of these agents within a country can be one of the most effective pathways to change, but are not often considered.

Allow testing within existing and emerging carbon markets. Allowing even an initially limited amount of REDD+ credits into trading systems could send a positive market signal and offer an opportunity for testing how forests can contribute to GHG mitigation, while managing fears such as market flooding. Multiple opportunities exist, whether in California’s cap-and-trade system (AB32), the European Trading System, or other emerging GHG markets. The CDM Policy Dialogue, bringing together an independent high-level panel to “take stock... address

shortcomings and improve the mechanism's reputation and performance in the future", recently recommended that the CDM "develop and test project-based and/or national/subnational REDD+ programmes, while implementing appropriate controls to mitigate risks"⁴⁸.

How can the international community build momentum to 2020?

Reward innovation and success. Greater provision of funding for programmes that are innovative and that show results can help to maintain momentum and provide incentives for others to follow. Creating such programmes targeted to reward early movers, and to demonstrate success, can show that funding will be provided for those most willing or able to take decisive action, generate useful lessons and models for the future, and build confidence in REDD+ approaches.

Use public funds to 'fill the gap'. While compliance markets grapple with whether and how to include REDD+, public funding can play a catalytic role in maintaining momentum, demonstrating early success and building the confidence needed to create, where desired, future results-based mechanisms. Such funding is also important to prevent an exodus of skills and competence that has been developed in the past several years on REDD+. However, beyond Norway's pledges to Brazil, Indonesia, and Guyana, the only results-based funds available to the other 40-plus countries pursuing REDD+ programmes are the FCPF Carbon Fund and, more recently, Germany's REDD+ Early Movers programme.

- One option could be to **allocate a percentage of total REDD+ public funding to reward actions based on results**. Doing so could provide predictability of funding for early movers able to demonstrate tangible progress. This could be done through further capitalizing the FCPF Carbon Fund or Brazil's Amazon Fund, by supporting Norway or Germany's bilateral efforts (see box 3), or finding other ways to support and incentivise results-based actions.
- In addition, countries should consider **exercising flexibility during the early demonstration phase**. Particularly when employing results-based finance, consideration of the use of proxy measures, and/or funding at the subnational or jurisdictional scale (while recognising that setting such projects or programs within a national framework is critical for long-term effectiveness), could help catalyse early demonstration and learning. This is both critical to providing near-term momentum, as well as testing at a smaller scale to provide real-life learning to any future system or mechanism for results-based finance at a national level. The Amazon Fund's structure, for example, which combines technical simplicity (e.g. a historic baseline, conservative measures for carbon density, and focus on deforestation) with flexibility (e.g. decoupling benefit-sharing from emission reductions), is a useful model that may work well for other tropical forest countries.

Box 4 sets out some existing funds that support results-based finance:

Box 4: Existing Funds that Support Results-based Finance

There is a need to reward early movers and demonstrate how payments for emission reductions can contribute to sustainable development, to maintaining environmental integrity, and to implementing appropriate safeguards that not only protect, but benefit local communities and indigenous peoples. Brazil's Amazon Fund – *'aimed at raising donations for non-reimbursable investments in efforts to prevent, monitor and combat deforestation, as well as to promote the preservation and sustainable use of forests in the Amazon Biome'*¹ – Guyana's REDD+ Investment Fund, and the emerging Indonesia fund are several such opportunities. In addition to these country-specific funds, the following funds are designed to reward early movers and test results-based systems:

The **Carbon Fund of the Forest Carbon Partnership Facility** will pilot payments for verified emission reductions from REDD+ programmes. The goal is to *"provide incentives to reduce emissions while protecting forests, conserving biodiversity, and enhancing the livelihoods of forest-dependent indigenous peoples and local communities"*². It is currently capitalized at \$218 million with the goal of raising up to \$350 million.

Launched in 2012, **Germany's REDD Early Movers (REM)** programme intends to support *"pioneers who have taken risks and independent action towards mitigating climate change by preserving their forests"*³. The aim is to build a bridge that will fund demonstration activities. Germany has pledged 36.5 million euros for ex-post incentive payments in the first tranche and has entered into discussions with different subnational regions in forest countries with a view to compensating them for their efforts to curb emissions from deforestation.

¹Source: http://www.amazonfund.gov.br/FundoAmazonia/fam/site_en/Esquerdo/Fundo/ ²Source: <http://www.forestcarbonpartnership.org/fcp/node/618>

³Source: http://www.bmz.de/en/publications/topics/climate/FlyerREDD_lang.pdf

global climate, but also for the world's forests. While it is possible that REDD+ will be subsumed into broader issues to be discussed under the new Durban Platform—including how land use will be treated more generally, and what “common but differentiated responsibilities” means in operational terms—negotiators can still make useful progress, particularly within the Subsidiary Body for Scientific and Technological Advice (SBSTA), which can send constructive signals and promote early action. This could include clearer guidance on reference levels (and a process to assess them); measuring, reporting and verifying emissions and removals from the forest sector; on social and environmental safeguards; and on addressing the drivers of deforestation.

How can funding be more effectively deployed?

Increase the focus on drivers of deforestation. There is in some cases a need for better information on drivers of deforestation, and improved integration of such information into countries' REDD+ strategies. In addition, stronger engagement in national REDD+ programmes from the ministries responsible for the drivers is critical. Finally, there is a need for more creativity and flexibility from donors on financing REDD+ activities that address the drivers more directly, including by working directly with these ministries and the key private sector actors (both national and international) driving deforestation.

Improve communication and information flow. This recommendation is not to suggest an increase in the number of REDD+ workshops, but rather that such exchanges in the future could be more concretely focused on the need to learn from practical, on-the-ground experiences, by sharing case studies and empirical evidence as to what works, in addition to clarifying the potential benefits and successes of REDD+ from different countries, jurisdictions and projects. In addition, communication with local members of civil society can, and should, be improved in addition to greater funding for such local groups to engage in and contribute to REDD+ programmes.

Enhance the long-term capacity of forest countries. This should include not only governments, but also civil society and research organizations that outlast political cycles. Doing so will also address the ongoing problem that, on balance, too much funding is channelled through international intermediaries, NGOs and consultants rather than directly to host governments or local organizations and institutions. Donors should also consider how best to help countries to enhance coordination across ministries through the establishment of country-led REDD+ programmes, the promotion of harmonisation between ministries, and/or the creation of sector-wide, or programmatic, REDD+ strategies.

3.3. Leveraging and engaging the private sector

The private sector incorporates a range of actors - from smallholder farmers and shifting cultivators; to small and medium-sized companies; to large-scale, international commodity companies, financial institutions and investors. Although a number of ideas have been proposed to engage the private sector in REDD+ planning, implementation and financing, almost all those interviewed for this paper agreed that such engagement remains limited in current REDD+ programmes, and therefore susceptible to improvement.

The following section therefore focuses on several of the inputs received on how the private sector might be better engaged in efforts to reduce deforestation at scale in the context of REDD+, in particular taking into account the need for outcomes to be integrated into rural development strategies and planning.

It is important to recognise at the outset that **private finance is not meant to be a substitute for public finance.**⁴⁹ There is not only a commitment by developed countries to provide greater resources to tackle the climate change problem, but a unique role that public finance can play—particularly where private finance cannot be employed. At the same time, however, there is also a recognition that ‘public funding alone will not suffice to achieve the emission reductions required to avoid the worst impacts of climate change’ and, therefore, that ‘private investment will be paramount and needs to be urgently attracted to REDD+ activities.’⁵⁰

A broader view of private sector finance is needed. Many in the REDD+ community take a narrow view of private sector engagement, focusing only on the role of private finance in buying and selling forest carbon credits. However, the role of private finance can extend to shifting the drivers of deforestation by investing in sustainable agriculture, buying deforestation-free commodities, or providing greater access to rural credit and extension services for smallholder farmers. How to help forest countries create an enabling environment to create and/or attract private finance can also contribute to alternative development pathways that avoid deforestation.

Box 5: Market-based Approaches

“Market-based approaches can be more than current carbon markets. The discussion of market-based approaches to assist the achievement of REDD+ objectives often assumes there is only one form of market design available. There is not. Enhancing the capacity of markets to assist the achievement of REDD+ goals can occur through both: (A) the evolution of carbon market design in order to underpin sectoral- scale solutions that have environmental and social integrity; and (B) consideration of innovative new market designs that create incentives for governments and private sector actors to alter the unsustainable land use choices inherent in many existing commodity markets.” - Climate Markets & Investment Association

The sub-sections below focus on two specific areas of potential private sector engagement within this wide landscape—in catalysing the generation of verified emission reductions, and through commodity-based solutions. However, it is worth summarising several overall recommendations on engaging the private sector offered by respondents:

- **Building a stronger understanding of the private sector in both donor and recipient countries.** A number of interviewees identified a clear need for capacity building—both for donors and developing countries—in order to understand better the tools and financial mechanisms available in the private sector and how they operate in order to better integrate private sector participation into REDD+ strategy development. One respondent said: ‘public financiers (donors) and the private sector speak different languages’, resulting in the generation of unrealistic expectations and the inability to structure financial instruments in ways that incentivise and engage the private sector in REDD+ programmes.
- **Funding a comprehensive assessment of the appropriate role of, and barriers to, private sector engagement in REDD+.** Many suggested that there is a critical need amongst the REDD+ community for a better understanding of where private finance has a role to play, how governments can constructively partner with the private sector, and what are the barriers to greater engagement by the private sector.⁵¹
- **Enhancing the role of financial institutions, both public and private.** In countries with public financial intermediaries, such as national development banks, there is a need to better engage such institutions to support and finance REDD+ activities. In other countries, such public institutions may not exist, and additional financing may be needed to engage private financial intermediaries to make capital available for innovative REDD+ activities.

Using public finance to mobilize private finance for results-based REDD+

Private capital is ready and willing to be engaged in helping to generate verified emissions reductions from forests, but faces barriers to doing so. Some developing countries mentioned challenges related to REDD+ ‘scams’ by illegal actors in the private sector, causing serious problems. However, others suggest there are responsible private sector players interested in promoting REDD+ programmes that protect rights, contribute to sustainable development, and create business models that tackle the drivers of deforestation. These latter players are willing to bring capital and innovation to REDD+ activities, but suggest the following is needed:

- **Predictability of demand and a price signal.** The single largest reason why the private sector has not engaged in REDD+ at scale is due to the uncertainty of demand for verified emission reductions (VERs) from forest-related projects.
- **Transparent criteria.** The private sector can supplement public funding and drive innovation if there is clear guidance of how public funds will operate. Several in the private sector suggested donor financing is often not a truly ‘open architecture’, and that some donors tend to favour some areas of operation for a number of political, operational, and other reasons that are not wholly transparent to the private sector.

- **Better communication on the relative risks and benefits of REDD+.** As mentioned in section 2, there has been asymmetric information about REDD+ with an overemphasis on what might go wrong in programmes that seek to protect forests, compared to the benefits such programmes can provide. The perception that companies may face reputational risks from investing in forest protection programmes is another factor that has discouraged private finance.

The private sector is willing to meet “official development assistance” requirements. Several donors are concerned about the use of official development assistance (ODA) for payment-for-performance programmes, particularly those focused on carbon as the indicator of results. Many in the private sector, however, suggest that additional requirements, such as economic development, poverty reduction, or ensuring adequate social and environmental safeguards would not preclude private sector engagement. The barrier to date is a lack of clarity on such requirements. The provision of REDD+ funds for verified results needs to ensure clear criteria and an efficient delivery mechanism for the disbursement of funds

Box 6: Nested Approaches

“Nested” approaches may help to bridge private sector preferences to fund at a project scale, and government preferences for national or large-scale subnational programmes. A better understanding of, and comfort with, nested frameworks can also provide opportunities for early demonstration of performance-based approaches. Nesting can help avoid double counting and provide clear, attributable risk and ensure equitable benefit sharing. It can also, depending on how the system is constructed, facilitate emissions reductions accounting on multiple levels (national, subnational and/or project). Such a system, however, would require appropriate safeguards to ensure environmental integrity and the delivery of social benefits, and to avoid justified criticism.

Private sector finance needs to have a clear assessment of risk, a well-defined sense of implementation (i.e. what exactly is being funded), **and what the internal rate of return (IRR) might be on investments.** Many in the private sector also want to see that high-level standards are met—particularly those related to environmental integrity and safeguards—to manage reputational risk, which is difficult to control at a national or large jurisdictional scale.

- **The private sector is therefore more interested in projects at a scale where risks are clear and can be managed.** But this need not be inconsistent with large-scale, national, or subnational REDD+ programmes. Genuinely ‘nested’ approaches (see Box 5), where appropriate, can allow project funding to take place within a jurisdictional framework, and requirements can be created that provide accountability and/or actual accounting at the national or subnational scale and thereby a clear transition to scale over time.
- **There is a misperception that large-scale programmes are easier, or more efficient.** Regardless of scale, spatially explicit information and effective local management will still be required. For example, to ensure fair benefit sharing, particularly with local communities, even large-scale programmes will need information at a more granular scale. In addition, drivers of deforestation occur at all levels—national, subnational and local—and therefore programmes need to be designed at all scales to be successful.

Box 7: How can governments support private sector actors seeking to invest responsibly in forests, including through the creation of verified emission reductions?

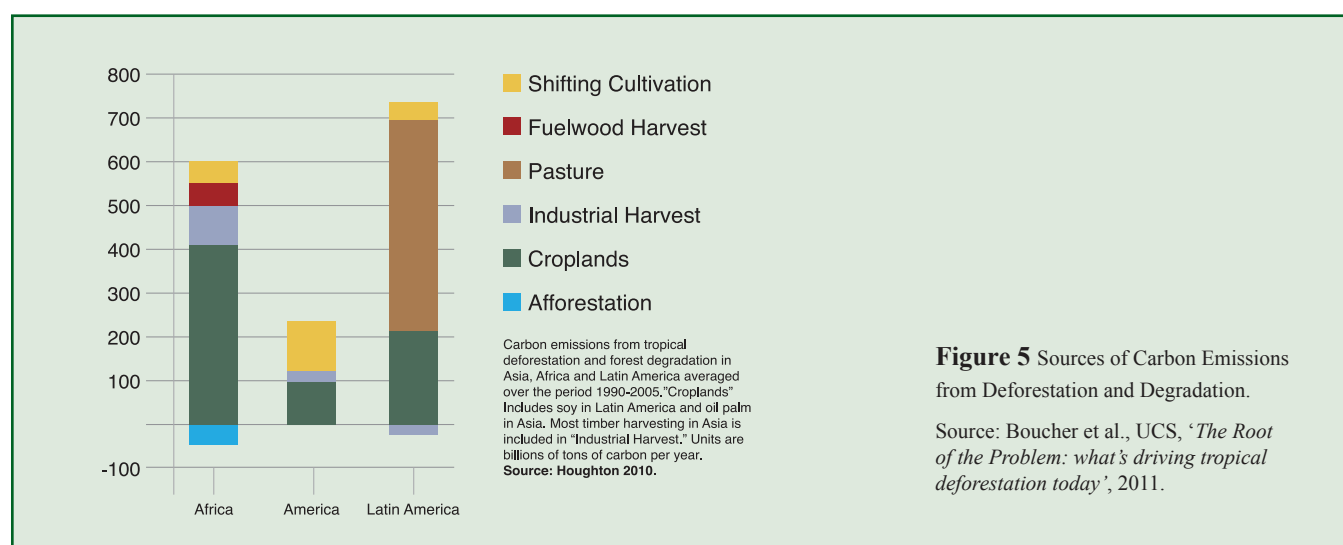
The following measures might be considered as part of the policy response:

1. **Stimulate a range of investment options:** Governments could consider the use of a range of investment options to provide capital to REDD+ investments – including grants; debt swaps, bonds, equity and tax concessions; and advance market commitments (mentioned by a number of interviewees), either as a ‘buyer of last resort’ or through an established floor price for verified emission reductions – and could make a commitment to work together to this effect. It should be noted that the use of public money to support advance market commitments is opposed by some forest NGOs.
2. **Reducing or sharing risk:** Governments could also underwriting or sharing risk by providing tools, such as country or political risk insurance, loan guarantees, or tax concessions—ideally in a coordinated fashion.
3. **Providing information:** For example, governments could fund studies that better explain the benefits and risks of pay-for-performance programmes, or explain the ‘theory of change’ behind results-based finance, including clarifying the conditions and circumstances under which such finance can work.

For further reference on some of the alternative mechanisms under discussion, please see the REDD+ Partnership’s *Advanced REDD+ Finance* report. See <http://reddpluspartnership.org/en/>

Recent discussions on REDD+ in the UNFCCC have recognized the importance of tackling both the national and international drivers of deforestation. As set out earlier, the main driver of deforestation and degradation in tropical regions is expanding croplands and pasture.⁵² And as mentioned in Section 1, the land available for commodity production is finite and yet demands on that land are constantly growing.

One of the ten proposals for the 2009 “Emergency Package for Tropical Forests” was, indeed, to encourage global action to address the drivers of deforestation. In particular, it called for major commodity-importing countries both to weaken the drivers of deforestation, and to offer positive incentives to producers in rainforest countries who do not contribute to deforestation (see Figure 5). In this regard, solutions will need to consider the role of the private sector beyond buyers and sellers of carbon credits, and consider ways to harness private investments that occur on the forest frontier—in soy, beef, palm oil, coffee, cocoa, wood and wood products, among others. As one private sector actor states, “forest carbon markets cannot be separated from commodity-based solutions”.⁵³ In this regard, the following were suggested as steps that could be taken:



Strengthen rural financial systems and access to private finance for sustainable agro-ecological intensification.

A recent article by the Director of CIFOR states that “fair, affordable and accessible private finance that promotes sustainable land use, particularly for rural smallholders, is needed.”⁵⁴ Colombia, Costa Rica, Honduras and Mexico, in their joint submission to the UNFCCC on REDD+ finance, also echoed this sentiment, saying that ‘additional international public resources will be needed to: reduce risk for private investments; address barriers to sustainable investments, both outside and inside the forest sector, including support to strengthen rural financial systems; and complement investments for result-based actions.’⁵⁵

Create enabling environments for private sector finance in developing countries. Mobilising private investment within developing countries, particularly for rural development, faces challenges. ‘Private investment in the rural sector of many developing countries is usually scarce, in part due to the perceived high-risk by investors, and the lack of enabling environment...access to financial institutions and their financial instruments (credit, guarantees, insurance, etc.) is usually out of reach of rural actors.’⁵⁶ This is particularly applicable to smallholders, and less so for industrial agricultural enterprises. In such cases, public finance can be used to help de-risk private investment and strengthen domestic financial institutions, both public and private, within developing countries, while also providing support to local communities and smallholder farmers.

Reform agricultural credit mechanisms and ensure government spending is “climate smart”. The relative scale and impact of domestic government spending, including through agricultural credit systems, merits consideration within REDD+ strategies. Reforming such sources of finance and mechanisms, and finding ways to ensure they are used for “climate smart” investments that also support economic development, can be one of the most effective tools to reducing deforestation.

Identify, create, implement and disseminate business models that support the production of agricultural commodities that reduce deforestation. Business cases aimed specifically at increasing productivity and/or shifting production to degraded lands while avoiding deforestation can be a powerful way to communicate messages to governments, producers and the private sector, and to mobilize private finance. Unfortunately, relatively few such cases currently exist⁵⁷, and can take time and resources to create. Public sector investment used in this regard, however, could be used to lever greater private sector engagement.

Encourage and support the private sector to source deforestation-free commodities. Although the greatest percentage of commodities is consumed domestically, commodities such as beef, palm oil and soya are traded internationally, and multinational companies therefore have significant market influence over what is produced and how. Key corporate leaders are increasingly aware of the resource challenge the world is facing, and that their business depends on a predictable, sustainable supply of commodities. In December 2010, companies within the Consumer Goods Forum pledged to take deforestation out of their supply chains for soy, palm oil, beef and paper/board by 2020 saying: ‘we believe our industry has a responsibility to purchase these commodities in a way that encourages producers not to expand into forested areas’. A better understanding by Governments of the value chain and incentives at work in each stage can result in support for practical solutions to transforming these key commodity markets.



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Box 8: How can governments support companies seeking to take deforestation out of supply chains?

As demonstrated in Section One of this report, increasing global demand for commodities such as meat, leather, timber, soy and palm oil is now recognised as a leading cause of deforestation. Changes in policy, regulation and behaviour are needed to achieve an ultimate reduction in deforestation over the long term. Governments can play an important role in changing land use and investment patterns through their own policies on procurement, regulation, lending and investments. Trade and investment can be used to drive internal planning and policy reform towards more sustainable land use, as illustrated in the example of FLEGT.

Unilever and Tesco are co-sponsors of the Sustainability pillar of the Consumer Goods Forum (CGF) and actively drive and support the work of the Sustainability Steering Committee. The two companies led the CGF in a pledge at the climate change conference in Cancun (2010) to mobilize the collective resources of companies within the CGF to take deforestation out of supply chains, such as palm oil, soy, beef and paper/board by 2020.

A Unilever official suggested four broad strands of work on which governments, companies and civil society could work together to help transform markets:

1. **Improve yields:** Increase farmer yields so that they can produce more from less – less land, less water, less fertilizer, fewer pesticides. Agronomists know how to do this. The challenge is to give farmers the knowledge and the tools so that they can put this knowledge into practice.
2. **Smallholder development:** There are more than two million smallholders growing oil palm in Indonesia. These producers are often using lower yielding varieties and employing poor agricultural practices. A combination of private sector incentives (including access to markets for sustainably produced goods), NGO know-how and government funding could transform this sector.
3. **Bring degraded and abandoned lands into use:** The rehabilitation of degraded, abandoned or underproductive land can add millions of hectares of productive land to local economies. Work in the palm oil, soy and beef sectors suggest that rehabilitating degraded land has a higher internal rate of return than clearing forests to create land for plantations. There is a need to spread this knowledge more quickly and to make sure that financial institutions make this easier for farmers to do. It is very important in this respect to ensure that existing customary and collective land tenure rights are fully recognised and respected.
4. **Create market signals:** Governments can send clear signals to the market through their own policies on procurement, regulation, lending, and investments. Such signals would certainly be picked up by producers.

Learn from private sector funds in other sectors. Public funding has been used in other instances that have seen success in leveraging private sector capital. Funds that were provided seed capital from governments, but that engaged private sector fund managers, can deliver results. Amongst those interviewed, there is a sense that the donor community needs to gain a better understanding of what the elements of success have been for such funds, and whether the lessons learned can be applied to the land use sector. And finally, many recommended that donors be willing to take risks to pilot such a fund in partnership with the private sector.



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4. Conclusions

Much has been accomplished in the three years of ‘fast-start’ REDD+ finance. The focus on ‘readiness’ for REDD+ has assisted many forest countries, and the international community, in better understanding the causes of deforestation and the most effective ways of reducing it, and in laying the groundwork for action. In a number of countries, the existence of REDD+ pledges or partnerships has also enabled a potentially transformative national discussion to take place around the need to protect the forests.

Lessons have been learned, and as countries move towards implementation, there are sure to be more to follow in the coming years. And while there remains a range of diverse views on how best to ‘slow, halt, and reverse deforestation’, there is general consensus that more needs to be done, and a higher level of ambition needs to be sought, to protect the world’s standing forests.

This report offers a number of considerations for REDD+ finance in the period from now to 2020: clarifying a vision for REDD+; focusing finance on country needs and recalibrating expectations; securing longer-term commitments for REDD+ funding; focusing on demonstration of solid and clear outcomes from REDD+ actions; rewarding innovation; and more fully engaging the private sector, not least in addressing the drivers of deforestation. Some final thoughts are offered below on how success might be achieved:

Focus on complementarities, not differences, of approaches. While there are diverse views on how best to achieve REDD+ outcomes, few are conflicting and, in most cases, if pursued together will be mutually strengthening. In other words, strategies that integrate approaches—for example, by combining payment-for-performance mechanisms with the appropriate policies and incentives; robust social and environmental safeguards; strong governance and enforcement; low carbon development; and supply chain approaches – are most likely to succeed.

Demonstrate and build confidence in REDD+. This current period—while indecision remains on whether and how to include forest-based emission reductions into national and international greenhouse gas compliance systems—should be seen as an opportunity to test approaches, learn lessons, share best practices, and improve on systems and approaches. This should be done with an eye to building future REDD+ mechanisms with integrity and confidence.

Focus on strengthening enabling environments. Engaging the private sector will be critical to scaling up REDD+ finance in the future, but for many countries barriers still exist to mobilising private sector investments. There is a need to ‘de-risk’ such environments through stronger governance, clarity of rights, rule of law, and enforcement. These long-term policy investments should not be overlooked.

Keep it simple. While not yet fully operational, the Brazilian Amazon Fund and the Guyana REDD+ Investment Fund are examples of relatively straightforward models that can accelerate implementation and create an efficient system for positive change on the ground. Where possible, simplification should be encouraged, and the perfect should not be allowed to become the enemy of the good.

Be flexible. Particularly in this interim phase, allowing multiple ‘flowers to bloom’ can help spur innovation and discovery, and broaden the lessons learned. For example, testing at smaller scales, using proxy measures, and allowing experimentation—with appropriate safeguards in place—can help prepare and inform the international community on how best to achieve REDD+ outcomes, build a future REDD+ market, and thereby provide guidance for any future funding mechanism.

Be willing to take risks and build an ambitious vision for the future. Finally, future funding choices should not only be based on the situation today, but on a vision for the future. In this regard, funding decisions should be strategic, and lay the groundwork for forests to be part of a new international agreement, while catalysing actions that will create the scale of action needed to protect the forests for future generations. There is no innovation without risk—now is the time to innovate, but above all to act.

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