

Report for the Conservation Finance Alliance

National REDD+ funding frameworks and achieving REDD+ readiness – findings from consultation



Contents

Acknowledgements	1
Authors	1
Glossary of terms	2
Executive summary	4
Background to the report	10
Our approach	12
REDD+ national funding flows in 2012 & 2015	13
Brazil	16
1. Background on Brazil and REDD+	17
2. Current REDD+ funding in Brazil	23
3. Potential barriers to funding future REDD+ activity at scale	33
4. Making REDD+ a success in Brazil	37
5. Conclusions and suggested next steps	38
Cambodia	42
1. Background on Cambodia and REDD+	43
2. Current REDD+ funding in Cambodia	47
3. Potential barriers to funding future REDD+ activity at scale	53
4. Making REDD+ a success in Cambodia	55
5. Conclusions and suggested next steps	58
DRC	62
1. Background on DRC and REDD+	63
2. Current REDD+ funding in DRC	67
3. Potential barriers to funding future REDD+ activity at scale	73
4. Making REDD+ a success in DRC	76
5. Conclusions and suggested next steps	78
Indonesia	81
1. Background on Indonesia and REDD	82
2. Current REDD+ funding in Indonesia	85
3. Potential barriers to funding future REDD+ activity at scale	90
4. Making REDD+ a success in Indonesia	94
5. Conclusions and suggested next steps	97
Madagascar	101
1. Background on Madagascar and REDD	102

2.	Current REDD+ funding in Madagascar	105
3.	Potential barriers to funding future REDD+ activity at scale.	111
4.	Making REDD+ a success in Madagascar	113
5.	Conclusion and suggested next steps	115
Peru		118
1.	Background on Peru and REDD	119
2.	Current REDD+ funding in Peru	122
3.	Potential barriers to funding future REDD+ activity at scale	127
4.	Making REDD+ a success in Peru	130
5.	Conclusions and suggested next steps	134
High level case study countries: The role of environmental funds and civil society organisations in REDD+		138
	Introduction	139
	Recommendations for the future roles of environmental funds and NGOs in REDD+	142
	Results	144

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PwC provides advisory support to conservation organisations, multi-lateral institutions and government agencies in the development of conservation finance and biodiversity and ecosystem service markets. We have a deep understanding of policy developments and market trends, strong relationships with policymakers, experience advising on institutional, legal and financial arrangements for ecosystem service market mechanisms, and a track record of diverse thought leadership. www.pwc.com/sustainability

About the Conservation Finance Alliance

The Conservation Finance Alliance (CFA) is a collaborative network created in 2002 to address the challenges of sustainable financing for conservation. Governments, multilateral agencies, NGOs, private companies, academic institutions and independent experts cooperate in the CFA to promote conservation finance solutions. Currently with more than 90 members from 40 countries, the CFA contributes to the exchange of knowledge and best practices in conservation finance issues. The CFA acts through Working Groups that carry out meetings, research, publications and workshops. This report is fruit of the collaboration of the members of the CFA Environmental Funds Working Group. For more information on the CFA, please access www.conservationfinance.org

Glossary of terms

Term	Meaning
Capacity building for REDD+	Externally or internally initiated processes designed to help individuals and groups to appreciate and manage REDD+ policy and project development, and to enhance their abilities to identify and meet challenges related to REDD+ in a sustainable manner ¹ .
Carbon credit	A certificate or instrument which represents the reduction of emissions of greenhouse gases by the equivalent of one tonne of carbon dioxide relative to an agreed baseline.
Environmental fund	Private or public/private institutions that provide sustainable financing for biodiversity conservation, sourcing and managing funding from international donors, national governments and the private sector. Environmental funds provide funding, typically through grants, to non-governmental organizations (NGOs), community based-organizations and governmental departments or local government offices ² . In the case of REDD+ these funds may be adapted to provide loan or investment finance in addition to grant based funding.
'Fast Start' Funding	Funding resulting from a pledge included in the Copenhagen Accord in 2009 by a selection of developed countries to 'provide new and additional resources, including forestry and investments through international institutions approaching \$30 billion for the period 2010 to 2012 with balanced allocation between adaptation and mitigation' ³
Monitoring, Reporting and Verification	In relation to REDD+, monitoring and reporting of carbon stock changes and the social and environmental impact of REDD+ at a project, sub-national and/or national level, and verification of reports by a designated third party.
National approach	A national carbon accounting framework and MRV system, with nations being rewarded for emissions reductions relative to an established national reference level, rather than at a sub-national or project level. Reductions may be rewarded through allocation of tradable carbon credits, by financial transfers from a global fund or other mechanisms ⁴ .
Nested approach	<p>A national climate change policy, carbon accounting framework and MRV system, whereby emissions reductions at both the national and sub-national or policy level are rewarded through allocation of tradable carbon credits.</p> <p>Under a nested approach the national government sets up a national accounting framework and establishes a nationwide monitoring system. This government could implement certain policy reforms that would lead to verifiable emission reductions and therefore earn incentives from an international system (or a bilateral arrangement). Meanwhile, implementation of REDD+ activities occurs at the sub-national level led by local/regional governments, communities, NGOs, or private developers. These activities would account for emission reductions at the sub-national level and earn incentives directly from the international (or bilateral) system based on those reductions. This sub-national accounting would need to be aligned to the national level (i.e. all credits issued in any given year are based on the performance of the nation as a whole relative to its reference emission level)⁵.</p>
Portfolio environmental funds	An environmental fund with a portfolio of funding programmes divided along thematic or geographic lines. These funds provide donors and investors with increased visibility and choice regarding where their money is directed and the outcomes it generates.

1 Adapted from RECOFTC, (2009). What is Capacity Building? Available online: www.recoftc.org/site/index.php?id=376

2 Adapted from Conservation Finance Alliance: Working Group On Environmental Funds, (2008). Rapid Review of Conservation Trust Funds.

3 World Resources Institute, (2010). Fast Track Climate Finance: Do The Numbers ADD Up? Available online: www.wri.org/stories/2010/06/fast-track-climate-finance-do-numbers-add

4 Adapted from Angelsen, A et al, (2008). What is the right scale for REDD? The implications of national, subnational and nested approaches. CIFOR info brief.

5 Cortez et al, (2010). A Nested Approach to REDD+: Structuring effective and transparent incentive mechanisms for REDD+ implementation at multiple scales. The Nature Conservancy and Baker & McKenzie. Available online: www.theredddesk.org/sites/default/files/resources/pdf/2010/TNC_june_2010_A_nested_approach_to_REDD.pdf

Term	Meaning
Project developer	In relation to REDD+, an organisation, company or multi-stakeholder partnership responsible for the development of REDD+ projects
Readiness	<p>REDD+ Readiness requires the following elements to be in place:</p> <ul style="list-style-type: none"> • A favourable policy environment which allows for the implementation of REDD+ programmes in an efficient effective and equitable manner (the Three Es); • An institutional structure that allows for effective decision making regarding REDD+ development at a government level; • Adequate physical and human capacity within the government, non-governmental, academic and private sectors to effectively assess forest carbon stocks and measure carbon changes and leakage; • Clear and transparent revenue and incentive sharing mechanisms put in place; and • A financial management system established for funds to flow to beneficiaries and stakeholders in an efficient, effective and equitable manner (the Three Es)⁶.
Readiness Preparation Proposal (R-PP)	An R-PP is a document submitted by a Forest Carbon Partnership Facility participant country to the FCPF Participants Committee. The R-PP consists of a summary of the current REDD+ policy and governance context, what study and other preparatory activities would occur under each major R-PP component, how they would be undertaken in the R-PP execution phase, and then a Terms of Reference or work plan for each component ⁷ .
REDD	Reducing Emissions from Deforestation and Forest Degradation (REDD) is an effort to create a financial value for the carbon stored in forests, offering incentives for national and sub-national actors to reduce emissions from forested lands and invest in low-carbon paths to sustainable development.
REDD+	“Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries ⁸ .”
Sub-national approach	<p>A national climate change policy, carbon accounting framework and MRV system, whereby emissions reductions are rewarded only at the sub-national or project level.</p> <p>Using this approach both REDD+ accounting and implementation would be focused on a defined geographic area or project site. Project development activities could be undertaken by individuals, communities, NGOs, private companies, and different levels of government. Forest CO₂ emission baselines; subsequent monitoring, reporting, verifying (MRV), and rewarding would only be for the sites in question. Projects would have to account for any ‘leakage’ or displacement of destructive activities from the project site to other forest areas outside the project area⁹.</p>

6 CIFOR, (2009). Moving ahead with REDD to achieve the 3 Es: Efficiency, effectiveness and equity. Available online:

www.cifor.cgiar.org/Knowledge/Publications/NewsOnline/NewsOnline47/moving-ahead.htm

7 Forest Carbon Partnership Facility (FCPF) Readiness Mechanism Readiness Preparation Proposal (R-PP) External Review Template, (2009). Available online:

www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Jun2010/PC_peru_review.pdf

8 UNFCCC/CP/2007/6/Add.1, 14 March 2008; Decision 1/CP.13 [BAP], paragraph 1(b)(iii)

9 RECOFTC - The Center for People and Forests, (2009). Decoding REDD: Issues of Scale, An Asia-Pacific Perspective. Available online:

www.recoftc.org/site/fileadmin/docs/Themes/Climate_change/Decoding_REDD__web_.pdf

Executive summary

Background and focus of the report

Fast Start funding to the value of \$4.5 billion has been committed during the 2010 – 2012 'Readiness' phase of REDD+ but there has been limited analysis of how REDD+ funding is currently, or could in the future, be managed and disbursed within the intended recipient nations. This report has been prepared in order to add to this discussion and stimulate debate amongst policymakers, the private sector, NGOs and academic institutions at a national and international level.

In 2010, in-person and telephone based interviews were carried out by PwC with stakeholder representatives from government, civil society, academia and the private sector in six countries: Brazil, Cambodia, The Democratic Republic of Congo, Indonesia, Madagascar and Peru to provide a national level perspective on how REDD+ funding is being managed now and how it could be managed in the future. Interviewees were asked to complete a 'stakeholder map', then answer questions on existing and projected REDD+ funding management at a national, sub-national and project level. The analysis of these interviews, supplemented with desk based research, are presented in six case study reports in this report. These country reports are based on data collected from February to August 2010 and as such may not capture the most recent REDD+ policy changes and project development.

The specific objectives of the six in-depth case study country reports are to:

- Determine the current REDD+ funding flows from international sources to the national and project level, including the identification of existing national and sub-national funding structures which manage and deliver REDD+ funding.
- Investigate the barriers to achieving a scalable, equitable, effective and efficient REDD+ funding structure able to distribute and manage the relevant portion of the \$4.5 bn in Fast Start funding.
- Identify alternative funding models that could be used by funders in the future (national governments, multilateral organisations and others) to both distribute and manage the \$4.5 bn Fast Start funding and the financial flows likely when REDD+ activities are funded through a market mechanism.

In late 2009 interviews were carried out with stakeholder representatives from government, civil society, academia and the private sector in the six countries mentioned above and six additional countries: Costa Rica, Tanzania, Colombia, Ecuador, Mexico and Uganda. The results of these interviews were used to analyse the current and potential future role for environmental funds and civil society in the development of REDD+.

The specific objectives of these high-level case studies are to analyse the role of environmental funds and civil society in:

- Fiduciary management – Managing funds for REDD+ activities and any income they produce, including the pre-agreed distribution of revenue between actors.
- Stakeholder engagement – Engaging stakeholders, whether at an international, national or local level, to ensure their support for REDD+ activities.
- Monitoring of project activities – Assessing the ongoing performance of REDD+ projects to accurately quantify emissions reductions, and the wider biodiversity and socio-economic benefits delivered over time.

An analysis of these interviews is provided in the final chapter of this report 'High level case study countries: The role of environmental funds and civil society organisations in REDD+'.

Findings and recommendations of the report

Table 1 provides a comparative summary of country specific findings:

Table 1: Comparative summary of findings across in-depth case study countries

Country	Brazil	Cambodia	DRC	Indonesia	Madagascar	Peru
Mature REDD+ project activity	Extensive activities	Emerging activities	Growing activities	Extensive activities	Emerging activities	Growing activities
Relevant environmental funds experience	Extensive experience	Emerging experience	Emerging experience	Growing experience	Emerging experience	Growing experience
Civil society organization REDD+ activity levels	Extensive involvement	Emerging involvement	Growing involvement	Extensive involvement	Emerging involvement	Extensive involvement
Examples of country specific issues highlighted during the study, requiring further attention (this is sample only – see country case studies for complete analysis)	<ul style="list-style-type: none"> • Need to link national economic objectives with REDD+ objectives • Acceleration of progress in engaging indigenous communities in Amazonian states using best practice examples e.g., participatory GIS land planning. Include application of Free Prior and Informed Consent principles • Exploration of options for establishment of state, ecosystem or smaller level REDD+ environmental funds • Increase level of REDD+ readiness in non-Amazonian states 	<ul style="list-style-type: none"> • Need to ensure that findings of REDD+ Taskforce review of legal and tax barriers in Cambodia influence the development of a regulatory framework • Sale of carbon credits solely through Forestry Administration as sole seller of carbon credits , at present, may discourage private sector interest • Project revenue sharing models developed beyond direct fund management by The Working Group on Forestry and Environment 	<ul style="list-style-type: none"> • Without national environmental funds in place, existing regional fund options should be explored e.g. potential for Congo Basin Forest Fund in funding REDD+ readiness • Existing Multi-Donor Trust Fund structures may need migration to in-country management to support a national REDD+ approach • Portfolio funds could be used to support geographically-integrated pilot projects at a provincial or territorial level, as outlined in the R-PP's 'Programme of experimentation' 	<ul style="list-style-type: none"> • Role of Indonesia Climate Change Trust Fund or new environmental funds defined • Clarification of roles between Ministry of Forestry, National Climate Change Council and Ministry of Environment • Tax Office position on REDD+ credits needs clarification • Donor funding used to reduce or underwrite REDD+ risk for private investors. Structured meetings between private investors and donors may help define how best this can be achieved. 	<ul style="list-style-type: none"> • Potential for REDD+ Readiness Trust to implement an environmental fund structure based on or including existing environmental funds in Madagascar • Definition of role of Gestion Contractualisée des Forêts (GCF) in facilitating communal REDD+ project ownership • Development of formal means of sharing and leveraging information from PHCF and FORECA projects 	<ul style="list-style-type: none"> • Support required for existing fund management options e.g. PROFONANPE, dependent on outcome of Environmental Services Provision Bill • Need for increased community and indigenous groups involvement in R-PP review • Definition of roles and functioning of Unidad de Carbono Forestal (UCF) and Sistema Nacional de Monitoreo e Verificación de Carbono Forestal (SISNACAF)

Current REDD+ funding flows

\$30 billion of 'Fast Start' funding from developed to developing countries for the period from 2010 to 2012 was promised as part of the Copenhagen Accord agreed at the UN Climate Conference in December 2009. Some \$4.5 billion of this funding is to be directed at forest emissions. It is expected to be used principally to support institutional and technological capacity building, in anticipation of the development of regional or global mechanisms for 'reduced emissions from deforestation and forest degradation and sustainable management' (REDD+).

Reasonable progress has been made with the commitment of these funds to specific projects (e.g. the recent \$1 billion commitment made by the Government of Norway to REDD+ in Indonesia); however the distribution and deployment of funds has yet reached scale.

It is likely that one of the key barriers to this is that there is insufficient current capacity to distribute and manage this level of donor funding, in an equitable effective and efficient way. Capacity constraints tend to be exacerbated by a lack of coordination between government ministries, agencies and regional offices, community engagement and land tenure, the taxation of REDD+ revenues and uncertainty regarding REDD+ specific regulations.

There may be an opportunity here to leverage the experience of the many existing environmental funds within a national REDD+ funding framework, and explore the added benefits these could have for improving the transparency and accountability of REDD+ funding management, and hence investor interest.

It is important to emphasise that in many of the case study countries in this report there is already small-scale private sector funding flowing into sub-national level projects based on the existing voluntary forest carbon market and in anticipation of the development of compliance based forest carbon markets in the future (whether national or international). In some countries the level of private sector investment in project development is comparable to the level of donor or public funding currently flowing into the country and these private projects are providing valuable models and lessons for the national REDD+ readiness process.

It will be essential that whilst countries progress through the 3 stages of REDD+ readiness, private investment is encouraged, complemented and in due course replacing public funding for national REDD+ development. The nested approach to REDD+ may help to facilitate this process and foster private sector investment whilst still allowing governments to manage national carbon accounting systems.

Potential barriers to funding future REDD+ activity at scale and recommended actions to address these

The table below summarises the key barriers which we identified in the case study countries, in attracting and managing REDD+ funding at scale, with recommended actions to address these barriers and improve the likelihood of achieving REDD+ success.

Table 2: Barriers and recommended actions for funding future REDD+ activity at scale

Barrier	Recommended action
Inadequate institutional framework to manage REDD+ funds	<ul style="list-style-type: none"> • Potential creation of new REDD+ fund management bodies with representation from each relevant ministry and non-governmental actors at board level • Discussions between donor and investment community with REDD+ country governments regarding donor and investor preferences for national and sub-national fund management
Knowledge and skills gaps at all levels	<ul style="list-style-type: none"> • Equal or greater focus given on capacity building at the project level in relation to the national level • Creation of formal partnerships with national and sub-national NGOs with recognised track record in inclusion of indigenous and forest communities in ecological conservation and protection of their rights • Application and training of GIS decision tools for collaborative land use planning with forest communities • Development of a national process of informed consent with indigenous federations and communities and other key stakeholders • Training and engagement of indigenous groups and local communities in national level and sub-national level decision making related to REDD+ strategies
Lack of relevant national funding mechanisms in place for distributing REDD+ funding and revenue in an equitable, efficient and effective manner	<ul style="list-style-type: none"> • Exploration of options for using existing non-REDD+ fund structures such as multi-donor trust funds as a model for creating new REDD+ funds • Exploration of options for using portfolio funds at an ecosystem or provincial level, to provide enhanced investment choice, flexibility and transparency for investors • Creation of new REDD+ specific environmental funds, including a revolving fund function to manage both grant based funding and carbon market revenue
Regulatory uncertainties in relation to REDD+, taxation and state ownership of carbon assets	<ul style="list-style-type: none"> • Structured discussions between project developers, legal specialists and government stakeholders regarding how private REDD+ investment and revenue returns will be taxed and where tax revenues will be distributed within government
Political risk	<ul style="list-style-type: none"> • Integration of non-governmental actors into the national REDD+ management framework to facilitate the continuity of REDD+ strategies between successive governments • Regulatory change widely reviewed cross-party and modified accordingly, to broaden political acceptance within government
Legal uncertainty over land tenure and carbon rights	<ul style="list-style-type: none"> • Clarification of linkage between land and carbon asset ownership and implications for REDD+ project development • Establishment of legal support mechanisms for forest communities and project developers in areas at risk of land dispute • Partnership between project developers and organisations with experience in implementing long term conservation projects in areas where land rights are disputed and difficult to enforce

Potential future roles of environmental funds and NGOs in REDD+

REDD+ provides a unique opportunity for environmental funds and NGOs to build on the roles they are already playing and develop new and innovative functions. Presented below is a selection of roles that environmental funds and NGOs could adopt in the evolution of an international REDD+ scheme, based on our analysis of stakeholder views.

Table 3: Potential future roles of environmental funds in REDD+

Carbon finance and revolving fund functions	If the predicted transition from grant based funding to carbon market based finance occurs, REDD+ environmental funds with revolving fund functions may have capacity to maintain or diversify the types of funds they manage to include both private finance and public funding.
Increasing private sector confidence and investment	Environmental funds could act as a vehicle through which public/private co-funding agreements are channeled. The provision of co-funding from public sources could encourage private sector investment and reduce investment risks by sharing start up investment costs for new REDD+ projects. Environmental funds may also help reduce investment risk by providing a transparent and accountable fund management service for investors.
Convening REDD+ actors	Through managing public and private funds, and by having multi-stakeholder board members, environmental funds may be well placed to assume a cross-sector convening role. Having oversight of multiple REDD+ initiatives may be useful in the design and timing choice for multi-stakeholder meetings.
Capacity building and support to funding recipients	To increase the likelihood of project portfolios meeting objectives, it may be in the interest of donors, investors and the wider stakeholder community for environmental funds to provide in-house capacity building support to fund recipients. This will be of particular importance in countries or remote provinces where project developers have little experience of managing external funding and investments.
Building government capacity	Environmental funds may contribute to building institutional REDD+ capacity or supporting the capacity building process through sharing their expertise and project evaluations with the government. If an environmental fund is engaged in project monitoring, it may also be able to share technical knowledge or GIS technology with Ministries of Forestry, Environment or Planning. Environmental funds could also provide direct funding support for REDD+ projects with local government partners (as has been the case in the Amazon Fund), contributing to decentralised government capacity.
Provision of low interest, long time horizon, risk-tolerant loans	Environmental funds may also encourage private REDD+ project establishment by providing low interest loans with long repayment periods and with high risk tolerance. This could help increase investment confidence in the private sector and enable for projects to reach the capacity they need to attract private sector investment. Interest from loan portfolios could be channeled into a revolving fund to boost the financial sustainability of the fund.
Province or ecosystem level portfolio funds	In countries that adopt a nested or other sub-national approach to REDD+, province or ecosystem level portfolio funds could play an important role in managing public and private REDD+ funding and linking sub-national projects into the national carbon accounting system. Provincial or ecosystem level funds could provide a direct link for donors or investors between their funds and specific projects. This could allow for greater flexibility and choice in funding decisions and generate increased funding interest from donors and investors.
Micro-credit based funds	In countries such as the DRC, where the provision of alternative livelihood options could be central to the success of REDD+, micro-credit programmes could play a key role in supporting low forest impact activities (e.g. fuel wood tree domestication, agroforestry), which often involve initial start up costs outside the reach of low income households. Environmental funds may be well positioned to manage micro-credit funds, using a micro-credit management partner such as a national NGO or bank. Interest from micro-credit loan portfolios could be channeled into a revolving fund to boost the financial sustainability of the fund.

Table 4: Potential future roles of NGOs in REDD+

Transition to managing grant funding to carbon market investment and revenue	Many established REDD+ projects are NGO managed. These projects are likely to be some of the first to reach maturity. As this happens, both international and national NGOs could focus on developing the financial management structures to receive and administer private sector investment and carbon market revenue.
Continue building trust and engagement from the public and private sector	NGOs may play a vital role in encouraging the scaling up of both public and private sector funding in REDD+, instilling confidence that projects will be managed according to the principles of the three Es (equity, efficiency and effectiveness).
Distribution of international funding to the local level	In some instances NGOs will be best placed to managed international REDD+ funding and revenue, distributing it in an equitable manner to local communities or investing it in the creation of alternative livelihood or microcredit schemes.
Raising awareness in forest communities – particularly in areas where there is low trust of state actors	Before meaningful engagement from forest communities can be achieved, considerable efforts are needed to raise awareness of climate change, forest carbon and REDD+. NGOs, particularly at the national and local level, have a crucial role to play in this process and are often uniquely placed to deliver this service in areas with low trust in state actors.
Building REDD+ capacity of forest communities	Where forest communities are willing to engage in REDD+, NGOs have a crucial role to play in building the capacity of forest communities to engage in REDD+ through project design, monitoring and reporting.
Technical assistance to national and local government in REDD+ policy development	NGOs can build on their current technical support to governments in carbon monitoring and utilise lessons learned from project development in supporting government REDD+ policy development.
Territorial planning using remote sensing and GIS technology	NGOs may have an important role to play in facilitating REDD+ development between local government, communities and project developers by using GIS technology as a tool for collaborative planning. NGOs can also support forest communities in negotiating with private developers, governments or other NGOs in the development of REDD+ projects using GIS technology.
Legal support for forest communities	NGOs may be able to support forest communities in securing legal support to define and, where necessary, defend customary land rights during REDD+ project development.

Looking forward, beyond 2012

It is hoped that the increased level of public funding for REDD+ capacity building in the next few years will encourage a significant increase in private sector funding for REDD+ from the carbon markets and direct project investment. Even by 2015, however, public funding for capacity building is likely to make up a significant proportion of total REDD+ funding in many of the case study countries. For example in Cambodia the capacity building effort may only reach scale after 2012 with such programmes likely to last for 3-5 years until a transition to a market mechanism for REDD+ finance is made.

Most interviewees expected the bulk of Fast Start funding to flow through government budgets. This may not be the best way to encourage private sector investment in the longer term. Independently managed environmental funds may have a role to play in building confidence in REDD+ helping to 'pump prime' private sector investment. In the Latin American and Asian case study countries we identified a range of funding mechanisms with independent representation in place that could fulfil this role. In the African case study countries, however, we found few such mechanisms. This could be a barrier to REDD+ financing, particularly from the private sector.

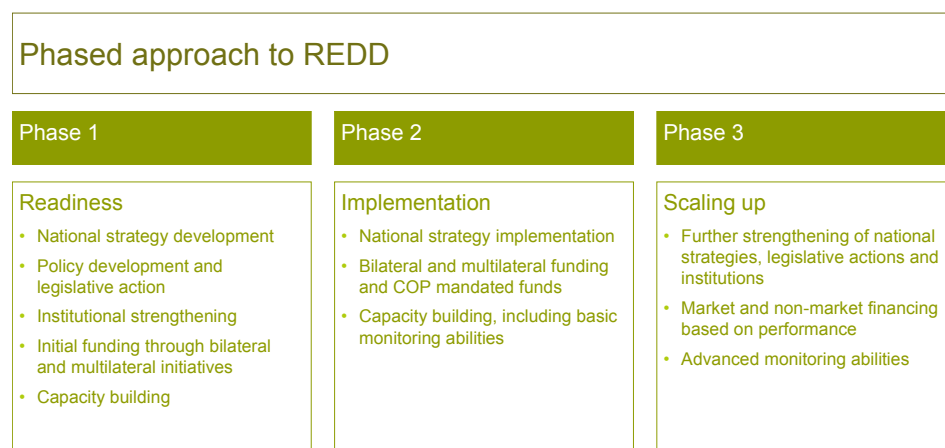
By 2015, the majority of interviewees expected the bulk of REDD+ funding to flow to active REDD+ projects with a broadly even split between funding directed from environmental funds and government Ministries of Forestry, Environment and Finance. The current small number and size of independent funding mechanisms is therefore likely to be a barrier to the development of a longer-term REDD+ financing structures. Governments have to play a leading role in establishing these, however there are few plans to do so at present.

Background to the report

REDD+ is set to play an important role in any new global agreement on climate change, and is also expected to be a major beneficiary of the Fast Start funding announced in Copenhagen – commitments to REDD+ for the period 2010 to 2012 were increased to more than \$4.5 billion during the Oslo Climate and Forest Conference earlier this year. The concept of REDD+ has recently added carbon stock enhancement through afforestation, reforestation and sustainable forest management to the scope of REDD+ projects¹⁰.

Consensus is building round a three phased approach to delivering reduced emissions from deforestation and degradation (REDD+) at a global scale. A phased approach will enable REDD+ to address the drivers of deforestation at a country level according to country-specific circumstances.

Figure 1: Three-phase approach to REDD+.



The majority of REDD+ countries are currently in the 'Readiness' phase. During this phase the majority of REDD+ funding will be directed towards the development of REDD+ strategies and institutions within government, capacity building within forestry, environment, planning and finance agencies, awareness raising and training within civil society and communities and the establishment and management of demonstration REDD+ projects. However in most REDD+ countries private organisations and companies are also investing a significant level of resource into REDD+ and achieving some success in developing REDD+ projects and selling carbon credits on the voluntary market. There is an expectation from government, NGOs and the private sector that private and public funding for REDD+ will grow substantially in the long term, although rapid growth in private sector investment is likely to depend on progress in the international climate negotiations and expansion of carbon markets.

Financing REDD+ through the three phases

As shown in Figure 2, a recent forest financing report (Forum for the future, 2009¹¹) presented how the nature and scale of the financing mechanisms might evolve as the REDD+ market develops through the three phases.

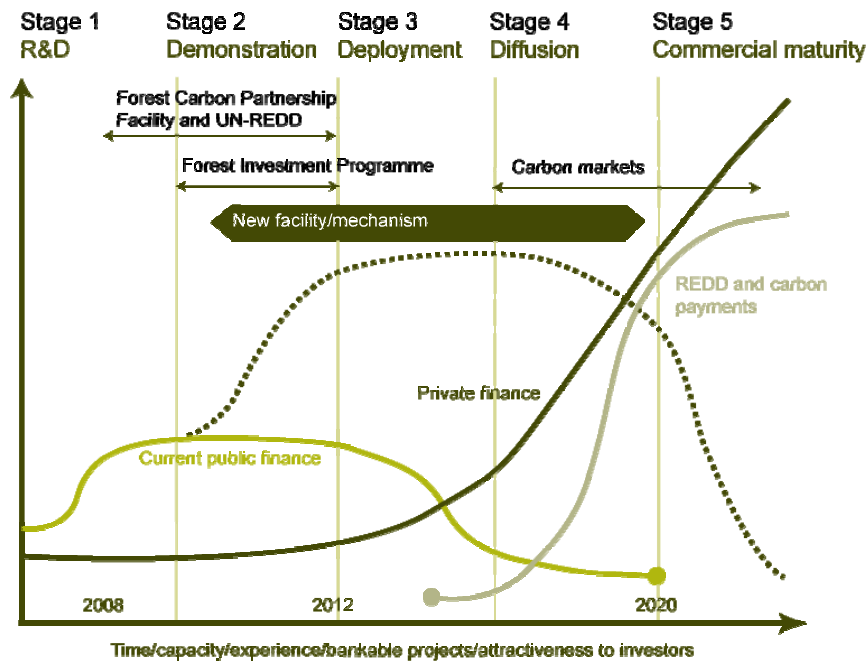
Throughout stages 1 to 2 of the development of REDD+ the majority of Fast Start funding for REDD+ will be distributed in the form of donations through multilateral institutions (such as the World Bank's Forest Carbon Partnership Facility) or in the form of bi-lateral aid (such as Norway's \$1 billion bilateral agreements with Indonesia and Brazil) up to 2012 and possibly beyond.

Whilst this donor funding may continue into stages 3 and 4, it will not be sustainable over the medium and long term, especially considering current fiscal constraints on the budgets of donor nations. To fund the sustainable growth of REDD+ in stages 4 and 5 a transition from public donations to public-private partnerships will be needed to allow for eventual private sector investment at scale.

¹⁰ Parker, C., Mitchell, A., Trivedi, M., Mardas, N, 2009. The Little REDD+ Book.

¹¹ Forest Investment Review, Forum for the future, 2009, <http://www.forumforthefuture.org.uk/projects/forest-investment-review>

Figure 2: Potential REDD+ funding mechanisms (Forum for the future, 2009)



Whilst many commentators and reports have focussed on high level REDD+ financing issues, there has been little publically available analysis concerning how funds are, or should be, disbursed nationally or locally. Little analysis has been carried out regarding what actors are engaged in REDD+ fund disbursement, and what examples of good practice from those at the leading edge of the REDD+ should be shared with the wider market.

The projected increase in private and public funding for REDD+ projects is likely to be dependent on appropriate fund management, revenue sharing, tax and fund disbursement mechanisms being in place. Different structures and approaches will be needed depending on whether countries take a sub-national or national approach to REDD+, although it appears that most countries are leaning towards a national approach.

In both cases investors and donors in REDD+ will require reassurance that their funds and investments will be well managed, achieve the desired impact on the ground and, in the case of investors, generate an appropriate financial return. To achieve this, more than just effective funding mechanisms will be needed. Appropriate regulatory, monitoring, reporting and verification, land tenure, community engagement and project governance systems will all need to be in place to generate investment at scale in a national REDD+ system.

This study aims to provide a national level perspective on how REDD+ funding is currently being managed and the next steps needed for achieving efficiency, effectiveness and equity.

Our approach

In 2010, in-person and telephone based interviews were carried out by PwC with stakeholder representatives from government, civil society, academia and the private sector in six countries: Brazil, Cambodia, The Democratic Republic of Congo, Indonesia, Madagascar and Peru to provide a national level perspective on how REDD+ funding is being managed now and how it could be managed in the future.

Interviewees were asked to complete a 'stakeholder map', then answer questions on existing and projected REDD+ funding management at a national, sub-national and project level. The interviewees were selected to achieve a broad representation from across sectors and on the basis of their involvement with the development of REDD+ at an international, national and project level. In order to retain anonymity, statements or information provided by respondents has not been attributed to individuals, without their prior permission. Please refer to Annex 1 for the geographic distribution of interviewees contributing to this report.

A desk-review of relevant literature was carried out to confirm findings from the interview process and to collect wider quantitative information on REDD+ funder and project level activity in each case study country.

The analysis of these interviews, supplemented with desk based research, are presented in six case study reports in this report. These country reports are based on data collected from February to August 2010 and as such may not capture the most recent REDD+ policy changes and project development.

The specific objectives of the six in-depth case study country reports are to:

- Determine the current REDD+ funding flows from international sources to the national and project level, including the identification of existing national and sub-national funding structures which manage and deliver REDD+ funding.
- Investigate the barriers to achieving a scalable, equitable, effective and efficient REDD+ funding structure able to distribute and manage the relevant portion of the \$4.5 bn in Fast Start funding.
- Identify alternative funding models that could be used by funders in the future (national governments, multilateral organisations and others) to both distribute and manage the \$4.5 bn Fast Start funding and the financial flows likely when REDD+ activities are funded through a market mechanism.

In late 2009 interviews were carried out with stakeholder representatives from government, civil society, academia and the private sector in the six countries mentioned above and six additional countries: Costa Rica, Tanzania, Colombia, Ecuador, Mexico and Uganda. The results of these interviews were used to analyse the current and potential future role for environmental funds and civil society in the development of REDD+.

The specific objectives of these high-level case studies are to analyse the role of environmental funds and civil society in:

- Fiduciary management – Managing funds for REDD+ activities and any income they produce, including the pre-agreed distribution of revenue between actors.
- Stakeholder engagement – Engaging stakeholders, whether at an international, national or local level, to ensure their support for REDD+ activities.
- Monitoring of project activities – Assessing the ongoing performance of REDD+ projects to accurately quantify emissions reductions, and the wider biodiversity and socio-economic benefits delivered over time.

An analysis of these interviews is provided in the final chapter of this report 'High level case study countries: The role of environmental funds and civil society organisations in REDD+'.

REDD+ national funding flows in 2012 & 2015

We have developed two models to describe possible channels for REDD+ funding for a hypothetical REDD+ recipient nation in 2012 & 2015. These are summarised in Figure 3 and 4. They are not presented as definitive solutions or recommendations. Instead they are intended to highlight options and issues and to stimulate interest and debate. These conceptual models are intended to assist stakeholders to consider future national REDD+ funding scenarios and challenges, and to show how the institutions and mechanisms involved in national funding REDD+ activity could potentially evolve from 2010-2015. The two models explore the possible funding frameworks which might be required to enable national REDD+ activity at scale in the medium term to longer term, and consider the level of funding which might flow through various routes.

As we move from the current position to 2012 to 2015 and beyond the diagrams assume:

- Transition towards greater carbon market funding with less reliance on public funds;
- Increased management of funds by state institutions as governance improves; and
- Much more actual REDD+ activity and less capacity building as we near 2015.

Whether, and how quickly, carbon markets become a principal source of funding for REDD+ will depend critically on developments in international and national policies. Without early progress in policy development, 2015 may prove to be an optimistic timeframe.

This analysis of current funding activities and conceptual future models is useful in helping us understand the potential role of environmental funds in REDD+ and challenges for them playing an increased role in future. The diagrams are not able to illustrate all aspects relevant to REDD+ funding frameworks and there are a number of areas which this study does not explore, including:

- The structure of private sector investment and the distribution of carbon revenue streams
- How different funding objectives will affect funding routes e.g. funding requiring an investment return versus sinking grant funds versus offset or compensation-related funding.
- Opportunity costs associated with land owners or rights holders pursuing REDD+ in lieu of forest conversion and how a market mechanism and funding framework will deal with changes in opportunity costs and maintain stability and certainty in REDD+ funding flows
- The challenges associated with using regional environmental funds for private sector investment funds

In the country reports an analysis is provided of how the projected 2012 and 2015 funding scenarios for each country compare with these generic models, in terms of the roles that environmental funds, state budgets, individual REDD+ projects/portfolio funds, national capacity building programmes and active voluntary projects could play in the future.

Figure 3: Funding flows for REDD+ related activities (2012 hypothetical model)

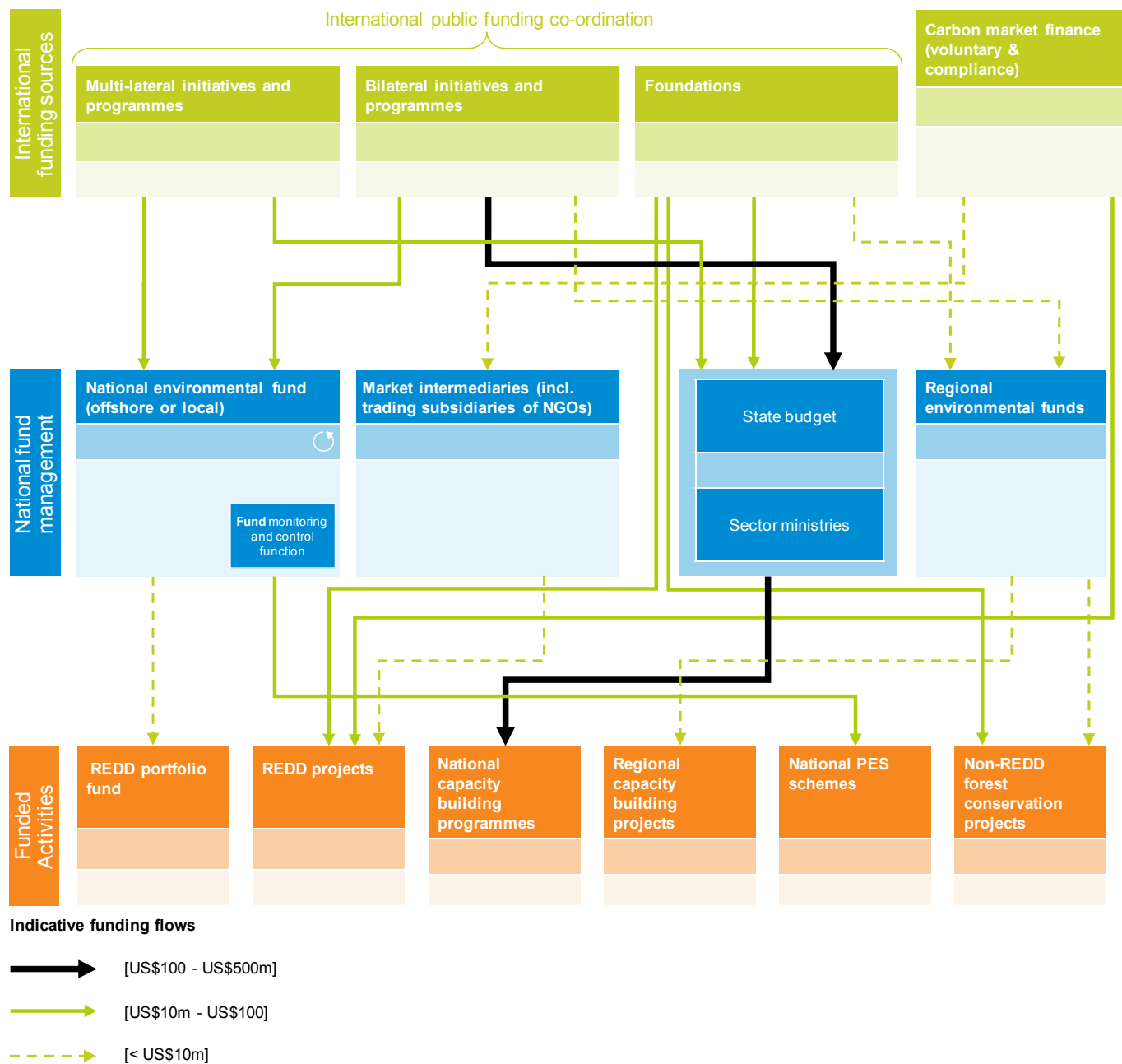
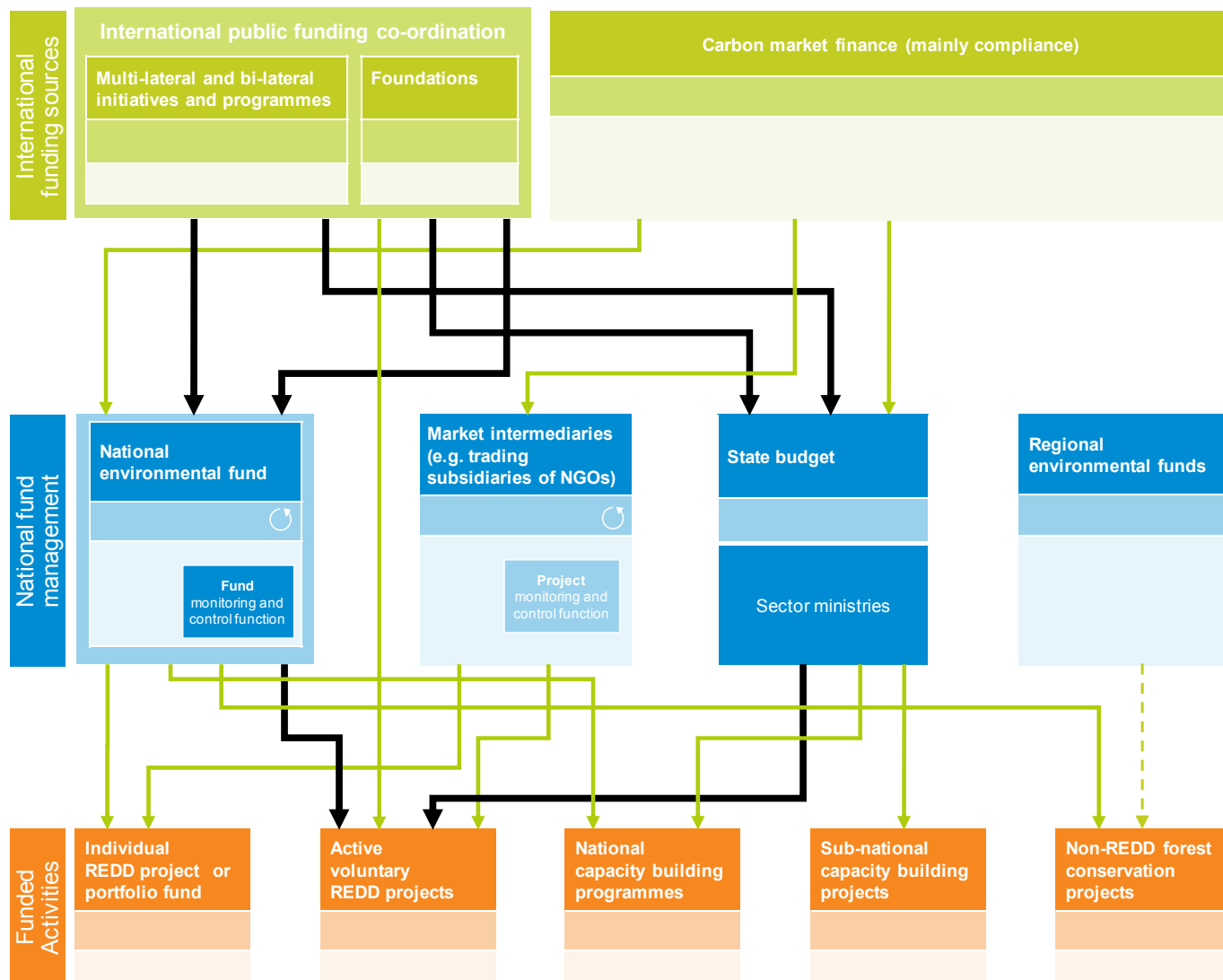


Figure 4: Funding flows for REDD+ related activities (2015 hypothetical model)



Indicative funding flows

- [US\$100 - US\$500m]
- [US\$10m - US\$100]
- [< US\$10m]

Brazil

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on Brazil and REDD+

Overview

Brazil is a country of expansive land, stretching over 8,514 million square km². It is located in the midst of the inter-tropical zone characterized by several different vegetable formations; those of note include the Amazon Rainforest, Caatinga (scrubby thorn woodland), Cerrado (wooded grassland), Pantanal (wetland), Atlantic Forest, Coastal Zone and Campos Sulinos (sub-tropical natural grasslands of southern Brazil).

Amazon Rainforest

Considered the largest rainforest in the world with rich biodiversity, 82% of the Amazonian rainforest in Brazil is reported to be intact. It dominates the North of Brazil (Amazonas, Roraima, Acre, Rondônia, Amapá, Maranhão, Pará, Mato Grosso and Tocantins) and is the habitat of thousands of plant and animal species. The principal development pressures that threaten Amazonian rainforest habitat are infrastructure expansion in the forest frontier, large scale encroachment from soya farming, cattle ranching, biofuels, colonisation by small scale farmers, exploration by oil & gas companies and informal logging¹².

Atlantic Forest

The Atlantic forest occupied almost the entire coastal region of Brazil but due to extensive deforestation, the forest now occupies only 7% of its original coverage. Development pressures on this forest are particularly intense especially as it contains large urban areas including Rio de Janeiro and Sao Paulo. Timber extraction, agricultural expansion (particularly coffee and sugar), cattle ranching, eucalyptus plantations and road building also represent significant threats to these biodiversity rich forests¹³.

Cerrado Woodlands & Savanna

The mosaic habitat of the Cerrado is one of the largest Savanna-forest complexes in the world and is found in Mato Grosso, Mato Grosso do Sul, Goiás, Minas Gerais and Tocantins. There is estimated to be around 61% of the Cerrado biome remaining. The key development threats it faces include agricultural expansion (including frequent burning and charcoal production), cattle ranching and water infrastructure projects.

Campos Sulinos / Pampa (sub-tropical natural grasslands of southern Brazil)

Lying in the South Temperate Zone within Rio Grande do Sul the Pampas are made up of grassland with small shrubs and tree cover. Whilst 43% of the Pampas are reported to be intact they are facing continued development pressure from cattle ranching activity and exotic tree plantations.

Caatinga (scrubby thorn woodland)

Caatinga is the largest dry forest region in South America and one of the most bio-diverse dry forests in the world. It covers the drier parts of northeastern Brazil, including Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Sergipe, Alagoas, Bahia, and northern Minas Gerais. Severe overgrazing, timber extraction and clearance for industrial scale cotton cultivation have meant that only half of the Caatinga habitat remains¹⁴.

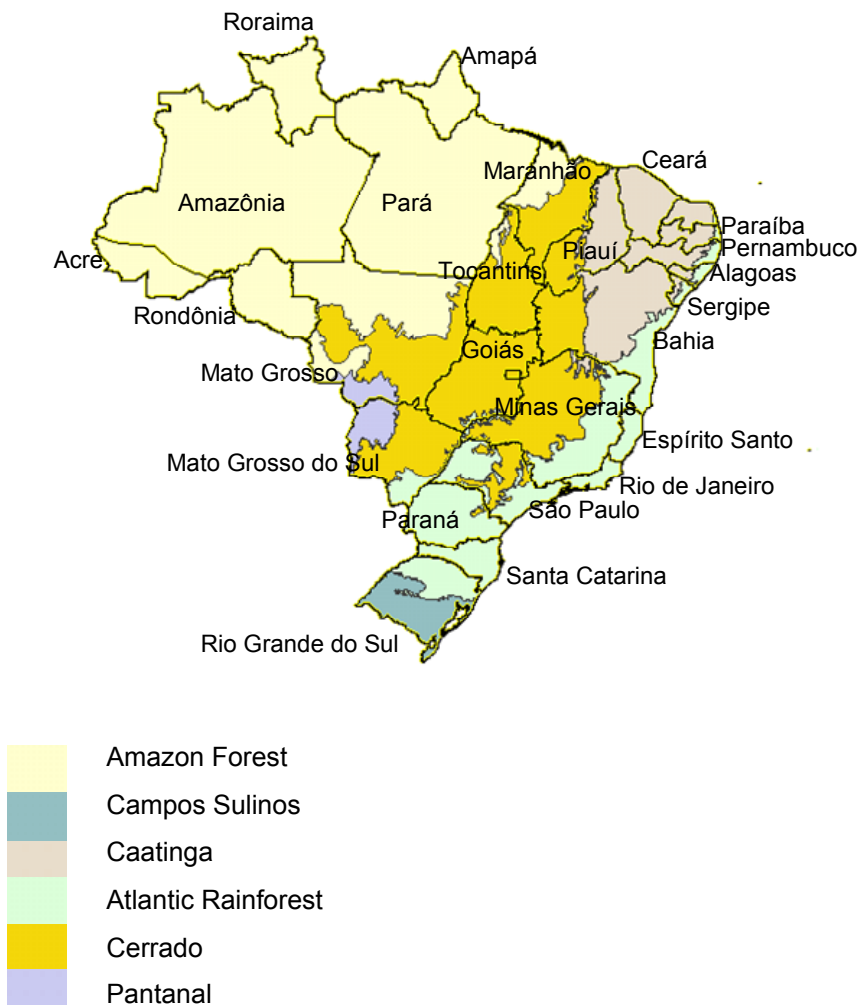
Pantanal

The Pantanal wetland contains high species biodiversity living with its grasslands, bush, palm and forest habitats. Some regions undergo flooding in the rainy season, an occurrence that changes their ecological characteristics throughout the year. Approximately 45% of the original coverage of this biome remains intact although cattle ranching and mining continue to encroach into this unique habitat.

¹² Sodhi, N.S & Ehrlich, P.R. (2010). Conservation Biology for All. Oxford University Press

¹³ World Wildlife Fund: Atlantic Forest. World Wildlife Fund. February 2010. www.panda.org/about_our_earth/ecoregions/atlantic_forests.cfm

¹⁴ World Wildlife Fund Caatinga (NT1304) www.worldwildlife.org/wildworld/profiles/terrestrial/nt/nt1304_full.html

Figure 5: The Brazilian Biomes and States (IBGE, 2010¹⁵)

The Amazonian ecosystem

The Amazon Forest is home to a third of the planet's humid tropical forests and to between 20-50% of the world's biological diversity. The biological endowment of the Amazon Forest represents a major ecological and economic opportunity which is of strategic regional, national and international importance. This transnational ecosystem is characterized mainly by contiguous forest and the vast Amazon river network. The network brings together several ecological subsystems distributed throughout the countries of French Guiana, Suriname, Guyana, Venezuela, Colombia, Ecuador, Peru, Brazil and Bolivia. The Amazon River Basin extends up to 7 million square km² and draws together over 1,100 tributaries. About 15% of the planet's unfrozen fresh water and 80% of the Brazil's territorial waters flow through this basin. The area also contains approximately half a billion hectares of a varying farmable soil types and its subsoil contains gigantic mineral reserves.

Conservation Units (CUs)

The National System of Nature Conservation Units (SNUC) - Law 9985, was passed in 2000. In the Brazilian Amazon, where land use and ownership remains largely undefined, the creation of Conservation Units (CUs) has been a successful tool for improving governance of Amazonian territory. An analysis of recent remote sensing data shows that, in addition to the Conservation Units, Indigenous land areas, under the jurisdiction of the federal government through the National Indigenous Foundation (FUNAI), have performed an important role in conserving extensive areas of contiguous forest, in some cases in areas of accelerated crop/livestock and logging expansion.

¹⁵ Brazilian Institute for Geography and Statistics (IBGE), 2010. Available: <<http://mapas.ibge.gov.br/biomas2/viewer.htm>> on 8th July, 2010

CUs and Indigenous reserves help define landholdings and also represent active units for the promotion of sustainable development in the regions where they are created. However, in the absence of effective actions to establish these protected areas (demarcation, signage, educational activities with neighbouring populations, management plans and sustainable activities with traditional populations, etc.) pressure is building on CUs and indigenous land, related especially to exploiting wood and to squatting.

It should be noted that the pace of forest clearing in the Amazon has been far greater than the creation of new CUs, resulting in greater pressure placed on areas identified as priorities for conservation, sustainable use and sharing of biodiversity benefits, as well as other environmental services.

Amazon Region Protected Areas Program

In 2003, the Brazilian government created the Amazon Region Protected Areas Program (ARPA) to expand, consolidate and maintain a substantial portion of the National System of Nature Conservation Units (SNUC) in the Amazon biome.

Initially created to protect 50 million hectares of tropical forests in the Amazon, the ARPA Program aims to promote the creation and the consolidation of CUs and long-term financial sustainability strategies to support the development of local communities.

The CUs supported by the ARPA Program include three categories of conservation units of full protection (parks, biological reserves and ecological stations) and two categories of conservation units of sustainable use (extractive reserves and sustainable development reserves).

Today, according to the Ministry of the Environment, the ARPA covers about 32 million hectares of CUs¹⁶ in the Amazon, which include 61 supported CUs (federal and state), 31 CUs of full protection and 30 CUs of sustainable use, in addition to which 20 studies are underway for the creation of new CUs.

¹⁶ Environmental Ministry, 2009. Environment Ministry launches second phase of the Protected Amazon Areas Program.

Available: <<http://noticias.ambientebrasil.com.br/clipping/2009/09/21/48383-mma-lanca-segunda-fase-do-programa-de-areas-protegidas.html>> on 8th July, 2010.

Amazon Deforestation

Deforestation in the Brazilian Amazon Forest increased markedly during the “modern” forest-clearing era of the 1970’s. Rates of forest clearance underwent a substantial increase in the following decades, with significant year-on-year variation (see diagram 2).

According to current Brazilian legislation:

“...the forests and other forms of native vegetation existing in a rural property situated in the forest areas of the Legal Amazon, may be eliminated, as long as at least 80% of the total area of the property is maintained as a legal reserve”

(Art. 16 of Measure no. 2166-67 of August 24, 2001).

This was an increase from previous legislation which set the limit at 50% of the property to be maintained as a legal reserve. As a consequence of this increase, several properties in the region, which until then had abided by the 50% quota provided for in earlier legislation, were now no longer able to comply with the current legislation, nor did they receive any succour, such as an incentive measure to offset the amendment.

From July 2009 - July 2010 INPE, Brazil’s National Institute for Space Research¹⁷ identified 1488 km² of deforestation in the legal Amazon, representing a reduction of 16% in the annual deforestation rate compared with 1766 km² from August 2008 to July 2009.

The accumulated deforestation during the period of August 2009 to July 2010 resulted in the emission of 95.6 million tons of CO₂. This represents a reduction of 20% compared with August 2008 to July 2009 when emissions were 2,121 million tons of CO₂¹⁸.

The states of Para and Mata Grosso accounted for 47% and 23% respectively of deforestation occurring between August 2008 to July 2009 in the legal Amazon, largely attributed to agricultural expansion and cattle production. INPE and IMAZON emphasise that this data is based on an analysis of satellite data at a resolution of 25 hectares, and further analysis will be provided later this year using data at the finer resolution of 6.5 hectares. This is likely to detect a greater proportion of the significant contribution that small scale deforestation makes to Amazonian deforestation.

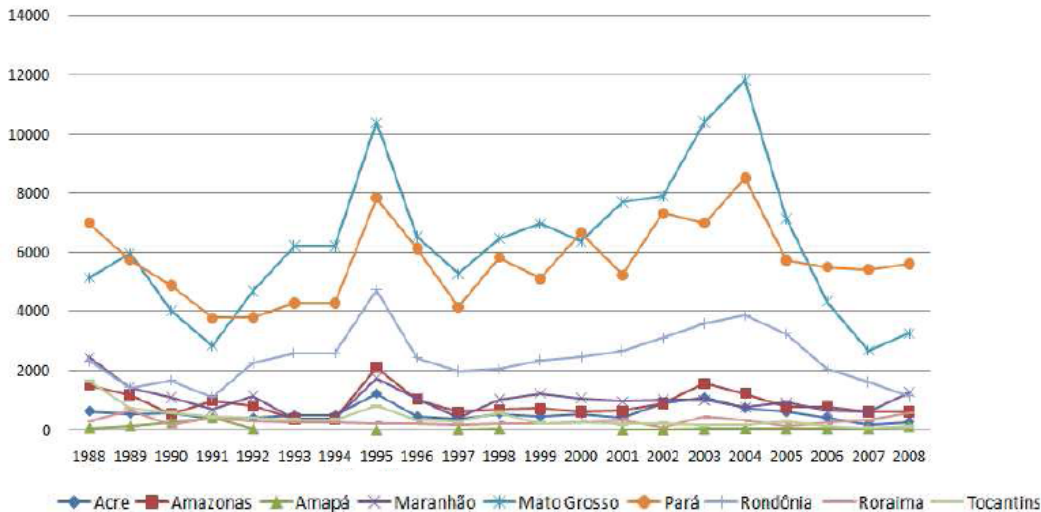
There is debate amongst stakeholders regarding how significant recent decreases in commodity prices for soy and beef and the appreciation of the Brazilian Reais have been in explaining reduced deforestation rates in the Amazon. There is however wide agreement that improvement of deforestation control measures by Brazil’s Environmental Agency (IBAMA) and the use of better quality satellite data have contributed to the 2009-2010 decrease in deforestation rates¹⁹. One of the main advantages Brazil has in achieving REDD+ readiness is the existence of INPE’s PRODES deforestation monitoring system. This has allowed Brazil to build the first national baseline for deforestation in the Amazon and will help to ensure that deforestation is accurately monitored during the development of a national REDD+ scheme.

¹⁷ National Institute for Space Research – Brazil, www.inpe.br/ingles/index.php

¹⁸ IMAZON, (2010). Transparência Florestal - Amazônia Legal. Available online: www.imazon.org.br/novo2008/arquivosdb/TFAL_Julho_2010.pdf

¹⁹ The Guardian (2010). Amazon deforestation in dramatic decline, official figures show, Friday 23rd July 2010. Available online:

www.guardian.co.uk/environment/2010/jul/23/amazon-deforestation-decline

Figure 6: Amazonian deforestation by state (INPE, 2009²⁰)

Policy principles and initiatives within Brazil supporting future REDD+ activities

Brazil's national position on REDD+ has been in contrast to other tropical forest countries in that it has not advocated a market-based approach to REDD+; but rather one which is based on performance payments financed from a fund. Brazil, along with France are set to co-chair the Interim REDD+ Partnership as of January 2011 where currently \$4.5 billion in donor funding has been made by member governments to support readiness activities in REDD+ nations.

Recognizing the threats of climate change to its economy and in anticipation of some forms of climate agreements in the coming years, Brazil announced in 2008 a plan to reduce emissions from deforestation by 70%²¹ below the 1996-2005 average by 2018; a move that would cut emissions from deforestation by 4.8 billion tonnes between 2006 and 2017. This led to the creation of the Amazon Fund (discussed in detail later in this report), which aims to raise \$21 billion from industrialized countries, individuals, and private companies, to finance emission reductions. As any project funded through the Amazon Fund has to comply with Brazil's National Plan on Climate Change which does not allow for the creation of carbon credits or right to emissions, the scheme in its current state is more akin to a channel for development aid.

Federal and state governments take different focus

Interestingly, the Brazilian state governments have historically taken a different view on the eligibility of REDD+ projects to generate internationally tradable carbon credits: for example the state of Amazonas is already developing REDD+ carbon projects which are structured to be financed through a market mechanism.

Additionally, five Amazon states are currently developing plans for projects which can operate in other REDD+ markets. They are currently working with California, Wisconsin and Illinois, and Papua and Aceh, Indonesia, in the Governor's Climate and Forest Task Force to develop regulations for reductions for deforestation to be used in US state compliance markets, depending on the outcome of the US energy legislation.

A boost for the market for REDD+ offsets from Brazil at a national level came after governors from Amazonian states and leading stakeholders met in April 2009 and endorsed the Cuiaba Declaration, which called on the federal government to embrace direct payments from emitters in the developed world to REDD+ projects in Brazil. The finance ministry has since embraced a hybrid approach to administering REDD+ payments that combines the fund approach with direct payments for ecosystem services, from sub-national projects nested within a national framework.

20 National Institute for Space Research (INPE), 2009. Available < <http://www7.cptec.inpe.br/noticias/faces/impressao.jsp?idConsulta=11833&idQuadros=>> on 8th July, 2010

21 O Globo, 2008. Available: <http://oglobo.globo.com/pais/mat/2008/12/01/plano_do_governo_preve_reducao_no_desmatamento_da_amazonia_metade_ate_2017-586783745.asp> on 08th July, 2010

Draft National Congress Bill on REDD+

This draft bill No.5586 from the Committee on Environment and Sustainable Development is the result of 14 consultations held with the House of Representatives, various ministries, state agencies, municipal governments, the business sector and civil society. This bill proposes a national definition of REDD+, aligns REDD+ with biodiversity conservation, states the need to allocate REDD+ benefits broadly across socio-economic groups, calls for deforestation reference levels in each Brazilian biome, and proposes the potential range of sources for public and private funding for the implementation of a national REDD+ plan. The bill also proposes the creation of a National REDD+ committee with the remit to:

- Define standard methodologies to be used within the National System of REDD +
- Develop guidelines and approve principles, criteria and indicators for analysis, approval and registration of REDD+ projects
- Define criteria for the generation of Certified REDD+ Emissions Reductions
- Define criteria for fungibility between forestry carbon emissions and other industrial sectors
- Establish mechanisms for resolving disputes related to REDD+ projects

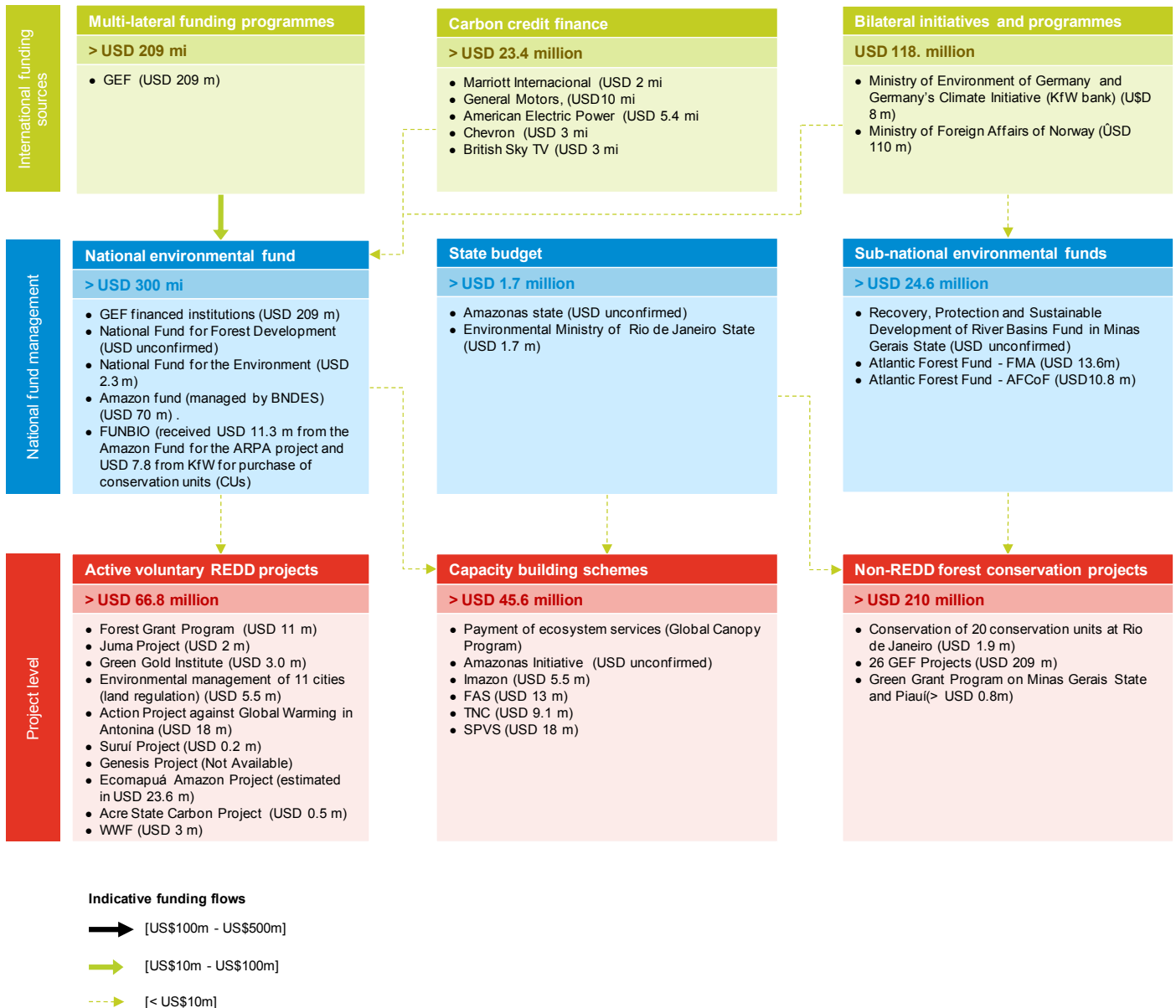
If this bill is passed and a National REDD+ committee is formed, much of the uncertainty regarding Brazil's approach to REDD+ will be resolved. This will provide potential funders and project developers with a framework for the operation of a national REDD+ scheme in Brazil.

2. Current REDD+ funding in Brazil

This section explores the current arrangements within Brazil for REDD fund disbursement focusing particularly on the role of Environmental Funds within this. We begin with Figure 7 below which summarises the routes through which the REDD funding identified from this study flow from international sources into and within Brazil before reaching actual REDD projects and REDD-related capacity building activities. The actors within it are discussed in more detail below.

Figure 7: Brazil - Current national funding flows for REDD+ related activities

NB: The diagram only includes those projects and initiatives we have been able to obtain funding data on.



Current fund management options and arrangements in Brazil

International funding sources

Global Environment Facility (GEF)

The Global Environment Facility (GEF) unites 181 member governments — in partnership with international institutions, nongovernmental organizations and the private sector — to address global environmental issues.

An independent financial organization, the GEF provides grants to developing countries and countries with economies in transition for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. These projects benefit the global environment, linking local, national, and global environmental challenges and promoting sustainable livelihoods.

Established in 1991, the GEF is today the largest funder of projects to improve the global environment. The GEF has allocated \$8.8 billion, supplemented by more than \$38.7 billion in co-financing, for more than 2,400 projects in more than 165 developing countries and countries with economies in transition. Through its Small Grants Programme (SGP), the GEF has also made more than 10,000 small grants directly to non-governmental and community organizations.

The GEF partnership includes 10 agencies: the UN Development Programme; the UN Environment Programme; the World Bank; the UN Food and Agriculture Organization; the UN Industrial Development Organization; the African Development Bank; the Asian Development Bank; the European Bank for Reconstruction and Development; the Inter-American Development Bank; and the International Fund for Agricultural Development. The Scientific and Technical Advisory Panel provides technical and scientific advice on the GEF's policies and projects.

In Brazil, the Global Environment Facility has supported 26 projects in biodiversity, degraded area and multi focal areas. Listed below are the amounts invested in each project type.

Figure 8: Summary of approved national projects (including cancelled projects) since 1991 for Brazil

Focal Area	GEF Grant (\$)	Co-financing Total (\$)	Number of Projects
Biodiversity	166,989,771	409,637,836	19
Land Degradation	12,990,000	21,097,600	2
Multi Focal Area	29,751,900	77,262,400	5
Grand Total	209,731,671	507,997,836	26

Global Canopy Programme

The Global Canopy Programme is an alliance of 37 scientific institutions in 19 countries, which lead the world in forest canopy research, education and conservation.

With help from the UK's Darwin Initiative and the FCO Global Opportunities Fund, GCP canopy training programmes in Brazil, Malaysia and Britain are helping to build a platform for new scientific leadership in forest science. They are supporting scientific research on forest canopy ecosystem services through the 'Valuing forests as Eco-Utilities' project, Project IBISCA and the proposed Whole Forest Observatory network. In the finance sector they are working with Governments of forested nations to establish pilot projects to demonstrate that payments for ecosystem services could become traded in the voluntary markets. If successful this could generate significant revenues to countries (including Brazil), on a scale of current agribusinesses such as soya, palm oil and beef.

Amazonas Initiative (not yet operational)

The Amazonas Initiative is bringing together the Government of the State of Amazonas in Brazil with the UK Government and the carbon markets in London. Amazonas state has 16.9 billion hectares of forest under protection, and contains the equivalent of 7 billion tonnes of CO₂ in standing biomass.

The Amazonas' Initiative seeks to establish a new mechanism that allows interested parties in becoming partners of implementing programs that reduce deforestation through payment of ecosystem services. The goal is to establish an endowment fund from which income can be generated to purchase ecosystem services provided by standing forests, and to be invested in an operational program with activities that help prevent deforestation and contribute to sustainable development.

The process is being led by the Secretariat of Environment and Sustainable Development (SDS) of the Government of Amazonas, in collaboration with Institute of Environmental Research of the Amazon (IPAM), Global Canopy Program (GCP), Amazon Working Group (GTA), National Council of Rubber Tappers (CNS) and the Institute for Conservation and Sustainable Development of Amazonas (IDESAM)²².

KfW

KfW, through Germany's Climate Change Initiative has provided US\$ 2.5 million for the first phase of the Atlantic Rainforest Conservation Fund and US\$ 8.3 million so far for its second phase (out of a total of US\$15 million planned up to November 2012). KfW also provided \$6.6 million in funding towards the Sustainable use of Protected Areas in Amazonia (ARPA) programme managed by FUNBIO together with the Global Environment Facility (GEF), the World Wide Fund for Nature (WWF)²³.

National funding

Through our consultations within the conservation, government, and private sector communities within Brazil we identified some existing institutions and structures currently involved in relevant fund management and disbursement activities at a national level, including:

Amazon Fund²⁴

The largest fund for forest conservation in Brazil is the "Fundo Amazonia" (Amazon Fund), which was established on 1st August 2008. The key objectives of the fund are to promote projects which prevent deforestation and support the sustainable use of forests in the Amazon. The Fund also supports protected area management, monitoring, territorial and economic zoning processes and reforestation actions.

This fund was created by the Brazilian Government following a pledge to donate around US\$110 million from the Norwegian government in 2009.

The National Bank of Economic and Social Development (BNDES) manages the Fund, along with undertaking to raise funds, facilitate contracts and monitor projects. The Amazon Fund has a Guidance Committee – ("COFA"), assigned with the responsibility of posting guidelines and monitoring the results obtained; and a Technical Committee ("CTFA"), appointed by the Ministry of Environment, whose is charged with certifying the emissions count from deforestation of the Amazon Forest.

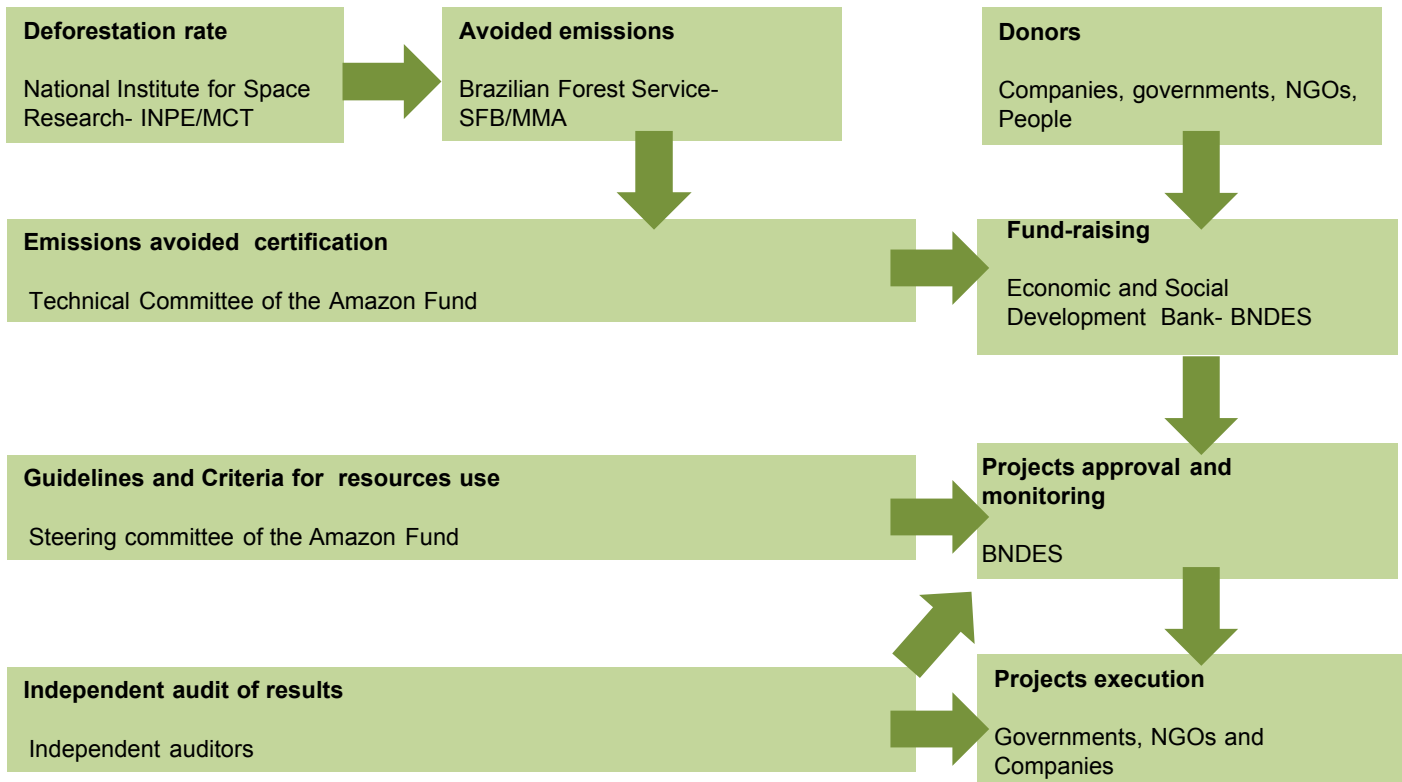
In addition to the initial pledge of US\$110 million in 2009 (of which US\$36 million have been committed in the first five projects), Norway has pledged to donate around US\$118 million in 2010, and up to US\$1 billion by 2016, if a series of performance targets are met. These are based on results from reducing deforestation, which means that Brazil must maintain a low level of deforestation to continue receiving funds from the Norwegian Government.

The Amazon Fund is structured such that it operates somewhere between an independent fund and a state-run fund. It operates quite independently of the federal agencies responsible for policies which affect deforestation and land use, and to date there appear to have been few attempts to coordinate these national policies.

22 Global Canopy Programme, 2010. Available < <http://www.globalcanopy.org/main.php?m=118&sm=146&t=1> > on 8th July, 2010

23 Germany's Climate Initiative, (2010). Available online: www.bmu-klimaschutzinitiative.de/en

24 Adapted from www.fundoamazonia.gov.br

Figure 9: Amazonia Fund operation flow²⁵

In December 2009 BNDES approved the first five projects to receive funding from the Amazon Fund. The funding total was approximately US\$70 million and will be used in actions to combat deforestation, registration and assessment of environmental data and land in farms (especially in regions with high rates of deforestation), land reclamation sustainable forest use and promotion of sustainable activities for local people.

The following presents a summary of the five projects already approved to receive funding from the Amazon Fund:

The Forest Conservation Grant Fund ("Bolsa Floresta")

The Amazon Fund will allocate US\$10.9 million to build and expand The Forest Conservation Grant Fund ("Bolsa Floresta"), created in 2008. The program aims to reduce emissions of greenhouse gases caused by deforestation, and promote improvements in quality of life of people living in the forest. Its operation is based on the payment of compensation to communities for environmental services of forests. With the contribution of the Amazon Fund, the program will operate in the prevention and containment of deforestation in 20 Conservation Units (CUs) an increase in the current program of 14 CUs.

The Bolsa Floresta is composed of four components. The Amazon Fund will specifically support two of these: the Bolsa Floresta – Income (which aims to generate sustainable revenue from productive activities) and the Bolsa Floresta – Association (which will support the creation and governance of associations of peoples within the CUs). The program contributes to the maintenance of about 10 million hectares of forests, approximately 6.4% of the territory of the State of Amazonas. If the area was fully cleared, the emission of carbon dioxide would be about 3.67 billion tons²⁶.

The project aims to provide sustainable livelihoods for local peoples through a range of mechanisms including payments for environmental services, and the use of sustainable forest management practices. Given that deforestation in these areas to date has been, at least partly, caused by local peoples who lack an alternative income, this aspect of the project is seen as critical for it to be a permanent success.

²⁵ Adapted from www.fundoamazonia.gov.br

²⁶ Sustainable Amazon Foundation, 2009. Available < <http://www.fas-amazonas.org/pt/noticia/Fundo-Amaznia-aprova-apoio-ao-Programa-Bolsa-Floresta>> on 8th July, 2010.

Institute of Man and Environment in Amazonia- IMAZON (Instituto do Homem e Meio Ambiente da Amazônia)

The Amazon Fund will allocate R\$9.7 million to IMAZON, an NGO based in Belém (state of Pará), founded in 1999²⁷.

The funds will be used to support a project currently being developed by IMAZON that will cover 11 municipalities of the state of Pará; six of these are in an area considered by the Federal Government as a priority and nine were included in the Program Green Arc and Legal Land promoted by the Federal Government (municipalities to be serviced by the IMAZON project are: Abel Figueiredo, Bom Jesus do Tocantins, Breu Branco, Dom Eliseu, Goianésia do Pará, Itupiranga, Jacundá, Paragominas, Rondon do Pará, Tailândia and Ulianópolis).

Amongst other activities the IMAZON project will monitor deforestation in the municipalities, as part of a strategy for planning the recovery of deforested and degraded lands in these areas. The methodology proposed by IMAZON will ensure broad participation in social and governmental process, and the expected duration of support provided is 36 months.

The Nature Conservancy do Brasil (TNC)

The Amazon Fund will allocate US\$9.1 million to TNC, in a project covering twelve municipalities (in the states of Pará and Mato Grosso) will be part of the project, whose goal is the creation of the Environmental Rural Registry and satellite monitoring of deforested and degraded areas in the region. The project will also seek to encourage a stronger commitment from the soy and timber sectors to environmental laws which apply within the project area. The TNC's project will also encourage farmers to register their environmental properties, this will be important to encourage producers to commit to the Rural Environmental Registry. The expected duration of financial support is 36 months.

Green Gold Institute (Instituto Ouro Verde)

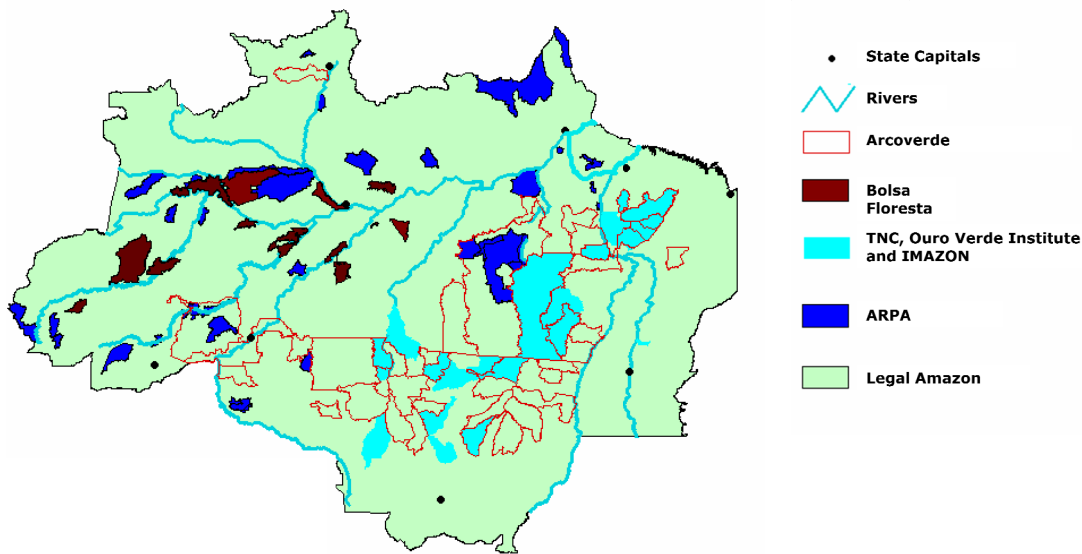
Portal Seeds Project ("Projeto Sementes do Portal")

The Fund will allocate US\$3.1 million to the Green Gold Institute, an NGO created in 1999 in São Paulo. The funds will be used for a project of the Ouro Verde Institute which promotes the recovery of more than a thousand hectares of degraded land through the use of agroforestry systems, technical support and the training of local peoples and environmental licensing of rural properties in six municipalities in the extreme north of Mato Grosso, part of the region known as Amazon Portal Territory. The project will use a technique called "*muvuca*" which involved the planting of forest and agriculture crops which are inter-mixed, and are grown and managed without the use of fertilizers or pesticides. The seeds to be used will be acquired from an indigenous community, who will also therefore benefit from the revenue this will generate. The expected duration of financial support is 12 months.

Brazilian Biodiversity Fund – FUNBIO (Fundo Brasileiro para a Biodiversidade)

The Amazon Fund will allocate US\$11.3 million for FUNBIO. The funds will be used to continue the ARPA program, established in 2002 and considered the largest program of tropical protected areas developed globally. In its first phase (2002 – 2008) ARPA created 23.9 million hectares of protected areas in the Amazon and it aims to support the creation of additional 13.5 million hectares in its second phase. Besides the creation, ARPA program supports the consolidation of these areas. In its second phase it will support the consolidation of 32 million hectares, of which 6.5 million hectares are areas already protected but were not covered by the program before. The expected duration of the financial support from the Amazon Fund is 48 months.

²⁷ Norway Embassy in Brazil, 2009. Available <http://www.noruega.org.br/News_and_events/Noruega-e-Brasil/Cooperacao-em-Meio-Ambiente/Fundo-Amazonia/Cinco-projetos-do-Fundo-Amazonia-/> on 08th July, 2010.

Figure 10: Amazon Fund approved projects²⁸

National Fund on Climate Change

The Brazilian government plans to invest 200 million reais (\$113 million) next year to combat climate change and mitigate the impacts of global warming in Brazil. This fund will be financed by a portion of a special participation tax on gross revenues from oil production. This fund is planned to promote sustainable activities such as REDD and encourage business leaders to compensate for their carbon emissions by reforesting degraded areas²⁹.

National fund for the Environment

The National Fund for the Environment (FNMA) was established in 1989 as part of a Brazilian government program called 'Nossa Natureza' (Our Nature) as a federal government response to deforestation pressure, particularly in the Amazon region³⁰. Since its creation FNMA has financed more than 2,000 projects, allocating about US\$ 133 million, throughout the country across a broad range of environmental themes including sanitation, the protection of endangered species, reforestation, scientific research, training and education. The majority of projects funded by FNMA are managed by environmental or social NGOs³¹.

Atlantic Forest Fund – Fundo da Mata Atlântica (FMA)

The Atlantic Forest Fund was designed by FUNBIO for the Rio de Janeiro State Secretariat of Environment. It is mostly funded by environmental compensation resources (Law nr. 9985 explained below), but it can also receive donations. This fund was established to create and consolidate CUs in the state of Rio de Janeiro, mainly covered by Atlantic Forest. It has received US\$ 13,4 million of compensation resources from the State Secretariat (through the Compensation Chamber – CCA/RJ) and about US\$ 250,000 from the Atlantic Forest Conservation Fund – AFCoF (detailed below).

The Fund has also developed analysis of the legal framework for environmental compensation, possible areas of investment by the state, and the current state of Conservation Units and the management structure of their governing bodies.

²⁸ http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/

²⁹ Latin American Herald Tribune, (2010). Brazil to Invest More Than \$100 Million to Combat Climate Change. Available online: laht.com/article.asp?CategoryId=14090&ArticleId=363750

³⁰ Redlac, (2009). The challenges of public environmental funding in Brazil. Available online: redlac.org/index.php?option=com_content&view=article&id=197%3Atwenty-years-of-public-environmental-funding-in-brazil&catid=82%3Aopinion&Itemid=158&lang=en

³¹ IDB America – Magazine of the Inter-American Development Bank, (2010). Environment fund reaches across Brazil. Available online: www.iadb.org/idbamerica/index.cfm?thisid=3505

Studies to identify potential resources for the fund showed that there is around US\$75 million available from planned enterprises in the State of Rio de Janeiro that could provide future generate compensation resources to the fund.³²

Atlantic Forest Conservation Fund (AFCoF)

The Atlantic Forest Conservation Fund (AFCoF) is also managed by the Brazilian Biodiversity Fund (FUNBIO) and it was created with resources from the Ministry of Environment of Germany (through KfW bank), within the International Climate Initiative³³. It received about US\$ 2.5 million in its first phase (2009) and US\$ 8.3 million for its second phase (currently under implementation). This fund supports the identification, creation and consolidation of conservation units under the Atlantic Forest National Program. It also provides support for private protected areas (Private Reserves of Natural Heritage - RPPNs), financing of Payment for Environmental Services mechanisms and the development of a monitoring system for the Atlantic Forest, similar to the existing system for the Amazon.

The initiative is widely recognized for the development of a methodology, under the coordination of FUNBIO, for monitoring carbon emissions within projects financed by AFCoF.

Other interesting initiatives

Green Grant Program – Bolsa Verde

Bolsa Verde is a federal level scheme that is based on public payments made to landowners for protecting ecological assets, such as forestland. The national project is still awaiting congressional approval although there are state level schemes currently underway for example in Piauí the BNDES (Brazilian Development Bank) has funded a "Bolsa Verde" programme that will provide families and communities with financial incentives to preserve forest cover on their land.

National Fund for Forest Development (Fundo Nacional de Desenvolvimento Florestal - FNDF)

The National Fund for Forest Development, created by Law 11,284 of March 2006, is a public fund held by the General Budget and managed by the Brazilian Forest Service, and aims to foster the development of Brazilian sustainable activities and promote technological innovation in the industry.

The main funding sources of FNDF are from funds collected from the procurement of forestry concessions, donations made by national or international entities (both public and private), reversal of the annual balances not applied and other sources of funds which are specifically intended, including budgets shared with other entities of the Federation.

Law 9985 of 18th July, 2000: "Environmental Compensation"

The Brazilian "Environmental Compensation" (Compensação Ambiental) legislation requires environmental impacts at a project level which are not possible to mitigate to be offset by project developers (although this must occur in the same watershed as the project). Environmental compensation can be required either prior to permitting for the development to take place or as a retrospective action to restore or repair environmental damage.

Environmental Compensation is described in Article 36 of Law nr. 9985 of July 18th, 2000 establishing the National System of Conservation Units (Sistema Nacional de Unidades de Conservação - SNUC) and regulated by Decree nr. 4340 of August 22nd, 2002, as amended by Decree nr. 5566/05.

In 2005 the Ministry of Environment and Caixa Econômica Federal (CEF – Governmental bank), created the National Fund for Environmental Compensation. This funding mechanism ensures that at least 0.5% (half percent) of the value of projects with major environmental impacts will be used for the rehabilitation of protected areas such as parks and reserves.

Funded activities and REDD-related projects in Brazil

In addition to REDD+ projects which are financed from the funding mechanisms described above, there are a number of REDD+ projects which have been established using a range of other private and public sector capital.

32 Brazilian Biodiversity Fund (FUNBIO), 2010. Available <<http://www.site.funbio.org.br/teste/Not%C3%ADcias/Institucional/FunbiorenovaparceriacomSEARJparaFMA.aspx>> on 08th July, 2010

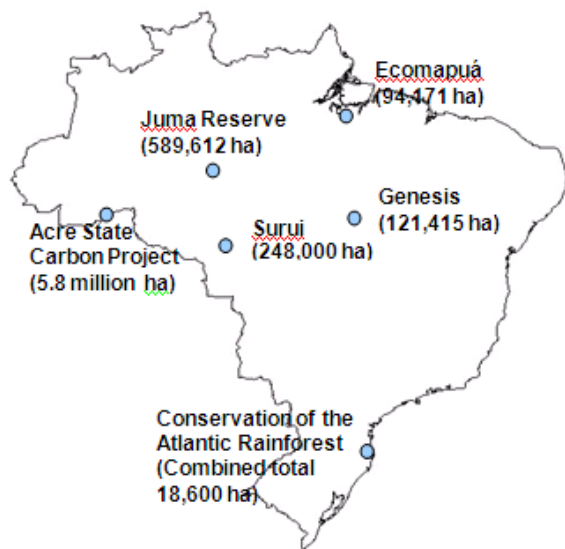
33 Germany's Climate Initiative, (2010). Available online: www.bmu-klimaschutzinitiative.de/en

These projects are distributed unevenly at the sub-national level: the majority are located in the Amazon, with a third of those in Mato Grosso, which is the state with the second highest deforestation rate in Brazil. The remaining REDD+ projects (and most of the A/R projects) are in the Atlantic Coastal Forest. The size of projects varies significantly, with projects as small as 20 hectares in the Atlantic Coastal Forest and as large as 8.4 million hectares (operating at the landscape scale) in the Amazon.

Brazilian organisations (NGOs, private sector and government) are the project investors for at least two-thirds of the REDD+ projects catalogued in the country to date. Most of these projects involve an international partner; in part to facilitate access to international funding. About one-fifth of projects have strong private sector leadership.

Standards, funding and development of projects are being driven largely by actors in developed countries, where there is demand for both offsets with strong environmental co-benefits. Interest in environmental co-benefits is also reflected in the engagement of major environmental organisations, who are key players in the development of pilot REDD+ projects, while the multilateral initiatives of the UN and the World Bank focus on building capacity at the national and regional levels.

Figure 11: Sample of REDD projects in Brazil (PwC analysis)



According to the survey of the Brazilian actions for Reducing Emissions from Deforestation and Forest Degradation (REDD) led by the Brazilian Forest Service, the projects are still incipient and are distributed on public, private and indigenous lands. Most projects have focused on reduction of avoided deforestation (61%), followed by conservation (29%) and prevented degradation (10%). Only 12% of them are implemented, where 53% are in the preparation phase, in addition 35% are still raising financial resources.

The funding of these projects to date has come from a mix of public funds, revenues from sales of credits in the carbon market and funding from the private sector who are investing for corporate social responsibility (CSR) purposes.

The following are REDD+ reduction emission (as opposed to capacity building) projects in development or already established within Brazil. This project list is not exhaustive. Capacity building projects e.g. around regional MRV systems, are discussed later in this report.

Acre State Carbon Project - Payment for Environmental Services³⁴

The project seeks to add value to the standing forests of Acre and turn them into a viable source of environmental services for both the current and the future. Initially, the project will span 8 municipalities in the State of Acre, totalling 5,800,000 ha in diverse regions and a mix of Amazon forest types.

³⁴ The Nature Conservancy and IDESAM, (2009). Casebook of REDD projects in Latin America.

In the first stage of the project, areas under the greatest threat of deforestation and which surround diverse ownerships and tenure (indigenous lands, protected areas, informal settlements, etc.) have been identified as priority areas.

The project, proposed and coordinated by the Acre State Government, in partnership with WWF Brazil, the IUCN, GTZ and IPAM, envisages a Payment for Ecosystem Services Program with the compensation for reduced emissions from deforestation and forest degradation, sustainable management and conservation of forests (REDD+). Confirmed buyers / investors are WWF, GTZ, Amazon Fund (under negotiation) and British Sky TV.

Ecomapuá Amazon REDD Project³⁵

This project encompasses 94,171 hectares and is located within a private property pertaining to the company Ecomapuá Conservação LTDA in the municipality of Breves, on the island of Marajó, northern Pará State. The project aims to conserve and restore an area of Amazon forest area that belonged to a timber company before the purchase of the property by the project owners.

REDD credits generated from the project are planned to be sold to the private sector in the carbon markets. In addition to the REDD component, proposed activities within the project's scope include reforestation as well as research and the development of relations with surrounding communities.

The parties who made this project possible are Ecomapuá Conservação LTDA, the project implementer; Winrock International, responsible for the project's feasibility study; Bruno Matta, independent consultant, responsible for designing the PDD for CCB standards; the University of Georgia, responsible for soil carbon measurements; Vigna Brasil, responsible for research and planning for reforestation and low-impact management; the Amazon Sustainable Institute, responsible for social aspects of the project.

Genesis REDD Project³⁶

The project's objective is to guarantee the protection of a natural savannah area (cerrado), located in the Serra do Lajeado Environmental Protected Area (APA) in the district of Taquareussu, near the city of Palmas in the state of Tocantins, northern Brazil. The intention is to transform the area, totalling 121,415 hectares, into a Privately Owned Nature Preserve – RPPN ("Reserva Particular do Patrimônio Natural") with the benefit of providing essential ecosystem services such as erosion control, water cycling, filtration and storage, nutrient recycling, and habitat for thousands of native Amazonian animal and plant species.

The project, invested in by Hyundai Motors America (HMA), is being developed by the Instituto Ecológica in partnership with CantorCO2e and CarbonFund.org.

Juma reserve REDD Project³⁷

The project consists of the creation and implementation of a Sustainable Development Reserve to reduce deforestation in a region under strong pressure. The Juma Reserve, located in the Novo Aripuanã municipality in the south of Amazonas State, Brazil, is state protected with a total area of 589,612 hectares, comprised of Amazon forest exhibiting three different forest typologies. The project expects to generate avoided carbon emissions of approximately 3.6 million tons of CO₂ by 2016 compared to the emissions from illegal and legal logging which would have occurred in its absence.

The project is being developed by the Amazonas Sustainable Foundation – FAS ("Fundação Amazonas Sustentável"; the State Government of Amazonas, with responsibility of coordinating and implementing the project's proposed activities as well as their management; the Marriott Hotel chain, responsible for the financing and purchase of REDD credits – that will be used to offset their carbon emissions; and, the Institute for Conservation and Sustainable Development of Amazonas (Idesam), technical partner responsible for coordinating the drafting of the Project Design Document (PDD) and the CCB validation process. The project is validated under the CCB Standards, the first project in Brazil (and the Americas) to have received international certification for avoided deforestation, and in validation under the Voluntary Carbon Standard (VCS).

³⁵ Ibid

³⁶ Ibid

³⁷ Ibid

Conservation of the Atlantic Rainforest, Pilot Project for Reforestation in Antonina and the Action Project against Global Warming in Antonina

This is a collection of three projects that take place in different Atlantic rainforest locations in the municipalities of Antonina and Guaraqueçaba, in the State of Paraná, in southern Brazil. Although each “project” has different investors and separate accounting for emissions reductions, they share the same design and implementation framework.

Atlantic Rainforest Conservation Project in Antonina:

- Area: 8,600 ha
- Total reduction after 40 years: 181,095 tCO₂e
- Investor: General Motors

Pilot Project for Reforestation in Antonina:

- Area: 3,300 ha
- Total reduction after 40 years: 65,456 tCO₂e
- Investors: Chevron

Action Project against Global Warming in Guaraqueçaba:

- Area: 6,700 ha
- Total reduction after 40 years: 137,713 tCO₂e
- Investors: Electric Power

The NGO Society for Wildlife Research and Environmental Education – SPVS (Sociedade de Proteção à Vida Silvestre e Educação Ambiental), which makes the alignment between companies and land owners, is supervising project work and is providing technical conservation actions in these areas as well as calculations of carbon stock present in them. The Nature Conservancy provides technical and accounting assistance³⁸.

*Suruí Project*³⁹

The project consists of protecting an indigenous territory which is currently under great threat of deforestation from land grabbing and illegal logging, partly through implementing a REDD+ scheme. As well as catalyzing carbon finance, with future carbon credits likely to be sold in the voluntary carbon market, this project aims to reinforce the Suruí peoples’ efforts to conserve their culture and develop alternative livelihoods. The project is located in the Indigenous territory Sete de Setembro, in the municipalities of Cacoal and Espigão d’Oeste in Rondonia State and Rondolândia in Mato Grosso State. The project has a total area of 248,000 hectares divided between submontane open and dense ombrophilous forests.

The project is being developed by the Metareilá Association in partnership with: Kanindé, an NGO which is responsible for the elaboration of the ethnic zoning, technical assistance and the reforestation plan; Forest Trends, which provides technical support in the formulation and implementation of the project, legal advice and capacity-building for environmental services and contact with investors; the Institute for Conservation and Sustainable Development of Amazonas (Idesam), responsible for the construction of baseline scenario and quantifying carbon emissions reductions; and, ACT-Brazil who is responsible for building the project’s participatory processes, legal advice to Metareilá and anthropological support to the project as well as development of the GIS database. FUNBIO is responsible to designing the financial mechanisms for benefit sharing and resource management for this project. The project’s design is funded by donations from philanthropic organisations.

³⁸ Ibid

³⁹ Ibid

3. Potential barriers to funding future REDD+ activity at scale

Whilst there has been a significant amount of national and international support for REDD+ activities in Brazil, the development of a large number of REDD+ demonstration and market projects and national funding mechanisms, there are still potential barriers to attract the investment needed to fulfil Brazil's REDD+ potential post-2012.

Economic policies contradictory to REDD+ aims

Within rural credit programmes which incentivise the expansion of cattle ranching operations in the Amazon region there has not been sufficient priority given to improving productivity and management of pastures which are already cleared. The implementation of Resolution 3545 in terms of creating linking access to rural credit to compliance with land tenure and environmental legislation has also been weak due to insufficient monitoring resource.

Large-scale infrastructure projects such as the Programa de Aceleração do Crescimento - PAC (Program to Accelerate Economic Growth) launched in February 2007 involves a portfolio of large-scale infrastructure projects such as the Rio Madeira – hydroelectric dams and the paving of BR-319 highway between Manaus and Porto Velho. Some observers have seen this as a reversion to the conventional model of economic growth where the lobbying strengths of powerful economic groups, political patronage and a 'politicization' of the environmental licensing process means that the emphasis on socio-environmental impacts and multi-stakeholder dialogue have been progressively marginalised. There are also concerns about the fact that lending portfolio of the BNDES, which holds the funds for the Amazon Fund, includes activities such as beef processing and large-scale infrastructure project in the Amazon⁴⁰⁴¹.

These wider policy and economic trends run in direct contradiction to the REDD+ agenda which could limit the growth of REDD+ in Brazil and potentially reduce the political support it gains within the private sector and at a state and national government level.

Land tenure conflicts and indigenous communities

The registration of lands, especially in remote parts of the country such as the Amazon, is often incomplete and there has not been consolidation of property ownership across Brazil. This can lead to a conflict in land claims which could pose a risk to REDD+ project developers.

Whilst the management of land differs between state land agencies, land ownership in the Amazon is likely to have the greatest influence on the success of REDD+ in Brazil. According to INCRA, the lands on the Legal Amazon are distributed according to the table below in the following areas type:

- Brazilian Government Areas - Areas that are not registered in SNCR (Brazilian National System of Rural Registration) and therefore are public. They can be addressed for rural settlement, land reform etc.
- Indigenous Lands - Lands for indigenous communities. These are also environmental protected areas.
- Settlement Areas - Public rural areas of settlements / landless people.
- Federal and States Conservation Units - Environmental Protected Areas by SNUC (National System of Nature Conservation Units).
- Amazonas Government Areas (ITEAM) - Lands addressed to land regularization and agrarian reform in the state of Amazonas.
- Landed Property - Areas that are not registered with SNCR (Brazilian National System of Rural Registration), and are therefore privately held.
- Brazilian Armed Forces - Lands of the Brazilian Armed Forces, usually environmental areas of conservation.
- Others - Other types of lands use.

40 Inesc, (2007). Os riscos da IIRSA e do PAC para a Amazonia, Orcamento & Política Socioambiental, Ano VI, no. 20, MAIO DE 2007, Instituto de Estudos Socioeconomicos - Inesc

41 The Forests Dialogue, (2009). Implementing REDD in the Brazilian Amazon: Contextualization, Debates and Challenges: Background Paper for Field Dialogue in Brazil, October 28-29, 2009, Belem – PA.

Table 5: Stratification of Areas in Legal Amazon (INCRA)

Stratification of Areas in Legal Amazon		
Specification	Areas (millions of hectares)	%
Brazilian Government Areas	67.4	13.4%
Indigenous Lands	120.1	23.9%
Settlement Areas - landless people	38.3	7.6%
Federal Units of Conservation	65.9	13.1%
State Units of Conservation	57.1	11.4%
Amazon Government Areas (ITEAM)	49.4	9.8%
Landed Property	15.1	3.0%
Brazilian Armed Forces	7	1.4%
Others	81.9	16.3%
Total	502.2	100%

Active and often violent conflicts continue to be significant problem in the Brazilian Amazon, especially where property title has been gained through the use of false documentation or informal possession. For this reason many civil society organisations disagree with the stratification of land area provided by INCRA in Table 2. Despite differing interpretations of land stratification, indigenous lands are widely considered to make up the largest percentage of the Brazilian Amazon. Consequently the level of engagement these communities have with REDD+ is likely to have a sizeable impact on the potential growth of REDD+ and associated funding flows in Brazil.

It is well documented that there are indigenous communities in the Amazonian region of Brazil which have effectively protected their forest land using traditional conservation practices^{42,43}, which some observers claim should be recognised within a Brazilian REDD+ framework⁴⁴. However there are risks associated with the imposition of market conservation mechanisms in these areas and an absence or low familiarity with the concepts underlying REDD+ within these communities. It will be important that project developers and REDD+ funders and investors approach this issue with sensitivity and apply the principles of Free, Prior and Informed Consent before beginning REDD+ capacity building activities with forest based communities. Without this there are risks that at best, the integrity of REDD+ projects is undermined by an absence of community awareness and support and at worst, human and land rights laws are broken by REDD+ projects, with resulting legal action against project developers and funders. Engagement with REDD+ by indigenous groups in Brazil has so far been slow, with only four out of a potential 230 tribes identified by the Social Environmental Institute undertaking REDD+ projects so far, which may be attributable to concerns over the ability to maintain decision power over land and a lack of access to information regarding REDD+⁴⁵.

Whilst there are constitutional and legal protections given to indigenous reserves in Brazil there are concerns regarding the relatively poor accessibility to the justice system in more remote regions as most courts are based in urban areas. There are however some important recent wins for indigenous communities within Brazil's Supreme Court, for example in March 2009 the Macuxi, Wapichana, Ingariko, Taurepang and Patamona tribes won their case over migrant farmers encroaching on their 17,000 km² territory.

Attracting investor and donor interest in REDD+ projects will be largely dependent on the ability to prove the longevity of project land rights, and in areas where encroachment and land disputes are common, this could limit the ability of project developers to attract funding support for projects.

42 Ferreira, L.V., et al. (2005). O desmatamento na Amazônia e a importância das áreas protegidas. *Estudos Avançados* 19 (53), 157-166.

43 Nepstad, D., et al. (2006). Inhibition of Amazon deforestation and fire by parks and indigenous lands. *Conservation Biology*, 20 (1), 65-73.

44 WWF Brasil, Ipam and Linden Trust for Conservation, (2009). O Papel das Áreas Protegidas na Redução das Emissões pro Desmatamento. Available online: www.wwf.org.br/?22140/Governo-recebe-documento-sobre-reas-protegidas-e-clima

45 Prizibiszki, C, (2010) Indigenous Leaders Taking REDD Into Their Own Hands. Available online: www.ecosystemmarketplace.com/pages/dynamic/article.page.php?page_id=7611§ion=news_articles&eod=1

National versus state funding mechanisms

There is still ongoing debate in Brazil regarding whether international REDD+ funding should be managed by a national fund mechanism or if state governments should be permitted to access funds directly through cap-and-trade agreements, with funding from the international forest carbon market which has been put forward by Amazonian governors⁴⁶. If a state approach is taken, there may be doubts regarding whether state governments possess the fund management capacity and governance measures needed to ensure that REDD+ funding is distributed effectively, efficiently and in an equitable manner. Donors or carbon buyers may preference transferring funds into a partially independent pooled fund management mechanism, for example state level REDD+ environmental funds, although these may not be politically acceptable by state governments and could require years to establish.

Redrafting the Brazilian Forestry Code

The Brazilian Deputies Board, with support from the rural caucus, defined at least four draft laws that attempt to modify or even repeal the Brazilian Forestry Code (Federal Law No. 4771/65). The Forest Code is the main legislative tool to protect native vegetation in Brazil and the environmental services they provide.

Some NGOs have already campaigned against the attempts to overturn the protection of the forests. Late last year, for example, a group of NGOs circulated a note against Decree No. 7029 of December 10, 2009, which established the Federal Program of Support for Environmental Adjustment of Rural Property, referred to as the "More Environment Programme" ("Programa Mais Ambiente").

Besides the changes in legislation for environmental licensing, the draft law proposes to revise the size of indigenous legal reserves, reducing them in size in the Amazon, the Cerrado and other biomes. Representatives of the agribusiness sector have been lobbying to reduce all of these percentages to avoid a production brake which they claim will ensue if these areas are protected as the current Forest Code decrees.

In addition, there have been several reviews of the concepts of Permanent Preservation Areas (APP) and Legal Reserves. The General's Attorney Office (PGR) has the Atlantic Forest Law in the Supreme Court (STF), which requires landowners to reforest and protect forest cover on their land or provide compensation payments for reforestation on public land.

If these attempts to overturn the legislation are successful this may reduce the level of regulatory support for REDD+ initiatives and allow for an increase rather than decrease in deforestation within some of Brazil's key forest ecosystems such as the Amazon, the Atlantic Rainforest and the Cerrado.

Linkage between existing REDD+ funds and policy initiatives

There is no indication yet that the goals of the Amazon Fund have been linked to the national Plans for Prevention and Control of Deforestation (PPCDAM) and other sectoral plans where there appears to be potential for mutual support between the two initiatives in terms of civil society participation and multi-stakeholder dialogue, strategic planning, capacity building, transparency and monitoring, reporting and verification⁴⁷. This may create uncertainty regarding the role of the Amazon Fund in its role in Brazil's wider efforts to reduce deforestation and the level of support it receives from national government in the future.

Clarity on inclusion of Protected Areas within REDD+

In Brazil and at an international level there are discussions underway amongst policymakers regarding the stage at which protected areas should be included in a REDD+ scheme, if at all. It is reported that the recent expansion of protected areas (including conservation units and indigenous lands) in the Brazilian Amazon is responsible for as much as 37% of Brazil's significant reduction in deforestation rates between 2004 and 2008. This may call into the question the additionality provided by directing REDD+ funds to these protected areas but there could be scope for achieving even greater reductions through increasing enforcement capacity in these areas. As the combined avoided

46 The Forests Dialogue, (2009). Implementing REDD in the Brazilian Amazon: Contextualization, Debates and Challenges: Background Paper for Field Dialogue in Brazil, October 28-29, 2009, Belem – PA.

47 The Forests Dialogue, (2009). Implementing REDD in the Brazilian Amazon: Contextualization, Debates and Challenges: Background Paper for Field Dialogue in Brazil, October 28-29, 2009, Belem – PA.

carbon emissions from protected areas up to 2050 may be in the range of 8 billion tons⁴⁸ this decision will have a fundamental impact on the REDD+ landscape in Brazil. Without a decision made on this issue the integration of protected area funds (such as WWF's Protected Area Trust Fund) into REDD+ will remain uncertain.

REDD+ awareness raising and training

There have been numerous stakeholder engagement initiatives throughout Brazil including the Manaus declaration in 2008 (intended to mobilise greater and more effective participation of indigenous and traditional communities in the UNFCCC negotiations), workshops by NGOs and the Indigenous Organizations of the Amazon Basin (COICA) and awareness raising tours for the Amazon Fund by BNDES and the Brazilian Forest Service. However there remain concerns that the understanding of REDD+ and awareness across the wider public and indigenous communities is still very low, especially in parts of the country where there has not yet been significant REDD+ project activity.

Scaling up REDD+ beyond the Amazon forest ecosystem

Whilst it is recognised that the Amazonian forest ecosystem contains the majority of Brazil's forest carbon, it will be important that states containing other ecosystem types are engaged in the development of REDD+ in Brazil. The current draft of Brazil's National Congress Bill on REDD+ emphasises that REDD+ must have national scope with deforestation reference levels set nationally for all biomes. The draft bill also states that National REDD+ system must be implemented in an integrated manner between national, state and municipal governments.

The Brazilian Government has not yet adopted a national REDD system for each Brazilian ecosystem, for example in the *cerrado* (savannah). As a result, initiatives such as the Genesis project in Tocantins have had to produce their own independent means for estimating future deforestation and quantifying carbon stocks and subsequent emissions⁴⁹. Providing methodological guidance for project developers in non-Amazonian ecosystems will help to encourage a wider distribution of REDD+ projects in Brazil. This should be accompanied by an investment in REDD+ readiness activities in non-Amazonian states, possibly supported by state level REDD+ funds.

48 Ibid

49 The Natura Conservancy and IDESAM, (2009). Casebook of REDD projects in Latin America. Available online: homologa.ambiente.sp.gov.br/proclima/publicacoes/publicacoes_ingles/casebook_redd_web_2009.pdf

4. Making REDD+ a success in Brazil

Compared to many other countries, Brazil is relatively advanced in planning and implementing a REDD strategy. It has numerous pilot projects and large funding mechanisms already in place in the form of the Amazon and Atlantic Rainforest funds. Issues such as leakage, building MRV capacity, engaging local stakeholders and ensuring permanence are therefore well understood, with much already written and many actors already undertaking to address them.

Given the short time-frame which the Fast Start funding is to be spent (2010 – 2012), many interviewees suggested that Brazil, when assessed relative to the other study countries, was the most able to manage and distribute its allocation of the Fast Start funding equitably, effectively and efficiently by channelling it through these existing mechanisms.

In the medium-term (2015+), if Brazil looks to the private sector to finance REDD+ activities, then these large state-backed funds may however emerge as a barrier, as they may not provide the private sector with a level of financial control they require. Instead, what may be required is a range of smaller independent funds with broad stakeholder representation, including the private sector.

A summary of the key suggestions that emerged from this study on next additional steps for Brazil if it is to ensure the success of REDD+ are outlined below:

- Explore options for the establishment of state (or smaller) level REDD+ environmental funds to pool carbon market finance received from international sources in a nested system. These funds could be responsible for monitoring emissions reductions at a state level which are then included in a national level carbon accounting system.
- Implement policies to ensure the application of Free, Prior and Informed Consent (FPIC) with forest communities in and around REDD+ projects and integration of local communities in project management by project developers. Promotion of partnerships between project developers and civil society organisations with experience in implementing long term conservation projects in areas where land rights are disputed or difficult to enforce. Implementation or updating of zoning plans that reflect the forest conservation value of land.
- The most prominent example of local REDD+ fund disbursement is the Bolsa Floresta (BF) program payments to families, resident's associations and forest communities for wider community development. There are concerns regarding the passive nature of these payments, the use of the same payments given to households regardless of the size of landholding and the possibility of creating a culture of reliance. One way of overcoming this issue is through a focus on supporting economic alternatives for forest communities and linking the payments more closely to the size of the land area protected by each household. Such an approach is being implemented by organisations such as the Green Gold Institute and could be replicated in further REDD+ project development in Brazil.
- Progress in engaging indigenous communities in REDD+ in the legal Amazon has been slower than some may have expected, partly due to concerns from these communities over maintaining land rights and a lack of accessible information on REDD+. Initial engagement with indigenous communities should be aligned with FPIC principles. Once full support has been gained, participatory planning, mapping and land-use change modelling can help to build a sense of ownership and sustainable engagement.
- Initiation of a collaborative planning process between federal and state policymakers to identify where national policies and programmes such as the Program to Accelerate Economic Growth conflict with REDD+ objectives and where mutual objectives could be set. Integration of the goals of the Amazon fund with the Plans for Prevention and Control of Deforestation.
- REDD+ readiness activities should be distributed widely across each Brazilian state if an effective national REDD+ scheme is to be achieved. Whilst there are states within the Amazon that are arguably in stage 2 of REDD+ readiness there are states within the Amazon and beyond that are in an earlier stage of developing their understanding and institutional capacity for managing REDD+.

5. Conclusions and suggested next steps

Whilst it is difficult to accurately predict the future REDD+ funding framework in Brazil, it is possible to compare the assumptions made in our future funding 2012 and 2015 models against the likely role of environmental funds, state budgets, individual REDD+ project or portfolio funds, national capacity building programmes and voluntary REDD+ projects in Brazil.

Role of environmental funds

Through the Amazon fund, Brazil is the only case study country with a REDD+ fund already managing and disbursing funds at the scale anticipated during the REDD Readiness phase. The continuation of this fund until at least 2015 has been all but guaranteed by the Norwegian government's funding commitment. The fund aims to raise \$21 billion over 13 years but this will be reliant on its ability to demonstrate its success in achieving efficiency, effectiveness and equity in its impacts and in attracting widespread donor commitment.

Given the size of this target in relation to global fast-track funding commitments (\$4 billion) the role that other REDD+ environmental funds could play could be limited by the dominance of a small number of funds such as the Amazon and Climate Change Funds. For other forest ecosystems and for individual states there may be scope for the creation of new REDD+ funds or adaptation of existing fund frameworks, such as protected area funds, to fulfill a REDD+ fund disbursement function. The potential size of these funds would then depend largely on whether they could act as revolving trust funds for REDD+ project taxation and revenue, as most donor funding could be largely absorbed through the Amazon fund structure.

In 2015 the projected increase in private sector investment and carbon credit purchases may require independent funding mechanisms to be put in place that can manage investment and revenue e.g. revolving funds. It is likely that this would need to be linked in to national carbon accounting systems if a national or nested approach is taken by the Brazilian government. The prevalence of one or two state backed funds may play a limiting role in the growth of these new funds at a state or project level.

Individual REDD+/portfolio funds

Some REDD+ projects in Brazil, such as the Conservation of the Atlantic Rainforest projects consolidate multiple project sites where there may be multiple project implementation partners, management teams and varying local environmental and socio-economic characteristics. If the federal government implements a nested approach to REDD+ project developers may seek to establish portfolio funds so that they have the option to transfer financial resource between multiple projects and meet credit purchasers' demands for choice, accountability and transparency in where their money is directed. Coherent benefit sharing mechanisms would also need to be put in place to ensure that REDD+ benefits are distributed in an equitable and effective manner to communities.

National Capacity Building Funding

Due to a combination of pre-existing conservation and institutional capacity and large inflows of capacity building funding (for example through the Amazon Fund) Brazil is well placed to reach national REDD Readiness between 2012 and 2015. However for REDD+ to reach its full potential there are major areas where capacity building is required, particularly in raising awareness within the large indigenous areas of the legal Amazon, where only 4 out of 230 indigenous groups have engaged with REDD+ to date. With further funding support, innovative programmes such as the IMAZON initiative to increase monitoring capacity within municipalities in the Amazon could be replicated to improve local government REDD+ capacity.

Active Voluntary REDD+ projects

Whilst there are a relatively high number of active voluntary REDD+ projects in Brazil such as the Juma reserve project, the scaling up of REDD+ investment into private projects is likely to be dependent on a decision being made by the federal government over whether or not Brazil will implement a nested approach to REDD+. This will influence the degree of control carbon buyers have to choose which project receives their funding.

Next steps - Consulting with relevant government institutions, civil society and project developers

Government

Consultation is needed between state and federal government and the Ministry of the Environment regarding options for the establishment of a nested approach with state level environmental funds and monitoring systems, integrated into a national carbon accounting system. A review of economic policy and planning development and its relationship to REDD+ is also needed with the Ministries of Planning, Transport and Finance amongst others, focusing on the Programme to Accelerate Economic Growth. This approach should take into account the potential for a change in government after the Brazilian General Election in October 2010.

Civil society, indigenous and community groups

Civil society groups in Brazil have already demonstrated their valuable role in providing training and participatory planning with indigenous groups in the Amazon. It will be important that they also play a leading role in the wider engagement with indigenous groups, especially in the Amazon region, to help ensure FPIC processes are followed in the development of REDD+. Building the monitoring role of the Amazon fund will be important as the projects it funds gain maturity, so that it begins to provide the full scope of services needed to attract further funding. If state level REDD+ funds are established, consultations with existing protected area and sub-national funds could provide important lessons and guidance for how these funds achieve effectiveness, efficiency and equity in disbursing REDD+ revenue.

Project developers

Project developers may be able to provide recommendations on best practice in REDD+ revenue sharing and on the priorities of carbon credit buyers and project investors when deciding to invest in REDD+. These developers may also be able to provide useful review and feedback of potential nested approaches to REDD+ and how 'developer friendly' these may be.

REDD funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase Brazil's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness

Brazil

Outstanding issues with REDD+ funding in Brazil	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
The nested approach and state REDD+ funding	Partly	Amazon state governments, Federal Government – Decision making on nested approach	Exploring options for the establishment of state level REDD+ environmental funds to pool carbon market finance received from international sources in a nested system. These funds could be responsible for monitoring emissions reductions at a state level which are then included in national level carbon accounting system.	How to minimise the risk that despite state governments achieving emissions reductions targets, they are penalized by failure to meet national level targets? How to support the development of the carbon accounting methodologies needed for a nested approach?
Permanence of project investments in areas of land conflict and insecure land tenure	Partly	State governments, Ministry of Planning, Indigenous reserve representatives, smallholder associations, agricultural unions , project developers, civil society organisations	Application of Free, Prior and Informed Consent with forest communities in and around REDD+ projects and integration of local communities in project management by project developers. Promotion of partnerships between project developers and civil society organisations with experience in implementing long term conservation projects in areas where land rights are disputed or difficult to enforce. Implementation or updating of zoning plans that reflect the forest conservation value of land.	Where is there strong overlap between areas of strategic interest to REDD+ and areas of colonisation?
Local level fund disbursement and benefit sharing	Partly	CSOs in partnership with state government Environmental Funds	The most prominent example of local REDD+ fund disbursement is the Bolsa Floresta (BF) program payments to families, resident's associations and forest communities for wider community development. There are concerns regarding the passive nature of these payments and the possibility of creating a culture of reliance. One way of overcoming this issue is through a focus on supporting economic alternatives for forest communities. Such an approach is being implemented by organisations such as the Green Gold Institute and could be replicated in further REDD+ project development in Brazil.	How can project successes and innovative approaches be captured and shared? How can these models be further developed for transparency, achievement of the '3es' and expansion nationally in 2011-2012?

Brazil

Outstanding issues with REDD+ funding in Brazil	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Community and indigenous groups' reaction to REDD (relevant to investment risk)	Partly	Civil society organizations, project developers	Progress in engaging indigenous communities in REDD+ in the legal Amazon has been slower than some may have expected, partly due to concerns from these communities over maintaining land rights and a lack of accessible information on REDD+. Initial engagement with indigenous communities should be aligned with FPIC principles. Once full support has been gained, participatory planning, mapping and land-use change modelling can help to build a sense of ownership and sustainable engagement	<p>To what extent would a national initiative and formal responsibility for raising indigenous groups' awareness and capacity for engaging REDD be possible?</p> <p>Would national principles and agreed upon practice for establishing prior consent for REDD projects be of value?</p> <p>How can investment and funding risks due to potential indigenous group resistance to REDD best be avoided?</p>
Weak relationships between REDD+ and national policy	Partly	Federal and state government	Initiation of a collaboration planning process between federal and state policymakers to identify where national policies and programmes such as the Program to Accelerate Economic Growth conflict with REDD+ objectives and where mutual objectives could be set. Integration of the goals of the Amazon fund with the Plans for Prevention and Control of Deforestation	<p>Are there areas where the Program to Accelerate Economic Growth and the national REDD+ agenda can be mutually supportive?</p> <p>Where could the Amazon fund and the PPCDAM collaborate to improve strategic planning and MRV processes?</p>

Cambodia

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on Cambodia and REDD+

Overview

Cambodia has a total land area of 181,248 km², approximately 59%⁵⁰ of which is made up of forest cover. This is a decline from the 73% estimated in 1965⁵¹. Cambodia's forests are primarily in the northern part of the country and in the hilly areas around the Gulf of Thailand. The majority of Cambodia's forest cover is made up of evergreen (20% in 2006) and deciduous forests (26% in 2006)⁵².

Politically, Cambodia's forests are divided into three types and these are governed by different ministerial bodies. Protected Areas, which make up 17% of the country's land area, are under the jurisdiction of the Ministry of Environment (MoE). Permanent Forest Reserves are overseen by the Forestry Administration (FA) and flooded forests are managed by the Fisheries Administration. Approximately 75% of the country's forest land is monitored by the FA⁵³.

Whilst Cambodia has not yet conducted a national assessment of forest degradation⁵⁴, it was cited by interviewees to be most predominant in areas bordering agricultural developments and in flooded forest, as well as in areas where new access roads are developed into isolated forests.

Deforestation in Cambodia

In the last 20 years, an estimated 1.4 million ha of forest have been lost due to legal and illegal harvesting⁵⁵. Major contributions to deforestation in Cambodia in the 1980s and 1990s were illegal logging, land conversion for agriculture, the shifting of cultivation for charcoal and fuel-wood and the lack of effective control over concessionaires. Bans in timber harvesting in neighbouring countries also had the impact of increasing logging activity Cambodia. For example, forest areas near the border with Thailand have been extensively deforested.

Cambodia's Economic Land Concession system is considered to be central to the challenges of sustainable forest management in the country. The Economic Land Concessions are areas granted to concessionaires for industrial agricultural activities which include agriculture, aquaculture and animal farming and tree plantations. Forest concessions make up 39% of the country's land area⁵⁶ and have reportedly involved significant levels of illegal logging in the past. In addition to legal concessions, ad hoc 'collection permits' were also reported to have been provided, sometimes overlapping concession areas. According to a WWF report, around 90% of log production in 1997 originated from areas under collection permits⁵⁷. Forest resources have often been extracted without sufficient restoration efforts and constraints in forest law enforcement. The forest management system has lacked sufficient financial incentives for conservation and effective legal control over concessions. This challenge is still being addressed by the government and stakeholders. Moreover, pressures to reduce deforestation in other parts of Asia have fuelled the demand for commercial logging in Cambodia.

Land and forest management is challenging in Cambodia because of the complex and unclear legal framework over two decades of social and political instability and observed governance and transparency issues. Illegal logging

50 TWG Forestry & Environment, Paper prepared for the Cambodia Development Cooperation Forum, Ministry of Foreign Affairs of Denmark (Representative office of Denmark, Cambodia), June 2007,

www.phnompenh.um.dk/NR/rdonlyres/0034FC36C3D248FA8B0BBD42255D4B5E/0/ForestCoverChangesinCambodia20022006PaperPreparedbytheTWGFE.pdf, pg. 4, (Accessed May 2010).

51 FAO Forestry Department, An overview of forest products statistics in South and Southeast Asia, Dec 2002, www.fao.org/docrep/005/ac778e/AC778E09.htm (Accessed May 2010).

52 Institute for Global Environmental Strategies, Japan-Asia REDD+ Seminar, Country Report Cambodia, 24-25 Mar 2008, www.iges.or.jp/en/fc/pdf/20080324reed/5.Cambodia.pdf.

53 Forest Carbon Partnership Facility, Cambodia Readiness Idea Plan Note (R-PIN),

www.forestcarbonpartnership.org/fcp/sites/forestcarbonpartnership.org/files/Documents/PDF/Cambodia_R-PIN_Revised_Feb_2009.pdf, pg. 4.

54 Forest Carbon Partnership Facility, Cambodia R-PIN.

55 [Illegal-logging.info](http://illegal-logging.info), Cambodia, www.illegal-logging.info/approach.php?a_id=83, (Accessed May 2010).

56 WWF, Rehabilitation of Degraded Forest Ecosystems in Cambodia, Lao PDR, Thailand and Vietnam: An Overview, April 2000, assets.panda.org/downloads/lowermekongregionaloverview.pdf, pg. 27.

57 WWF, Rehabilitation of Degraded Forest Ecosystems in Cambodia, Lao PDR, Thailand and Vietnam: An Overview, April 2000, assets.panda.org/downloads/lowermekongregionaloverview.pdf, pg. 27.

funded the various parties in the Cambodian conflict and after peace was negotiated, it funded the survival of the Cambodian army⁵⁸. While 18% of the country was declared as protected in 1993, the structures to enforce this did not exist. In the 1990s, illegal logging was so extensive that, in 1998, the World Bank reported that 90% of Cambodia's logging was conducted illegally⁵⁹. The World Bank and IMF have in the past made financial support conditional on forestry reform in the country.

Policy principles and direction

In 2002, the government announced a moratorium on logging and a commitment to crack down on illegal logging through the 2001 Declaration on the Suspension of Forest Concession Logging Activities⁶⁰. This has curbed illegal logging activities but the issue continues to prevail. The annual rate of deforestation for 2002 – 2006 declined to 0.5%⁶¹ although large areas of forest are lost every year and some regions of the country have higher rates of deforestation. Development efforts in recent decades have put further pressures on the country's forests and have exposed tensions between industrialisation priorities and forest conservation efforts.

According to consultations, Cambodia's government is interested in REDD+ developments as a potential revenue generator and has indicated its commitment to it. The government is looking to pilot activities to demonstrate the potential of REDD+ for the country.

Cambodia is now in the early stages of REDD+ development. At the third Policy Board meeting of in October 2009, Cambodia received approval for its UN-REDD+ national programme and joined the UN REDD+ Programme. Cambodia submitted a Readiness Plan Idea Note (R-PIN), which was accepted by the FCPF in 2009 but no funds were granted. The UN-REDD+ Programme accepted Cambodia as one of 13 observer countries to its Policy Board. This enables Cambodia to participate in networking opportunities, workshops and knowledge sharing.

The Food and Agricultural Organisation (FAO) and United Nations Development Program (UNDP) have committed over US \$1 million in funding for REDD+ readiness efforts. A multi-stakeholder national REDD+ taskforce has been created to develop a REDD+ readiness roadmap. Funding for the taskforce is provided by the UNDP and FAO. This is currently the only funding source for a REDD+ national strategy. Please refer to the 'REDD+ Taskforce' under 'National Structures for REDD+' for additional details.

The government is still building its capabilities and awareness of REDD+. These awareness raising projects are sub-national and are coordinated by international organisations. The country is seeking to leverage Vietnam's experiences and workshops have already taken place with Vietnamese counterparties.

Overseas assistance plays an important role in contributing to Cambodia's budget and overall development objectives. Development partners are conscious of the country's development challenges and have focused their support on the overall frameworks and capacity building required to create a system that can be trusted to secure investments and channel funds transparently. With respect to REDD+, interviewees commented that international donors had moved away from direct project involvement due to the level of risk and are of the opinion that REDD+ should be market driven. Development assistance related to REDD+ is currently channelled to building national and local capacity as well as community forestry efforts.

National structures for REDD+

There are several organisations and structures that play a key role in REDD+ and whose continued involvement will remain important in the near future.

58 Keith Andrew Bettinger, The death of Cambodia's forests, Asia Times Online, 23 Nov 2004, www.atimes.com/atimes/Southeast_Asia/FK23Ae01.html, (Accessed May 2010).

59 BBC News, Illegal logging boom in Cambodia, 30 Jan 2001, news.bbc.co.uk/1/hi/world/asia-pacific/1144487.stm, (Accessed May 2010).

60 Cambodia R-PIN

61 Ministry of Foreign Affairs of Denmark, Forestry Outlook Cambodia 2008, pg. 1, www.phnompenh.um.dk/NR/.../0/ForestryOutlookCambodia2008.doc, (Accessed May 2010).

Forestry Administration (FA)

This is part of the Ministry of Agriculture, Forestry and Fisheries and it has responsibility for overseeing the management of production forests⁶², including protection, conversion and other aspects such as law enforcement and reforestation. The FA submitted Cambodia's R-PIN and is the most active government agency with respect to REDD+ and is involved in both official REDD+ pilots. As declared under the Council of Ministers decision 699 in May 2008, the FA is the sole seller of carbon credits for the Oddar Meanchey project⁶³ and is the only such designated seller to date. Currently, this arrangement only applies to the Oddar Meanchey project and interviewees expected that future revenue arrangements will be determined based on the experiences from this pilot project.

The Forestry Administration (FA) also has a legal approval role, as the projects to date take place in forests under its jurisdiction. Current pilot REDD+ projects only involve the FA and not the MoE.

Technical Working Group on Forestry and Environment (TWG F&E)

The TWG F&E is led and managed by the Ministry of Agriculture, Forestry and Fisheries and is co-chaired by a representative selected by the Development Partners (currently Danida). The working group is the main inter-governmental body that coordinates forestry activities in Cambodia and its mandate is broader than REDD+. It was set up as a mechanism for coordinating government and donor activities related to forestry and the environment. The TWG comprises of representatives from government, NGOs and development partners. Government ministries represented in the group include the Ministry of Environment, the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Economics and Finance. Other members include international donors such as Danida, NZAid and NGOs such as RECOFTC and WCS.

The working group has a key role to play in the development of REDD+ mechanisms. As declared by the Council of Ministers declaration 699 in May 2008, revenue from the Oddar Meanchey REDD+ project will be channelled through the TWG F&E for the first five years of the project. Future revenue models are not yet determined. The declaration also states that revenue from the project will be used for three priorities: to improve the quality of the forest, maximise benefits to communities and study potential new sites for REDD+ projects. Despite the Council of Ministers' declaration, interviewees commented that the policy framework was still unclear – questions remained as to who from the TWG F&E will play a role in managing revenue, how decisions will be made and what system will be used to channel revenues to relevant stakeholders. Benefit sharing is a key issue that remains unresolved and under discussion in the REDD+ Taskforce.

At present, the TWG F&E is not involved in disbursing international financing to REDD+ projects; donor funds are allocated directly to the projects through organisations such as WCS or PACT. Consultations indicate that the TWG F&E has some experience in disbursing funding, and interviewees emphasised the importance of sufficient salary and compensation for individuals involved in fund management and disbursement, noting that this is a key success factor in ensuring efficiency and effectiveness.

The level of involvement of key ministries in the TWG F&E may be of central importance to the success of a REDD+ mechanism in Cambodia. While both the MoE and FA have jurisdiction over state forests, interviewees commented that the MoE has low participation in the working group and this is a significant issue for donors as well as for the effectiveness of the working group. Closer cooperation and involvement by the MoE is desired by donors, Civil Society Organisations and the political leadership. The relatively low level of participation by the MoE could pose a challenge to the development of REDD+ in protected areas, where the MoE has jurisdiction, and deforestation and degradation are still significant.

REDD+ Taskforce

Cambodia has several sub-national REDD+ initiatives underway and it aims to scale these to a national framework. A REDD+ Taskforce has been created to define how best to undertake this development. The REDD+ Taskforce is mandated to create a REDD+ Readiness Roadmap and provide input to the government on the development of REDD+ in the country. The TWG F&E oversees the REDD+ Taskforce, which includes representatives from the FA,

⁶² Production forests refer to forest areas that can be used for commercial purposes such as harvesting commodities.

⁶³ The Technical Working Group Forestry & Environment, Council of Ministers 699, 26 May 2008,

www.twgfe.org/Docs/Legislations/Letter%20No.%20699%20Sar.CHor.Nor%20on%20Carbon%20Credit%20English.pdf.

MoE, fisheries administration, and NGOs. The Taskforce is funded by UNDP and FAO under the UN REDD+ framework but it does not manage or disburse any funds.

The REDD+ Taskforce is currently conducting a review of Cambodia's legal framework to identify laws currently in place and what needs to be established for effective REDD+ implementation. The Taskforce is also discussing benefit sharing and revenue management options, which are currently undefined.

The REDD+ Roadmap is expected to be embedded within the National Forest Programme⁶⁴ and will outline the country's plan for the next 1-3 years, including key activities and milestones. It is currently in draft and is under review by key stakeholders, including the TWG F&E and the National Climate Change Committee.

The National Forest Programme (NFP)

The NFP is a 20-year plan that is intended to provide the long term strategic framework for managing Cambodia's forests. According to Cambodia's R-PIN, the NFP has defined six major programmes:

- National forest demarcation, classification and registration
- Forest resource management and conservation
- Forest law enforcement and governance
- Community forestry programme
- Capacity building and research development
- Sustainable forest financing

Interviewees commented that a seventh programme is being developed around monitoring and conflict resolution.

REDD+ is embedded within the NFP as part of the sustainable forest financing programme, but its implementation will involve other programmes. The REDD+ Roadmap, defined by the REDD+ Taskforce, is intended to be implemented through the NFP as well as the Protected Areas Law and the to-be-written National Protected Areas Plan⁶⁵. There is also growing recognition in Cambodia of the importance of community forestry and the government has expressed its commitment to increasing the percentage of forest under community management.

The NFP was developed over two years and has been approved by the Ministry of Agriculture, Forestry and Fisheries; it is now awaiting cabinet approval. However, it is important to note that the NFP has become a programme of the FA and therefore does not include a consideration of non-FA jurisdiction forests, such as Protected Areas. This is related to a challenge raised by Danida in an appraisal of the NFP, which states its concern that government agencies responsible for forest management in protected areas, particularly the MoE, have had little participation in the NFP process. This is consistent with the concerns expressed by interviewees on the need for greater collaboration and cooperation between the various agencies responsible for the country's forests.

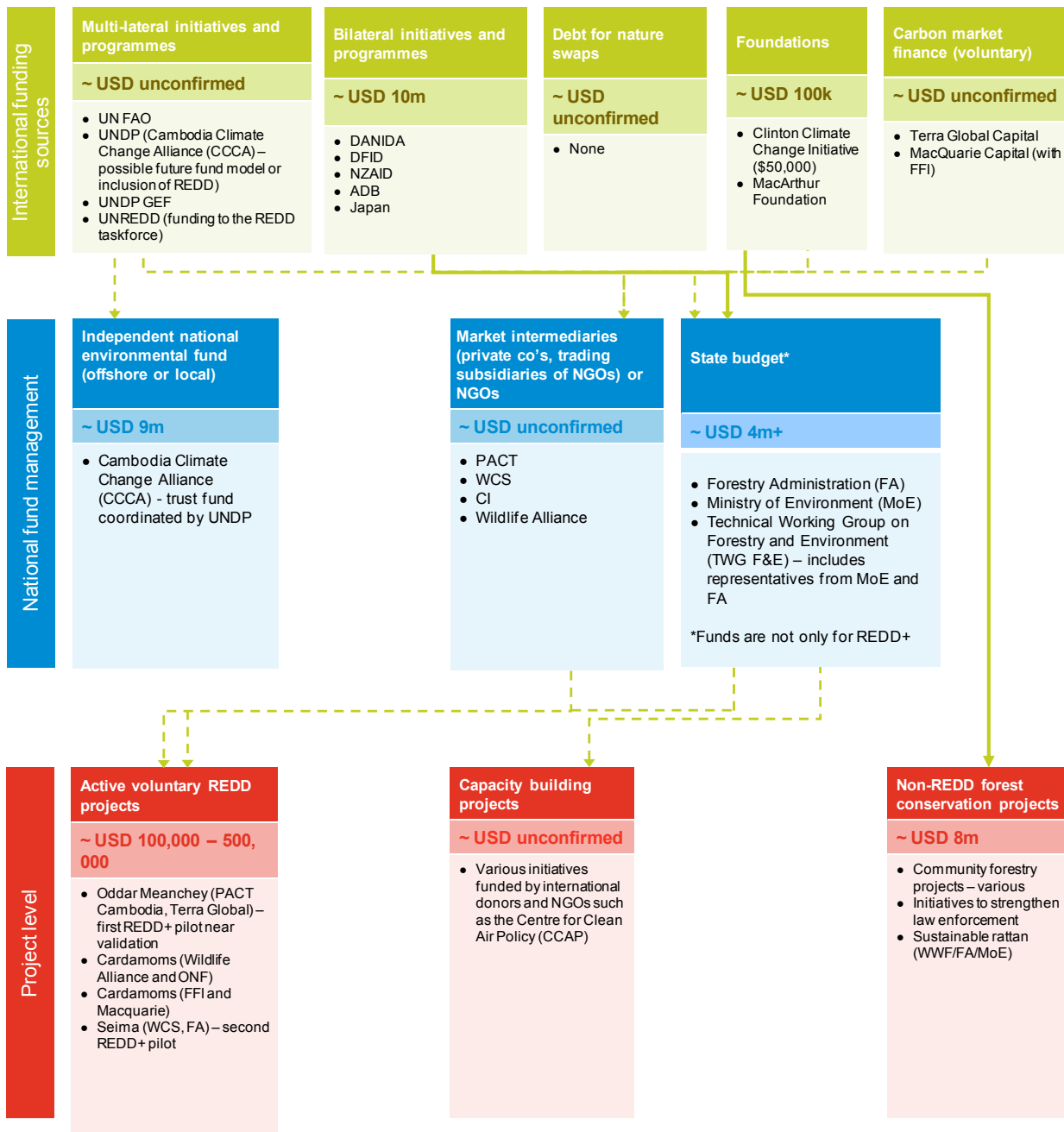
⁶⁴ REDD+ Taskforce, Development of REDD+ Readiness Roadmap for Cambodia, Feb 2010.

⁶⁵ REDD+ Taskforce, Development of REDD+ Readiness Roadmap for Cambodia, Feb 2010.

2. Current REDD+ funding in Cambodia

This section explores the current arrangements within Cambodia for REDD+ funds disbursement focusing particularly on the role of Environmental Funds within this. Figure 12 below summarises the routes through which REDD+ funding from international sources flow into and within Cambodia before reaching actual REDD+ projects and REDD+ related capacity building activities. The actors within it are discussed in more detail below.

Figure 12: Cambodia - Current funding flows for REDD+ related activities



International Funding Sources

In the 2010 current diagram we have grouped funding sources and the current institutions or programmes currently relevant to Cambodia under five headings:

Multilateral initiatives and programmes

These include the United Nations Development Programme (UNDP), Asian Development Bank (ADB) and Food and Agriculture Organisation (FAO). UNDP and FAO are supporting the creation of a REDD+ readiness roadmap for Cambodia, following the approach of the UN REDD+ programme.

Bilateral initiatives and programmes

Cambodia receives bilateral aid from a number of countries:

- *Danish International Development Agency (Danida)* – The Danish agency is the largest donor in Cambodia's forestry sector and is co-chair of the Technical Working Group on Forestry and Environment, which is the country's primary donor-government coordinated working group related to forestry. Danida has also been involved in forest inventories and mapping exercises with the FA. Together with the Department for International Development and New Zealand International Aid and Development Agency, Danida was also involved in the development of the National Forestry Programme, which supports projects around community forestry and natural resource management, all of which underpin the implementation of REDD+ projects⁶⁶.
- *Department for International Development (DfID)* – The UK development agency works closely with NZAid and Danida to support initiatives in the Cambodian forestry sector. However, DfID will be closing its Cambodia office in 2011 and progressively reducing its funding in all areas, although existing commitments will be honoured.
- *Japan* – Interviewees reported that Japan has committed development assistance and a USD \$9m grant for forestry initiatives and REDD+, which interviewees thought is likely to be managed by the Japanese embassy.
- *New Zealand International Aid and Development Agency (NZAID)* - Together with Danida and DfID, NZAID has provided support to the Technical Working Group on Forestry & Environment. Its 2009-2010 allocation to Cambodia was \$5 million and priorities included sustainable rural livelihoods, natural resource management (which includes community forestry) and pro-poor tourism⁶⁷.

Bilateral support is not focused specifically on REDD+ but on the overall forestry sector and forest management. Funding is directed towards institutional capacity building and framework development at national and sub-national levels.

Foundations

The Clinton Climate Initiative (CCI) and the MacArthur Foundation are involved in providing support to individual projects in Cambodia. According to interviewees, foundation funding is in the range of USD \$100,000. According to interviewees, The Clinton Climate Initiative has provided over USD \$50,000 for the start-up and validation of the Oddar Meanchey pilot project. The Centre for Clean Air Policy (CCAP) is involved in several activities, including a policy analysis in cooperation with senior forestry officials and a study on drivers of deforestation, alongside Danida and GERES⁶⁸.

Carbon market finance

Cambodia has several REDD+ pilot projects in various stages of development. Interviewees indicated that the most advanced is the REDD+ project in the Oddar Meanchey province, which is coordinated by PACT and Terra Global Capital, in cooperation with community forestry groups. In June 2009, the FA finalised its carbon agreement with Terra Global Capital and signed agreements with the participating community groups to develop and market the carbon credits from the project. Other pilot projects are also under development.

Please refer to the 'Funded Activities' section for a detailed description of the Oddar Meanchey project.

66 REDD+ Taskforce, Development of REDD+ Readiness Roadmap for Cambodia, Feb 2010.

67 NZAID, Cambodia, www.nzaid.govt.nz/programmes/c-cambodia.html (Accessed May 2010).

68 REDD+ Taskforce, Development of REDD+ Readiness Roadmap for Cambodia, Feb 2010.

National fund management options

Discussions are in the early stages and the options have not yet been confirmed. Cambodia has yet to define how REDD+ funding will be managed – whether it will be managed within a central budget in line with a ‘national approach’ or whether the funding will be managed by projects following a ‘sub-national’ or ‘nested’ approach.

Current financing for REDD+ activities originate from international sources and there currently are no local sources of funding. Interviewees stated that there was little apparent local commercial interest in REDD+ to date. International funding from various sources (multilateral, bilateral and foundations) has been directed to projects primarily through NGOs and community organisations. However, according to consultations, the Oddar Meanchey project received grant funding from Danida, DfID and NZAID through the government working group, the Technical Working Group on Forestry and Environment. The government is not involved in fund disbursement for REDD+ initiatives, although the Technical Working Group on Forestry and Environment may be involved in revenue disbursement in the future, at least for the first pilot project. At a national level, international donors provide funding to state ministries in order to develop state capacity related to forest management. REDD+ specific funding is at present provided by the initial funder (UNDP and FAO) under the UN-REDD+ Programme. There are no conservation trust funds currently in place, whether private or public, offshore or local.

Consultations identified several challenges and issues that may explain the absence of conservation trust funds in Cambodia:

- Unclear legal framework for setting up onshore trust funds
- Lack of information around the taxation of trust funds
- Perception of the Cambodian forestry sector as a high risk investment
- Weak institutional frameworks to secure investments
- Difficulties in raising sufficient funds
- Administrative burdens in having multi-stakeholder governed funds
- Restrictions in land ownership for foreign investors
- Challenges in governance and transparency
- Insufficient institutional cooperation at government and stakeholder levels (e.g. between government agencies and between NGOs)
- Perception that offshore funds would not be favoured by the state government.

Corruption was highlighted by interviewees as a challenge for the development of REDD+. A World Bank survey conducted in 2009, found that Cambodia’s private sector considers corruption to be its primary concern⁶⁹. As a result of such challenges, interviewees commented that REDD+ is viewed as a high risk investment by investors and international donors. Interviewees also did not perceive interest in REDD+ from local private investors or companies and they were unaware of local banks having fund management capabilities.

Conservation International (CI) and the GOC are working to set up a US\$ 10 million fund to finance conservation in the Central Cardamoms Protected Forest. CI has \$2.5 million available through its Global Conservation Fund. This fund is expected to be in place by 2011. Discussions are in progress with other donors as well.

The fund will need to provide approximately US\$500,000 annually in grants to the government and communities through the trust fund for enforcement and forest management activities. At present, annual funding for enforcement is provided to the Forestry Administration from CI.

The Wildlife Conservation Society (WCS) is also currently exploring options for setting up a trust fund in Cambodia and the Wildlife Alliance have apparently also expressed interest in setting up a trust fund.

Stakeholders in Cambodia are seeking to learn lessons from experiences in the region, particularly Laos and Vietnam, where conservation funds have been established and are in operation. There are also efforts underway through the REDD+ Taskforce to analyse the legal frameworks in Cambodia, including an exploration of the legal structures that could satisfy the needs of government, investors and civil society stakeholders.

⁶⁹ World Bank and the International Finance Corporation, Cambodia: A better investment climate to sustain growth, April 2009, www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2009/11/25/000333038_20091125224826/Rendered/PDF/493710ESW0p1011C0disclosed011124191.pdf.

Learning from Development Funds

There may also be lessons to be learnt from the administration of several funds currently operating in Cambodia, which are primarily related to development activities. Critically, all funds that have been identified through this study have an international funding source and there appears to be little, if any, ownership or participation by local organisations or government agencies in the management of these funds.

The Global Fund - The Global Fund is a public-private partnership dedicated to financing programmes related to HIV/AIDS, malaria and tuberculosis. It has approved US\$19.3 billion of funding in 144 countries and is the main global source of funding for the prevention and treatment of HIV/AIDS, malaria and tuberculosis.

In Cambodia, The Fund has disbursed over US\$160 million to grant recipients. The Fund's activities in Cambodia are overseen by the 29-member Country Coordination Committee (CCC), which involves representatives from the Ministry of Health (MoH), UN agencies, international and national NGOs, and people living with HIV/AIDS⁷⁰. The CCC and its secretariat (CCCSC) oversee the implementation of projects approved by the The Fund. The principal recipient of funds in Cambodia is the MoH, which is legally accountable for the The Fund's grants in Cambodia and it acts on behalf and under the oversight of the CCC. The MoH's responsibilities include managing and disbursing grants to sub-recipients and reporting to the CCC. Disbursements are made directly from the The Fund to approved principal recipients. These recipients are approved by the Local Fund Agent, based on a programmatic and financial assessment. More information on the The Fund's activities in Cambodia is available at: portfolio.theglobalfund.org/Country/Index/CAM?lang=en.

The Global Environment Facility (GEF) – GEF is an independent global financial organisation established in 1991. It provides grants to countries with developing and transition economies for environmental projects themed around biodiversity, climate change, international waters, land degradation, ozone layer depletion and persistent organic pollutants. GEF is the largest funder of projects focused on environmental improvements, and has allocated US\$8.8 billion of financing for projects in over 165 countries. GEF has approved over US\$24.5 million in grants to projects in Cambodia since 1991 and over US\$21 million of this has been within its biodiversity and climate change focal areas. In some countries such as Cambodia, applicants interested in GEF financing must secure co-financing and a GEF partner (e.g. UNDP, World Bank) in order to successfully apply for funding. Local applicants may be government agencies or NGOs (through the GEF small grants programme). The funding is managed through the GEF partner and provided to implementing agencies. In the case of NGOs, this is through UNDP. More information on GEF's activities in Cambodia is available at: www.gefonline.org/Country/CountryDetails.cfm

Climate Change Trust Fund – UNDP announced a \$9 million Climate Change Trust Fund in early 2010 to support the Cambodia Climate Change Alliance (CCCA) over a three year period. The CCCA is an initiative to enhance the capacity of government and civil society to address the risks and opportunities from climate change. The fund will be initially administered by UNDP but it is envisaged that administration will ultimately be transferred to the National Climate Change Committee, which is part of the Ministry of Environment (MoE). It is not specific to REDD+ but interviewees expected the fund could serve as one model for future trust funds and may have the potential to include REDD+ activities in the future. In addition to contributions from UNDP, the trust fund has also secured funding from the European Union, the Swedish International Development Agency and Danida.

Other proxy funds identified in consultations include a World Bank public administration fund and a Japanese trust fund for SMEs. Both are reported to use categorical grants, where the funds are earmarked and closely tracked. Interviewees also commented that international donor agencies administer their own trust funds, e.g. Danida and UN agencies.

While existing fund structures do not appear to involve local entities, interviewees believe that the government will prefer locally managed REDD+ funds. As REDD+ matures and larger funds and revenues are generated, interviewees expect that the ministry of finance and treasury will play a key role. However, the role of the treasury in channelling the funds is yet to be defined.

⁷⁰ Ministry of Health, www.moh.gov.kh/gfatm/index.php?cmd=content&mid=9, (Accessed June 2010).

REDD+ Funded activities

REDD+ activities on the ground in Cambodia at present operate and are managed at a sub-national level. There are two official pilots and a number of initiatives currently underway.

Oddar Meanchey

This is Cambodia's first REDD+ pilot project, in the North-Western province of Oddar Meanchey. The region has faced intense forest pressure from economic land concessions, migrant encroachment, forest fires and illegal logging, with a deforestation rate of more than 2.1% per annum between 2002 and 2006 (in comparison, national deforestation rates during this period declined to 0.5% per annum)⁷¹. The project, initiated by Community Forestry International in 2007 and now coordinated by PACT, is a collaboration of 13 community forestry groups from over 50 villages. It also involves the FA and Terra Global Capital. The partnering community forestry groups have committed to the protection of over 60,000 ha of forest land in the province.

Terra Global Capital is brokering the project and PACT is the project coordinator. Initial funding was provided by international donors (Danida, DfID, NZAID, and Clinton Climate Initiative). Danida, DfID and NZAID provided USD \$322,000 for the initial start-up and the Clinton Climate Initiative provided US\$39,000 in the project's early stages and is also financing the project validation up to an amount of US\$75,000. PACT is also investing around US\$100,000.

The project will be registered under the Voluntary Carbon Standard (VCS) and will also be submitted for Climate, Community and Biodiversity Alliance (CCBA) certification. At the time of this study, the project was in the process of validating its methodology, with the aim of seeking dual validation against VCS and CCBA.

The project has the endorsement of the Cambodian Prime Minister and the government has issued a directive which states that over 50% of the net income should be directed towards local communities. Project partners are working to build capacity within the communities by running financial management and project management workshops for these communities.

The project aims to generate 8.5 million tons of carbon offset credits over 30 years.

Seima

The second official REDD+ pilot project in Cambodia, Seima was initiated in early 2009. The project is managed and coordinated by WCS and the Forestry Administration. The project is in the Seima Protection Forest in eastern Cambodia and the Northern Plains, which are two forest landscapes in Cambodia. The project encompasses an area of approximately 180,000 ha⁷² and is expected to generate around 1.5 million tons of carbon credits over the first five years of operation. Project objectives also include biodiversity conservation, livelihood improvements and securing the land rights of local indigenous people.

An independent feasibility study was conducted by Winrock International on the Seima Protection Forest (SPF) project and a similar study is now underway for a second landscape project, in the Northern Plains of Cambodia. WCS was working on the PDD in 2009 for the SPF project, which is in the Monduliri Province⁷³.

Other initiatives include:

- Wildlife Alliance project in the Cardamoms
- Biodiversity conservation corridor initiative coordinated by WCS and World Wildlife Fund (WWF) no active REDD work from WWF; WCS elements covered under the Seima section
- Conservation International (CI) initiative in Prey Long

71 Terra Global Capital, Communities & Carbon: Establishing a community forestry-REDD+ project in Cambodia, 2009, www.terraglobalcapital.com/press/OMCaseStudyPACT.pdf.

72 The Working Group Forestry & Environment, Reducing emissions from deforestation and forest degradation in Cambodia, www.twgfe.org/Docs/Presentations/REDD+%20presentation%20TWG%20Sept%2009%20Omaliss%20KEO.pdf.

73 Wildlife Conservation Society Cambodia, REDD+ demonstration sites, www.wcscambodia.org/conservation-challenges/climate-change/REDD+-demonstration-sites.html, (Accessed May 2010).

Relevant non-REDD+ initiatives

Cambodia Climate Change Alliance (CCCA)

This is an initiative under the Ministry of Environment (MoE) and is supported by the National Climate Change Committee, which comprises 22 members representing different sectors, including agriculture and forestry. The CCCA

is supported by a USD \$9m trust fund administered by UNDP, which provides funding for climate change initiatives such as raising awareness, adaptation and small projects. A significant portion of funding will be allocated to state level capacity building, particularly through the National Climate Change Committee. In time, UNDP intends to transfer the management of the trust fund to the National Climate Change Committee⁷⁴.

At the moment, the fund is not involved in REDD+ but according to our consultations, there may be potential to include REDD+ activities in the future depending on the initiative's success.

⁷⁴ UNDP Cambodia, Launch of the Cambodia Climate Change Initiative, 25 Feb 2010, www.un.org.kh/undp/Climate-Change/Launch-of-Cambodia-Climate-Change-Alliance.html.

3. Potential barriers to funding future REDD+ activity at scale

Consultations identified several issues related to policy, regulation, and institutional barriers which require review in order to better support the development of effective REDD+ financing activity in Cambodia.

Land assets and rights

Cambodia's forests are primarily state-owned and the government grants concessions for commercial use. There are some restrictions in land ownership, for instance economic land concessions must be under 10,000 ha by law. Foreigners are unable to own land but can enter into joint ventures with locals, whereby the majority ownership is local.

Insecure land tenure is an obstacle to sustainable forest management in Cambodia. Much of Cambodia's population is rural and forests play a very important role in local livelihoods. Many rural residents have limited legal tenure, with the primary form of ownership being under traditional local systems. The allocation of forest concessions has often overlooked traditional land use rights and practices. Overlapping land use and competing claims are common challenges in Cambodia. According to a recent Danida report, displacement of local people, conflict over land use rights and land appropriation is a widespread issue in the country⁷⁵.

According to interviewees economic land concessions have reportedly often resulted in eviction and conflict between local villagers and concession owners. Evicted villagers have been forced to further extend into untouched forestland to compensate for lost land. Land grabbing through squatting is also an issue. Resolution over land rights is made difficult by constraints in effective monitoring and law enforcement. A related challenge is the need for government enforced legal and financial frameworks, such as clarity on taxation, security of ownership, benefit-sharing arrangements and incentives for rehabilitation and restoration efforts.

In recent years, the government has also begun granting community forestry sites for local management. Community forestry has been gaining significant traction in Cambodia in recent years. Community forestry currently represents around 2% of the country's forests but there is interest in increasing local management activities. A Sub-Decree on Community Forest Management was created in 2003, to provide greater legal clarity on the establishment and management of community forests⁷⁶. The FA aims for 19% of the country's forests to be under community management⁷⁷. Community forestry sites have secure legal status and according to Cambodia's R-PIN, there are 365 such sites currently in place, all of which have or are in the process of securing a 15 year period of legal tenure⁷⁸.

Unlike in Indonesia, there have been no instances in Cambodia of the involvement of economic concessions in REDD+ projects to date. Under current arrangements, the FA is the only legal seller of carbon credits in Cambodia and private investors would not have any control over the carbon credits from their lands. While this may change based on the experiences of pilot projects, the current model poses a challenge to generating significant private sector interest as well as capital market participation in the Cambodian REDD+ market.

Secure legal land tenure is critical for REDD+ projects and both the Seima and Oddar Meanchey pilots have secure land assets. The Oddar Meanchey project is on community forestry sites, which provided the project with secure legal tenure over the project area. Economic concessions within the community forestry site were mapped and agreement was reached with land owners to not further expand their land. The site area was negotiated between the FA and Cambodia's Community Forestry Working Group. Their legal agreement provides the project access to benefits from the carbon on site. The project did face some challenges related to land but these have been largely resolved. In one case, there was a conflict between an economic concession and the community forestry site over land title and this was resolved with allocating some land to each party. There were also movements of migrants and soldiers into the community forestry area and this is currently being resolved in court.

⁷⁵ Ministry of Foreign Affairs of Denmark, Joint appraisal of the national forest programme, August 2009, www.phnompenh.um.dk/NR/rdonlyres/7A0C503A-4CEF-42AB-A665-C82E19307199/0/CAMNFPAPPRAISALREPORTFINAL.PDF.

⁷⁶ Forestry Administration, Sub-decree on community forestry management, 20 December 2003, www.forestry.gov.kh/Documents/CF-Sub%20Decree-Eng.pdf.

⁷⁷ Forest Carbon Partnership Facility, Cambodia R-PIN.

⁷⁸ Forest Carbon Partnership Facility, Cambodia R-PIN.

The Seima project is located in a protected forest area. Some enclaves are covered by land claims from indigenous ethnic groups and this is fully incorporated into management planning for the reserve. According to interviewees, the reserve plays a leading role in national efforts to recognise indigenous land rights. For example, one village at the site recently became the first in the country to complete official registration of its communal lands. These features will enable models of benefit-sharing models with indigenous communities to be developed.

Funding laws

Cambodia's legal and judicial system suffered significantly under the Khmer Rouge and there is still uncertainty over the laws that are in place and which of them are significant and relevant for REDD+. The REDD+ Taskforce is currently conducting a legal review to understand potential legal and tax barriers to REDD+ developments.

There are a number of funds operating in Cambodia but they appear to be administered by international organisations, with limited local involvement in fund management.

Permanence within State institutions

Responsibility for the management of Cambodia's forests is split between the FA, MoE and Fisheries Administration. Clarity on where the responsibility for REDD+ should lie in the future has not yet been provided. There is also a need for greater levels of coordination between government institutions and with other relevant bodies such as the Ministry of Land Management. These are issues recognised by the Cambodian government and efforts are being made to address these obstacles, which have implications beyond REDD+ ⁷⁹.

At present, all REDD+ developments are coordinated through the FA and the MoE has little involvement in REDD+. Although current REDD+ pilots are focused on the voluntary carbon market, any involvement in protected areas, the regulatory market or the Forest Carbon Partnership Facility (FCPF) may require the involvement of the MoE. As the scale of financing and revenues grow, there may also be a need to involve the Ministry of Finance and Economics when dealing with significant financing initiatives or large scale revenues.

Partial species and habitat inventories

There have been several forest demarcation projects supported by international donors⁸⁰. A national forest cover change assessment was conducted in 2006 and key findings included the 0.5% annual rate of deforestation and the decrease in forest cover to 59% of Cambodia's surface area. However, according to interviewees this did not include an analysis of forest degradation, and there remains debate over forestry related data and definitions of forest coverage. This absence of data and information can pose a challenge to potential REDD+ regulation and development in terms of site selection and carbon and forestry data.

According to Cambodia's R-PIN, the FA has received financing from the Clinton Climate Initiative to develop a National Forest Carbon Accounting System.

⁷⁹ World Bank, Cambodia: A better investment climate.

⁸⁰ Forest Carbon Partnership Facility, Cambodia R-PIN.

4. Making REDD+ a success in Cambodia

Taking REDD+ in Cambodia from its current state to successful full implementation will require great effort and coordination between all stakeholders. While positive initial commitments and steps have been taken at a national government and international level, a significant amount of work remains to be done to achieve a successful national REDD+ funding mechanism.

The success of REDD+ in Cambodia will be dependent on many factors. The following summary sets out some of the key themes that have been generated from interviews, local press and various thought leadership pieces by NGOs, investors and environmental commentators regarding how a successful REDD+ framework can be put in place in Cambodia.

A robust regulatory and governance framework

Central to the success of REDD+ in Cambodia will be a robust regulatory environment that creates investment certainty and eliminates perceptions of sovereign risk. Whilst at present bi-lateral government funding and NGO capacity building and demonstration activities have dominated the REDD+ agenda, a viable future for REDD+ will be contingent upon large inflows from a broader cross-section of the international community, including more significant foreign government participation and carbon market financing.

At present, the legal and institutional framework for REDD+ developments is uncertain and investment risk is high. The absence of locally managed trust funds in Cambodia is a clear example of this constraint. There is limited private sector REDD+ funding involvement at present, although consultations indicate that some local private businesses and concession owners have indicated initial interest in the potential revenue opportunities in REDD+ mechanisms. However, interviewees caution that a robust domestic regulatory framework and governance structure is needed to enable credible and transparent private sector involvement that meets the conservation and development objectives of REDD+ implementation in Cambodia.

An inclusive agenda

Creating an inclusive REDD+ policy agenda requires the involvement of community groups in Cambodia. Interviews indicate that community groups involved in existing REDD+ pilots are aware of the concept and benefit of REDD+ but the large majority of communities are not informed about REDD+. According to interviews, community consultations need to be better incorporated into government decision making processes that impact community groups. This is an issue for example in relation to land tenure, where concessions may be granted on traditional lands for industrial or agricultural developments without community consultations. Cambodia has committed to diverting least 50% of revenues from the Oddar Meanchey project to benefit communities but the benefit sharing model is still uncertain.

Incorporating the concerns and needs of local communities in developing such models and future REDD+ demonstration activities will be important to securing international REDD+ funding commitments as well as addressing the impacts of REDD+ on local communities. This need for more participatory decision making and consultation was raised by interviewees and was highlighted in the FCPF review of Cambodia's R-PIN, as the R-PIN was created without community or local NGO input. The FCPF also recommends the possible involvement of Vietnam and Thailand in Cambodia's REDD+ process to avoid leakage, as demand for timber from neighbouring countries was one driver of deforestation in Cambodia.

There are organisations focused on building capacity at community levels and could play a role in REDD+ related efforts. For example, RECOFTC works on community capacity building efforts and also has a national role as part of the TWG F&E. Organisations such as RECROFTC with experience in local communities may be suitable for bringing communities into the REDD+ implementation process.

A related issue is the role of provincial governments and communes (local authorities) in REDD+ developments. Clear definition of responsibilities between different levels of government will likely be important to the success of REDD+ in Cambodia.

Building capacity within Cambodia to manage increased flow of funds

At present, there are no conservation funds operating in Cambodia. As previously described, there are several funds in Cambodia and all appear to be managed offshore, with little or no local participation in the administration of the fund. There is clearly a need to build in-country capacity and experience in fund management. It is also necessary to develop stronger legal and institutional frameworks to secure investments, which will encourage larger investments.

Consultations did not identify any significant level of activity related to state capacity building around financial management. This is a gap that needs to be addressed, although the absence of REDD+ capacity building in this area could be due to the lack of clarity around which organisations and government bodies will be involved in fund management and how the future revenue flows will be disbursed.

Consultations indicate that there is some capacity within the government to manage fund flows. The overall level of funding in the forestry sector by international donors and the government of Cambodia for 2010 is in the range of US\$ 8 million. This funding is directed to government agencies and NGOs but still demonstrates there is some capacity in the country in managing large amounts of funding.

Interviewees note that civil service reform is necessary to provide more structure to capacity building efforts in the country and provide training to the relevant government staff. Greater focus on developing the financial management capabilities of government agencies will likely increase the confidence of international investors and donors in the government's ability to manage large volumes of funding related to REDD+.

Achieving equity in REDD+ funds distribution

Revenue from REDD+ activity has not yet been realised in Cambodia. Declaration 699 regarding the first REDD+ project states that maximising community benefits is one of the three aims of carbon credit revenue disbursement. The government aims to channel at least 50% of net profit from the project to local communities but how this revenue flow will occur or who will receive the funding is still unclear.

Achieving equity in fund distribution will require clarity around how funds will be managed and distributed, which is under the remit of the REDD+ Taskforce. There are still questions on whether revenues are better managed as part of the national budget or within projects themselves and this debate has yet to be resolved. There are several options being considered for the disbursement of revenues, e.g. using communes to disburse grants to local villages, allocating the revenues to grant giving organisations or NGOs to which communities can apply for funding or providing direct payments to villages. There are also questions around the legal frameworks around taxation, benefit sharing, and how funds are to be channelled to local communities in an equitable and fair manner.

With the first REDD+ project, the TWG F&E will oversee initial delivery of revenues to project partners and the local communities for the first five years but this may change, as the REDD+ Roadmap may identify other revenue management and disbursement options.

Developing incentive mechanisms

Incentives for sustainable forest management and conservation activities are important and were lacking in the past. Benefit sharing and revenue flow structures are under discussion in Cambodia and it is expected there will be progress in this area in 2010.

There is recognition of the importance of community incentives and government has committed 50% of net profit from Oddar Meanchey to be channelled towards local communities.

Efforts are also being made by project partners to involve local communities in project activities such as monitoring and enforcement at local levels. The Oddar Meanchey project for example, is employing individuals in each of its project sites to conduct monitoring activities.

Monitoring, Reporting and Verification (MRV)

A key part of REDD+ implementation is the need to develop MRV capacity within the government and key stakeholders. This capability is still in its infancy within the Cambodian government. To date, MRV activity in

Cambodia to date has largely been at the project level. Although the NFP has a focus on forest law enforcement and governance, according to consultations, there does not appear to be funding or technical expertise allocated to REDD+ related MRV at present.

Interviews identified a number of organisations that could potentially play a role in developing Cambodia's MRV capacity:

- *PACT* - PACT has worked on biomass inventory protocols and has trained communities in monitoring skills. For the Oddar Meanchey project, PACT has trained a number of individual community members in each of the 13 sites to monitor the area. These individuals are salaried and are responsible for collecting and processing local level data.
- *Terra Global Capital* – Working with PACT, Terra Global Capital has trained communities and has provided training to the FA on MRV. It may continue to play a capacity building or technical assistance role in the future.
- *The Center for People and Forests (RECOFT)* – As RECOFT has a strong community presence, it may be suitable and interested in participatory forms of MRV involving local communities that are part of the project.
- *WCS* – WCS has worked closely with government agencies on forestry, fisheries and environment and is coordinating the country's second official REDD+ pilot project. It also has experience working in long-term monitoring and research and works with local communities. Its combination of expertise and experiences in Cambodia may be suitable to supporting various aspects of MRV.
- This is not an exhaustive list of organisations; a number of other organisations may be interested and considered for the development of MRV capability in Cambodia.

5. Conclusions and suggested next steps

In recent years, the government has made a commitment to focusing on sustainable management of the country's forest resources, starting with a moratorium on logging and implementing community forestry mechanisms. Cambodia has faced significant levels of forest degradation and deforestation in the past, driven by illegal logging, unsustainable concession management and an absence of a coordinated monitoring and enforcement mechanism.

Cambodia is in the early stages of REDD+ implementation and has two official pilots underway. The country is working within the UN REDD+ framework to develop a REDD+ Readiness Plan and there is state-level support for REDD+ mechanisms. International development partners are supporting the development of frameworks required for REDD+ implementation.

Financing for REDD+ originates from international sources, primarily bi- and multi-lateral donors, foundations and international NGOs. Capital markets and private investors are not yet active in Cambodia's REDD+ landscape and there are several challenges to their participation, around governance issues, an unclear legal framework and ownership over REDD+ revenues. Cambodia is relatively inexperienced in the management of conservation trust funds and is looking to neighbouring countries to learn lessons as well as analysing its own legal framework to identify potential challenges and legal requirements for the creation of such funds. There are several funds operating in Cambodia but none appear to have local level management structures and are all linked to international organisations or funds. One of the remits of Cambodia's REDD+ Taskforce is to provide clarity on the legal framework for setting up a REDD+ fund in Cambodia.

Cambodia's REDD+ Roadmap is intended to be completed and released this year. The Roadmap will provide guidance on several fundamental elements of REDD+ implementation that to date remain unclear or unaddressed. These issues include the structure of benefit sharing, fund management options and the legal and taxation frameworks. The Roadmap is also expected to provide greater clarity on the role of government agencies involved in REDD+.

How might Cambodia fit with generic 2012 and 2015 funding models?

Whilst it is difficult to accurately predict the future REDD+ funding framework in Cambodia, it is possible to compare the assumptions made in the generic 2012 and 2015 models (see the REDD+ national funding flows in 2012 & 2015 section of this report) against the likely role of environmental funds, state budgets, individual REDD+ project or portfolio funds, national capacity building programmes and voluntary REDD+ projects in Cambodia.

Role of environmental funds

The absence of environmental funds in Cambodia at present means there is little experience in the country in managing and structuring such funds. The role of environmental funds may therefore be limited in the near future. However, there are efforts underway to explore various revenue management and distribution options for existing REDD+ projects.

Role of state budget/sector ministries

The role of government agencies and cooperation between key departments is one of the central questions to the development of REDD+ mechanisms in Cambodia. This issue has been recognised by stakeholders and is part of the discussions currently underway within the REDD+ Taskforce in Cambodia. At present, the TWG F&E has been designated responsible for revenue disbursement for the first five years of the Oddar Meanchey project and the FA will act as the sole seller of carbon. However, questions remain around the form of fund management and disbursement. The findings in the study indicate that REDD+ funding may be channelled through government budgets and state ministries, possibly involving the Ministry of Economics and Finance where large revenues or funds are involved.

Individual REDD+ project/portfolio funds

The creation of REDD+ project/portfolios will be dependent on there being a sufficient quantity and range of demand for credits to justify the establishment of portfolio funds. Even if a post-Kyoto climate agreement creates compliance demand, uncertainty around the VAT status of carbon credits, transfer pricing confidence from carbon credit buyers,

the distribution of tax collection and licensing responsibilities between central, regional or provincial governments may continue to discourage investors.

National capacity building programmes

Cambodia's development partners are focused on national capacity building efforts and this is likely to continue through to 2012 and 2015. Donors are focused on developing frameworks and building institutional capacity around broader forest management issues to enable the effective development of REDD+ mechanisms and other forest management and conservation efforts. Further work is needed to clarify roles and cooperation efforts between government agencies and address capacity building needs related to governance, monitoring and fund management.

Development assistance can be expected to continue in the near future, as the REDD+ framework is still in its very early stages and discussions around fund management, benefits sharing, legal and taxation frameworks are still underway.

Active voluntary REDD+ projects

Cambodia has begun two main REDD+ projects and several initiatives are underway. The first pilot, the Oddar Meanchey project, will provide an indication of how REDD+ revenue will be managed, the roles of different stakeholders and how benefit sharing will be structured. The continued growth of active REDD+ projects is likely, although outstanding questions around the taxation, revenue sharing, and governance have yet to be answered. The REDD+ Roadmap currently drafted and now under discussion will provide more guidance in these areas.

Next steps: consultations with relevant government institutions, civil society and project developers

Government

Discussions between government agencies relevant to REDD+ mechanisms in Cambodia are required to clearly define their roles in the REDD+ framework. Further consultations with the MoE are required to increase its participation in the country's REDD+ developments. The outcome of the legal review undertaken by the REDD+ Taskforce will highlight the challenges and requirements of Cambodia's existing tax and legal frameworks as well as supplemental policies and structures needed.

Any increase in local management of forests through the establishment of community forestry sites will continue to be important to the development of REDD+ projects. This is also true of forest boundary demarcation activities and titling of indigenous communal lands. These will address disputes related to land tenure and customary land rights claims and increase local ownership over forest resources. Further discussion on the role of economic land concessions and tightening requirements for sustainable forest management will also be helpful, along with strengthened forest law enforcement and monitoring.

Consultations and greater cooperation with other government departments such as the Ministry of Land Management would be helpful to ensure a coordinated approach towards REDD+ developments and help resolve issues related to conflicting development priorities.

Finally, it will be important to gain clarity around the revenue management and disbursement model as well as continue to develop government capacity and awareness around REDD+ and related concerns such as benefit sharing, governance and monitoring. Pending the outcome of the legal review and discussions on fund management options in the REDD+ Taskforce, there may be scope for the integration or use of independent national, regional or local environmental funds to add to REDD+ funding and revenue capacity.

Civil society, indigenous and community groups

Civil society groups already play an integral role in REDD+ developments in Cambodia and they are likely to continue to do so. They have demonstrated they play an important role in working closely with government bodies on national frameworks and initiatives, providing training and raising awareness of REDD+ amongst community groups as well as developing REDD+ projects. It will be important to maintain engagement with these groups as REDD+ develops, to gain a detailed impression of how some of the challenges around community awareness, land tenure and local fund management are being dealt with.

Regardless of the role that independent environmental funds may come to play in the national REDD+ process, these funds may have valuable experience to share regarding the management of large funds in a transparent and accountable manner that builds donor and investor trust.

Project developers

Project developers may be able to provide first-hand information on how overseas investment in REDD+ is flowing and how revenue sharing and tax collection processes are impacting project growth in Cambodia. These developers are also likely to have insight into how community groups are engaging with REDD+ and the growth of local capacity to manage REDD+ funds.

REDD+ funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase Indonesia's Cambodia's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness.

Outstanding issues with REDD+ funding in Cambodia	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Clear framework for revenue management and distribution between relevant parties (communities, government, project developers, investors)	Actively	<p>The REDD+ Taskforce is addressing benefit sharing as part of the REDD+ Roadmap and is reviewing national laws around fund structures and management.</p> <p>PACT and WCS are in discussions with the FA regarding revenue management and distribution for the Oddar Meanchey and Seima projects.</p>	<p>Consultations on the REDD+ Roadmap include CSOs active in Cambodia.</p> <p>CSOs may be able to build state capacity on effective revenue management and distribution.</p>	<p>What fund options are under consideration and what are the implications for the role of non-state stakeholders such as environmental funds?</p> <p>What revenue distribution mechanisms and frameworks are under discussion?</p>
Reforms to the economic land concession and land tenure system	Partly	The government of Cambodia has placed a moratorium to address illegal logging issues and aims to increase area of land under local management through community forestry. Commitments have also been made to increasing the transparency of Economic Land Concession system.		What mechanisms are being developed to address the forest management practices of economic land concessions?
Clear distribution of responsibilities between state agencies and greater participation of the MoE	No action observed	The FA is deeply involved in existing REDD+ related activities and is co-chairing the TWG F&E. The participation of the MoE is less substantial but is important to the success of REDD+.	The REDD+ Taskforce can recommend a framework for division of ministerial responsibilities and greater leadership by the MoE.	What mechanisms are required to enable state bodies with forest-related jurisdictions to implement relevant REDD+ structures while retaining a national REDD+ framework?
Clarity on the legal frameworks for foreign investment, fund management, and taxation	Actively	The REDD+ Taskforce is working on a legal and institutional review, which will support the development of REDD+ policies, regulations and governance arrangements	The legal and institutional review is being conducted by external consultants.	What are the legal barriers and challenges that need to be addressed to create a secure investment climate and provide transparent fund management options?

DRC

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on DRC and REDD+

Forests and deforestation in DRC

The Democratic Republic of the Congo (DRC) contains the second largest area of rainforest in the world and the largest expanse of tropical rainforests in Africa, covering over 145 million hectares, making up just under 60% of the DRC's land area⁸¹, as can be seen in Figure 13. The Ministry of Forestry has estimated that these forests contain a carbon stock equivalent to 140 gigatonnes of potential CO₂ emissions. The forests of the DRC represent more than half of the total remaining rainforests in the Central African region. Figure 13 below provides a map of the distribution of the DRC's different forest types, including dense humid forest, montane tropical forest, savanna-mosaic forest and Miombo forest types. The DRC's forests are home to between 400,000 and 600,000 indigenous pygmies and many other indigenous groups. Many of these communities depend upon the provisioning services and natural resources of the forest for their livelihoods⁸².

Between 2000 and 2005 the DRC experienced a deforestation rate of approximately 0.2% per year⁸³. The principal causes of this deforestation and degradation are small scale subsistence agriculture, the growth of small settlements, fuel wood collection, selective logging and the construction of roads for commercial logging or mining activities. These roads provide access to previously remote areas, encouraging the further growth of settlements and small scale agriculture⁸⁴.

The DRC's forests have also been impacted by regional conflict. The Second Congo War, which involved nine African nations, began in 1998 and ended in 2002, although conflict occasionally reoccurs today. This war increased the number of displaced communities and soldiers relying on wood for fuel and bush meat for protein, which led to widespread forest degradation and the depletion of animal populations. However this degradation pressure was partially offset by a decrease in logging activity associated with the security threat the war posed⁸⁵.

Whilst the conservation of the DRC's forest areas has faced a range of challenges throughout the 20th and 21st century, the country has a long established national parks network, including the first national park in Africa (Virunga National Park, established in 1925). Over 8% of the national territory is classified as protected and in 2003 the Ministry of Environment announced its objective to expand the cover of forest protected areas to 15% of the national territory⁸⁶. Before the Second Congo War, parks were largely funded by tourist fees. Looking forward, there is potential to restore tourist numbers and revenues to boost the conservation resources available in the country.

The economy of the DRC has long been highly dependent on revenues from natural resource extraction, especially from timber harvesting and mining. The DRC has 13% of the world's hydroelectric potential and infrastructure investments could drive new development. A major challenge facing the government of the DRC is to balance the tension between economic development, and forest conservation and sustainable forest management. Achieving an appropriate balance will be important to the establishment of REDD+ and the response to climate change internationally, as well as to the economy of the DRC.

81 Food and Agriculture Organization of the United Nations, (2009). State of the World's Forests 2009.

82 UN-REDD+ Programme, (2009). Engaging civil society on REDD+ in the Democratic Republic of the Congo: an example of best practice. Available from: www.un-redd+.org/Newsletter3_Congo_best_practice_en/tabid/2038/language/en-US/Default.aspx

83 Food and Agriculture Organization of the United Nations, (2009). State of the World's Forests 2009.

84 Dkamela, G et al (2009). Voices from the Congo Basin: Incorporating the Perspectives of Local Stakeholders for Improved REDD Design. World Resources Institute

85 Draulans, D and Van Krunkelsven, E, (2002). The impact of war on forest areas in the Democratic Republic of Congo. *Oryx*, Vol 36, No 1, January 2002.

86 International Institute for Sustainable Development (2003) International Tropical Timber Council: Thirty-Fifth Session. Available online: www.iisd.ca/forestry/itto/ittc35/

Figure 13: Overview of the Congo Basin Forest⁸⁷

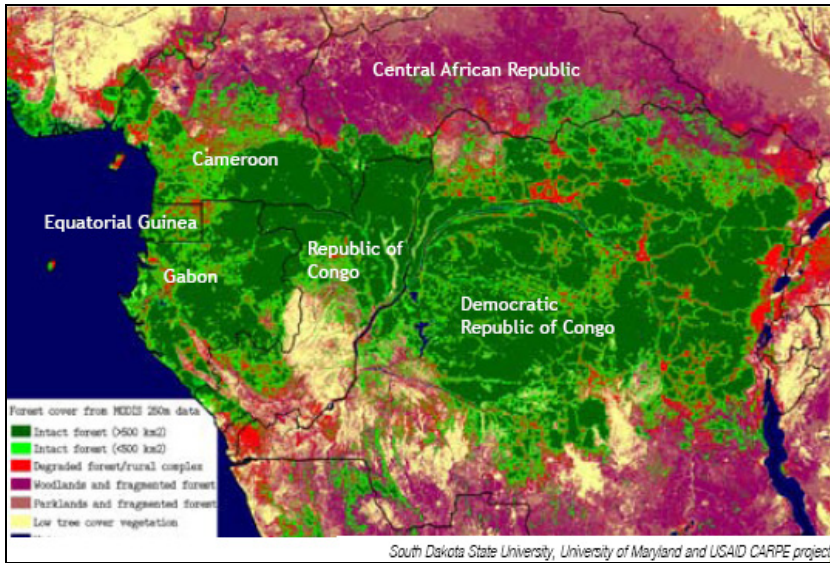
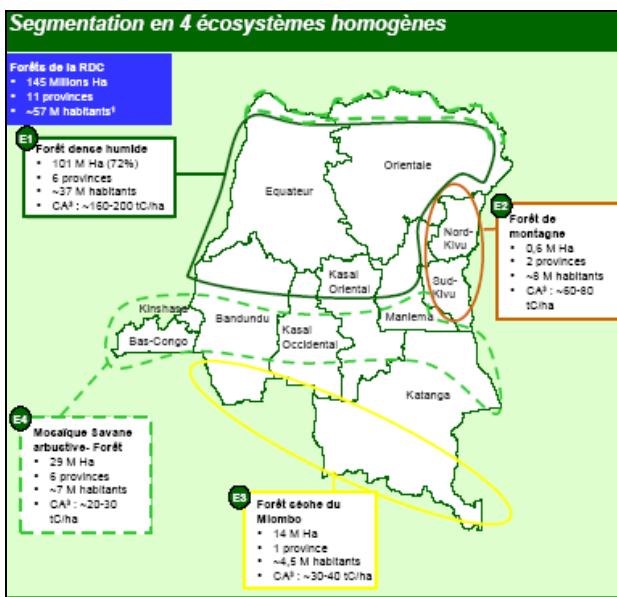


Figure 14: Forest diversity in the DRC⁸⁸ divided into humid forest (Forêt dense humide), montane tropical forest (Forêt de montagne), savanna-mosaic forest (Mosaïque Savane arbustive- forêt) and Miombo forest (Forêt ceohe de miombo) types



Policy principles and initiatives within DRC supporting future REDD+ activities

The DRC government has been active in promoting the development of REDD+ mechanisms within the country. In January 2009, an agreement was made between the DRC government, the World Bank’s Forest Carbon Partnership Facility and the UN-REDD+ Programme to create the National REDD+ Coordination body (‘La Coordination Nationale’). Established within the Ministry of Environment, the National REDD+ Coordination is responsible for the implementation of readiness activities and piloting the REDD+ process in the DRC.

The DRC’s REDD+ Readiness Preparation Proposal (R-PP)⁸⁹ was prepared in February 2010 and presented to the World Bank’s Forest Carbon Partnership Facility (FCPF) and UN-REDD+ Programme in March 2010. The R-PP

87 WWF, (2007). Congo Basin Forests: Forest Area Key Facts & Carbon Emissions from Deforestation. Available from: assets.panda.org/downloads/congo_forest_cc_final_13nov07.pdf

88 Democratic Republic of Congo, (2010) Readiness Plan for REDD+. World Bank Forest Carbon Partnership Facility.

summarises the plan and the potential national strategies for REDD+ implementation by 2012. Since the presentation of its R-PP, the DRC government, along with civil society organisations, have focused efforts on demonstration REDD+ projects with the support of funding agreements from the FCPF of \$3.4 million and \$5.5 million from the UN-REDD programme.

The DRC's R-PP focuses on the establishment of a national REDD+ fund with 11 provincial funds to channel REDD+ funds to the regions. There are however reservations from international observers about the feasibility of this model given the potential challenges for the government in coordinating 11 different funds simultaneously. Hence, the DRC government is being encouraged to explore alternative options in case this fund does not prove to be feasible⁹⁰.

A number of REDD+ project initiatives have been launched in recent years in the DRC by civil society actors in partnership with government ministries, businesses, international, technical and financial partners. These initiatives range from agriculture and microfinance projects to awareness-raising or carbon credit monitoring, and are contributing to building REDD+ readiness in the country. Acting through the National REDD+ Coordination body, the Ministry of Environment is working to help organise and coordinate these initiatives, and to identify key quantitative and qualitative data outputs which can act as a foundation for REDD+ strategic planning.

In late February, seven concept notes for integrated REDD+ projects were endorsed by the Ministry of the Environment before being finalised and submitted to the Congo Basin Forest Fund (CBFF). The acceptance of these project proposals would provide around US\$ 20 million for the REDD+ demonstration and capacity building process, providing important lessons for the development of a national REDD+ strategy.

State-linked institutions

Through consultation with the government, civil society and private sector in the DRC, it is apparent that the National REDD+ Coordination body is the only institution currently involved in REDD+ related fund management and disbursement activities at a national level. A ministerial decree (number 09/41) was signed on the 26th of November 2009, following a round table with relevant stakeholders (government officials, NGOs, donor agencies and civil society groups), mandating the establishment of four national REDD+ institutions:

- **The National REDD+ Coordination (operational)** - In charge of day-to-day activities, including UN-REDD+ and WB-FCPF programme execution. The Coordination body is also charged with encouraging a participative approach to the development of REDD+ in the DRC through the inclusion of forest communities and indigenous populations in national consultations.
- **The National REDD+ Committee (to be established)** – This will be the body in charge of national strategy and decision making. It will include 13 stakeholder members including civil society and local communities and will be chaired by the Secretary General of the Ministry of Environment. The National Committee's duties include:
 - Approving the Inter-Ministerial Committee's and National REDD+ Coordination's respective work plans;
 - Coordinating the monitoring, control and evaluation of the REDD process implementation;
 - Implement a national fund; and
 - Establish a scheme for the management and distribution of subsidies and resources derived from the REDD+ process.
- **The Inter-Ministerial Committee (to be established)** – This committee will act as the planning body at ministerial level. The committee will be responsible for planning the National REDD+ Committee's agenda and assigning responsibility for their execution to relevant ministries.
- **The Scientific Committee (to be established)** - This technical committee of national and international scientists will provide scientific advice to the national REDD+ committee.

The National REDD+ Coordination is supervised by the General Secretary of the Environment with the assistance of the Directorate of Sustainable Development. The body, which was put in place in 2009, is comprised as follows:

- National Coordinator;
- Chief Technical Advisor;

89 Democratic Republic of Congo, (2010) Readiness Plan for REDD+. World Bank Forest Carbon Partnership Facility.

90 Forest Carbon Partnership Participants Committee, (2010). PC Review of R-PP of Democratic Republic of Congo.

- International Technical Advisor;
- Advisor in Information, Education and Communication;
- Administrative and Financial assistants.

The decentralisation process

Since early 2007 the Ministry of Decentralisation and Planning (MDAT) has been in the process of establishing sector-based roadmaps for discussion as part of the decentralisation process. As part of this process, provincial ministers have been appointed to exercise regulatory power at a provincial level.

The decentralisation process has identified the 'design of agriculture and forestry programmes and their implementation in accordance with national planning standards' and 'the application of national legislation on agriculture, forestry and the conservation of nature' as key issues. However, responsibility for the protection of the natural environment and agriculture and forestry regulation is still shared between provincial and central authorities and it is as yet unclear how these responsibilities will be distributed between central and provincial government⁹¹.

No state-linked REDD+ institutions exist to date at the sub-national or provincial level although there is a decentralisation process in place for the development of REDD+. This provides for the gradual transfer of decision-making prerogatives to provincial governments. The current plan is to set up REDD+ administrative structures in 11 provinces.

The REDD+ Platform for Civil Society (GTCR)

The GTCR is a national platform which provides representation for a number of networks and organisations of local and civil society, including indigenous groups. The GTCR, although in its early stages, is working to develop the transparency and operational effectiveness of REDD+ in the DRC. The Platform is supported by international NGOs such as the Rainforest Foundation and by the REDD+ National Coordination.

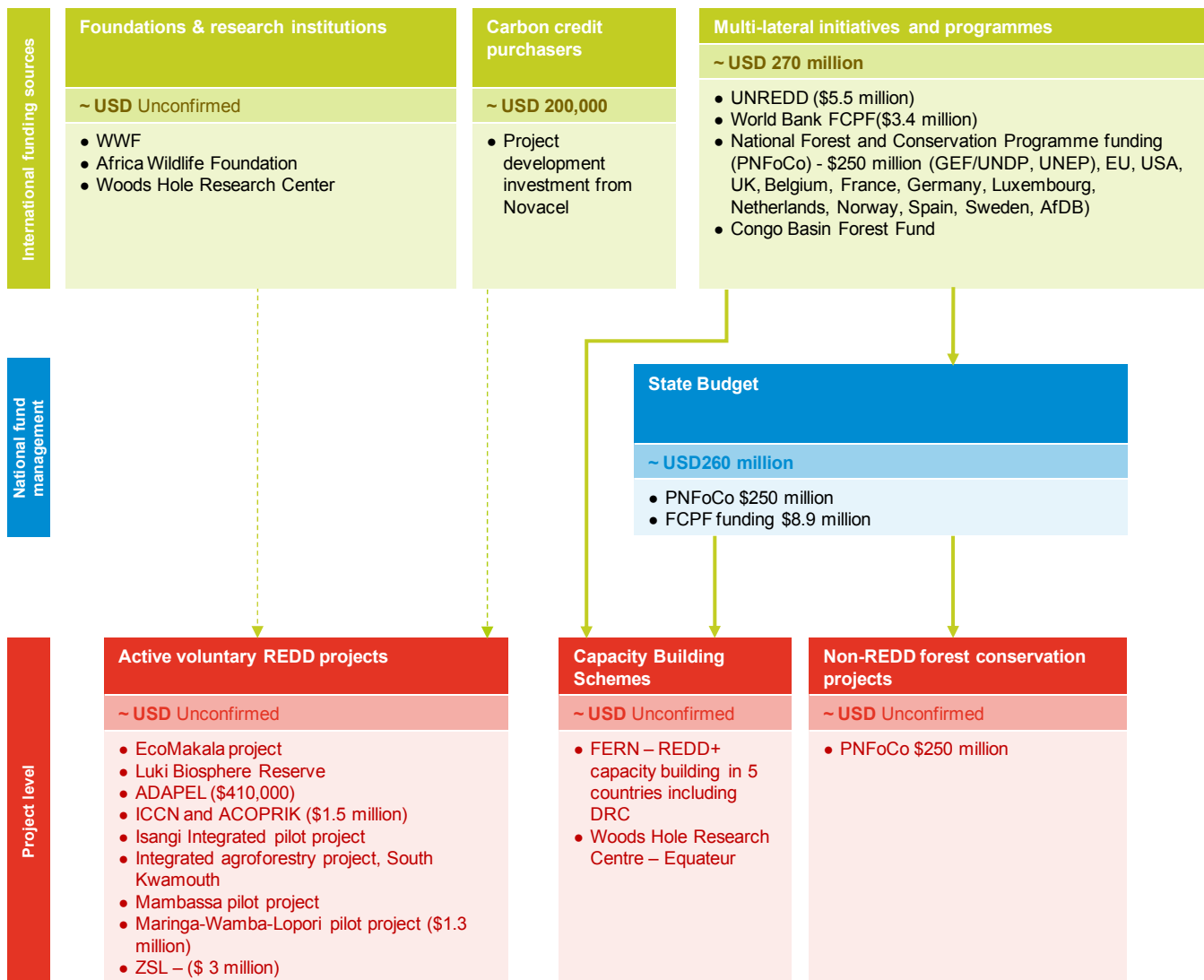
91 Democratic Republic of Congo, (2010) Readiness Plan for REDD+. World Bank Forest Carbon Partnership Facility.

2. Current REDD+ funding in DRC

This section explores the current arrangements within DRC for REDD+ fund disbursement focusing particularly on the role of Environmental Funds within this. We begin with Figure 15 below which summarises the routes through which the REDD funding identified from this study flow from international sources into and within DRC before reaching actual REDD projects and REDD-related capacity building activities. This is followed with summarised descriptions of the funding initiatives and projects outlined in Figure 15.

Figure 15: DRC - Current national funding flows for REDD+ related activities

NB: The diagram only includes those projects and initiatives we have been able to obtain funding data on.



Indicative funding flows

- [US\$100 - US\$500m]
- [US\$10m - US\$100]
- - - → [< US\$10m]

International funding

Congo Basin Forest Fund

The Congo Basin Forest Fund, launched in June 2008, was established to support projects which build the capacity of the peoples and institutions of the Congo Basin to sustainably manage forest resources, help communities find livelihoods consistent with the conservation of forests and reduce deforestation rates. The CBFF has been financed by an initial grant of \$160 million from the British and the Norwegian Governments.

Funding is distributed through competitive bidding rounds, eligible to governments, NGOs, civil society organisations and private sector organisations based in ten countries in the Congo Basin region⁹². Competitive bidding is proposed to occur at least on an annual basis, with the process overseen by the CBFF Secretariat, housed in the African Development Bank⁹³.

The CBFF will provide funding of between \$100,000 and approximately \$3 million to individual projects⁹⁴. Whilst the fund has been established for two years to date it has reportedly provided funding to 7 projects with budgets totalling \$13.5 million⁹⁵.

Forest Carbon Partnership Facility and UN-REDD

In response to the submission of the DRC government's R-PP, the Forest Carbon Partnership has transferred \$3.4 million and the UN-REDD Programme \$5.5 million in REDD+ capacity building funding to the government for the development of demonstration REDD+ projects.

The National Forest and Conservation Programme (PNFoCo)

This \$250 million Ministry of Environment programme is supported by the GEF/UNDP, UNEP, EU, African Development Bank (AfDB) and multiple national governments (USA, UK, Belgium, France, Germany, Luxembourg, Netherlands, Norway, Spain, Sweden). The Programme aims to support the application of the Forest Code (2002) and has six main focus areas:

- Institutional capacity building
- Participative zoning and completion of old forest title deed reconversion
- Nature conservation
- Control and development of production forests
- Rural and community forestry
- Environmental protection

There are a number of areas of overlap between the R-PP and the PNFoCo, most significantly afforestation/reforestation programmes, reduced firewood and charcoal use and controlled development of agricultural activities. In recognition of this crossover the National REDD+ Coordination body and PNFoCo managers are working together in the development of the national REDD+ Strategy and implementation framework. The Programme is also engaged with capacity building for the Provincial Ministries in the provinces of Bandundu, Equateur and Oriental and has provided \$4.1 million in funding for the creation of the Environmental Services Division within the national Directorate for Sustainable Development (DDD).

The PNFoCo is also directing \$7.8 million towards demonstration projects in four 'landscapes' (Lac Tumba, Maringa – Lopori, Wanga, Salonga Ituri). The Programme is also providing \$3 million to promote civil society participation in forest management and the creation of Consultative Forums, in conjunction with the National REDD+ Coordination body⁹⁶.

92 Burundi, Cameroon, Central African Republic, Chad, Equatorial Guinea, Democratic Republic of Congo, Gabon, Republic of Congo, Rwanda, and Sao Tome e Principe

93 Congo Basin Forest Fund (2009). Available online: www.cbf-fund.org/

94 Zoological Society of London (2010). Available online: static.zsl.org/files/project-administrator-drc-1108.pdf

95 Based on analysis of CBFF project portfolio data available online from www.afdb.org/en/projects-operations/project-portfolio/#c10693 and information from ZSL (static.zsl.org/files/project-administrator-drc-1108.pdf).

96 Ibid

Foundations

Woods Hole Research Center

The Woods Hole Research Center is engaged in project level capacity building in Equateur province although information on the total amount and source of the funding for this project was not available at the time of research. Please see 'Capacity Building Activities' below.

WWF

The WWF is engaged in at least two projects in the DRC: the EcoMakala REDD+ project and the Luki Biosphere Reserve in Mayombe. Information regarding project budget and sources of funding were not available at the time of research.

Africa Wildlife Foundation

The Maringa Wamba Lopori landscape project was originally funded by USAID in 2004 and has provided the foundation for the African Wildlife Foundation, alongside their project partners, to develop the Maringa-Wamba-Lopori REDD+ pilot project. Information on the levels of funding being directed specifically to REDD+ pilot project activity was not available at the time of research.

National fund management

State (national) budget

The key sources of funding specifically for REDD+ activities at a national level include \$3.6 million transferred from the Forest Carbon Partnership and \$5.4 million from the UN-REDD programme in response to the submission of the nation R-PP. It is understood that this funding will be channelled through the Ministry of Environment and will be largely focused on the development of integrated pilot REDD+ projects, which will employ, amongst others, agroforestry, improved cooking stoves, agricultural assistance and alternative livelihoods programmes to reduce pressure on natural forest cover.

National REDD+ fund

According to the R-PP the National REDD+ Committee, when established, will be responsible for implementing the National REDD+ fund, which is scheduled to be operational by late 2011. Meanwhile there are no national level environmental funds in place suitable for managing REDD+ funding. The DRC's R-PP states that the National REDD+ fund will include 11 provincial funds to channel REDD+ funds to these regions, although alternative options are also being explored.

Multi Donor Trust Funds (MDTFs) in the DRC

Whilst there is no current REDD+ fund operating in the DRC there are other examples of national health and poverty alleviation funds, such as Multi Donor Trust Funds (MDTFs) which may provide a precedent for the implementation of a REDD+ specific fund.

MDTFs provide a vehicle through which international development organisations, donors and national partners can distribute funding and deliver basic services. For example MDTFs can finance the core expenditures of an interim administration, mobilise and distribute funds in support of a single national plan and budget and minimise transaction costs to both development and country partners. In the DRC the administration of these funds by the World Bank or UN, gives confidence to donors that the appropriate fiduciary checks are in place for effective and efficient distribution of funds. MDTFs can also provide a forum for policy dialogue and joint decision-making process in which partner countries exercise increasing ownership and leadership.

MDTFs provide a good example of where development partners have attempted to provide a harmonised approach to financing but results have been mixed. This can be partly attributed to the difficult working environments they operate in, but also may be related to the challenges involved in simultaneously managing multiple objectives and stakeholders. This could have important implications for how a national REDD+ funding mechanism is designed in the DRC and whether or not one or more different mechanisms may be needed to effectively manage the multiple objectives of REDD+.

Funding recipients⁹⁷

WWF: EcoMakala REDD+ project

At the time of writing the WWF has two REDD+ projects in operation in the DRC: the EcoMakala REDD+ project and the Luki Biosphere Reserve.

The EcoMakala project is a community reforestation project in the Goma region which aims to create at least 4,000 to 5,000 hectares of eucalyptus plantations in five years, giving priority to reforestation by small farmers. This is intended to increase small scale farmer confidence in planting eucalyptus for fuel purposes as an alternative to removing fuel wood from natural forest. Improved stoves will also be distributed to households in order to reduce demand for wood fuel. The project aims to reduce forestry and land use emissions a year by 210,000 tCO₂ in 2012 and by 213,000 tCO₂ per year by 2017⁹⁸.

There is less information available on the Luki Biosphere Reserve in Mayombe, Bas-Congo Province, where an integrated rural development approach is being used to reduce pressure on natural forest resources.

ADAPEL – Phasing out slash and burn farming

This project was approved for funding of \$400,000 over a two year period from the Congo Basin Forest Fund in November 2009. It aims to phase out slash-and-burn farming by encouraging farmers to treat their land with charcoal to maintain soil quality and crop yields. Increased concentrations of charcoal in the soil also improve the carbon sequestration potential of the soil itself. This project aims to reduce carbon emissions directly, by sequestering biocharcoal permanently in soils, as well as indirectly, by reducing levels of deforestation from slash and burn land management.

The project will be located in 10 villages in Equateur province and will involve participation from 200 poor families. Participating farmers will be represented by ADAPEL, who are already in regular communication with the local communities. The Biochar Fund will play the role of technical, organisational and business partner⁹⁹.

Conservation International: Community Reserves REDD Project in Eastern Democratic Republic of Congo¹⁰⁰

The DRC Community Reserves Project is a REDD carbon credit project in two contiguous, community-based reserves in a single Eastern Afrotropical Hotspot site in eastern DRC. The site includes two government-sanctioned nature reserves and their buffer zones comprising over 300,000 hectares. It is estimated that the project will prevent five million tons of carbon dioxide from being emitted into the atmosphere during the twenty year project duration. The program will be managed by Conservation International's (CI) DRC country program in partnership with the Diane Fossey Gorilla Fund International (DFGFI), which works directly with local community NGO partners.

CI has been working with this project since 2003, developing a conservation corridor composed of two national parks with eight community-based nature reserves forming the Maiko Tayna Kahuzi-Biega Landscape (MTKB Landscape). This community conservation program integrates development and conservation by providing livelihoods and local development projects. The program has also created a government sanctioned, community-managed university, the Tayna Center for Conservation Biology (TCCB), which grants degrees in conservation biology (200 already granted).

This project is being supported by a philanthropic grant from the Walt Disney Company.

ICCN and ACOPRIK: Sankuru Community “Fair Trade” Carbon and Bonobo Conservation Initiative (BCI).

This partnership between the Bonobo Conservation Initiative (BCI), the Congolese Wildlife Authority (ICCN) and Community Action for the Primates of Kasai (ACOPRIK) has secured official designation for the 30,570 km² Reserve Naturelle du Sankuru (RNSA), the first large community-based, multi-zoned protected area in the DRC. The 36 month, \$1.5 million development project will focus on establishing baselines and initiating pilot management activity within a 700,000 hectare focal area in the eastern part of the reserve.

97 Coordination Nationale REDD+ de la République Démocratique du Congo, (2010). Réponse aux commentaires du TAP sur le R-PP, 11 March 2010.

98 CASCADE Africa. EcoMakala. Available online: www.cascade-africa.org/ManageProjects/tabid/91/ctl/Detail/mid/407/ItemID/65/Source/AreaOfExpertise/language/en-US/Default.aspx (Accessed 1st July 2010)

99 African Development Bank Group, (2010). CBFF - Phasing Out Slash and Burn Farming with Biochar. Available online: www.afdb.org/en/projects-operations/project-portfolio/project/p-z1-c00-006/

100 Agustin Silvani, (2010). Personal communication.

The project will support local stakeholders to develop a practical framework for participatory reserve management, building local natural resource management capacity to collect baseline data, conduct ecological monitoring, zoning and enforcement and plan poverty alleviation and alternative livelihood programmes to address poverty in the region. With the support of MGM International the partnership intends to register this project under a recognised voluntary carbon standard and has already secured commitments for the forward purchase of credits from the projects. The project is currently expected to generate income from credit sales of \$150 million per year.¹⁰¹

Isangi Integrated REDD+ Pilot Project

This Integrated Rural Development project involves a change in regional planning to protect natural forest from colonisation in the future and to establish community forest management activities in 'permanent production' forests. The project is based in the Isangi territory of Orientale province and led by civil society organizations with financial support from the UN-REDD Programme.

Integrated agroforestry REDD+ project, South Kwamouth

This project in the Kwamouth territory of the Province of Bandundu, led by the private company Novacel SPRL, seeks to implement an integrated rural development approach to reducing fuel wood collection pressure and degradation of natural forests in the area.

Mambassa REDD+ pilot project

This is another project supported by UN-REDD and led by civil society organizations which seeks to implement community forestry management plans and changes to future land planning in order to reduce the degradation of natural forest from fuel wood extraction.

Africa Wildlife Foundation - Maringa-Wamba-Lopori REDD+ pilot project

This project in Djolu and Befale in Equateur province, led the Africa Wildlife Foundation, aims to provide alternative economic opportunities to slash and burn agriculture for local communities and to create improved market access for community forestry management enterprises.

Zoological Society of London – Virunga-Hoyo REDD+ project

ZSL is leading a new multi-partner \$3 million project in the Virunga-Hoyo region which aims to work with local communities to develop multiple strategies to reduce rates of deforestation and forest degradation and create alternative sources of income, including carbon finance. The project will run for three years from June 2010 and include partners such as the ICCN, the Wildlife Conservation Society, WFF, ESCO-Kivu and the Conservation Company, working in close collaboration with the National REDD+ Coordination¹⁰².

Capacity building activities¹⁰³

FERN - Building the foundations for success; ensuring community participation is at the heart of REDD+

FERN has been awarded a 3 year grant from the CBFF to strengthen the capacity of NGOs in Cameroon, CAR, RoC, DRC and Gabon to support the incorporation of in national and international REDD+ policies and the development and promotion of transparent mechanisms to ensure that REDD+ revenues are transferred effectively from national to the local level. This capacity building programme also seeks to create NGO coalitions to work at different levels on REDD+ related issues¹⁰⁴.

Woods Hole Research Center - Equateur

This project aims to build awareness, understanding and capacity amongst local civil society organisations and provincial governments to manage REDD+ projects. This has included the development of a tool for planning and implementing alternatives to deforestation projects, monitoring, reporting and verification and social and environmental impact analysis.

¹⁰¹ African Development Bank Group (2010). CBFF- Sankuru Community "Fair Trade" Carbon Initiative. Bonobo Conservation Initiative (BCI). www.afdb.org/en/projects-operations/project-portfolio/project/p-z1-c00-021/

¹⁰² Zoological Society of London (2010). Available online: static.zsl.org/files/project-administrator-drc-1108.pdf

¹⁰³ Ibid

¹⁰⁴ Congo Basin Forest Fund, (2009). Projects to receive funding from the CBFF. Available online: www.cbf-fund.org/site_assets/downloads/pdf/projects_receiving_funding.pdf

The Global Environment Facility (GEF)

GEF is an independent global financial organisation. Established in 1991, it provides grants to countries with developing and transition economies for environmental projects themed around biodiversity, climate change, international waters, land degradation, ozone layer and persistent organic pollutants. GEF is the largest funder of projects focused on environmental improvements, and has allocated US\$8.8 billion of financing for projects in over 165 countries.

There have been two recent examples of funding provided by the GEF for capacity building activities for forest conservation and sustainable management in the DRC. Whilst not explicitly intended for the development of REDD+ these funding programmes share some common goals with the national REDD+ capacity building agenda.

- **Sustainable forest management** – GEF is contributing US\$6 million to a US \$70 million World Bank Project, approved in 2009 to increase the capacity of the government and other stakeholders to manage forests in a sustainable and equitable manner for multiple uses in pilot areas of the DRC. The International Development Association (IDA) is providing a further grant of US\$ 64 million for the project. This is the main vehicle through which the World Bank will support the DRC's National Forest and Nature Conservation Program, a US\$ 250 million multi-donor program developed by the government and supported by a coalition of donors, including the EU, USA, UK, Belgium, France, Germany, Luxembourg, the Netherlands, Norway, Spain, Sweden, the African Development Bank, GEF/UNDP and UNEP¹⁰⁵.
- **Rehabilitation of protected areas** - This \$7 million GEF grant, approved in April 2009, aims to support ongoing efforts to rehabilitate protected areas. DRC ranks fifth in the world for plant and animal diversity, and first in Africa for number of mammals and bird species. It harbours an unusual diversity of natural habitats and contains more than fifty percent of Africa's rainforest, representing the second largest area of rainforest worldwide. Five natural World Heritage Sites are in DRC, more than the rest of Africa combined. Protected areas are therefore critical to conservation efforts in the DRC. This grant, combined with US\$ 6.5 million in financing from the DRC and other donors, will support the strengthening of the Congolese Institute for Nature Conservation (ICCN), rehabilitation of two key protected areas (Garamba National Park, and the Mikeno sector of the Virunga National Park), and activities to help identify new protected areas¹⁰⁶.

105 Global Environment Facility, (2009). World Bank Board approves \$70 million grant to support Forest Conservation in the Democratic Republic of Congo. Available online: www.thegef.org/gef/node/2260

106 Global Environment Facility, (2009). World Bank Board approves GEF Grant to Support Rehabilitation of Protected Areas in Congo. Available online: www.thegef.org/gef/node/2261

3. Potential barriers to funding future REDD+ activity at scale

There has been significant growth in the number of demonstration and market based REDD+ projects in the DRC. These projects have provided important lessons on the practical implementation of REDD+ and made an important contribution to the national REDD+ readiness effort. Whilst progress is being made at a sub-national level and in the government REDD+ planning process, the following barriers may potentially hinder national-scale level REDD+ investment in DRC post-2012.

The granting of new Industrial logging and plantation concessions

The strategic options for REDD+ outlined in the R-PP include an intention to explore the creation of 10 million hectares of potential new logging concessions in addition to new plantations and cattle ranches¹⁰⁷. Some reviewers of the R-PP have opposed the inclusion of these options, particularly in natural forests, pointing out that such strategic options would be inconsistent with the World Bank's FCPF objectives for REDD+¹⁰⁸. The R-PP feedback process highlighted that without investment in forest law enforcement capacity, a relaxation of the country's logging moratorium would have a widespread negative impact on achieving national REDD+ objectives. This could reduce donor and investor confidence in the permanence of REDD+ projects, with negative impacts for the scaling up of REDD+ in the DRC.

Governance and management of current revenue distribution systems

According to the Mining and Forestry Code (2002) revenues from natural resources are to be distributed to provinces (40%) and territories (15%). According to the R-PP a planned retrocession for these revenues has not taken place, which may create uncertainty regarding the future distribution of revenues between central and provincial governments. This could allow for differing interpretations and implementation of revenue distribution by provincial authorities, until the REDD+ strategy is approved.¹⁰⁹

Protected forests and unprotected forests

According to the Forest Code (2002), listed or protected forests are state owned assets. This heading covers national parks (strict nature reserves), game reserves, urban forests, botanical gardens and reforested areas controlled by the state or decentralized agencies (articles 12 and 13 of the Forest Code)¹¹⁰.

The 2002 Forestry Code distinguishes three kinds of forest:

- Classified Forests: Part of the State and must represent at least 15% of the national area;
- Protected forests: Part of the State but rights of exploitation can be transferred to third parties for a renewable period of 25 years through concession.
- Permanent production forests: Forests under concessions and reserved for logging.

Protected forests are of relevance to the design of a national REDD+ system in DRC for two main reasons. Firstly, conservation and enforcement resource constraints mean that illegal encroachment in the protected forests network is

¹⁰⁷ Annex 2b, REDD+ strategic options

¹⁰⁸ Article 2. Establishment and Objectives, Section 2.1 Objectives - Forest Carbon Partnership Facility is hereby established in accordance with the terms and conditions of this Charter. The objectives of the Facility are: (a) To assist Eligible REDD+ Countries in their efforts to achieve Emission Reductions from deforestation and/or forest degradation [...];...; (c) Within the approach to REDD+, to test ways to sustain or enhance livelihoods of local communities and to conserve biodiversity;... Comments from Michael Brown founder of Satya Development International LLC (SDI)

¹⁰⁹ Fétiveau, J., Mpoyi Mbunga, A., L'économie politique du secteur forestier en République Démocratique du Congo, Report for the World Bank 2009.

¹¹⁰ WRM Bulletin, (2008). Democratic Republic of the Congo: Deforestation of protected areas for mining operations in the province of Katanga – The case of the Basse Kando Reserve. Available online: wrmbulletin.wordpress.com/2008/08/25/democratic-republic-of-the-congo-deforestation-of-protected-areas-for-mining-operations-in-the-province-of-katanga-the-case-of-the-basse-kando-reserve/

still a threat. REDD+ projects within protected forests could still provide 'additionality'¹¹¹ by strengthening protection capacity and reducing this encroachment. Secondly, protected forests were considered by interviewees as potential 'pilot' project areas where legal frameworks are already in place for the establishment of long term conservation and sustainable land use agreements.

According to stakeholder consultations and information from the R-PP and Ministry of Environment¹¹², the territorial zoning process has not yet defined the distribution of land between protected, unprotected and buffer zone areas. Prior to any potential integration of protected areas into the national REDD+ framework this zoning process will need to show signs of progression.

Finalisation of Forest Code updates and legal reforms

The timeframe for regulatory update as put forward in the R-PP states that the DRC government will have finalised the necessary forest and legal reforms, streamlined all forest related initiatives, built capacity of all stakeholders, including central and decentralised government, and developed a comprehensive and feasible national plan by the end of 2012.

Forestry reform is still progressing in the DRC, the most recent reform beginning with the Forest Code in 2002. The relatively low visibility of recent technical reform such as the logging title legality review indicates that there is more effort required to raise the efficiency and transparency of the reform process. Based on these assessments, some observers of the R-PP have suggested that the timescales for the REDD+ readiness process should be adjusted.

Decentralisation and its impact on enforcement and monitoring

A common theme from consultations was that the Forest Code of 2002 still requires reform to address the governance issues posed by REDD+. The implementation of these reforms, including the strengthening of law enforcement capabilities, will need to be subject to robust and participatory monitoring. The process of decentralisation will present additional challenges and opportunities for designing local and central monitoring systems. Sufficient resources will need to be allocated up front to ensure that an effective long-term monitoring system is established with input from all relevant stakeholders.

Revenue distribution

There could be challenges in equitably distributing REDD+ revenue to the communities that live within or around project boundaries, especially where these communities do not have legally recognised land rights. This has been an issue during the distribution of mainstream forestry revenue, although action is being taken to resolve this by the Ministry of Forestry. The design of the national REDD+ system should be designed to ensure that public revenue from forest-related taxes and fees paid to government ministries by project developers are channelled downwards to forest communities fairly and efficiently.

Forest zoning and recognition of land tenure

In the DRC all forest and agricultural land is state owned. However in some cases customary usage rights by indigenous populations are recognised, as long as these rights are not contrary to laws, regulations, existing leases and concessions. There is presently no legislation for 'indigenous territories' as there are in other rainforest countries such as Brazil¹¹³. This could have a limiting effect on the ability of indigenous groups to develop their own REDD+ projects.

Although there is a provision in the DRC Forest Code for community based forestry it has not yet reached full implementation and some aspects of the community forest law are still being debated. One proposal being discussed would restrict the size of community forests to 10,000 hectares. This could be problematic for customary land right holders as these rights are often claimed for areas in the region of 100,000 hectares in size¹¹⁴.

111 Projects provide 'additionality' only where they have additional forest protection benefits above and beyond what would happen in their absence (the baseline scenario).

112 http://www.MinistryofEnvironment.cd/index.php?option=com_content&task=view&id=48&Itemid=1

113 Muchuba, R, (2010). Forest sector reforms and REDD+ in the Democratic Republic of Congo. Chatham House, Third Dialogue on Forests, Governance and Climate Change, 22nd January 2010

114 Ibid

One of the fundamental prerequisites for the success of REDD+ in the DRC is the establishment of a widely accepted forest zoning plan. One of the starting points for this process could be the identification of community forest use areas and customary forest lands with community representatives. This process should be aligned with the principles of free, prior and informed consent (FPIC) during project or policy design. To determine these customary rights it will be important that the DRC government carries out spatial planning in consultation with communities and civil society, paying particular attention to minority communities that may suffer disproportionately from a redistribution of land rights and revenue sharing mechanisms¹¹⁵.

There is a risk that without the appropriate process in place, decisions regarding the location of REDD+ conservation areas may go ahead without taking into account customary or community land rights. This could lead to community displacement, with access only to the land that remains outside of concessions and conservation areas. This would leave many community based deforestation and degradation drivers intact, which could undermine the conservation achievements made by placing concessions under REDD+ management.

Community engagement and participation in REDD+

The UN-REDD+ Programme have cited the case of the DRC as an example of best practice with regard to consultation and participation. However the implementation of a strategy for consulting forest communities across the expanse of the DRC with limited communications infrastructure is a sizeable challenge.

The legal decree in November 2009 established the mandate for the National Coordination team to 'encourage and ensure a participatory approach to the REDD+ process through the involvement of, and consultation with, the stakeholders'. However, according to the UN-REDD+ programme the use of free, prior and informed consent (FPIC) is still at the 'definition stage'. There are concerns from NGOs such as the Forest Peoples Programme that whilst civil society groups have had an adequate opportunity to state their views, the consultation process with indigenous communities could be executed in a timelier manner and with a greater focus on applying the principles of FPIC¹¹⁶.

Monitoring, Reporting and Verification

The DRC's R-PP explicitly refers to the need to identify MRV systems that go beyond an exclusive focus on carbon, to include governance, socio-economic, broader environmental and socio-cultural factors. However, to date it appears that the involvement of civil society and indigenous peoples has been limited to the monitoring of deforestation and degradation drivers rather than in all stages of REDD+. According to consultees, project design and verification is commonly viewed as the domain of international NGOs providing independent monitoring services.

As REDD+ grows there is also a need for further development of the Ministry of Forestry and the Ministry of the Environment's technical capacity to monitor deforestation and carbon stocks. Without this capacity, a reliance on external monitoring capacity may develop, creating difficulties in establishing national carbon accounting systems.

115 Dkamela et al, (2009). Voices from the Congo Basin: Incorporating the Perspectives of Local Stakeholders for Improved REDD+ Design. World Resources Institute.

116 Forest Peoples Programme, (2010) *Consultation with indigenous peoples and others affected by REDD+ initiatives in the DRC: An example of best practice?*

4. Making REDD+ a success in DRC

Forest land titling

In 2005 the DRC government began a multi-stakeholder forest title conversion process, which was designed to convert old logging titles in to new forest concessions that would fit with the rules of the 2002 Forest Code. The World Resources Institute (WRI) and Agreco served as international independent observers of the process, to monitor the integrity of the proceedings and make reports public. Simultaneously WRI and Agreco engaged in a process to strengthen the technical capacity of the DRC government to conduct the field evaluation of the forest title conversions requests submitted by title holders. In February 2009 WRI and Agreco formally attested that the process complied with the legal provisions applicable in the DRC.

Of the 156 titles that were sent to the DRC government for conversion only 65 were declared convertible by the Interministerial Commission. The remaining titles, accounting for some 12 million hectares of a total of 22 million hectares sent for conversion where deemed illegal by the Commission and subject to cancellation. According to Honorable Pius Bitakuya Dunia a national DRC Parliamentarian and President of the Environment and Natural Resource Commission:

“For the DRC—this process put order into the forest sector. There were those in the industrial sector that did not follow regulations and pay their contributions to the state. Following the conversion process, there is now visibility on the ground, especially towards local communities in converted forest titles. We now know who is in the sector, what they are paying, and what the state gains from what they are logging.”¹¹⁷

This conversion process has provided important lessons for transparency and accountability within the administration of DRC’s forest resources, which will be of considerable importance as the government seeks to manage the planning process for REDD+ projects. Replication of some of the best practices from the title conversion process would help to improve transparency, such as making information on progress, challenges and results of the planning process public¹¹⁸.

Maintaining the 2004 moratorium on the issuance of new logging concessions would be central to the zoning process, as it would deflect pressure that may otherwise be placed on policymakers from logging companies seeking to expand their operations.

Community ownership and revenue distribution

Community ownership of REDD+ projects will only achieve scale once the appropriate financial mechanisms and forestry legislation are in place for REDD+ revenue to be distributed equitably to community organisations or individual landowners. This may require a reform of the existing distribution of forest-related taxes and fees from government ministries to communities to achieve transparent and fair allocation of REDD+ revenue.

One resource that could be useful in promoting community ownership of REDD+ projects is a toolkit developed by USAID’s Central African Regional Program for the Environment (CARPE) which is designed to help communities to assess the costs, benefits and risks of different conservation and sustainable development plans across conservation landscapes.

Role of civil society organisations

Civil society organisations (CSOs) are playing a central role to the development of REDD+ in the DRC. Most notably there was significant involvement from CSOs in the REDD+ Platform for Civil Society (GTCR), including at least 19 local CSOs, The Rainforest Foundation, Hope in Action Sweden, African Wildlife Foundation, Conservation International, IUCN, WRI, World Wide Fund for Nature, the Wildlife Conservation Society and Global Witness.

¹¹⁷ Methot, P and Thompson, S, (2009). Protecting Forests and Community Rights in the DRC. World Resources Institute. Available online: www.wri.org/stories/2009/09/protecting-forests-and-community-rights-drc.

¹¹⁸ Ibid

CSOs are playing a critical role in GIS, on the ground monitoring of deforestation and measurements of forest carbon stocks, and will be required to continue and expand this role if REDD+ is to become a success in the DRC. Whilst local CSOs could have an important role to play in building up community monitoring systems, they are generally stronger on community and biodiversity monitoring as opposed to carbon monitoring. There may be an important role for national and international CSOs to partner with local CSOs to increase their carbon monitoring capacity.

CSOs in the DRC could also play an important role in raising REDD+ awareness amongst indigenous and forest dependent communities, and in building their capacity through training. This could best be achieved through partnership with local organisations, such as church group networks that extend far into some of the more remote areas of the country. One concern noted by interviewees was that the closeness of relationships between CSOs and local organisations can reduce objectivity in the monitoring process, which will need careful management going forward.

Adaptation of existing environmental fund models

There are no environmental funds in operation in the DRC, although the regional Congo Basin Forest Fund is providing grant based support to a number of REDD+ related initiatives in the country.

Multi-donor trust funds (MDTFs) may provide a useful structure with which to finance the core expenditures of the administration of national REDD+ funding. It should be noted that UN-REDD is already a multi-donor trust fund, and adding another internationally managed MDTF below this may add unnecessary complexity to the funding process in the DRC. This may require the adaptation of current MDTF structures so that they can be administered in-country, including a selection of non-government and government representatives at board level and a strong, independent, MRV capability within the fund itself.

5. Conclusions and suggested next steps

Whilst it is difficult to predict accurately the future REDD+ funding framework in the DRC, it is possible to compare the assumptions made in our future funding 2012 and 2015 models (see REDD+ national funding flows in 2012 & 2015 section) against the likely role of environmental funds, state budgets, individual REDD+ project or portfolio funds, national capacity building programmes and voluntary REDD+ projects in the DRC.

Role of environmental funds

Without an existing environmental fund in place in DRC it would seem unlikely that national level environmental funds will play a significant role in the REDD+ readiness phase in the DRC. There are some sources of regional funding, such as the Congo Basin Forest Fund (CBFF) that have already begun to provide grant based funding to REDD+ related capacity building projects in the DRC. However these are likely to play only a supporting role in the REDD+ readiness phase in the DRC.

Depending on decisions taken by the National REDD Committee, the National REDD Coordination and the Interministerial Committee regarding the 'national' approach to REDD+ there may be an opportunity for new national level environmental funds to be established to manage REDD+ revenue as opposed to capacity building grants. If a 'nested' approach is taken to REDD+ these funds could be established at a project portfolio, province or ecosystem level. Alternatively, they could be integrated within the government's REDD+ institutional framework.

Individual REDD+/portfolio funds

There are some REDD+ projects in DRC, such as the ICCN Sankuru Community "Fair Trade" Carbon and Bonobo Conservation Initiative (ICCN), which cover large land areas (over 500,000 hectares) and are managed by a number of different organisations. As REDD+ develops in the DRC these land areas are likely to be expanded and possibly combined. If the DRC government implements a nested approach to REDD+, project developers may seek to establish portfolio funds so that the investors or funders for specific organisations have the option to direct financial resource to focus on their own areas of interest, whether this is poverty alleviation, biodiversity conservation or sustainable forest management.

These funds could also meet credit purchasers' demands for choice, accountability and transparency in where their money is directed. In addition, Section 2 of the Programme of experimentation in the R-PP calls for geographically-integrated pilot projects within given provinces or territories. A province or territory based portfolio fund could be an effective option for disbursing funding across projects in a given territory, possibly on a performance incentive basis.

National Capacity Building Funding

Whilst good progress is being made, it may not be practicable to achieve National REDD+ Readiness across the vast land area of the DRC until 2015 or later. The government's successful submission of the DRC R-PP and the relatively advanced institutional planning put in place is a considerable achievement in the context of the infrastructural, governance and scientific capacity challenges the country faces. One major area to consider is the initiation of CBFF funding, which is encouraging cross-sector partnership and providing financial resource at scale for REDD+ development. The degree of support this fund contributes to the REDD+ readiness process in the DRC will depend on the ability of the country to submit competitive proposal bids, which leverage the capacity that already exists across the public and private sector in the country.

Active Voluntary REDD+ projects

The growth in investment in REDD+ projects is not likely to reach its potential until clarity has been provided on whether a nested or a national only approach will be taken to REDD+ revenue management and carbon accounting. This will become clearer once the DRC's preliminary strategy is released (originally scheduled to be produced by 1 July 2010) and the national strategy is finalised (expected by December 31 2012)¹¹⁹.

¹¹⁹ Democratic Republic of Congo, (2010) Readiness Plan for REDD+. World Bank Forest Carbon Partnership Facility.

Next steps - Consulting with relevant government institutions, civil society and project developers

Government

Consultation is needed between the REDD coordination body, the Ministry of Environment, the Ministry of Planning and the Ministry of Finance regarding options for the establishment of a nested approach with national or provincial level environmental funds and monitoring systems. One of the pre-requisites for this process may be the establishment of the national REDD+ Committee, Inter-Ministerial Committee and Scientific Committee, in order to gain widespread government consensus on national revenue management and carbon accounting systems.

There may also be benefits from consultation with the Ministry of the Environment and the Ministry of Planning regarding the maintenance of the 2004 moratorium on the issuance of new logging concessions, which could potentially undermine funder and investment confidence in REDD+ expansion.

Civil society, indigenous and community groups

Civil society has played an increasingly important role in policy development and community engagement in the DRC and is set to play a central role in the Monitoring, Reporting and Verification (MRV) process. This could be either due to their role as project developers or by providing technical assistance and guidance to the DRC government, especially in remote sensing and GIS for calculating annual deforestation and changes to carbon emissions.

Consultation is needed between government and civil society either through the REDD+ Platform for Civil Society or other channels to establish how best civil society can support the government in providing sufficient MRV capacity and community engagement. With stronger NGO-government partnerships, donors and investors can become more confident that REDD funding will be distributed in an equitable, effective and efficient manner.

Project developers

It will be important, especially considering the relatively low level of private sector investment in REDD+ in the DRC that existing project developers are able to provide recommendations on best practice in REDD+ revenue sharing and the reasons why this investment has not yet been observed. This could help inform the government's approach to transitioning from REDD+ readiness to accessing revenue at scale from the international carbon market.

REDD funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase DRC's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness

Outstanding issues with REDD+ funding in DRC	Is this being addressed already?	Relevant parties	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Governance and management of current revenue distribution systems	Partly	Ministry of Environment, Ministry of Finance, National REDD Coordination, provincial and territory governments, members and funders of the National Forest and Nature Conservation Program	CSOs could play an important role in gathering community views on experience of how public revenue from forest taxes and fees has been channelled to community institutions. This could inform the decision on whether REDD+ revenue distribution is led by national or provincial government.	Would REDD+ revenue be distributed using existing forest revenue channels or are there alternative plans in place? What are the current obstacles in place that are reducing the efficiency of forest revenue distribution from government to communities?
Decentralised enforcement and monitoring capacity	Partly	Ministry of Environment, National REDD Coordination, international and national NGOs	Creation of partnerships with NGOs with technical capacity and community relations to enhance and extend government and community MRV capacity.	What are the principle gaps in Ministry of Environment MRV capacity where civil society organisations could add value? Who can civil society most effectively build capacity of community members for MRV? What are the lessons to be learnt from current project experience?
Forest zoning and recognition of land tenure	Partly	Ministry of Planning, community and indigenous groups, forestry, agribusiness, mining and energy companies	Exploration of options between civil society and the Ministry of Planning to expand community forests beyond 10,000 hectares in the Forest Code, and reflect the range of indigenous reserve sizes. Revision of current concession system to allow for REDD+ concessions.	Through which mechanism could community forests earn carbon revenue in a national REDD+ scheme? How would partnership with NGOs affect the position of REDD+ community forests in a nested versus national approach?
Community engagement and participation in REDD+	Partly	Ministry of Environment, civil society, community and indigenous groups	Definition provided for the implementation of free prior and informed consent (FPIC) by the DRC government. Civil society provides third party review and input to final definition. National or at least provincial level programme in place to actively engage communities in REDD+ establishment, monitoring and reporting. Civil society plays a leading role in community engagement process.	Should the community engagement process be concentrated on selected provinces or spread at a national level? How would the decentralisation process affect this? How can REDD+ projects be best designed to ensure that forest communities maintain their access to ecosystem services and natural resources? How can the poverty alleviation potential of REDD+ projects be maximised?
Clarity on legal frameworks for foreign investment and taxation	No action yet observed	Ministry of Finance	Provision of detailed guidance on REDD+ carbon revenue taxation and whether the same tax regime will be applied as to other foreign investments in natural resource based projects.	Will guidance on REDD+ taxation be provided within the forthcoming national REDD+ strategy?

Indonesia

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on Indonesia and REDD

Overview

Protecting Indonesia's tropical forests and peatland present a substantial opportunity for the world to reduce global carbon emissions. It is estimated that 84 percent¹²⁰ of Indonesia's emissions are caused by deforestation and degradation particularly through change in land usage, peatland and forest fires and illegal logging. Notwithstanding the devastating effects of past practices, Indonesia still maintains the third largest rainforest area in the world and has significant potential to be a key global player in reducing global carbon emissions.

In the lead up to the Copenhagen Climate Change Conference in December 2009, the Indonesian President, Susilo Bambang Yudhoyono (SBY) announced a plan to reduce Indonesia's emissions by 26 percent from business as usual (BAU) levels by 2020. It was further announced that with international support, this target could be increased to a 41 percent reduction from BAU levels by 2020.

It is anticipated that avoiding deforestation and degradation will contribute to 14 percent of the 26 percent reduction target against Indonesia's projected emissions baseline.¹²¹ It is therefore no surprise that REDD+ is a cornerstone to Indonesia's success in reaching its emissions targets.

Indonesia has taken action to ensure that it is at the forefront of REDD+ policy development and capacity building. In its first step, Indonesia was a key proponent for REDD+ as the Chair of the Bali Climate Change Conference in 2007 whereby REDD+ was first formally recognised in the Bali Action Plan as a critical component of any post-Kyoto global agreement.

Notwithstanding the current lack of a global framework for REDD+, Indonesia has also been eager to take regulatory action for a national REDD+ framework. However, it is important to note that whilst interest has emerged for REDD+ in Indonesia, key actions are required to create the investment environment and management capacity to efficiently and effectively manage the billions of dollars in REDD+ funding expected in years to come.¹²²

Deforestation

Deforestation in Indonesia accelerated during the new land-settlement schemes in rainforest regions during the 1970s. During recent times publically assisted smallholder colonisation projects declined as a driver of deforestation, with palm oil production and logging becoming the dominant drivers¹²³. During the period of 2000 to 2005, it is estimated that Indonesia's annual deforestation rate reached 1.8 million hectares, representing a loss of 2% of Indonesia's remaining 89 million hectares of forest (48% of the country's land area) every year¹²⁴. More recent estimated deforestation figures are lower with government estimating an annual rate of 1.1million hectares and industry experts estimating an annual rate of 1.6 million hectares¹²⁵.

Policy principles and initiatives within Indonesia supporting future REDD+ activities

The responsibility for REDD+ primarily falls under the auspice of the Ministry of Forestry. However, it should be noted that the National Council on Climate Change, the Ministry of Forestry and the Ministry of Environment are also integral to the success of an effective REDD+ funding framework and coherent climate change policy more broadly.

The organisational structure for the Indonesian government's management of REDD+ and climate change issues is summarised in Figure 16:

¹²⁰ The World Bank 2009. Developing a Market for REDD in Indonesia.

¹²¹ Forestry Minister Zulkifi Hasan quoted in an article in the Antara News on 20 April 2010.

¹²² Estimates on the potential REDD+ funding vary widely. However, a recent estimate by CIFOR expects that Indonesia could receive as much as US\$4.5 billion in annual funding.

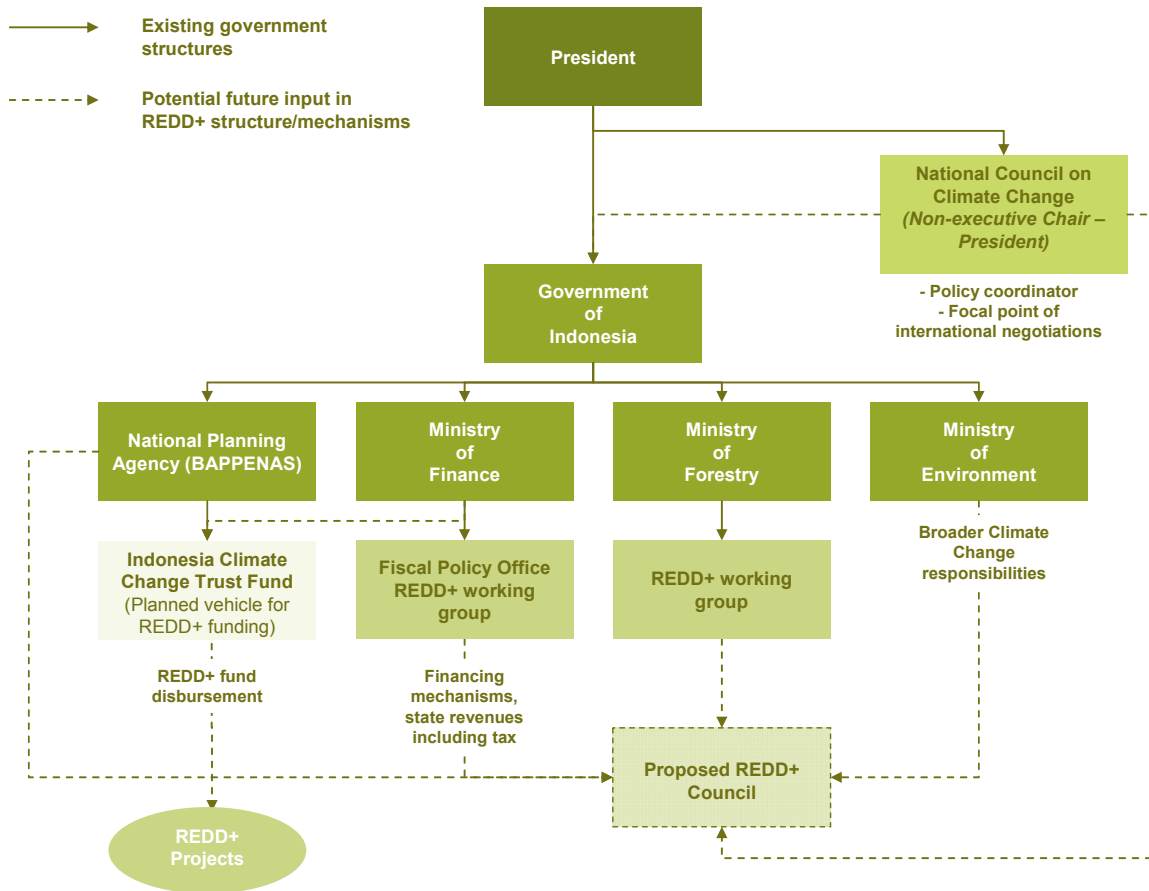
Source: Financial Governance and Indonesia's Reforestation Fund during the Soeharto and post-Soeharto Periods, 1989-2009. Barr, C et al. CIFOR.

¹²³ Rudel, T.K et al, (2009). Changing Drivers of Deforestation and New Opportunities for Conservation. Conservation Biology, Vol.23, No.6.

¹²⁴ UN Food & Agriculture Organization, (2007) State of the World's Forests 2009

¹²⁵ Sophie Le Clue, (2010). Personal communication.

Figure 16: Current and potential future organisational management of REDD+ and climate change in Indonesia



To understand the challenges and issues facing REDD+ funding in Indonesia it is important to understand Indonesia’s progress within its own national REDD+ Action Plan and where this fits within the broader international framework.

At present, the Ministry of Forestry describes current REDD+ activities in Indonesia to be in the “Readiness Phase”. This broadly involves the development of the support infrastructure and project management capacity necessary for national REDD+ implementation. To achieve this, the Indonesian government has prepared a REDD+ Road Map, which is summarised in Figure 17.

Whilst barriers remain to accessing and managing REDD+ funding, the Indonesian government would consider itself “on track” in the Readiness phase of its Action Plan. Without externally communicated milestones for the 2009-2012 readiness phase it will be difficult to assess whether or not the objectives of the Readiness phase are being fully achieved until 2012 when ‘Full Implementation’ is intended to begin. The current barriers to achieve REDD readiness include resolving potential restrictions on foreign investment, REDD regulatory uncertainty, coordination between government ministries and agencies, community engagement, land tenure issues, the taxation of REDD+ activities and the presence of reliable national funding mechanisms.

Figure 17: REDD+ Indonesia Road Map, adapted from Ministry of Forestry, Republic of Indonesia Roadmap 2007



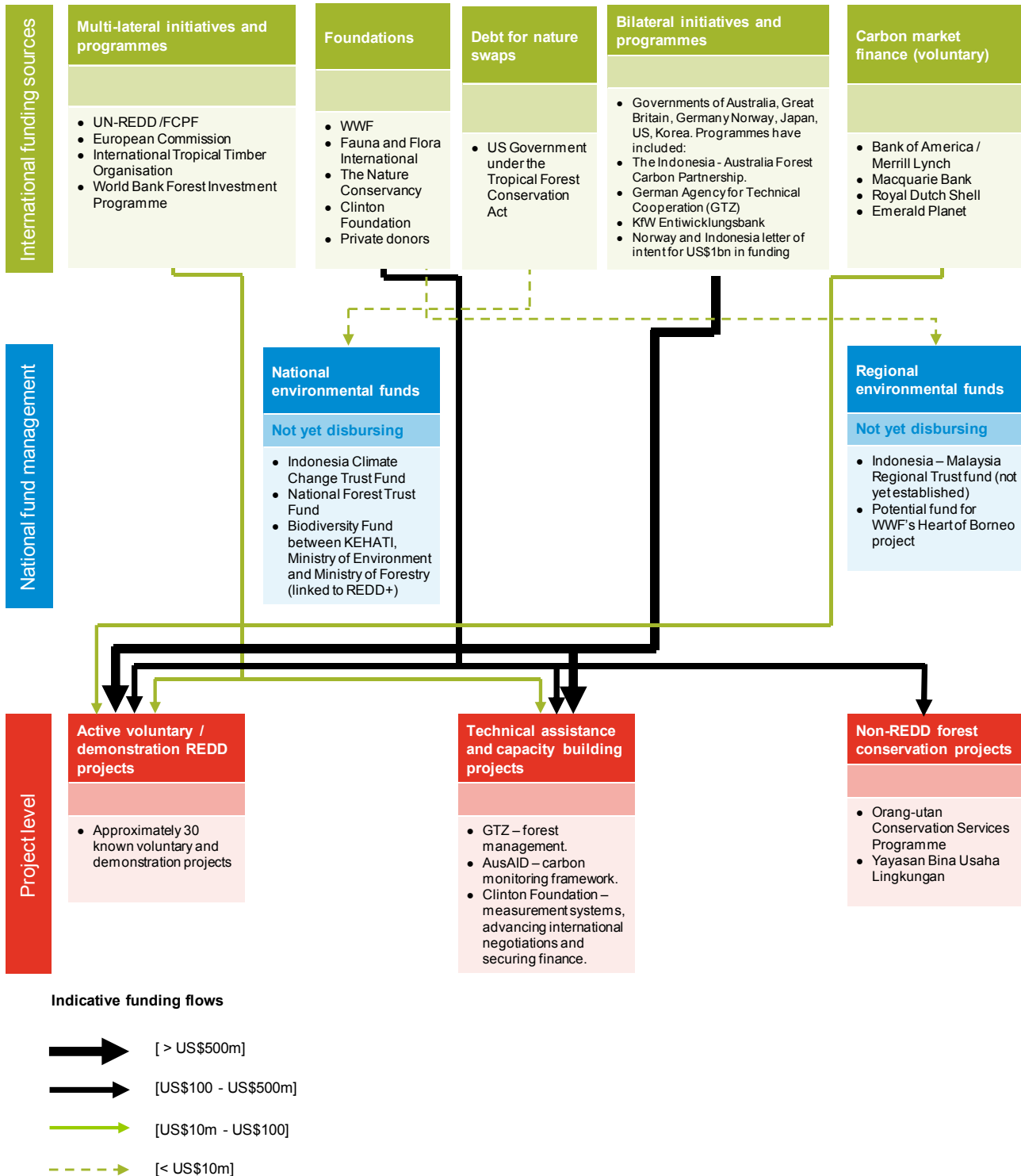
Whilst a national REDD+ Action Plan has been developed, it should be recognised that uncertainties remain at both the national and international levels regarding the presence of effective funding mechanisms (see further funding barriers in section 3).

2. Current REDD+ funding in Indonesia

To date, Indonesia has approximately 35 REDD+ projects largely centered in the regions of Kalimantan, Sumatera, Sulawesi and Papua. In line with a key objective of the Readiness Phase, the majority of REDD+ projects are demonstration activities. In recent times, there has been a growing interest from the private sector and NGOs eager to commence voluntary activities in anticipation of a robust post-2012 compliance market. Figure 18 below provides an overview of current REDD+ funding flows in Indonesia from the international to national and project levels.

Figure 18: Indonesia - Current funding flows for REDD related activities

NB: The diagram only includes those projects and initiatives we have been able to obtain funding data on.



* includes commitments and pledges currently not flowing directly to demonstration and voluntary projects

International funding sources

Foundations

Worldwide Fund for Nature (WWF)

WWF arguably has the highest profile and presence of the international NGOs in Indonesia. It has several REDD+ projects including the Kuala Kampar Pilot Project, Tesso Nilo Project, Central Kalimantan Peatland Project, Jayapura Pilot Project, and Merauke-Mappi-Asmat Pilot Project.

WWF's most significant forest conservation initiative is the Heart of Borneo project which may include REDD+ as a mechanism to finance forest conservation. This tri-national project is unique in that it stretches across Indonesia, Malaysia and Brunei. WWF is working with each country government to implement this collaborative conservation plan.

In Sumatra, WWF has been working in partnership with other conservation groups to help implement a recently signed agreement among the governors of Sumatra's ten provinces to protect species-rich forests. In Kuala Kampar Peninsula, WWF are also developing a forest carbon project to conserve high-carbon peat forests.

Fauna and Flora International (FFI)

FFI have been working in conjunction with an Australian company, Carbon Conservation, and the Government of Aceh to develop the Ulu Masen REDD+ project. This project encompasses 750,000 hectares of forest in Aceh and aims to reduce deforestation within its boundaries by 85%.

FFI has partnered with the Australian bank, Macquarie Group to invest in the conservation of tropical forests and generate carbon credits for sale. The partnership involves projects in Indonesia (West Kalimantan) and across the globe whereby Macquarie will provide its capital and financial expertise to ensure compliance with voluntary carbon standards and sell the carbon credits internationally. FFI will draw on its conservation experience to work with local governments and communities to implement the projects.

In West Kalimantan, FFI has been working with indigenous groups to develop a community forest carbon project. Funded by the David and Lucile Packard Foundation, this project aims to help local communities acquire the necessary skills to manage their forests as a 'joint carbon pool'.

Bilateral initiatives and programmes

Government of Norway

The Government of Norway has contributed its funding support to REDD+ projects in Indonesia through the UN-REDD programme since September 2008. Indonesia is one of the nine pilot countries identified for the initial 'Quick Start' phase of the UN-REDD programme. It was estimated that US\$ 5.6 million would be provided by the Norwegian government to Indonesian REDD+ initiatives through collaboration with the FAO (Food and Agriculture Organization), UNDP (United Nations Development Programme), UNEP (United Nations Environment Programme) and the Ministry of Forestry.

In May 2010, Indonesia and Norway signed a Letter of Intent (LOI) whereby Norway has pledged US\$1 billion to assist Indonesia reduce deforestation and forest degradation. The partnership will be organized in three phases with the aim to move through the first two phases within 3-4 years. The funding for the first two phases will be provided on the deliverables channeled through an agreed financial mechanism. It is envisaged that contributions for 2010 deliverables will focus solely on enabling policies and measures followed by an increase in the proportion of contributions channeled to generated verified emissions reductions at a provincial level in phase 2 and then nationally in phase 3. In August 2010 the government of Norway agreed to transfer an initial contribution of \$30 million through an international funding mechanism to finance Phase 1 of the Indonesia-Norway REDD+ partnership¹²⁶.

The aspiration is to initiate the third phase in 2014 based upon 2013 emissions reductions, when a national contributions-for-verified emissions reduction mechanism will be implemented. This third phase will involve Indonesia

¹²⁶ The Norwegian Embassy in Indonesia, (2010). Countries take first steps to implement their partnerships to combat deforestation. Available online:

www.norway.or.id/Norway_in_Indonesia/Environment/Norway-finances-establishment-and-start-up-activities-of-Indonesian-REDD-Agency-with-USD-30-million-contribution/

receiving annual contributions for independently verified national emission reductions and Norway channeling financial contributions through the financial instrument used under phase 1¹²⁷.

Progress of the partnership will be reviewed annually and the decision to move to the third phase will be contingent on the result of these reviews. The funding is contingent upon Indonesia establishing a national REDD+ framework and funding mechanisms for REDD+.

The Indonesia-Australia Forest Carbon Partnership (FCP)

The FCP was established in June 2008. Broadly, the FCP's focus is on facilitating the development of REDD+ in Indonesia and supporting international negotiations under the UNFCCC. Australia has committed US\$ 35 million to assist Indonesia in building the capacity and systems required to participate in REDD, including US\$ 26 million to a REDD+ demonstration activity in Kalimantan and a US\$8.7 million bilateral support package for Indonesia's forests and climate change. The collaboration between the two countries includes support for the development of Indonesia's national policy framework and strategies for REDD+.

More recently, the FCP announced a second REDD+ project in the Jambi province of Sumatra. The FCP will provide a US \$26 million grant to the Jambi Provincial government to assist in policy formation for the sharing of financial benefits between the central government, local administration and the local communities in the province as well as calculating carbon stocks and financial values.

National fund management options

Our consultations identified several existing institutions and structures involved in relevant fund management and disbursement activities at a national level:

Indonesia Climate Change Trust Fund (ICCTF)

The ICCTF is a multi donor trust fund managed by the national planning authority BAPPENAS (Badan Perencanaan Pembangunan Nasional). The "soft launch" was in 2009 and it is expected to commence fund disbursement during 2010. Total donations of US \$18.1 million have been provided by the German Development Corporation (GTZ), the UK Department for International Development (DfID), the French Development Agency (AFD), the German Development bank KfW, the Japan International Cooperation Agency (JICA) and AusAID. The Government of Indonesia plans to attract more donors and private sector funding to build the ICCTF into a multi-billion dollar revolving fund. The ICCTF is planned to be the vehicle through which national REDD+ funding is managed and disbursed.

National Reforestation Fund (RF)

The RF was established in 1989 and is financed by levies paid by timber concessionaires. It is the single largest source of government revenue from the commercial timber sector having received over US\$5.8 billion over the past twenty years¹²⁸.

The goal of the fund is to finance major public investments in reforestation and rehabilitation of degraded forest land. However, over the years there have been major governance challenges within the RF which have resulted in no fund disbursements being made recently. The government has and continues to take action to address some of the governance issues the RF has faced and improve its preparedness for future REDD+ funding.

KEHATI Indonesian Biodiversity Foundation

KEHATI is a not for profit and independent grant making organisation with the objective of helping Indonesia to conserve biodiversity and use its biological resources in a sustainable and equitable manner. The initial funding for

KEHATI was provided through an endowment fund grant fund in 1995 from the United States government under a Cooperative Agreement¹²⁹.

¹²⁷ The Government of The Kingdom of Norway and The Government of The Republic of Indonesia (2010). Letter of Intent between the Government of the Kingdom of Norway and the Government of the Republic of Indonesia on 'Cooperation on reducing greenhouse gas emissions from deforestation and forest degradation.

¹²⁸ Barr, C., Dermawan, A., Purnomo, H. and Komarudin, H. 2010 Financial governance and Indonesia's Reforestation Fund during the Soeharto and post-Soeharto periods, 1989–2009: a political economic analysis of lessons for REDD+. Occasional paper 52. CIFOR, Bogor, Indonesia.

Funded activities

The Kalimantan Forests and Climate Partnership - AusAID Demonstration Activity – 120,000 hectares of forested and degraded tropical peatland in the province of Central Kalimantan on the island of Borneo¹³⁰.

GTZ Merang, South Sumatra – 24,000 hectare pilot project in peat swamp forest of South Sumatra. Potential to generate 500,000 tonnes Verified Emissions Reductions (VERs) per year¹³¹.

Infinite Earth Rimba Raya Project – This project aims to protect 50,000 hectares of tropical peat swamp rainforest in Central Kalimantan (Indonesian Borneo). The Rimba Raya reserve was established to protect the forest from conversion to palm oil plantation and is co-managed by the Orangutan Foundation International Rehabilitation Center. This project was the first to have its REDD methodology achieve second validation and VCS approval in August 2010¹³².

PT Rimba Makmur Utama Katingan peat forest conservation project – This 217,000 hectare project located in central Kalimantan is being developed by the Jakarta based company PT Rimba Makmur Utama Katingan, and has attracted funding from the Clinton Climate Initiative and the Norwegian Agency for Development Cooperation (NORAD). Carbon stock measurements within the project area are estimated at around 170 million tonnes of CO₂ equivalent and the project hopes to begin selling the first of its carbon offsets in 2011. PT Rimba Makmur Utama Katingan aims to disburse around 20% of carbon credit sales revenue to local communities within the project area, and will encourage sustainable economic activity such as rattan harvesting¹³³.

Forests and Climate Change Programme (FORCLIME) – Pilot areas for national and international carbon markets, financed by the KfW development bank in three districts in Kalimantan (Kapas Hulu, Malinau and Berau)¹³⁴.

The Nature Conservancy – Collaboration with indigenous groups, government agencies, global businesses and international NGOs to combine on-the-ground conservation, financial incentives, scientific monitoring and sustainable economic activities to protect and improve the management of 2.4 million acres of forest and potential to reduce carbon emissions by some 3 million tons each year¹³⁵.

Kalimantan Forests and Climate Partnership – Australia has committed \$30 million over four years to the Kalimantan Forests and Climate Partnership (KFCP) for the avoided deforestation of 50,000 hectares of peat swamp and rehabilitation of an additional 50,000 hectares of degraded peatland to create a buffer zone around the existing forest and reduce further degradation. As additional funds are available the plan is to extend the project to 270,000 hectares¹³⁶.

The International Tropical Timber Organisation (ITTO) and the Ministry of Forestry of Indonesia - This project is aimed at enhancing forest carbon stocks through enhanced community participation in conservation and management of the Meru Betiri National Park (MBNP) in East Java province¹³⁷.

Korea International Cooperation Agency (KOICA) – KOICA and the government of Indonesia have signed an MOU for this \$5 million project to fund small-scale Afforestation and Reforestation CDM projects and REDD projects¹³⁸.

129 Ecosystem Marketplace, KEHATI (Indonesian Biodiversity Foundation). Available online:

www.ecosystemmarketplace.com/pages/dynamic/organization.page.php?page_id=938§ion=directory&eod=1 (Accessed 5th July 2010).

130 Indonesia-Australia Forest Carbon Partnership, (2009). Available online: www.ausaid.gov.au/hottopics/pdf/IAFCP_factsheet_2_11Dec09.pdf

131 GTZ, Indonesia: Peat swamp forest. Available online: www.gtz.de/en/presse/30801.htm

132 InfiniteEARTH, (2010). InfiniteEARTH Projects. Available online: <http://www.infinite-earth.com/projects-details.html>

133 Thomson Reuters Foundation, (2010). Borneo project aims to save forest, boost livelihoods. Available online: <http://www.alertnet.org/thenews/newsdesk/SGE60A0CS.htm>

134 Forests and Climate Change Programme, (2010). Available online: www.forclime.org/index.php?option=com_content&view=article&id=11&Itemid=4&lang=en

135 The Nature Conservancy, (2009) Climate Change: Where We Work: Confronting the Problem, Locally and Globally. Available online:

www.nature.org/initiatives/climatechange/work/art25992.html

136 Kalimantan Forests and Climate Partnership, (2009). Available online: www.climatechange.gov.au/government/initiatives/international-forest-carbon-initiative/~media/publications/international/kfcp_factsheet.ashx

137 Climate-L.org, (2009). ITTO and Indonesian Government Launch REDD Partnership. Available online: climate-l.org/2009/10/13/itto-and-indonesian-government-launch-redd-partnership/

Flora & Fauna Initiative, Ulu Masen – See Flora and Fauna International under ‘Foundations’ above

APRIL – APRIL plans to create a buffer zone around the perimeter of the 400,000 hectare Kampar Peninsula using an Acacia Plantation Ring and to reduce deforestation pressure on natural forest and generate VERs of approximately 14 million tons of CO₂ per year¹³⁹.

WWF Riau, Serbargau and Jayapura – See WWF under ‘Foundations’ above

Taman National Berbak, Zoological Society of London, Environmental Resource - Berbak Carbon Value Initiative - The development phase of the Berbak Carbon Project is currently underway in partnership with the Indonesian Ministry of Forestry with funding from the Darwin Initiative and various tiger-focused donors. The project aims to reduce deforestation in this 240,000ha of peat swamp forest, where approximately 1500 hectares of forest is being lost each year with associated emissions of 5 million tonnes of CO₂¹⁴⁰.

RSPB, Burung Indonesia & Birdlife International - Harapan Rainforest Project - The Harapan Rainforest Project covers an area of over 100,000 ha of lowland forest in Sumatra and is used by communities living in and around the forest. Since entering into a forest restoration concession in 2007, the BirdLife International consortium (comprising Burung Indonesia, BirdLife International and the UK’s Royal Society for the Protection of Birds) manages the area. Additionally, the BirdLife consortium has created an endowment fund targeting US \$30 million¹⁴¹. It is proposed that the fund’s annual interest payment will be used to cover the conservation management costs for the project and benefit the livelihoods of local communities. The German Federal Ministry for the Environment is allocating over \$9.4 million in funding from the International Climate Initiative (ICI) to KfW Entwicklungsbank, to be distributed to the NABU nature conservation associations and the Royal Society for the Protection of Birds (RSPB)¹⁴².

BOS Foundation, UNAS Jakarta & Museum of anthropology Zurich – Based on an agreement made by BOSF and Shell Canada in 2005, BOSF has received support for the Mawas Peatland Conservation Project which as one of its objectives aims to avoid land use change and fire in 240,000 hectares of peat swamp forest in southern Borneo, Indonesia¹⁴³.

Keep the Habitat in West Sulawesi - The Keep the Habitat project is located in Mamuju Habitat on the coast of West Sulawesi. This area is an active and productive forest concession of around 30,000 ha. The Keep the Habitat group works with State-owned forestry company PT. Inhutani I to postpone legal harvesting and to protect the entire area from illegal logging, clearing and burning of the forest. It is estimated that the project costs US\$ 6 million per year to implement. Keep the Habitat has assigned Inhutani I to protect the remaining 13,270 ha of virgin rain forest, and to engage the community and local businesses to rehabilitate degraded forest areas using donor funds.

New Forests & Emerald Planet – Emerald Planet Indonesia, New Forests and Conservation International are jointly developing 250,000 hectares of REDD projects in Papua, eastern Indonesia for a leading European investment bank client.

FFI, Macquarie, PHKA (West Kalimantan) – See Flora and Fauna International under ‘Foundations’ above

Green Synergie – This 24,989 hectare project in Kabupaten Bolaang and Kabupaten Minahasa Selatan in North Sulawesi is seeking to generate 170,000 tonnes of VERs per year¹⁴⁴.

138 Korea International Cooperation Agency, (2009). Korea and Indonesia Commence the Cooperation on Climate Change in Forestry. Available online: koicaindonesia.org/press-release/89-korea-and-indonesia-commence

139 APRIL, (2007). Fact Sheet: Managing Kampar Peatlands for Sustainable Development.

140 Zoological Society of London, (2009). Berbak Carbon Initiative. Available online : static.zsl.org/files/berbak-info-sheet-may-2010-1113.pdf

141 BirdLife Global Forest Conservation Programme, (2008) The Harapan Rainforest Initiative, Sumatra. Available online:

www.birdlife.org/action/ground/sumatra/Harapan%20Summary%20Document.pdf

142 KfW Entwicklungsbank, (2010). Hope for the Sumatran Tiger and Friends. Available online: www.kfw-entwicklungsbank.de/EN_Home/KfW_Entwicklungsbank/News/Hope_For_the_Sumatran_Tiger_and_Friends.jsp

(Accessed 7th July 2010).

143 BOS foundation, Brief Summary of Mawas Conservation Program Initiatives. Available online:

[forestclimatecenter.org/files/Central%20Kalimantan%20\(Brief%20Summary%20of%20Mawas%20ConservationProgram%20Initiatives\)%20by%20BOS%20Foundation%202008-11-14.pdf](http://forestclimatecenter.org/files/Central%20Kalimantan%20(Brief%20Summary%20of%20Mawas%20ConservationProgram%20Initiatives)%20by%20BOS%20Foundation%202008-11-14.pdf)

144 Ibid

3. Potential barriers to funding future REDD+ activity at scale

Overview

Whilst there has been a significant amount of progress made by REDD+ projects in Indonesia and in the government REDD+ planning process, there are still barriers in place which could hinder national scale investment into REDD+ post 2012. The development of a National level REDD+ scheme is likely to depend upon attracting private sector finance into site-specific projects and there is currently little private sector investment in REDD+ in Indonesia or other REDD+ countries.

The key barriers to funding future REDD+ activities beyond the current sphere of demonstration projects include:

- The regulatory and foreign investment framework in Indonesia;
- REDD+ regulatory uncertainty;
- Government coordination between:
 - Ministries and inter-governmental agencies;
 - Central, regional and provincial governments;
 - Community engagement and land tenure issues;
- Taxation of REDD+ activities; and
- Reliable national funding mechanisms.

The regulatory and foreign investment framework in Indonesia

In the past decade there have been a number of key changes to foreign investment regulation. Major reforms affecting foreign investment generally have included (amongst others) a new Company Law, a new Investment Law and Tax Law established within the last 3 years (including Income Tax, Tax Administration and Value Added Tax (VAT)). These have extended the list of where foreign investment is restricted in Indonesia and adds greater complexity to the investment process for REDD+ projects. For example there may be a need to establish an Indonesia registered entity through which to direct investments.

The increased political focus on environmental and climate change issues has also initiated new legislation (e.g. the Environmental Law in 2009), ministerial regulation (e.g. the REDD+ Regulations – more details provided in the 'REDD+ regulatory uncertainty' section) and policy thinking around the climate change agenda and the economic impact for Indonesia (e.g. the Ministry of Finance Green Paper).

Many industry sectors and concessions remain difficult to access for foreign investors. This extends to most of the forestry licenses required for investment in REDD+ activities in Indonesia. However the REDD+ regulations recognise the role of international participants in REDD+ and effective commercial and legal structuring may reduce the impact of these barriers. The current concession and licensing framework also allows for the establishment of restoration ecosystem concessions, which theoretically supports the development of REDD+ projects. However reported bottlenecks and a lack of clarity in the application process for RE licenses along with up front license fees may deter project developers. Further guidance on the application process and a review of how to improve the efficiency and lower costs of the process may be considered by the GoI.

REDD+ regulatory uncertainty

Indonesia was the first nation to introduce a domestic REDD+ legal framework, including three regulations issued by the Ministry of Forestry (Ministry of Forestry) in the lead up to the Copenhagen Climate change conference (COP-15) in December 2009:

- P.68/Menhut-II/2008 (P.68) on the Implementation of Demonstration Activities for REDD+;
- P.30/Menhut-II/2009 (P.30) on procedures for REDD+ activities; and
- P.36/Menhut-II/2009 (P.36) distinguishing between CDM, REDD+ compliance and voluntary markets.

These regulations outline a broad domestic regulatory framework for REDD+ in Indonesia. However key issues with the regulations are in the process of being resolved and clarity should be provided by the government to create investment certainty. The National Council of Climate Change (NCCC), the Ministry of Finance (MoF) and Ministry of Forestry have been working closely to overcome these issues, in particular the revenue sharing arrangements. In a statement to the Indonesian press, the Ministry of Forestry anticipated that the three regulations would be revised in a single all encompassing REDD+ regulation to be released prior to the COP16 Cancún Climate Change Conference¹⁴⁵.

The most important issues include:

- Revenue sharing arrangements between project developers and the government (see Taxation of REDD+ below) and proposed allocation of government REDD+ revenue;
- The Gol's role as a sole purchaser of carbon credits or project approval without credit purchase;
- Clarity over whether the Ministry of Finance will manage REDD+ revenue and distribute to Ministry of Forestry, or whether the Ministry of Forestry could take title to REDD+ carbon credits and tax revenue for their sale;
- Whether or not existing license terms for carbon rights will remain valid;
- Prescribed funding sources;
- Absence of clarity on non-forest land areas;
- How to deal with pre-purchase arrangements.

Government coordination

Coordination between ministries, National Planning Agency and National Climate Change Council (NCCC)

At present, policy coordination on REDD+ is distributed between the National Climate Change Council (NCCC), the Ministry of Forestry (through its dedicated REDD+ working group) and the Ministry of Finance through the Fiscal Policy Office.

The revenue sharing arrangements were declared by the Ministry of Finance as relating to non-tax state revenue and therefore outside of the Ministry of Forestry's scope. This uncertainty surrounding the future of the proposed revenue sharing rules (including Indonesian taxation considerations) may have a delaying effect on REDD+ investment in Indonesia. In response to this issue, it is understood that the Government of Indonesia is developing a dedicated REDD+ council with the power to resolve disputes and this is to be announced prior to COP 16 in Cancún.

Coordination between the Government of Indonesia (GoI), regional and provincial governments

On a broader level, interviews identified some challenges to be overcome in the coordination between the central government, the regional government and the provincial governments. These issues have been prominent since the issuance of the landmark Regional Autonomy Law in 1999 and have influenced issues such as land disputes,

145 Jakarta Globe 24 March 2010.

licensing capabilities and state revenue receipts. A discussion is still in process on whether the size of project areas would influence whether central or regional government is responsible for collecting revenue and tax.

Coordination between central, regional and provincial level government will be particularly important if a nested approach to REDD+ is taken by the GoI. Investors are likely to require clarity over whether individual projects that deliver on carbon emission reduction targets can still sell or get compensation for their credits even if the provincial or national government fail to meet their emission reduction targets. In addition investors may require confirmation from central and regional government over whether or not individual provinces may link into future US regional carbon markets. Improving the coordination between the central, regional and provincial governments could be central to providing the certainty needed by investors in REDD+.

Regional Autonomy and the State Budget Law

There has been a decentralisation of power to regional governments and an accord has been established which mandates that a certain percentage of funds from natural resource activities (including forestry) are to be returned to the regions. This has helped enhance the role of regional government in natural resource management but also means that there could be overlapping regulatory and tax collection responsibilities for REDD+ projects between the central and regional governments.

Additionally, restrictions have been put in place by state finance and budget laws, which set out how all revenues (including tax, non-tax and grants) and expenditures are to be channeled via government agencies and departments. These restrictions may potentially reduce the efficiency and rates of disbursement between government departments.

Community engagement and land tenure issues

Although there is a centralised National Land Agency (BPN) in Indonesia, common issues arise with the overlap of title and concessions granted by various levels of government and multiple agencies¹⁴⁶ and the informal recognition of indigenous rights.

Many indigenous and local communities do not possess formal registered title to the lands they occupy. Customary native title claims exist and are often informally recognised at a local level. Typically there is no “record” or documentation supporting these claims and informal recognition of title at a local level may not be consistent with rights issued by other levels of government (state, provincial or regional).

The impact of REDD+ is not widely understood by many of the forest dependent communities in Indonesia that will be directly affected by its implementation and these interest groups have been seeking answers on matters such as the preservation of traditional rights and equity in fund distribution. For reasons preceding the climate change debate, resistance to central government influence has existed in some areas of Indonesia. Therefore engaging community stakeholders in all provinces will be essential to the success of REDD+ in Indonesia.

Taxation of REDD+ activities

The taxation of REDD+ activities is still being defined between the Ministry of Finance and Ministry of Forestry. The growth of REDD+ project activity will be greatly influenced by the taxation agreement made by the government, in particular on the issues of income tax, VAT and Transfer Pricing.

Income Tax

Revenue sharing (typically referred to as production sharing) arrangements have been a feature of the energy and resources sector in Indonesia for decades. These arrangements broadly involve the government taking title to its share of natural resources on a pre or post-tax basis. The issue of whether the proposed revenue sharing arrangements (which in any case will be the subject of further regulation) will be on a pre-tax (i.e. Indonesian corporate tax may apply in addition to the governments share) or post-tax basis (i.e. the government share will satisfy any Indonesian income tax obligation) has not yet been externally communicated and could be a fundamental issue for investors.

¹⁴⁶ For example, it is not uncommon for circumstances to arise whereby Ministry of Forestry issued forestry concessions overlap with mining permits issued by the Ministry of Energy and Mining or local governments.

VAT

The VAT status of carbon credits and other analogous intangible rights remains uncertain. Whether REDD+ credits are subject to VAT (at 10%), VAT exempt or zero rated could have negative impacts on project economics and reduce levels of project developer and investor interest in REDD+.

Transfer Pricing (TP)

Restrictions on foreign ownership of business entities in Indonesia mean that in order to hold forest land there must be 100% Indonesian ownership (a PT or private limited company). This would mean that foreign investors would be likely to transfer price credits to another entity (possibly offshore to avoid Indonesian tax) although the tax treatment of this type of arrangements is not currently clear. The Indonesian Tax Office has recently increased its focus on TP involving cross-border transactions between related parties. Issues remain to be resolved on pricing future credits and long-term arrangements such as Emission Reduction Purchase Agreements (ERPA) where up front funding is provided for REDD+ credits by buyers in exchange to the rights for the future title to these credits.

Reliable national funding mechanisms

Due to concerns over the governance and management of funds in previous reforestation schemes¹⁴⁷, Indonesia is still attempting to develop national funding mechanisms that have the confidence of international donors. To date, most projects have been directly funded or undertaken in collaborative partnerships with government or local participants.

The need to develop a national funding framework was recently highlighted when Norway pledged US\$ 1billion to Indonesian tropical rainforest projects. In a statement to the press, Agus Purnono, head of the NCCC, said the project "can start this year; the challenge is to find a financing mechanism so both parties are happy"¹⁴⁸.

As a legacy of previous governance issues, there also remains a lack of confidence in Charitable Foundation (Yayasan) from the tax office based on previous mismanagement of Charitable Foundations and potentially hesitancy in funding from international donors. This issue is important to resolve as local NGOs are likely to play a fundamental role in implementing REDD+ projects on the ground and in building community awareness and capacity to engage in REDD+.

147 Barr, C., Dermawan, A., Purnomo, H. and Komarudin, H. 2010 Financial governance and Indonesia's Reforestation Fund during the Soeharto and post-Soeharto periods, 1989–2009: a political economic analysis of lessons for REDD+. Occasional paper 52. CIFOR, Bogor, Indonesia: CIFOR notes the systematic financial mismanagement of the Reforestation Fund during the Soeharto era as having broad implications for future REDD+ funding. The study notes that strengthening financial management and revenue administration; dealing with corruption, fraud, and loss of state assets; monitoring, reporting, and verifying financial transactions; removing misaligned and perverse incentives; ensuring accountability and mitigating moral hazard; and distributing benefits equitably are all pivotal to the success of REDD+ in Indonesia

148 Reuters, Jakarta, May 18 2010

4. Making REDD+ a success in Indonesia

Taking REDD+ in Indonesia from the “Readiness Phase” to successful “Full Implementation” will require significant effort and coordination between all stakeholders. Whilst positive action has been taken at a national government and international level, important work remains to be done to achieve a successful national REDD funding mechanism.

The success of REDD+ in Indonesia will be dependent on many factors. The commentary below highlights some of the key themes that have been generated from interviews, local press and various thought leadership pieces by NGOs, investors and environmental commentators regarding how a successful REDD+ framework can be put in place in Indonesia.

A robust regulatory and governance framework

Central to the success of REDD+ in Indonesia will be a robust regulatory environment that creates investment certainty and eliminates perceptions of sovereign risk. Whilst at present bi-lateral government funding and NGO capacity building and demonstration activities have dominated the REDD+ agenda, a viable future for REDD+ will be contingent upon large inflows from a broader cross-section of the international community, including more significant foreign government participation and carbon market financing.

There is no better example of the importance of this issue than the recent signing of the LOI between the governments of Indonesia and Norway (see Section 2 above). The US\$1 billion in pledged funding by the Norwegian government remains contingent upon (amongst other items) the development of a REDD+ strategy, government department(s) administering a national REDD+ scheme, a funding instrument being created and policy instruments.

There has been a limited level of private sector REDD+ funding activity with the exception of some individual projects (see ‘Funded Activities’). However, the creation of a robust international and domestic legal/regulatory REDD+ framework that enables multi-level investment in Indonesia in a credible, transparent manner would allow for a rapid increase in private sector investment in REDD+.

An inclusive agenda

Creating an inclusive REDD+ policy agenda that embraces the diversity of communities in the world’s largest archipelago is a significant challenge. Meeting the objectives of policy makers looking to secure international REDD+ funding commitments, whilst addressing the concerns about the impact of REDD+ on indigenous communities is critical.

Regional autonomy has been a growing influence on the political landscape since the beginning of the 21st century and the balance of power between central and provincial government has fluctuated with different administrations. Clearly defining the distribution of the responsibilities between these levels of government is likely to be a key contributing factor to the success of REDD+ in Indonesia.

The complexity of the process of international political diplomacy is not necessarily accepted by local communities that may be fearful of the loss of livelihood, customs and connection with land they may occupy under traditional title. In recent times, civil society groups have become increasingly vocal on this topic amidst concern that REDD+ could weaken community land rights in favour of carbon project developers situated in Jakarta or abroad. Extensive and inclusive engagement, education and consultation are essential to manage the expectations of all stakeholders.

The GoI may consider formal legal requirements for project developers to follow the processes of Free, Prior and Informed Consent (FPIC) to mitigate the risk of conflict between developers and communities and so that the customary rights of forest communities are respected.

Building local capacity to manage an increased flow of funds

As highlighted in the current funding flow model (Figure 18), at present there is a lack of national and sub-national funding mechanisms in place. Developing credible investment platforms and fund distribution mechanisms are an integral part of future REDD+ success. This can only be achieved through the creation of credible, transparent and

accountable funding mechanisms that engender the confidence of the Indonesian people and the international community.

Again, highlighted by the recent LOI signed between the governments of Indonesia and Norway, there is a clear recognition by the Government of the importance of developing the capacity to handle funds in the magnitude of US\$1 billion and beyond. It is understood from recent press reports¹⁴⁹ that the two governments are considering a funding model akin to the Amazon fund developed for Brazil's REDD+ programme.

In addition to the commitments under the LOI, Indonesia has been working with various stakeholder groups to develop its own investment platform. Examples include the development of national REDD+ accounting standards (in conjunction with the Clinton Foundation) and the examination of payment distribution mechanisms (UN-REDD and the World Bank). Indonesia has also established the Indonesia Climate Change Trust Fund (ICCTF) as the leading vehicle for managing future climate change funds. It is anticipated that the ICCTF will be the initial national vehicle for REDD+ funding.

Achieving equity in REDD+ funding

Alongside the development of an inclusive REDD+ agenda, it will be important to achieve equitable funding outcomes that reflect a successful consultative process. It is important to recognise that notions of "equity" for local communities in relation to the government or a project developer may differ.

Achieving equitable REDD+ funding requires an examination of both REDD+ funding inflows (at present largely represented by government and NGO direct REDD+ funding) and the creation of local employment, alternative livelihoods training and community development programmes and the future generation of REDD+ credits.

The REDD+ regulations issued by the Ministry of Forestry recognise that funds from future REDD+ credits are to be distributed between the government, community and developer. Depending on the type of licence held and the type of forest, the split could be as widely varied as follows:

Table 6: Planned distribution of REDD+ credits between government, community and developer in Indonesia

Government	10% - 50%
Community	20% - 70%
Developer	20% - 60%

The regulations indicate that the revenue sharing will be applied on the "income" from the sale of credits generated from REDD projects (unlike in the resources sector which typically splits "production" e.g. number of credits). The wide divergence in revenue sharing percentages is complicated by a potential Ministry of Finance challenge that the Ministry of Forestry is acting outside its authority in dealing with non-state revenue. It is important that an agreement on this issue is reached prior to the full development of a REDD+ scheme in Indonesia.

Conservation finance at scale

Investors and/or financiers may approach REDD+ carbon investment as a relatively untested concept with numerous risks. In this case investors may demand a premium on returns to those typically observed or permitted by the government royalty and tax approach to resources in Indonesia. These risks include:

- Technological failure in monitoring or measuring carbon;
- Unknown taxation rates;
- Unanticipated government charges (e.g. regional taxes/levies);

149 Jakarta Post, (2010). Greenpeace lauds SBY's forest, peatland moratorium. Available online: www.thejakartapost.com/news/2010/05/29/greenpeace-lauds-sby%E2%80%99s-forest-peatland-moratorium.html

- Carbon market failure; and
- Physical asset leakages/depletion.

In addition to capacity building around the management of REDD+ funds and mechanisms, some significant attention will need to be given to supervision over and independent reporting of funds flows and disbursements. The integrity of such REDD+ controls will impact the financing of concessions/projects. An adequate return would factor in all of the above issues and this will need to be incorporated in the education process to manage the expectations of Indonesian stakeholders.

Private sector investors in REDD+ would also be encouraged by the use of donor funding to reduce or underwrite market risk for the early stages of REDD+ development. This may be a point worth considering by donors in choosing where to allocate funding.

It should also be recognised that as a result of the conservation benefits associated with REDD+, some venture philanthropy investors may be willing to accept a lower return on REDD+ investments.

Monitoring, Reporting and Verification (MRV)

The Indonesian government has recognised in their REDD+ road map that a key part of their Readiness phase is to develop MRV capacity within the Ministry of Forestry so that deforestation, changes in carbon stock and socio-economic changes can be effectively monitored, reported and verified.

AusAID, as part of the Indonesia – Australia forest carbon partnership is supporting the Ministry of Forestry to develop their monitoring systems and build the government's carbon accounting capability. It is planned that within the recent letter of intent signed between the governments of Norway and Indonesia in phase 1 a province wide MRV system conforming to IPCC Tier 2 or better will be in place by December 2011 followed by a country wide MRV system conforming to IPCC Tier 2 or run by an independent MRV institution by December 2013 along with a strategy to improve the MRV system to Tier 3 precision and accuracy¹⁵⁰.

Whilst these objectives are in place, the success of the MRV capacity building effort cannot be assumed and supporting efforts need to be made, for example through the creation or expansion of partnerships with local, national and international NGOs and research institutions to ensure that all levels of MRV capacity are being addressed during the Readiness phase.

¹⁵⁰ The Government of The Kingdom of Norway and The Government of The Republic of Indonesia (2010). Letter of Intent between the Government of the Kingdom of Norway and the Government of the Republic of Indonesia on 'Cooperation on reducing greenhouse gas emissions from deforestation and forest degradation.

5. Conclusions and suggested next steps

How might Indonesia fit with generic 2012 and 2015 funding models?

Whilst it is difficult to accurately predict the future REDD+ funding framework in Indonesia, it is possible to compare the assumptions made in the generic 2012 and 2015 models (see REDD+ national funding flows in 2012 & 2015 section) against the likely role of environmental funds, state budgets, individual REDD+ project or portfolio funds, national capacity building programmes and voluntary REDD+ projects in Indonesia.

Role of environmental funds

The absence of an environment fund making disbursements at a national level apart from the soon to be operational 'Indonesia Climate Change Trust Fund' may mean that at least for the REDD capacity building phase the role of environmental funds is limited. However with donor concerns over the transparency and governance of REDD+ funding there may be an increased emphasis on new environmental fund creation to provide this governance capacity.

Role of state budget/sector ministries

The findings from this report indicate that the preference of the Indonesian government is for REDD funding to be managed centrally with a percentage of carbon revenue being directed to government budgets, although there remain uncertainties over the ministerial controls over the proceeds from Voluntary Emissions Reductions (VERs). If these proceeds are distributed to other parts of government and not partly reinvested in national REDD+ readiness there may be negative consequences for project developers. In this case developers could be faced with the potentially unattractive position of covering the costs associated with readiness preparation (capacity building, forest inventories etc.) from their percentage of revenues, without a matching contribution from government. The Ministry of Forestry has stated that this issue will be clarified by new REDD+ regulation to be announced prior to COP16 in Cancún which will help to provide certainty over the distribution of control between ministries.

Individual REDD+ project/portfolio funds

The creation of REDD project/portfolios will be dependent on there being a sufficient quantity and range of demand for credits to justify the establishment of portfolio funds. Even if a post-Kyoto climate agreement creates compliance demand, uncertainty around the VAT status of carbon credits, transfer pricing clarity for carbon credit buyers, the distribution of tax collection and licensing responsibilities between central, regional or provincial governments may continue to discourage investors.

National capacity building programmes

The national capacity building process is already underway in Indonesia and looks set to be one of the principal targets of international REDD funding over the next 5 years. However, the largest capacity building funding from the Government of Norway is conditional on the establishment of frameworks and funding mechanisms for REDD+ which are not yet guaranteed. If other capacity building funding flows are contingent on similar conditions, then work will be needed to clarify roles within government departments and address potential governance issues prior to full funding being received. This may be an area where the establishment of environmental funds with representation from non-governmental actors could help reassure donors that their funds will be managed transparently and effectively.

Active voluntary REDD+ projects

In the global context Indonesia has a large number of established REDD+ projects and many more in demonstration phase. This provides a foundation for the growth of active voluntary REDD+ projects over the next 5 years. The continued growth of active voluntary REDD+ projects should not be taken for granted however, and there remain significant concerns from investors regarding taxation and revenue sharing.

Next steps – Points for national discussion

Government

It will be important to clarify how REDD+ revenue will be distributed between Ministry of Forestry, the Ministry of Finance, the National Council on Climate Change and the Ministry of Environment, and how tax collection responsibilities will be distributed between central and provincial government. Another important step will be to determine whether individual projects that deliver on carbon emission reduction targets can still sell or get compensation for their credits even if the provincial or national government fail to meet their emission reduction targets. Whether or not individual provinces may link into future US regional carbon markets will also be an important point for clarification.

Further discussions between the Ministry of Finance and Ministry of Forestry about the planned changes to the regulation of foreign investment in forest concessions and REDD+ projects will also be needed to assess how overseas investment could contribute to the growth of REDD+ projects in Indonesia.

Discussions between the Ministry of National Development Planning (BAPPENAS), the National Land Agency and the National Coordination Agency for Surveys and Mapping would also help to clarify how land tenure disputes and customary land rights claims will be managed as the number of REDD+ projects increase.

Finally it will be important to discuss with the NCCC what the development plans are for the ITCCF and whether or not there is scope for the establishment and integration or use of independent national, regional or local environmental funds to add to REDD+ funding and revenue capacity.

Civil society, indigenous and community groups

Civil society groups such as NGOs are likely to play an integral role in providing training and raising awareness of REDD+ amongst indigenous and community groups, as well as in managing REDD+ projects and funding. It will be important that these groups maintain engagement with government and each other as REDD+ develops in order to gain a detailed impression of how some of the challenges around community awareness, land tenure and local fund management are being dealt with. Regardless of the role that independent environmental funds play in the national REDD+ process, they may have valuable experience to share regarding the management of large funds in a transparent and accountable manner that builds donor and investor trust.

Project developers

Project developers may be able to provide first-hand information to government, NGOs and other stakeholders on how overseas investment in REDD+ is flowing and how revenue sharing and tax collection processes are impacting project growth in Indonesia. These developers are also likely to have insight into how indigenous and community groups are engaging with REDD+ and the growth of local capacity to manage REDD+ funds.

REDD funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase Indonesia's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness.

Outstanding issues with REDD+ funding in Indonesia	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Clear definition of distribution of responsibilities and revenue between the Ministry of Forestry, the National Council on Climate Change and the Ministry of Environment	Partly	The Government of Indonesia is developing a dedicated REDD+ council to help determine intra-government responsibilities.	REDD+ council takes decision over ministry responsibilities and achieves ministerial agreement. Role of ITCCF or new environmental funds in REDD+ fund management clarified.	What are the options for the distribution of responsibilities between ministries and government agencies?
Distribution of REDD revenue, regulatory and tax collection responsibility between central and provincial government	Partly	Decision on revenue split between MoF and MoFor on horizon. REDD+ regulations recognise the role of international participants in REDD+. Tax Office position on tax treatment of REDD+ projects remains uncertain.	REDD+ council and Ministry of Finance make decisions regarding the distribution of regulatory and tax collection responsibilities between central and provincial government. Role of environmental funds in holding REDD revenue is clarified.	Based on past experience, what are the best options for distributing REDD revenue, regulatory and tax collection responsibilities between central and provincial government?
Community engagement and awareness	Partly	Central and provincial government and NGOs - Indonesia's National REDD strategy plans to actively engage indigenous community groups and raise awareness amongst these communities.	Community engagement and awareness plans put into action. Indigenous groups contribute in a structured consultation process to national REDD+ strategy and are given opportunity to review and input further.	What should be the powers assigned to indigenous and community groups in deciding national REDD+ policy? What will the review process be for the national REDD+ strategy?
Potential land tenure related disputes	Partly, but many outstanding issues	Central and provincial government, NGOs, private and customary forest landowners.	<p>Review of customary land law and legal support given to communities and REDD+ project developers facing land rights disputes. NGOs may have an important role to play in providing indigenous and community groups with appropriate training and access to legal services.</p> <p>The Gol may consider formal legal requirements for project developers to follow the processes of Free, Prior and Informed Consent (FPIC) to mitigate the risk of conflict between developers and communities and so that the customary rights of forest communities are respected.</p> <p>The use of ecosystem restoration license (RE) concessions could also help potential REDD+ developers secure rights to forested land. However reported bottlenecks and a lack of clarity in the application process for RE licenses along with up front license fees may deter project developers. Further guidance on the application process and a review of how to improve the efficiency and lower costs of the process should be considered by Gol.</p>	In what geographic areas should legal support be focused? What aspects of land titling and tenure law will most affect the development of REDD+ projects?

Outstanding issues with REDD+ funding in Indonesia	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Institutional and local capacity to manage REDD+ funds	Partly	ITCCF, NGOs, community & indigenous groups, carbon project developers. Focus has been on REDD+ strategy formation although international funding is likely to be conditional on institutional governance being improved. Establishment of ITCCF expected to improve national funding management capacity. Local capacity building does not appear to be widespread.	Investment in ITCCF to ensure effective accountability, monitoring and governance systems are in place. NGO capacity building support given to local actors responsible for managing REDD+ funds in financial management, monitoring and reporting.	What organisations at a provincial, local or project level will be responsible for managing REDD+ funds? What are the institutional weaknesses and how can these be resolved?
Foreign investment and taxation	Partly	Decision on revenue sharing between Ministry of Finance and Ministry of Forestry on horizon. REDD+ regulations recognise the role of international participants in REDD+.	Decision made on respective Ministry of Finance and Ministry of Forestry roles. Policy amendments made to investments in forest concessions for REDD related projects to facilitate foreign investment. Potential use of environmental fund mechanisms to manage revenue distribution and provide a vehicle for receiving overseas funding. Donor funding used to reduce or underwrite REDD+ risk for investors. Structured meetings between private investors and donors may help define how best this can be achieved.	What legal and tax conditions will foreign investors require prior to investment in REDD+ projects? Is it necessary for foreign investors to invest directly in land or are there frameworks that can be used to avoid this?

Madagascar

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on Madagascar and REDD

Deforestation in Madagascar

Several studies based on analysis of satellite imagery have demonstrated that Madagascar has made significant progress in reducing the national deforestation rate over the last 15 years. The latest analysis for the period 2000-2005 shows that this trend continues, with the deforestation rate down to 0.5% per year by comparison to an annual average of 0.8% for the period 1990-2000. This reduction has been achieved through the combined results of the National Environment Programme, the expansion of protected areas and the strengthening of enforcement capacity¹⁵¹.

Deforestation and forest degradation is occurring throughout the remaining unprotected natural forests of Madagascar, caused mainly by smallholder slash and burn agriculture, fuel wood harvesting and logging¹⁵².

Analysis by Andriambolantsoa et al (2007) shows that spiny forests, located in the south of Madagascar are exposed to the greatest rate of deforestation, measured at over 1% per year. By comparison, in the eastern rainforests, the deforestation rate was 0.8% per year between 1990 and 2000, and decreased to 0.4% per year in the 2000-2005 periods. The rate of deforestation in the dry western forests also decreased after 2000, from 0.7% per year between 1990 and 2000 down to 0.42% per year between 2000 and 2005. More generally, it was observed that forests at altitudes of less than 800 metres are also at the highest risk of deforestation, with an average rate of deforestation of 1% per year. This analysis of deforestation uses the definition of forest as being greater than 5 metres in height with canopy cover of 80% and an area of greater than 2.5 hectares. The official definition of forest within Madagascar requires canopy cover of at least 30% with a minimum area of 1 hectare, hence deforestation rates aligned with the national forest definition may be higher¹⁵³.

Although in terms of surface area spiny forests have the highest deforestation rates, it is believed that they also have a lower biomass/surface area ratio. Therefore, although precise studies have yet to be done, the volume of emissions resulting from biomass removal is thought to be broadly similar for each of the three forest ecosystem types considered.

Table 7: Summary of Deforestation Statistics 1990-2000-2005

Forest ecosystem type	Annual deforestation rate, 1990-2000	Annual deforestation rate, 2000-2005
Rainforest	0.79%	0.35%
Dry Western Forest	0.70%	0.42%
Spiny Forest	1.1%	1.1%
National	0.83%	0.53%

Source: Andriambolantsoa et al., 2007

Protected areas have been effective at reducing deforestation rates considerably. Prior to Madagascar's recent political instability, the annual deforestation rate within Protected Areas was less than 0.1% compared to the national annual deforestation rate of 0.53%. A more detailed analysis shows that the deforestation rate is much lower than annual 0.1% for most of the protected areas and that most of the detected deforestation occurred in a few areas that have only recently been granted the 'protected area' status. The planned expansion of protected areas will cover just under two thirds of the remaining natural forests of the island. If adequate resources are allocated to enable the effective management of the protected area system this is likely to further reduce the country's deforestation rate significantly.

151 Andriambolantsoa R., Ramarison B., Randriamanantsoa P., Ranaivosoa R., Razafindramanga M., Denil M. and Steininger M. (2007). Madagascar: Changement de la couverture des forêts naturelles 1990-2000-2005.

152 Thomas, T,S (2007). Impact of Economic Policy Options on Deforestation in Madagascar. The World Bank Development Economics Research Group. Andriambolantsoa et al. (2007) analysed deforestation nationally and considered three broad forest ecosystem types based on a classification by the Missouri Botanical Gardens¹⁵²: the eastern rainforests (ER), the dry western forests (DWF) and the southern spiny forests (SSF).

153 Maminiaina Rasamoela, personal communication (12th August, 2010).

Causes of deforestation

The main cause of deforestation in Madagascar is a slash-and-burn agriculture, known locally as *tavy*, particularly for rain-fed rice cultivation and maize production. This threat accounts for most of the deforestation in the country, although since the government coup in March 2009 illegal rosewood extraction and damage caused by harvesting has been rising sharply. The WWF estimate that within one year approximately 20,000 hectares of forest has been degraded by this process¹⁵⁴ within the boundaries of Masoala and Marojejy National Park, a World Heritage Site, as well as Mananara Biosphere Reserve. The second most important cause is the production of charcoal. This is a particular problem in southern Madagascar where there are insufficient plantation resources to provide this fuel source. The next most important cause of deforestation is considered to be clearance for mining operations.

Policy principles and initiatives within Madagascar supporting future REDD+ activities

Madagascar has been active in promoting REDD+ and its Forest Carbon Partnership Facility (FCPF) Readiness Plan Idea Note (R-PIN) has been accepted by the FCPF. Madagascar is now in the process of producing its Readiness Preparation Proposal (R-PP) which is being completed with grant funding totalling US\$180,000.

The Environmental Charter

The Environmental Charter aims to reduce rates of environmental degradation in Madagascar. Two key aspects of degradation are recognised by the Charter: land degradation (soil erosion) and a loss of forest cover. The Charter has served as a reference for the Environmental Action Plan in Madagascar, and as a driver for the mobilisation of funding for environmental and biodiversity conservation in general. The charter is currently being renewed with a stronger focus on the valuation of ecosystems and natural resources.

Community Forestry Policies

The first community-based natural resource management (CBNRM) law was enacted in 1996 with the Gestion Locale Sécurisée (GELOSE) policy, which allowed for the transfer of management rights of natural resources to local communities within a defined time frame. In the year 2000, an edited policy, known as the Gestion Contractualisée des Forêts (GCF) was established specifically for forests and can only be used for transferring management of forests to communities. The GCF has been used by NGOs and donor programmes across Madagascar to enable 'Community Forest Management' (CFM) by local associations established specifically for that purpose. This CFM framework could be one of the most effective tools in scaling up REDD+ projects using a community capacity building and incentive approach.

The Protected Area Law

The protected area law proposes sanctions for the clearance or degradation of forests within Madagascar's protected areas. Primary forest makes up a large percentage of the nation's protected area coverage and hence this law could act as a starting point for the development of the legal protection of REDD+ projects. The implementation of the Durban Declaration in 2003, which consists of trebling the size of Madagascar's protected areas, has led the country to review the Code and to introduce community forest management agreements where certain rights and responsibilities are transferred to local community associations through time-bound contracts¹⁵⁵. This legal framework could be important in achieving effective participation from local communities in REDD+ projects. This will be dependent on the recognition of community land rights and security of land tenure.

The new decree for the protected area law, which was approved by the Council of Ministers on 12 December 2009 although has not yet been enacted, stipulates that the Ministry of Environment could delegate organisations other than ANGAP (National Association for the Management of Protected Areas) for protected area management which could enable co-management of protected areas and simplify their establishment¹⁵⁶.

154 WWF, (2010) WWF calls to stop illegal logging as plundering of Madagascar's rainforests continues

155 Maminiaina Rasamoela, personal communication (12th August, 2010).

156 Durbin, J. (2009) Madagascar's new system of protected areas – Implementing the 'Durban Vision'. Available online: www.biaza.org.uk/resources/library/images/01DurbanVision.pdf

The Action Plan for Rural Development (PADR)

Adopted in 1999, the PADR is a framework to design, develop and guide strategies and rural development programmes in Madagascar. The objectives of this framework are to:

1. Increase food security;
2. Contribute to improving economic growth;
3. Reduce poverty and improve living conditions in rural areas;
4. Promote the sustainable management of natural resources and
5. Promote training and transparency of information so as to improve production in rural areas¹⁵⁷.

This plan could play a strong supporting role in the development of REDD+ projects in Madagascar and strengthen efforts to achieve gains in agricultural production efficiency and sustainable forest management.

The New Land Policy

Land management in Madagascar has in the past created obstacles to the implementation of a number of development initiatives in the country due to the lack of private or community property ownership. In 2005, Madagascar began a process of land reform which included the restructuring and modernisation of land service administration, including digitisation of land registers and map archives, a decentralisation of land management (including the creation of locally-based land administration, communal or inter-communal land management offices authorised to issue and manage land certificates) and the adaptation of laws to emphasise the principle of decentralisation¹⁵⁸. This could help improve confidence from funders or private investors in REDD+ projects with the increased clarity it brings to the distribution of land rights in the country. This also opens up the possibility of communally owned REDD+ projects which could allow for a wider distribution of REDD+ revenue.

REDD+ Readiness Management Arrangements¹⁵⁹

Madagascar's draft R-PP proposes a division of the management of the national REDD+ readiness into three levels:

1. Decision making, strategy formulation and policy development by the Ministry of Environment and Inter-ministerial Committee on the Environment.
2. Steering and technical coordination of the development of the REDD+ strategy by the REDD+ Technical Committee (CT-REDD) and the REDD+ Steering Unit (UP-REDD) within the Directorate-General of Forests. It is planned that during the three year readiness process the CT-REDD will gradually become the REDD+ Readiness Coordination Platform (PCPR). The UP-REDD is yet to be established.
3. Operational management of the REDD+ readiness process by the yet to be established REDD Executive Office (BER), with operational funds managed by the REDD+ Readiness Trust Agency, a role which an existing, independent financial institution will play. The REDD+ Readiness Trust will manage funding and budget limits according to donor regulations and ensure the production of financial reports.

The BER will also be responsible for participating in the development of REDD+ strategies, ensuring good communication across the stakeholder community and ensuring effective collaboration with the PCPR.

If the R-PP is approved, which partly depends on the FCPF's assessment of political stability, this could provide more certainty for potential REDD+ project developers and investors.

¹⁵⁷ Forest Carbon Partnership Facility (FCPF) (2010). Readiness Preparation Proposal (R-PP) Madagascar (August 23rd 2010 version).

¹⁵⁸ The World Bank, (2005). Decentralisation of land management in Madagascar: process, innovations and observation of the first outcome. Available online: siteresources.worldbank.org/INT/IE/Resources/475495-1202322503179/LandDecentralisationinMadagascar.pdf

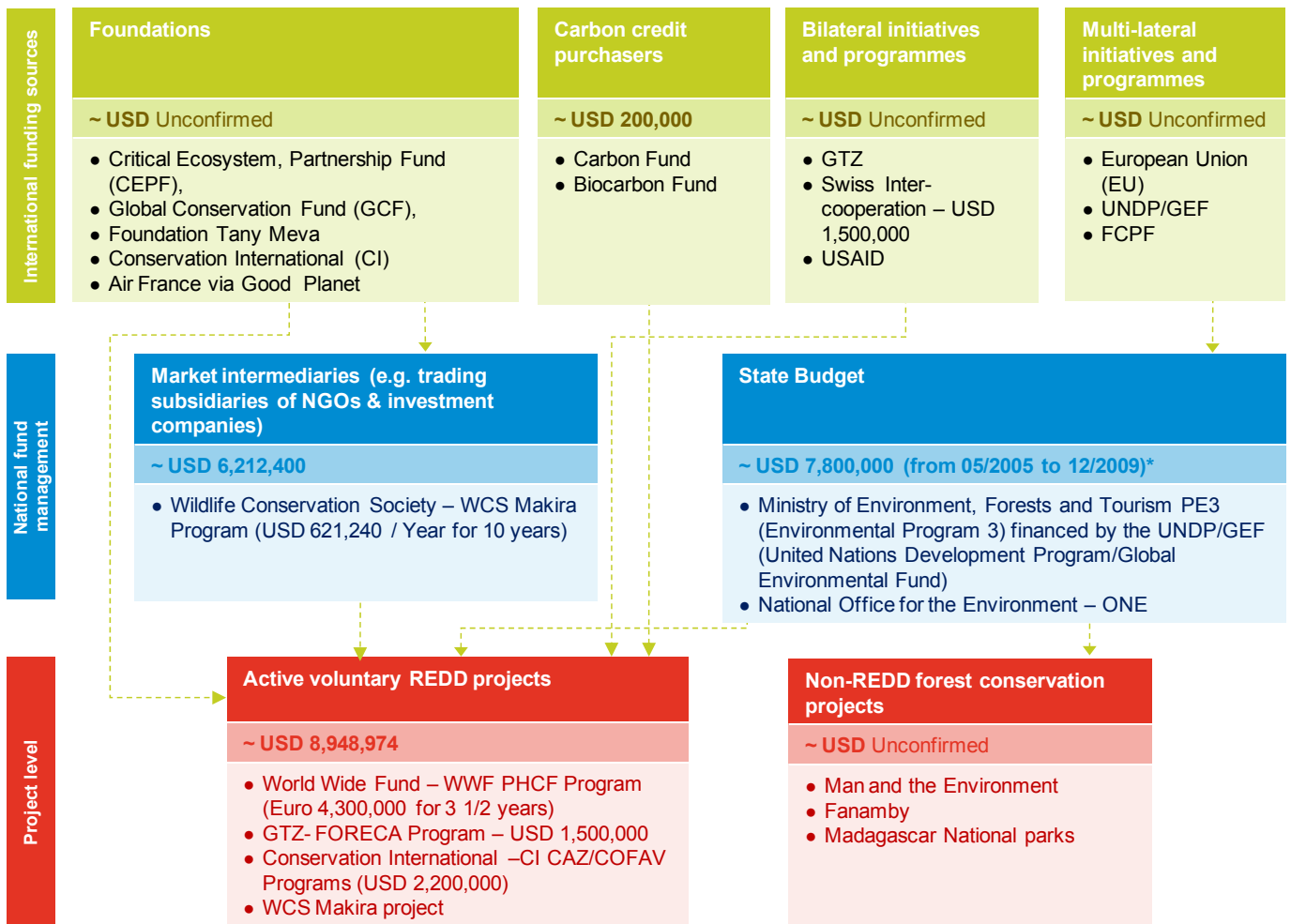
¹⁵⁹ Forest Carbon Partnership Facility (FCPF) (2010). Readiness Preparation Proposal (R-PP) Madagascar (August 23rd 2010 version).

2. Current REDD+ funding in Madagascar

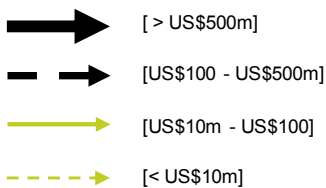
All activities related to REDD+ in Madagascar are financed by international donors. The current system is based on a “project approach” - which means that each programme focuses on a specific area independently of the other stakeholders – rather than on a national or regional “programme approach”. REDD+ projects led by international NGOs have been launched in recent years, in addition to the many initiatives set up by various international technical and financial partners or by national NGOs. The diagram below provides an overview of current REDD+ funding flows for Madagascar from the international to national and project levels.

Figure 19: Madagascar - Current national funding flows for REDD related activities

NB: The diagram only includes those projects and initiatives we have been able to obtain funding data on.



Indicative funding flows



*CBD, (2010) Centre d'échange d'information de Madagascar

International funding sources

The total REDD+ funding provided by international donors, foundations and carbon credit purchasers amounts to approximately US\$ 8,900,000 coming from Conservation International (CI), the German Development Cooperation agency GTZ, Swiss Intercooperation, the European Union (EU), USAID and Good Planet.

National fund management options

At the national level, the state budget was based on the PE3 (Environmental Programme 3) that ended in December 2009 for an approximate amount of EUR 6,300,000 funded by the United Nations Development Programme (UNDP) and the Global Environmental Funds (GEF).

Madagascar Foundation for Protected Areas and Biodiversity

A sustainable financing commission was established in 2000 to design financing strategies for Madagascar's protected area network and in 2001 the Minister of Environment appointed a Trust Fund Steering Committee to lead the fund creation process. The fund was created on 6th January 2005 and receives donations from external donors including the Global Environmental Facility (GEF), the French Development Agency (AFD/FFEM), WWF, Conservation International, the World Bank and the German Development Bank (KfW). In 2008 the governments of Madagascar and France signed a \$20 million debt for nature swap to help the fund meet its endowment fund target of \$50 million¹⁶⁰.

The fund aims to provide sustainable finance which is split between a sinking fund, derived from capital from a bilateral German-Malagasy debt swap, and an endowment fund component with interest earnings covering part of the running costs of more than 40 national parks. At the end of 2008 the fund's assets were estimated at EUR 33 million¹⁶¹. Whilst the purpose of this fund is to provide finance for the running costs of protected areas, many of Madagascar's REDD+ projects are within the protected areas and there may be potential for utilising this environmental fund structure to manage REDD+ demonstration stage funding.

Funded activities

In 2009, 1.75 million of hectares of forest have been divided between 5 different projects (each averaging between 250,000 to 500,000 hectares per project). These are:

The PHCF project

The World Wide Fund (WWF) has implemented the Holistic Conservation Programme for Forests in Madagascar (PHCF), funded by Good Planet Funds with Air France as the sole sponsor of the \$ 6.13 million project budget. The project started in 2008 and will end in 2012. PHCF is a demonstration REDD+ pilot project and does not intend to sell carbon credits.

WWF is taking action to conserve 390,000ha of moist forests and 125,000ha of spiny forests in 7 different locations from North to South: Andapa-Bealanana, Fandriana-Marolambo, Ivohibe, Vondrozo, and Fort-Dauphin. The main objective of the project is to reduce deforestation rates in the project's intervention sites through conservation activities and improving knowledge on carbon accounting.

The specific goals of the projects are:

- To improve the living conditions of local communities,
- To improve the knowledge of verifiable and effective ways of measuring the emission reduction potential of project activities,
- To fully integrate the conservation of Madagascar's exceptional biodiversity in the project.

¹⁶⁰ Conservation International, Global Conservation Fund. Available online: www.conservation.org/sites/gcf/portfolio/africa/Pages/madagascar.aspx. Accessed 1st July 2010.

¹⁶¹ Kadel, R, (2007). Madagascar trust fund for sustainable protection of nature reserves. KfW/BMZ.

The project's main activities include:

- The creation of new Protected Areas
- Promotion of alternative practices to 'slash and burn' activities
- Community-Based natural resource management
- Restoration of degraded forest landscapes and reforestation for fuel wood production

FORECA project

This project started in 2007, and was financed by the German Federal Ministry for Economic Cooperation and Development (BMZ) through the GTZ and then by the Swiss Intercooperation. The first phase of the project ended in 2009 and the BMZ did not renew the funds. In August 2008, this project established the REDD+ Technical Committee (CT-REDD) which acts as a platform for bringing together all the national REDD+ stakeholders in preparation for the Readiness Preparation Proposal (R-PP).

REDD+ FORECA's objectives are to support the Malagasy Government in developing a REDD+ mechanism in a post-Kyoto REDD+ payment framework, to develop the instruments for carbon quantification and to suggest appropriate approaches for the participation of local communities.

REDD+ FORECA's main activities include:

- Researching and developing biomass inventories
- Analysing socio-economic factors driving deforestation and forest degradation
- Developing project level baselines and scaling these up to a national level
- Identifying potential community incentives for reducing deforestation
- Implementing capacity building activities for policy dialogue with members of the REDD+ national committee

REDD+ FORECA was initially implemented in 7 different regions in order to distinguish the importance of each type of forest in providing climate, community and ecological benefits. These regions are:

- Tsinjoarivo (transitional forest)
- Tapia (transitional endemic forest)
- Andringitra Ivohibe Corridor (transitional humid forest)
- Tsimanampetsotsa (dry spiny forest)
- Mariarano—Ambalakida (dense dry forest and mangrove)
- Haute Ramena (humid forest)
- Manompana (dense humid forest)

Makira project

From 2004 to 2006, the Makira project has produced the equivalent of 40,000 tons of Verified Emission Reductions (VERs) sold at \$5 per tonne from 651,000 hectares of humid forest on the East Coast of Madagascar. In 2007-2008, the Wildlife Conservation Society (WCS) signed an agreement with the Government to sell 9.1 million tonnes of carbon credits generated by the Makira project until 2033. In 2008, the WCS worked with Alliance Rainforest-SmartWood to ensure CCBA certification and enhance the community and biodiversity co-benefits of the project.

The stated goals of the Makira project are to:

1. Stabilise land use, reduce deforestation, and ensure the protection of biodiversity in the greater Makira landscape.
2. Monitor the impacts of the protected area on local communities, and the physical and biological environments. Develop and expand conservation and research programme.
3. Collaborate with the local communities to establish conservation and rural development activities based on the Contracted Forest Management (GCF) approach to reduce deforestation. Establish a network of community-based forest management areas (called 'Transfer de Gestion'); encourage communities to adopt efficient and profitable alternatives to unsustainable land and resource use.
4. Identify sustainable financing mechanisms for the protected area, particularly through the sale of carbon credits¹⁶².

CAZ (Ankeniheny-Zahamena Corridor)

The Ankeniheny-Zahamena corridor (CAZ) is a REDD+ project that plans to protect 425,000 ha of intact eastern tropical rainforest from land clearance. Many of the component forest management units within the project area are under community forest management (GCF/GELOSE) with private holdings and conservation contracts making up the remaining project area. Within the project there is also a Clean Development Mechanism forest restoration project led by Tetik'asa Mampody Savoka (TAMS). The REDD+ component of this project has a budget of \$1,200,000 funded by Conservation International itself and the World Bank. CI has developed a grants programme as part of the project that provides small sums of money to community-level associations to develop income generating projects. Until now there have been 135 community-level associations supported by these grants at CAZ¹⁶³. The initial payments of the CDM component of the project are disbursed by the Biocarbon Fund (\$100,000 in 2008 and \$200,000 in 2009). The project partners include the Ministry of Environment, Forests and Tourism (MEEFT), local associations and NGOs, the National Association for the Management of Protected Areas (ANGAP), Madagascar Biodiversity & Conservation (MBG), the World Bank, USAID, DAI and the BioCarbon Fund.

COFAV (Fandriana-Vondrozo Corridor) project

The Fandriana-Vondrozo (COFAV) corridor projects plan to restore 2,000 ha and conserve 240,000 ha of a strip of intact forest from land clearing. A new protected area is planned to be financed by the sale of carbon credits with the volume of potential emissions reductions estimated to be 9,200,000 tons during the 30 years project lifetime¹⁶⁴. This protected area is planned to be of multiple use with some strict protection zones and other areas allowing natural resource use by local communities. In the interest of the long term sustainability of the project, forest product marketing, agriculture and ecotourism activities will be implemented using the Node Small Grants programs, conservation agreement and ecotourism development funds.¹⁶⁵

¹⁶² The United Bank of Carbon. UBoC Projects – Makira Forest Protected Area. Available online: www.unitedbankofcarbon.com/project_28.html - accessed 30th June 2010.

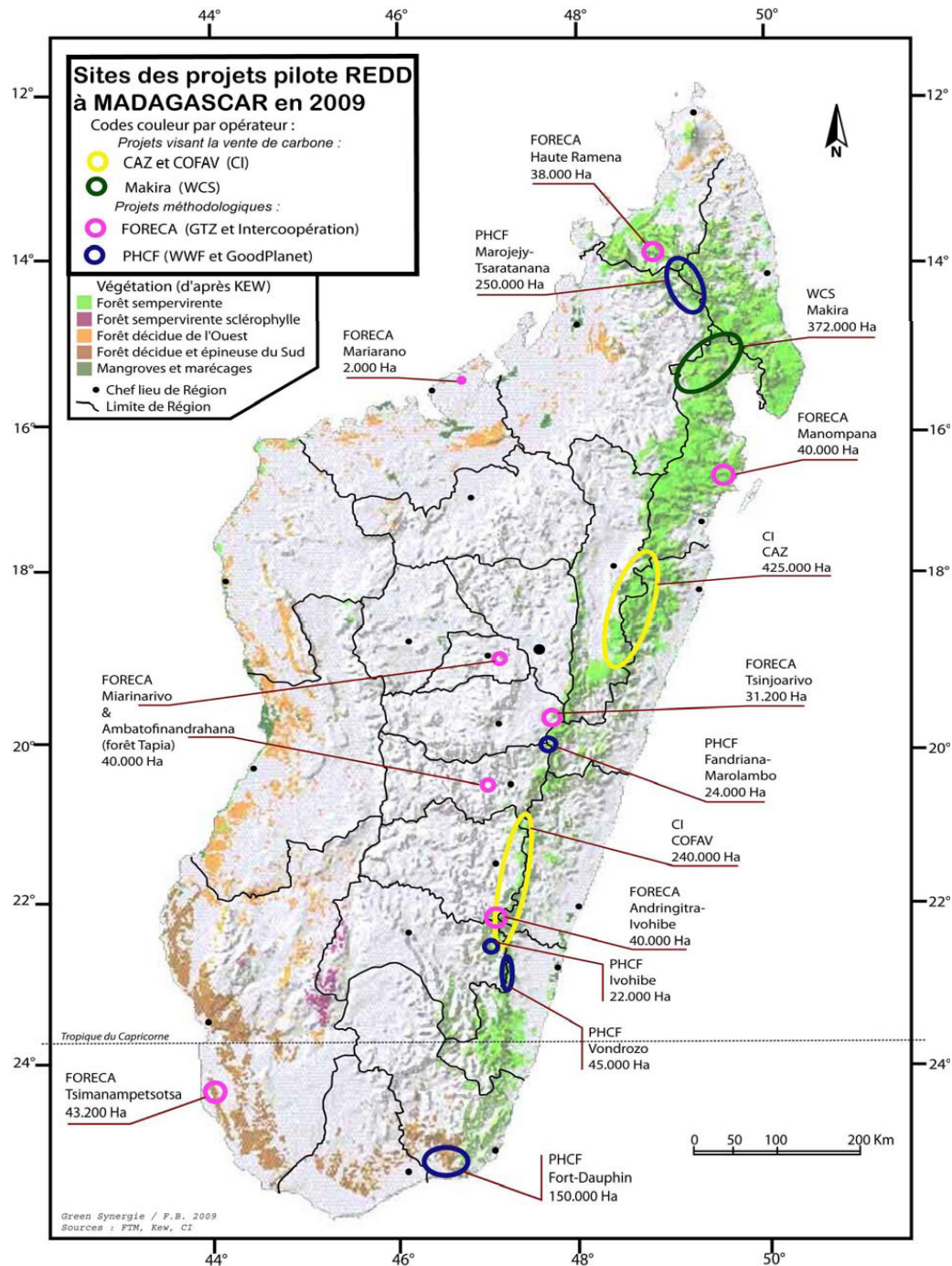
¹⁶³ Conservation International, Ankeniheny-Zahamena Corridor. Available online: www.conservation.org/explore/africa_madagascar/madagascar/projects/Pages/ankeniheny-zahamena_corridor_madagascar.aspx - accessed 01/07/2010.

¹⁶⁴ Ferguson, B. (2009). REDD+ comes into fashion in Madagascar. Madagascar Conservation & Development 4, 2:132-137, Supplementary Material. Available online: www.mwc-info.net/en/services/Journal_PDFs/Issue4-2/MCD_2009_vol4_iss2_REDD+_Supplementary_Material.pdf - accessed 26th June 2010

¹⁶⁵ Johns, T et al (ed), (2009). An Overview of Readiness for REDD+: A compilation of readiness activities prepared on behalf of the Forum on Readiness for REDD+. The Woods Hole Research Center.

The diagram below shows the location and size of some of the REDD+ projects discussed in this section.

Figure 20: REDD+ pilot projects in Madagascar 2009



Other relevant REDD+ related projects in Madagascar

The followings are REDD+ reduction emission (as opposed to capacity building) projects in development or already established within Madagascar. This project list is not exhaustive.

Tany Meva Foundation

This is a Malagasy Environmental Foundation which has established a partnership with the GEF – Small Grants Scheme and created a Project Idea Note (PIN) for an area of community managed forests south of Ampanihy in Southern Madagascar. This PIN was submitted to the UNEP/UNRISOE/FFEM project CASACADe-Africa to seek support for the development of a PDD. The proposed project will cover an area of 22,500ha with projected emissions reductions of 610,700 tons¹⁶⁶.

Man and the Environment (MATE)¹⁶⁷

This NGO, founded in 1993, works in the 2 forest sites of Vohimana and Vohibola and more recently on the forest sites of Tsianinkira and Antoetra. At the Vohimana and Vohibola sites, MATE are engaged in activities to maintain or enhance the carbon sequestration properties of the forest and in Vohimana MATE are engaged in forest restoration and reforestation activities.

Fanamby¹⁶⁸

Fanamby is a Malagasy National NGO closely allied to Conservation International and is currently developing a significant project for GEF to advance their conservation work in 5 new protected areas (Anzozorobe 52,300 ha, Menabe 204,500 ha, Bombetka 77,500 ha, Daraina 70,000 ha, and Andrafiarana/Andavakoera 80,000 ha). It is currently planned that these new projects will produce carbon credits for sale on the REDD+ market to cover ongoing project costs. Fanamby's approach aims to ensure the lasting support and involvement by local community members, and includes resolving land tenure issues and processing Non-Timber Forest Products.

Madagascar National Parks¹⁶⁹ (MNP)

Madagascar National Parks is an Association founded in 1990 and is one of the oldest conservation and environmental protection initiatives in Madagascar. MNP is currently examining the possible implementation of REDD+ projects within the current portfolio of protected area projects.

¹⁶⁶ Ferguson, B. (2009). REDD+ comes into fashion in Madagascar. Madagascar Conservation & Development 4, 2:132-137, Supplementary Material. Available online: www.mwc-info.net/en/services/Journal_PDFs/Issue4-2/MCD_2009_vol4_iss2_REDD+_Supplementary_Material.pdf - accessed 26th June 2010

¹⁶⁷ The man and the environment. Available online: www.madagascar-environnement.com/ retrieved on June 16th, 2010

¹⁶⁸ Fanamby. Available online: www.fanamby.org/mg/ retrieved on June 16th, 2010

¹⁶⁹ Madagascar National Parks. Available online: www.parc-madagascar.com/index_en.php retrieved on June 16th, 2010

3. Potential barriers to funding future REDD+ activity at scale.

There has been significant growth in the number of demonstration and market based REDD+ projects in the Madagascar. These projects have provided important lessons on the practical implementation of REDD+ and made an important contribution to the national REDD+ readiness effort. Whilst progress is being made at a sub-national level and in the government REDD+ planning process, the following barriers may potentially hinder national-scale level REDD+ investment in Madagascar post-2012.

Land tenure

Land tenure in Madagascar is based on the principle of state ownership. The state owns all vacant land without an owner, or anything that is not state registered. The property is recognised and guaranteed as private property only after a registration procedure has been completed. Registration is possible after land has been converted to productive use for at least ten years however this system has failed to secure the land rights of many rural community members, and after more than a century of state ownership, only 15% of Madagascar's territory has been registered as private property. Such a low percentage of privately owned land may affect the 'project approach' of the REDD+ programme because most primary and secondary forest land belongs to the state, sometimes which can make it difficult for local communities to claim land ownership. Furthermore, in state owned areas there may be little incentive for local communities to reduce rates of deforestation where there is no owner or government protection presence in place.

Forest law enforcement and governance

Enforcing forest protection laws in Madagascar is a particular challenge for the Forestry Department where staffing and resource levels are often insufficient to effectively monitor the implementation of these laws and to prosecute those breaking them. In the absence of a nationwide strategy to reduce deforestation and degradation, it remains a challenge to increase the staff budget for forest protection and enforcement. This is combined with a lack of incentives for the private sector to improve forest management and the increased economic pressures on communities to continue forest clearance.

Deficiencies in law enforcement and governance will have a differing impact depending on the level of involvement of government agencies in REDD+ projects. Where these agencies form part of the project partnership it will be important that governance reform and training is implemented alongside any increases in enforcement resource. Even for private projects it will be important to address any issues of mistrust that have arisen from previous alleged mismanagement of forest resources and to address some of the underlying drivers of illegal deforestation in Madagascar.

Political instability

Since 2009, Madagascar has experienced political instability that has led to a downturn in economic growth, which has consequently slowed the progress of the REDD+ Readiness Preparation Proposal (R-PP). This is now planned for presentation to the FCPF participants committee in November 2010.

There have been suspensions, non-renewals or delays of some conservation based projects due to concerns over political security and with changes in government it has been difficult for project proponents to make long term resource commitments. Collaborative NGO-government projects may be vulnerable to these changes, as are projects that rely on governmental agencies to carry out the full extent of their enforcement duties. For example in one of the five pilot projects the level of illegal rosewood harvesting has increased, where the government has faced challenges in fully enforcing forest conservation law. Political insecurity can also interrupt conservation activities due to the threats posed to the safety of staff and partner organisations by civil conflict and disturbance.

Changes in government could potentially affect the continuity of the national REDD+ strategy whereby the approach taken by one government with respect to land tenure policy, forest governance, local capacity building and forest management is not necessarily followed by the following administration. In 2009 the stakeholder community have

pointed to governmental change as the primary reason for the slow development of Madagascar's REDD+ policy development.

Attracting investment finance

Projects in Madagascar may find it difficult to attract start-up finance due to high investment risk ratings attributed to Madagascar. This means that identifying funders, investors or financial service providers willing to provide start-up financial resources at scale could be a challenge. This could limit the growth of REDD+ projects in the country and as such actions should be taken to mitigate some of the principal political and economic risks for funders, investors and financiers.

Technical capacity

Research indicates that there is a broad perception that the National Environment Office (ONE) and the Ministry of Environment, Forests and Tourism (MEEFT) are still developing their capacity to effectively monitor deforestation and calculate forest carbon stocks and flows¹⁷⁰. As regards the technical capacity necessary for REDD+ projects within Madagascar, most of it can currently be found within civil society organisations. In particular, GIS specialists in these organisations have the capacity to carry out biomass and carbon measuring and monitoring. However, further work will be needed to develop appropriate carbon measurement methodologies and standards to be adhered to and this will require training. Similarly there is already excellent capacity for conservation implementation; however the scale at which the government wants to implement REDD+ projects will require further capacity building activities.

Methodology development

Currently, Madagascar has a combination of demonstration and active REDD+ projects in place. The country will need to design a common methodology for all these existing projects as well as a national methodology for all future projects included in the national REDD+ scheme. This includes the creation of a national registry to track the Emission Reductions being created by these projects and to avoid double counting. The establishment of the national reference scenario will also need to consider the pre-existence of these projects, which raises complex methodological challenges.

Madagascar has opted to adopt a tier 3 accuracy methodology for assessing its carbon stock for the R-PP, by using Lidar technology, already used by WWF pilot projects in partnership with the Carnegie Institution for Science and Stanford University. Capacity building support from these institutions may be needed in order to expand the use of this technology to the national level.

170 Ferguson, B, (2009). REDD+ comes into fashion in Madagascar. *Madagascar Conservation & Development* 4, 2:132-137, Supplementary Material. Available online: www.mwc-info.net/en/services/Journal_PDFs/Issue4-2/MCD_2009_vol4_iss2_REDD+_Supplementary_Material.pdf - accessed 26th June 2010

4. Making REDD+ a success in Madagascar

In 2008, the R-PIN or Readiness Plan Idea Note was submitted and validated by the FCPF. However, the CT-REDD has produced a revision of the R-PP in August 2010 which is open for comment until submission to the FCPF participants committee in 2010.

Effective institutional and regulatory frameworks

There are still advances needed in the legislative framework for REDD+ in Madagascar before the scheme can grow and achieve its desired outcomes. This includes:

- Establishment of a national and decentralised Charter of Responsibility;
- Appropriate modifications to carbon rights, land and forest management regulation;
- Reinforcement of decentralised forest management structures (including planning platforms and GCF management);
- Registry and taxation administration;
- Establishment of a government revenue sharing mechanism

Legal reinforcement is of particular importance to ensure the long term sustainability of REDD+ in Madagascar. Experience has indicated that, due to unclear legislation in the past, forest protection agencies have not had enough control over the increasing illegal traffic of precious wood in their area, which has negatively impacted the conservation objectives of these projects.

Developing the existing community forestry framework and achieving equity in REDD+ fund distribution

One of the advantages that Madagascar holds in developing its national REDD+ scheme is the Gestion Locale Sécurisée (GELOSE) policy which allows for the transfer of management rights of natural resources to local communities. The Gestion Contractualisée des Forêts (GCF) will also be an important tool in building up REDD+ projects through the consolidation of community forestry management units. Whilst support for improving the governance and organisation of GCF areas may be necessary to increase the success rate of enforcement and alternative livelihood programmes, the existence of these management units provides a good foundation for truly inclusive REDD+ community projects.

Community forestry management units could also act as recipients of REDD+ revenues and play a role in distributing funds to the wider community. The ability of these units to distribute funds equitably will be dependent on the representation of all or as many key stakeholders as possible in GCF management and the potential use of independent supervisors to oversee equitable distribution.

Tools developed by the Foundation for the Protected Areas and Biodiversity of Madagascar (FAPBM) to measure the results of various protected areas could also provide useful information for the design of revenue sharing mechanisms¹⁷¹.

Mapping and prioritising unprotected forest areas

In the current R-PP the government has stated its intention to re-analyse the extent of forest land at a national level to gain clarity on the overall potential REDD+ activity in the country. This is planned to form part of the national preparation phase should the R-PP be approved.

Most REDD+ projects in Madagascar focus on the protection of forests inside the protected areas network and the Malagasy government is focused on expanding its protected areas to a total of 6 million hectares by 2012. However,

¹⁷¹ Forest Carbon Partnership Facility (FCPF) (2010). Readiness Preparation Proposal (R-PP) Madagascar (August 23rd 2010 version).

some remote forest areas that could be considered as potential REDD+ project areas have not yet undergone mapping and inventory analysis, which makes it difficult to formalise project plans. This will require a targeted effort to determine the extent and nature of unprotected forest to gain a comprehensive view of Madagascar's national REDD+ potential. This is not to underplay the importance of ensuring that REDD+ actions within protected areas are resourced effectively, as it is well recognised that there is still considerable enforcement support needed by the agencies and organisations responsible for protection.

Building capacity to manage funding flows

In Madagascar there are not currently REDD+ national or sub-national funding mechanisms in place although there is a national environmental fund - The Madagascar Foundation for Protected Areas and Biodiversity. The Madagascar Foundation has an endowment of \$50 million and is regarded as playing an important role in Madagascar reaching its goal of tripling the size of its protected areas. Many of Madagascar's REDD+ projects are located within the protected area network and if this trend continues as the number of REDD+ projects grow then the Foundation may have a role to play in managing and distributing REDD+ funds. For projects outside of protected areas new public and/or private funds may be established which may benefit from guidance from the existing Foundation in how to most effectively manage and distribute funds.

There is also the Tany Meva Foundation, created in 1996 as a national endowment fund which provides sustainable funding for environmental activities by local communities. As part of its funding portfolio the fund uses microcredit loans, which could provide a useful financing model for engaging communities in REDD+.

The R-PP states that the role of the REDD+ Readiness Trust Agency can be played by "existing financial institutions, independent and working in the environmental sector", with the role of managing funding and budget limits in accordance with donor regulations¹⁷². This agency could be established as an environmental fund, although this could make it more difficult to use an existing financial institution to assume this role.

At a project level, it will also be important that local actors have the capacity to manage and effectively disburse REDD+ revenues and capacity building funds. There may be an important role here for national and international NGOs to provide training and capacity building support to local organisations and associations so that they improve their 'readiness' to manage REDD+ funds.

Role of CSOs in monitoring, reporting and verification (MRV)

To strengthen monitoring, reporting and verification capacity in the National Environment Office (ONE) and the Ministry of Environment, Forests and Tourism (MEEFT), civil society has an active role to play using their on-the-ground presence, community links and in the case of national and international NGOs, satellite and GIS capabilities. NGOs also have a wealth of scientific research expertise and may have access to some of the leading monitoring technologies. With this in mind, it could be advantageous for the government to form partnerships with civil society actors in the MRV process. The current R-PP also emphasises the importance of involving communities to perform monitoring tasks but recognises that this "will not be possible overnight"¹⁷³. NGOs could play a vital role in supporting the development of community monitoring capacity through training, technical assistance and project management.

¹⁷² Forest Carbon Partnership Facility (FCPF) (2010). Readiness Preparation Proposal (R-PP) Madagascar (August 23rd 2010 version).

¹⁷³ Ibid.

5. Conclusion and suggested next steps

How might Madagascar fit with generic 2012 and 2015 funding models?

Role of environmental funds

There is currently just one national environmental fund in Madagascar to provide sustainable finance for the country's protected areas. If the bulk of Madagascar's REDD+ projects continue to be in the core or buffer zones of protected areas, this fund may present a suitable vehicle for managing and distributing REDD+ funding and revenues. However it may be decided that this fund should remain focused on non-REDD+ protected area finance, which would mean that new environmental funds would need to be established as part of or linked to the designated national REDD+ authority. If new environmental funds are required, it would likely take in excess of 2 to 3 years to establish them. Even if these are already planned, it would not be until 2013 that they begin to play a major role in REDD+ fund management in Madagascar. The target year for REDD+ readiness outlined in the R-PP is 2013 and this could limit the role of new environmental funds in the readiness process.

Role of state budget/sector ministries

There is a strong possibility that REDD+ funding would be directed to state budget and sector ministries, with MEEFT and the MoF being potential recipients. ONE and MNP may also be eligible for receiving funds directly. Bearing in mind that Madagascar's R-PP is yet to be accepted it is likely to be 2-3 years before REDD+ capacity building funding begins to flow at scale. In 2015 there may be REDD+ revenue being directed to the government although it remains to be seen what institutional structure will be used to manage and disburse these funds.

Individual REDD+ project/portfolio funds

Currently there are no REDD+ project/portfolio funds in place in Madagascar although it is important to note that one of the objectives of the Makira project is to identify sustainable financing mechanisms for the protected area. This could possibly include a project level fund mechanism. If donors are investing into multiple projects in Madagascar (e.g. The World Bank) then there may be interest in establishing project portfolio funds. Conversely project developers with multiple projects may find it easier to attract funding and to manage fund distribution between projects if a collective project fund is established.

National capacity building programmes

Madagascar has only very recently begun to develop its national REDD+ strategy and as such most project activity is focused on the 'demonstration' of the feasibility of REDD+ and an exploration of the REDD+ agenda could fit with existing forest management structures. This makes it likely that the national REDD+ capacity building effort will continue at scale until and possibly beyond 2013, at all levels of government and civil society. This will be particularly important as REDD+ projects expand outside of Madagascar's protected areas without track records of community based conservation and management by international and national NGOs.

Active voluntary REDD+ projects

Whilst there are a number of active voluntary REDD+ projects present in Madagascar the growth of active projects on a national scale is likely to be reliant on there being the appropriate regulatory clarification on whether a project or national approach will be implemented in Madagascar. When this has been decided, new project developers may require guidance on what the role of individual projects would be in a national REDD+ framework. In addition, the calculation of forest carbon quantities in Madagascar has only to date been achieved at a project level although some projects such as FORECA are contributing to carbon valuation methodologies and PHCF are assessing carbon stocks using Lidar technology which may be scaled up to a national level. These may be applied to other forest ecosystems in Madagascar which could help inform and catalyse the planning process for new REDD+ projects.

Next steps – Points for national discussion

Government

Comments received on the current R-PP should be discussed between the REDD+ technical committee and the other existing REDD+ readiness agencies, including the Ministry of Forestry and the Environment, the National Office for the Environment, Madagascar National Parks, the Ministry of Finance and Regional governments. This could influence the institutional arrangements that are proposed in the final R-PP planned for submission in November 2010. Alongside this it will be important to clarify what mechanisms can be put into place to improve the chances of the REDD+ agenda being maintained between administrations in the light of the political instability the country faces.

Discussions between the Ministry of Territorial Planning, the Ministry of Decentralisation, the Ministry of Mines, the Ministry of Population and regional government would also help to clarify how public-owned land and communal land rights claims will be managed as the number of REDD+ projects increase.

Finally it will be important for the government to discuss the development plans for the Madagascar Foundation for Protected Areas and Biodiversity and whether or not there is scope for the establishment of other independent national, regional or local environmental funds to add to REDD+ funding and revenue capacity.

Civil society, indigenous and community groups

The international and national NGOs leading or contributing to existing REDD+ projects in Madagascar are likely to play an integral role in providing training and raising awareness of REDD+ within government and in local communities, provide technical resource and expertise in GIS mapping as well as managing REDD+ projects and funding. It will be important that these groups maintain engagement with government and each other as REDD+ develops, to maintain a detailed impression of how some of the challenges around political instability, community forestry, REDD+ awareness, land tenure and local fund management are being dealt with. Regardless of the role that environmental funds play in the national REDD+ process, they may have valuable experience to share regarding the management of large funds in a transparent and accountable manner that builds donor and investor trust.

Project developers

Project developers may be able to provide first-hand information to government, NGOs and other stakeholders on how political instability and land tenure disputes are impacting project growth in Madagascar. These developers are also likely to have insight into how indigenous and community groups are engaging with REDD+ and the growth of local capacity to manage REDD+ funds.

REDD funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase Madagascar's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness

Outstanding issues with REDD+ funding in Madagascar	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Development of the CT-REDD, establishment of new REDD+ readiness institutions	Partly	The REDD+ Technical Committee (CT-REDD), Ministry of Environment, Forests and Tourism (MEEFT), The National Office of the Environment (ONE), Madagascar National Parks (MNP), the Ministry of Finance and regional governments.	Evolution of CT-REDD into the Platform of Coordination for the Preparation of REDD+ (PCPR), creation of UP-REDD the REDD+ Executive Bureau (BER) and Trust Agent for REDD+ readiness.	Is there a potential role for the Trust Agent for REDD+ readiness being established as an environmental fund?
Community engagement and awareness	Partly	Central and provincial government and NGOs	Many existing projects incorporate a strong emphasis on community engagement and awareness including training and collaborative management. However there appears to be room for greater inclusion of forest dependent communities in the project monitoring and establishment and in government level REDD+ development.	How can forest dependent communities be more actively engaged in the development of national REDD+ policy? Will community representatives be engaged in the review process for the national REDD+ strategy?
Potential land tenure related disputes	Partly	Central and provincial government, NGOs, private and customary forest landowners.	Continuation of cross-ministerial effort being made to reform laws relating to private versus state land ownership, the protection of protected areas and the protection of community land rights.	What could the role of GCF be in facilitating communal REDD+ ownership?
Institutional and local capacity to manage REDD+ funds	Partly	MEEFT, Ministry of Finance, NGOs, local community associations	Many existing REDD+ projects incorporate community training and capacity building and projects such as COFAV have established small grant funds for alternative economic activities such as ecotourism. However these grants are still NGO-managed and the next step is to achieve widespread project fund management by communities themselves.	What community level structures can be put in place to manage project level funding? How will this differ across communities and regions?
Expansion of projects outside the new protected areas network	Being fully addressed	MEEFT, ONE, international and national NGOs, project developers	Continuation of project development outside of the existing protected area network including the PHCF project and the FORECA project to provide technical information on forest definitions, monitoring forest change, socio-economic drivers of deforestation and effective capacity building activities.	How can information sharing be formalised and leveraged from PHCF, FORECA and other projects to have maximal impact on REDD+ project development in un-surveyed areas of Madagascar?

Peru

REDD+ funding
frameworks, barriers to
funding future REDD+
activity and next steps for
achieving REDD+
readiness

1. Background on Peru and REDD

Deforestation

Approximately half of 128 million hectares of Peru's land area is forested and according to the United Nations Food and Agriculture Organisation (FAO) deforestation rates are currently between 0.35 to 0.5% per year. Compared with other countries in the region, this is relatively low. That said, in a study by de Soares-Filho et al¹⁷⁴ it was predicted that over the period 2010-2019 under a business as usual scenario, Peru will experience a total loss of 1.77 million hectares of forest habitat.

Deforestation is largely due to conversion by subsistence agriculture with farmers from the highlands migrating to lower forested areas. Stakeholders consulted during this study believed the majority of logging activity in Peru to be illegal. For example the Research Institute of the Peruvian Amazon estimate that 95% of mahogany logged in the country is harvested illegally. Enforcement is also limited, with logging of valuable timber species occurring even within national protected areas. The impact of legal, large-scale industrial logging companies on deforestation in Peru is limited, due to the fact that most commercial logging in Peru is selective, which results in degradation as opposed to outright destruction of forest habitat.

The mining industry is also believed to be both directly and indirectly responsible for a significant proportion of deforestation in Peru, clearing floodplain forest and constructing roads which facilitate encroachment by subsistence farmers. Public development projects such as the construction of the 'transoceanic highway' may also accelerate deforestation rates in the south-east of Peru, facilitating further settlement and forest clearance in the area.

Unprotected areas

Loreto and Amazonas states in the North of Peru contain large unprotected areas of high biodiversity. Deforestation rates in these areas have increased by 355,885 and 307,520 hectares per year respectively¹⁷⁵ from 1990 to 2000, the highest change rates in the country. Madre de Dios in the South East of Peru was also highlighted as containing large unprotected areas of high biodiversity value that are threatened by development pressures.

As an illustration of this trend, there are now 52 active hydrocarbon concessions covering over 41% of the Peruvian Amazon, up from only 7% in 2003. A second stage of hydrocarbon exploration means that 72% of the Peruvian Amazon is zoned for oil and gas exploration¹⁷⁶. Other significant threats include the construction of new roads and highways and illegal mining operations.

Protected areas

Protected areas are of relevance to potential REDD+ projects in Peru for two main reasons. Firstly, conservation and enforcement resource constraints in the protected area network in Peru mean that illegal encroachment is still a threat. REDD+ projects within protected areas could therefore still provide 'additionality' by strengthening protection capacity and reducing this encroachment. Secondly, these protected areas were considered by consultees as potential 'pilot' project areas where legal frameworks are already in place for the establishment of conservation projects. Figure 21 below shows protected areas in Peru, and illustrates a protection emphasis on Amazonian forest regions, particularly Madre de Dios (containing the highest proportion of protected areas in the Amazonian region), Ucayali, Cusco and Loreto.

174 Soares-Filho, B., D. Nepstad L. Curran, G. Cerqueira, R. Garcia, C. Azvedo, A. McDonalds, P. Levebvre y P. Schlesinger (2006). "Modelling conservation in the Amazon basin." Nature 440.

175 According to Peru's Forest Carbon Partnership Facility project idea note (R-PIN) submitted to the World Bank

176 Finer, M and Orta-Martinez, M, 2010 A second hydrocarbon boom threatens the Peruvian Amazon: trends, projections, and policy implications. Environmental Research Letters, 2010; 5 (1)

Figure 21: Protected areas of Peru (MINAM, 2010)



Government policy principles and initiatives within Peru supporting future REDD+ activities

There is a stated aim by the Peru Ministry of the Environment (MINAM) to protect 80 million hectares of currently unprotected habitat. This feeds into the wider goal of increasing the overall area of natural habitat in Peru. Point 5 of Peru’s national biodiversity objectives explicitly states that market based instruments to increase private sector investment in biodiversity conservation should be promoted.

In 2009, the Peruvian Minister of the Environment made a public announcement stating that the national policy was to aim for no net deforestation, yet consultations suggest that this had not been clearly defined by the Ministry or translated into implementation plans. Stakeholders could not identify any other existing commitments to, or evidence of actual, 'caps' on impacts from development.

Peru has been active in promoting REDD and its Readiness Plan Idea Note (R-PIN) has been accepted by the World Bank's Forest Carbon Partnership Facility (FCPF). Peru proposed a budget of USD 5.4m within this R-PIN to be implemented from 2009-2013. Peru's first draft RPP was submitted April 2010. The overall finding of the World Bank TTAP Review of this document in June 2010 was:

"The Draft R-PP does yet not provide a sufficiently solid basis for the Peruvian government to move into the direction to implementing readiness activities. The proposal needs to be improved in order to address the real potential of REDD+ in Peru."¹⁷⁷

A second draft of the R-PP was submitted to the FCPF in August 2010, addressing comments received after the submission of the first draft. Several technical workings from the National REDD roundtable worked with MINAM to help to incorporate concerns from civil society and indigenous groups into the second draft.

Recent consultations suggest that REDD Readiness in Peru has made slow progress to date and that the Peruvian government has not yet managed to allocate substantial resources to REDD activities for a number of reasons, including hesitancy over the direction of international discussions. However there has been the establishment of a National Roundtable for REDD, and the REDD Working Group within the framework of the National Climate Change Commission was set up by MINAM in May 2009. This is a formal forum created to lead the development, participation, consultation and REDD strategy implementation process in Peru.

The Peruvian government was recently successful in its application for grant funding from the Moore Foundation for USD2m for REDD capacity building projects. These funds and those requested from the FCPF were intended to be used for capacity building needs in the short term, over which funds from other entities are expected to be leveraged in order to continue with REDD preparation and implementation activities.

We understand that the Peruvian government is pursuing a 'nested approach' to REDD, which allows local project activities (market or grant funded), sometimes called 'early REDD initiatives', to go ahead alongside the development of sub-national level reference scenarios (i.e. covering the San Martin and Madre de Dios regions). These will help inform the design of a national baseline and Measuring, Reporting and Verification (MRV) system for Peru.

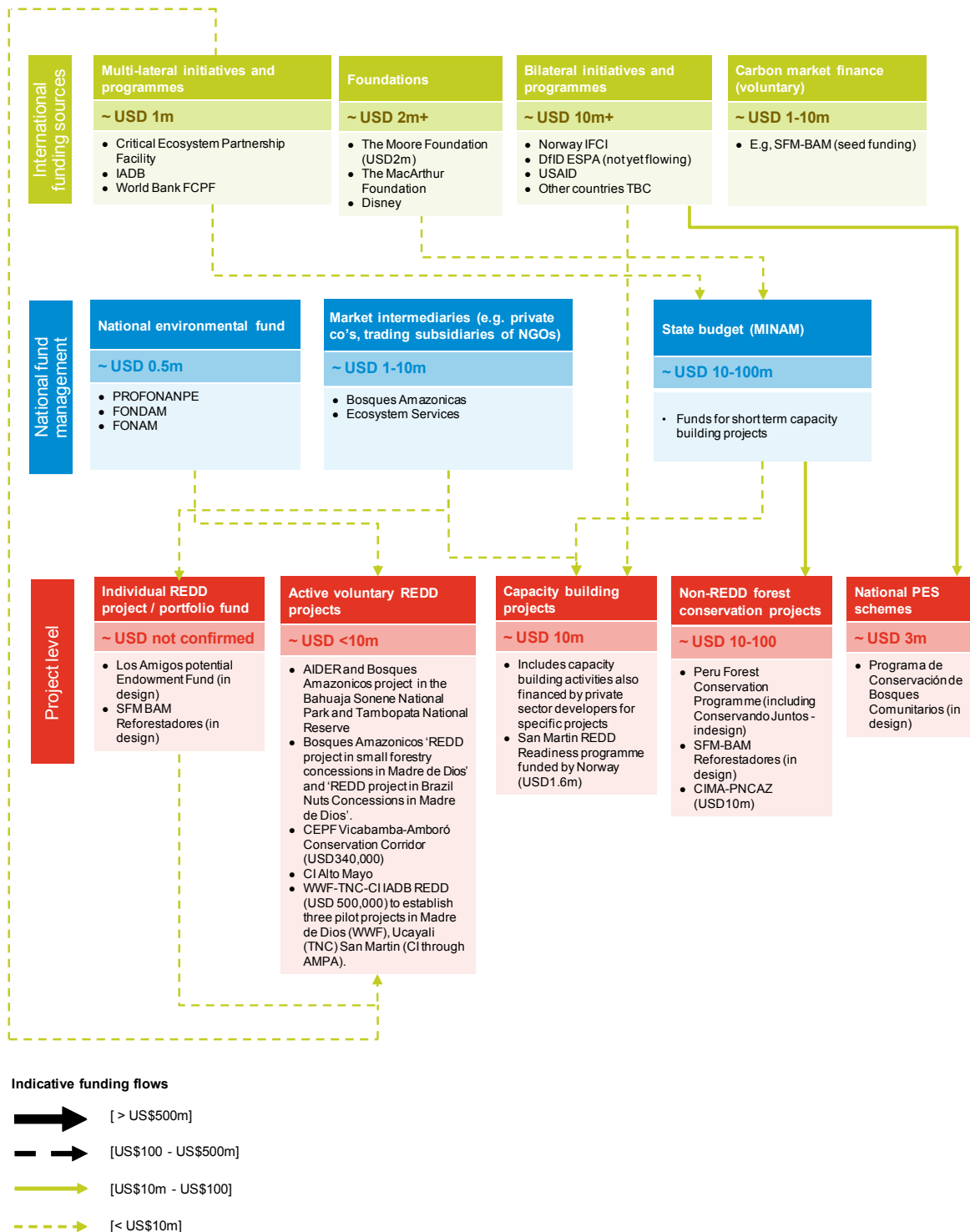
¹⁷⁷ Preliminary Review of DRAFT R-PP: Peru. 4 June 2010.

2. Current REDD+ funding in Peru

This section explores the current arrangements within Peru for REDD fund disbursement focusing particularly on the role of Environmental Funds within this. Diagram 1 below summarises the routes through which REDD funding from international sources flows into and within Peru before reaching actual REDD projects and REDD-related capacity building activities. The actors within it are discussed in more detail below.

Figure 22: Peru - Current national funding flows for REDD+ related activities

NB: The diagram only includes those projects and initiatives we have been able to obtain funding data on.



*CBD, (2010) Centre d'échange d'information de Madagascar

The rest of this section provides commentary on the elements represented in the diagram.

International funding sources for REDD and national forest conservation programmes

In the diagram above we have grouped funding sources and the institutions or programmes currently relevant to Peru as follows:

Multilateral initiatives and programmes

This includes the World Bank Forest Carbon Partnership Facility, the Inter American Development Bank and emerging multilateral forest funding programmes.

Bilateral initiatives and programmes

The UK Department for International Development (DfID) Ecosystems Services for Poverty Alleviation (ESPA) fund is a recently launched £40.5m funding commitment for innovative projects and research related to ecosystem services (including forest carbon sequestration and emissions reduction). Proposals are invited for Programme Framework Grants – innovative project funding up to GBP250k; and Partnership and Project Development Grants - up to GBP50k for preparation of applications for research consortium grants (GBP500k – GBP5m). It is likely that several million pounds will be made available for activities within Peru related to REDD+ and it would appear such funds will be transferred direct from the UK DfID to project grant recipients (see www.itdg.org.pe/novedades.php?idcate=1&id=128). This includes debt for nature swaps - see below under FONDAM description.

Foundations

These are discussed in several places later in this report. Most recently the Peruvian government was successful in its application for grant funding from the Moore Foundation for USD2m for REDD capacity building projects.

Carbon market finance

Currently from voluntary markets.

National relevant fund management institutions

Consultations identified several existing institutions and structures currently involved in relevant fund management and disbursement activities at a national level:

Fondo para Áreas Naturales Protegidas del Perú (PROFONANPE)

PROFONANPE is the Peruvian Trust fund for National Parks and Protected Areas. This is a not for profit, private trust fund. Established in 1992, the board of directors comprises representatives from the private sector, government and NGOs. PROFONANPE funds projects in the buffer zones of protected areas (PAs). There are no restrictions in theory on where the fund can accept funds from (e.g. bi and multilateral agreements, foundations, private sector) subject to compliance with anti money laundering requirements. More information on PROFONANPE is available at: www.profonanpe.org.pe/index.html. See also point 2 under FONDAM below.

El Fondo de las Americas (FONDAM)

This is a private not-for-profit organisation with several Peruvian ministries, and USAID, represented on its board. FONDAM is the second largest 'environmental' fund in Peru, managing approximately USD 45m. Funding sources include debt swaps between Peru and the US government, of which there have been three to date:

The Enterprise for the Americas Initiative (EAI) account housed in FONDAM (which also includes grants for childhood health and survival) signed in June 1997. Through this agreement, Peru bought back USD177 million of debt at a cost of USD57 million. As part of the transaction, Peru also agreed to endow a Fund with USD23 million in local currency.

The first US Tropical Forest Conservation Act (TFCA) - Peru account, housed in PROFONANPE, was signed in 2002. Under the agreement, The Nature Conservancy, Conservation International and WWF committed a total of USD1.1 million. The US government allocated USD5.5 million to cancel a portion of Peru's debt, and Peru committed to providing the local currency equivalent of approximately USD11 million for tropical forest conservation over 12 years.

The TFCA Fund has prioritised its intervention in 17 protected areas that belong to the National Natural Protected Areas System (SINANPE).

The two countries signed agreements in September 2008 to reduce Peru's debt payments to the US by USD20 million. In return, Peru has committed funds, which will generate USD25 million over seven years, to support grants to protect the country's tropical forests. Funds generated by the debt-for-nature programme will help Peru protect tropical rain forests of the southwestern Amazon Basin and dry forests of the Central Andes. This second TFCA-Peru account, is housed in FONDAM.

FONDAM works mainly with NGOs, who reach communities and disburse money locally. Approximately 70% of funds are to be used for environmental projects, with the remaining 30% to be spent on childhood health and education projects. More information on FONDAM is available at: www.fondoamericas.org.pe

The National Environmental Fund of Peru (FONAM)

This fund aims to support financing of projects especially Clean Development Mechanism (CDM) projects, and is also the national focal point for CDM projects. The Minister of the Environment is the Chairman of FONAM, which was founded approximately 10 years ago. FONAM does not actually disburse funds but rather helps projects build capacity and access other sources of funding. In its own words: "We give support for the financial design of carbon projects, serving as a bridge between national and international financial institutions and the national economic agents or project developers." www.fonamperu.org/default.php .

Market intermediaries

A leading example within Peru is Bosques Amazonicos which is investing its own funds into projects and acting also as a carbon credit trading entity targeting the voluntary carbon markets.

REDD+ funded activities

This project list is not exhaustive. Capacity building projects e.g. around regional MRV systems, are discussed later in this report.

Table 8: REDD+ funded activities in Peru

Lead organisation, project name	Project details	Type
The Los Amigos project (ACCA and Bosques Amazonicos)	This involves Asociación para la Conservación de la Cuenca Amazónica (ACCA) managing a conservation concession created with the permission of Los Amigos state. A challenge has been to secure funds in order to carry out capacity building activities with local communities and to implement the project. ACCA has involved Bosques Amazonicos to provide initial funding for project costs in exchange for rights to a certain volume of credits. An endowment fund is in design to pay for conservation costs of the concession in the future. A share of carbon credit related revenues from this project is planned to feed into an endowment fund until the fund value reaches USD10m. At that point the endowment is expected to cover the concession management costs in perpetuity. This model was felt to be appropriate particularly as there are no communities residing within the concession area itself requesting immediate payment streams. We understand that the intention is to use PROFONANPE as a trust fund manager and a 'special window' facility developed within PROFONANPE to manage the eventual USD10m funding for this project. The fund management activities would then be controlled by all parties - PROFONANPE, Bosques Amazonicos and ACCA. It is not yet clear how much of the fund will go directly to the project and how much into management costs. ACCA are also conducting research to find the best way to distribute revenue from REDD+ carbon credit sales.	Emissions reduction project / funding mechanism

Lead organisation, project name	Project details	Type
Bosques Amazonicos – REDD project in small forestry concessions in Madre de Dios and REDD project in Brazil Nut Concessions in Madre de Dios)	<p>The REDD projects are built on two main components: i) the protection of forest areas under risk of deforestation by funding activities such as protection, control and monitoring of the project area and ii) working with and financing local communities to carry out development projects that will provide them with sustainable sources of income and that will reduce the pressure on the existing forest. The local concessionaires receive a share of the revenues of the carbon credits. All assets financed by the project will be majority-owned by the concessionaires.</p> <p>In the case of the REDD project in Small Forestry Concessions, the development activities aimed at reducing emissions and protecting carbon reservoirs include sustainable logging, FSC certification for the concessions, reforestation of pastures and secondary forest and the establishment of a sawmill.</p> <p>In the case of the REDD project in Brazil Nuts Concessions, the development activities include processing the nuts in a newly constructed plant and the commercialization of the product.</p>	Emissions reduction project / funding mechanism
Bosques Amazonicos – The Campo Verde project.	This is the first native species commercial reforestation project to be validated under the Voluntary Carbon Standard Association's (VCSA) process.	Emissions reduction project
AIDER and Bosques Amazonicos	Concession agreement to partially manage operations in the Tambopata National Reserve and the Bahuaja-Sonene National Park in Madre de Dios. Their roles will include biological monitoring, research and REDD components. BAM have agreed with the government to finance the project for 7 years in return for carbon rights.	Emissions reduction project
ASESORANDES and Ecosystem Services	Sustainable community management of the forest and its resources in the region (Bélgica Native Community in Madre de Dios)	Emissions reduction project
Conservation International (CI)	In Madre de Dios, CI is providing technical advice to the Critical Ecosystem Partnership Fund (CEPF) and FONDAM for the development of REDD project for indigenous groups as part of CEPF consolidation of the Vicabamba-Amboró Conservation Corridor. FONDAM are providing a 1:1 match against CEPF funding, making a total of USD340,000 to fund financial sustainability mechanisms, including REDD project start up activities. The CEPF itself is funded by the governments of Japan, France, the Global Environment Facility, CI, the World Bank and the MacArthur Foundation.	Emissions reduction project
Conservation International	The Alto Mayo Conservation Initiative in the San Martin, Alto Mayo region, is being developed and implemented by a consortium of five NGOs led by CI and funded 1:1 by Disney and CI's Conservation Stewards Program (i.e. Mulago Foundation and GEF). Project funding covers PDD and conservation agreements with local communities as a mechanism for the distribution of benefits from carbon offset sales.	Emissions reduction project
Conservation International / Amazonicos para la Amazonia (AMPA)	Approximately 100km south of the Alto Mayo project, this consortium project involves AMPA working with a communal conservation concession. This is funded by the Inter American Development Bank (IADB).	Emissions reduction project
SERNANP Mitigation and Adaptation Climate Change (MACC) project	This is funded by KfW through PROFONANPE, and includes REDD projects in the national protected areas of Selva Central (e.g. El Sira and Yanachaga)	Emissions reduction project
Sierra Divisor REDD Project	IADB is providing seed funds for TNC for a REDD project in Sierra Divisor (Ucayali) and for WWF in Madre de Dios.	Emissions reduction project
Green Oxx	Green Oxx is providing finance for the Madre de Dios, Maderera Río Acre S.A.C. and Maderera Río Yaverija S.A.C REDD projects.	Emissions reduction project

Peru

Lead organisation, project name	Project details	Type
Peru Forest Conservation Programme / Conservando Juntos Programme	This is designed to help achieve a zero deforestation rate by 2020 and REDD+ projects might be a part of this. The programme involves direct payments to indigenous people to preserve forests and its current scope allows for opportunities to collaborate and support REDD projects. The programme includes a new system of payments for ecosystem services under design at the time of writing, which will target 10m hectares of Peruvian forest, and will pay local people money to conserve forest by agreement, including through private and community payments. We believe funding committed to this already is around USD3m. The initiative consists of an environmental service compensation system and the promotion of economic activity based on forest conservation and management, ecotourism and organic production. It is expected to receive funding from five European and certain Asian countries, for an estimated amount of USD 140m.	Relevant forest conservation mechanisms
CI and Asociación Ancash - Polylepis Project	This is currently considering the use of a trust fund. This project has been established in Peru in the Central Andes for approximately 5 years partnering with Compañía Minera Antamina S.A., a large copper mine. CI and Antamina have 'conservation agreements' developed by CI and local communities for conservation activities, such as forest protection, in exchange for benefits including cash and technical assistance ¹⁷⁸ . Matching funds from the WB-GEF and Antamina provided the remaining funds. Asociación Ancash is a foundation created by Antamina.	Relevant forest conservation mechanisms
AIDER	Deforestation prevented through FSC certified sustainable forestry in indigenous communities in the Peruvian Amazon (Ucayali Region) in Madre de Dios (Maderacre y Maderyja).	Relevant forest conservation mechanisms
Centro de Conservacion, Investigacion y Manejo de Areas Naturales- PNCAZ - San Martin Cordillera Azul project.	This project has received USD10m since 2003 from the United States Agency for International Development (USAID), Moore Foundation, and MacArthur Foundation. The management agent (CIMA – PNCAZ) receives and manages grant payments, making local payments for salaries for park and staff, a planned future fund for sustainable enterprise and land management, and activities performed by rotated staff without contract. CIMA actively involves members of the indigenous communities living in the buffer zone of the park within conservation activities and lessons learnt from this experience could be important for the involvement of indigenous communities in REDD+.	Relevant forest conservation mechanisms
USAID Poverty Reduction and Alleviation (PRA) program support for certified sustainable forestry and poverty alleviation projects	Working with Chemonics International, USAID provides support for sustainable forestry, and certification of privately held and indigenous community forest concessions. The programme has provided technical assistance for the certification of 83,000 hectares in FY07 and 95,000 hectares in FY06. For more information on this see: www.usaid.gov/our_work/environment/climate/country_nar/peru.html	Relevant forest conservation mechanisms

178 The methodology includes conservation actions beyond forest protection such as improving fishing or hunting practices, reforestation etc and benefits can include other benefits apart from cash and technical assistance. More information on 'conservation agreements' more generally is available at www.conservation.org/sites/csp/about/pages/about.aspx

3. Potential barriers to funding future REDD+ activity at scale

Private REDD+ projects in Peru have been successfully established with some already selling carbon credits on the international voluntary market. These projects have also provided important lessons on the practical implementation of REDD+ and made an important contribution to the national REDD+ readiness effort. Whilst progress is being made at a sub-national level and in the government REDD+ planning process, the following barriers may potentially hinder national-scale level REDD+ investment in Peru post-2012.

Community engagement and support

Consultation identified several policies, regulation and other issues which require review in order to better support the development of effective REDD+ financing activity in Peru. It is well recognized by many organizations working within Peru that foremost amongst these issues is that a national prior consent process with indigenous communities which will allow their involvement in the REDD+ discussions is crucial to the success of REDD+ in Peru¹⁷⁹. Associated with this is the need to fulfil pending titling of indigenous communities to ensure equitable distribution of REDD+ benefits in their territories¹⁸⁰.

There is real uncertainty over how indigenous groups will react to large scale REDD projects and the substantial funding flows which will pay for project activities in exchange for 'their' carbon rights. Consultations suggest that there is very little if any work which has explored how to ensure equity in payments to indigenous communities in Peru. This was felt to be a huge issue and one which NGOs had little experience in.

Given this document's focus on financing and environmental funds we have not discussed these issues in depth but nevertheless acknowledge these are crucial to future REDD+ activity.

Land assets and related laws

70% of Peruvian forest land is State-owned and 30% belongs to communities or lies in urban areas. Regardless of who has land title, resources such as forest carbon are the property of the State. Although Peru's regulatory framework is comprehensive in terms of exploitation and conservation of forest resources, there are still no regulations that clearly establish the beneficiaries of ecosystem service rights, including REDD+ credits. For example, regarding forest concessions, the Forestry and Wildlife Act uses several concession types including concessions for conservation, but there is no clarity on the role concessionaires would play in the establishment of REDD+ projects let alone if they could be beneficiaries. Likewise, the potential to execute REDD projects in Protected Natural Areas exists for certain organisations with specific management agreements, yet as with concessions, there is no clarity on whether institutions in charge of co-managing such areas could hold rights to environmental services.

At present, any REDD+ project developers planning on generating revenues through sale of carbon credits have to negotiate novel contracting arrangements and/or revenue sharing agreements with the local or national governments. As there is currently no legal basis for REDD revenue sharing in Peru, this presents a real challenge to developing larger scale REDD activities, since private sector ownership of REDD+ credits would be a prerequisite of mainstream capital market participation in REDD markets.

The Environmental Services Provision Act which is under review in the Peruvian Congress at time of writing, could potentially allocate rights to environmental services to private owners and investors as it includes a definition of environmental services, suppliers, beneficiaries, compensation processes and government role. Regarding protected areas, the National Protected Area Agency (SERNANP) currently has the legal power to determine which environmental services (e.g. forest carbon) provided by protected areas are owned by whom. The Ley General del Ambiente Article 94.2 D Leg 1079 Article 2 states that MINAM through SERNANP has authority over ecosystem services and private sector developers of REDD+ project will need to clarify ownership of biocarbon assets.

¹⁷⁹ The FCPF TTAP Review of the RPIN for Peru in 2008 noted the lack of consultation with local inhabitants and indigenous communities of Peru in preparing that document (See Consolidated External TTAP Review, FCPF).

¹⁸⁰ We were informed that recent IADB estimates show 30% of indigenous communities still need to secure their land titles.

Land rights

There is a consensus that land owners often experience delays/and or difficulties in asserting their land rights through the judicial systems. This is especially the case where there are competing claims, for example where settlers claim de facto land rights. These problems are particularly acute in areas with sparse government presence such as highland Andean communities or in remote Amazonian regions, which are also areas with high ecological potential for REDD+. The consequences of this are that project developers will need to take precautions to ensure that they have clear land title free of overlapping rights.

The most important parts of the country for REDD+ are likely to be the Amazonian regions, covering areas around or within indigenous reserves. This presents opportunity for indigenous communities to develop and economically benefit from REDD+, but there are also risks of exploitation by external project developers.

Stakeholders expressed concerns that indigenous communities have only 'session in use' rights (usage rights) defined within deed documentation and lack land ownership or title to enable them to determine how they manage and use land in the longer term. Where indigenous communities have usage rights only it may be difficult to guarantee the longevity of any community led REDD+ project credits, posing a barrier for indigenous groups to develop REDD+ projects. However, there are NGO/Indigenous community partnerships that are currently successfully protecting forest habitat in the Amazonian region, such as the Centro de Conservacion, Investigacion y Manejo de Areas Naturales (CIMA) Cordillera Azul project and this could provide a model for involvement of indigenous communities in further projects.

Funding laws

For NGOs in Peru there are no restrictions on where they can receive funds from, although certain NGOs will need to register with Asociación Peruana de Consumidores y Usuarios (ASPEC) or Asociación Peruana de Cooperación Internacional (ACPI) to claim tax allowances. Our consultations suggest that at present there are restrictions on regional governments establishing trust funds from the proceeds of corporate taxes. We also understand that in protected areas any Peruvian PES schemes may be limited to 20 year management contracts in by Peruvian law.

Political risks

Three key risks relating to national politics apply to any potential REDD+ project developers within Peru:

- The charitable status of organizations can be put under review and potentially changed with changes in government.
- A process of regional decentralization is happening in the Peruvian public sector at the same time that responsibilities for permitting and environmental enforcement are being migrated from sector specific ministries (e.g. the Ministry of Energy and Mines) to MINAM. There is uncertainty over which authority is responsible for enforcing and regulating REDD+ activities.
- The state also reserves the right to claim private land and change land use 'for the benefit of the welfare of the country' according to the most recent Peru Forest Act.

These risks could make REDD+ projects vulnerable to political change and the policies and actions of any future government opposed to market mechanisms for conservation. Given that there have been recently, and are likely to be in future, changes to the Peruvian government and state-related institutions, these risk are relevant to CSOs and project developers working to establish and manage REDD+ projects.

Partial species and habitat inventories

Whilst there are isolated examples of detailed data on specific areas of conservation importance in Peru, there are still large areas of ecological importance outside the protected area network where species and habitat data is partial or non-existent. This could pose a challenge for potential REDD+ developers and regulators, making it difficult to select sites and determine biodiversity related REDD+ credit quality (e.g. the Climate, Community and Biodiversity Alliance – CCBA - Gold Standard eligibility).

To help address this challenge there are a number of organisations within Peru with relevant expertise which might be able to assist project developers including:

- The National Agrarian University – Peru’s leading university in the agricultural and forestry sciences, it has been involved in ecosystem valuation projects and could help in the assessment and monitoring of REDD+ projects
- Instituto de Investigaciones de la Amazonía Peruana (IIAP) - focused on scientific and technological research for the development and sustainable use of biodiversity in the Amazonian region
- National Forest Herbarium Peru – could provide technical support in compiling botanical inventories for projects
- University of Missouri Kosñipata Ecosystem Project - research group on the ecological diversity and processes in the Kosñipata valley in South-eastern Peru. Could provide expertise in ecological surveying and species inventory

4. Making REDD+ a success in Peru

Capacity building

Needs in Peru around capacity building are diverse and CSOs in particular have many potential key roles to play. For example, most recently, a USD 1.6 million CI - NORAD 2010 Climate and Forest Initiative REDD readiness initiative for San Martin expected to start June 2010, will include:

- Deforestation baseline and methodology development for the San Martin region that can be scaled-up nationally and used for standard-setting
- Application and training of OSIRIS and GIS decision tools for land use planning and national REDD+ policy
- Design of an MRV system for carbon and deforestation levels that can serve as a model for the national MRV system and used for standard-setting
- Process of informed consent developed with indigenous federations and communities, and key stakeholders across the region of San Martin that can be duplicated nationally
- Training and engagement of indigenous groups and local communities in national level and sub national decision making processes related to the development and execution of REDD+ strategies.

A group of 11 private and public institutions, which are already working on REDD, have joined to develop a consensus on the regional deforestation baseline for Madre de Dios. The work that is being carried out includes interpretation of historic deforestation maps, modelling future deforestation scenarios and producing carbon stock maps. The initiative is aimed at producing a strong official deforestation baseline, applicable to international standards, and with government support¹⁸¹.

A WWF-TNC-CI IADB REDD project has also recently attracted USD 500,000 to establish three pilot projects with indigenous and local communities including one in Madre de Dios (WWF), one in Ucayali (TNC) and one in San Martin (CI through AMPA). This will involve support to indigenous peoples to develop a PDD pilot project. It is hoped FONDAM and regional governments will then support efforts to attract more funds.

There are innovative experiences in the northern Peruvian Amazon, such as those of the Nanay, the Biological Diversity of the Peruvian Amazon – BIODAMAZ project, and the Implementation of a Regional Conservation and Protected Areas System (PROCREL) project in Loreto that involved local communities actively and voluntarily in forest management initiatives. In addition to those CSO capacity building initiatives listed under REDD+ related projects earlier in this report, there is the Grupo REDD, a network of around 60 conservation organizations in Peru involved in the development of REDD initiatives in Peru.

Outside of the US, scientists at the Carnegie Institution's Department of Global Ecology have analyzed high-resolution satellite data covering most of the Peruvian Amazon. The Carnegie Landsat Analysis System (CLAS) was also formerly used in Brazil to detect logging activities there. CLAS is a satellite-based forest-damage detection system, which can penetrate the forest canopy layer to see the consequences of logging activities below.

Community and indigenous engagement and rights

It is acknowledged generally that capacity building in Peru has focused mainly on CSO or public sector organizational needs rather than on building the capacity of indigenous peoples and concessionaires. In order to allow Peru to progress towards large scale REDD activities nationwide it is crucial that CSOs are able to use their relevant experience in helping engage indigenous groups on REDD+ now. For example, the Centro EORI de Investigación y Promoción Regional is an NGO responsible for research and promotion of the inclusion of indigenous peoples in ecological conservation in the Southern Amazonian region of Peru. This could play a key role in raising awareness of REDD amongst indigenous groups. The Instituto del Bien Comun (IBC) and Centro for the Development of the

¹⁸¹ Andres Huby, personal communication (8th August 2010)

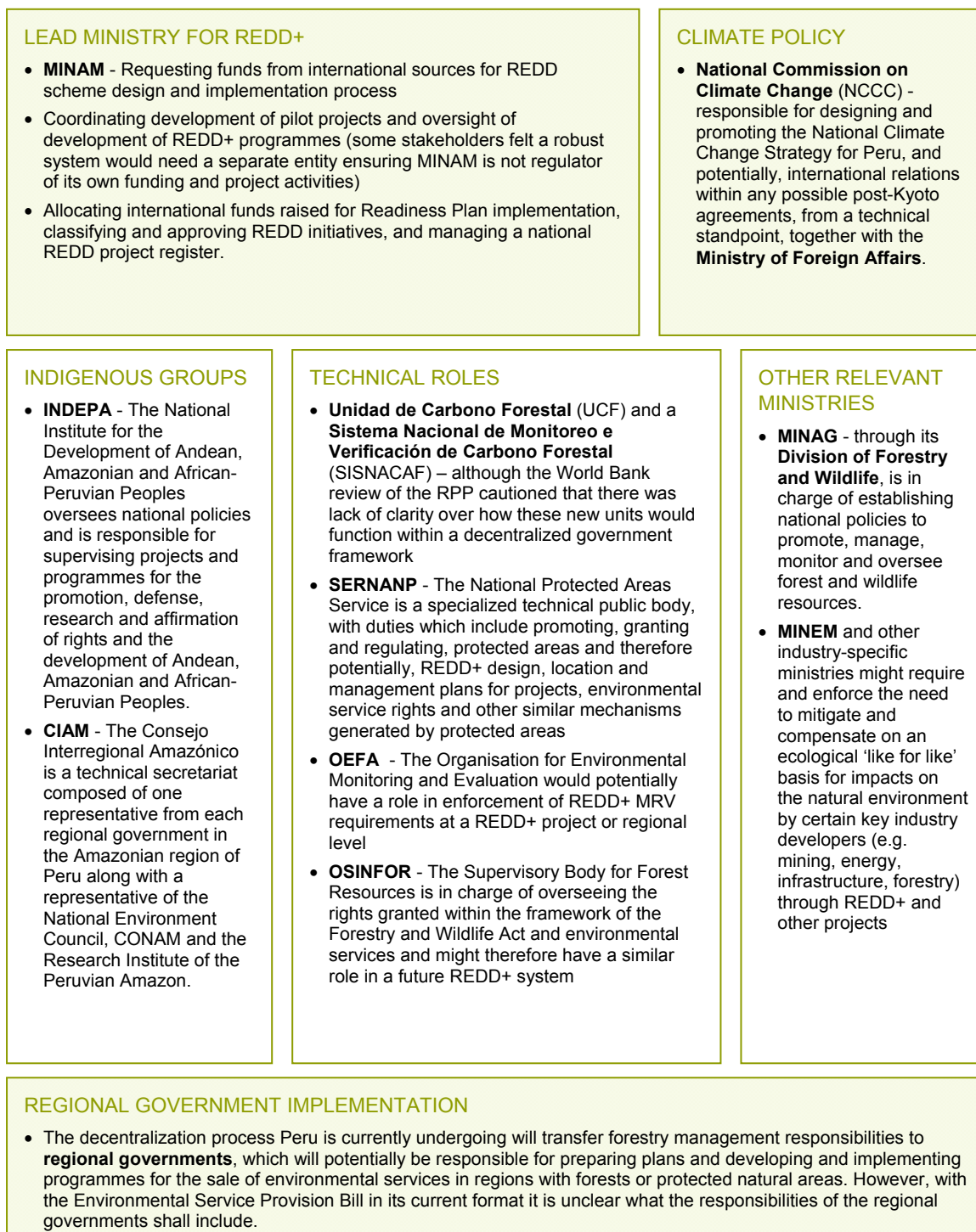
Indigenous People of the Amazon (CEDIA) both have experience in working on natural resource management issues in indigenous territories and conservation and indigenous rights issues relating to these.

Regarding indigenous rights and legal issues, La Sociedad Peruana de Derecho Ambiental (SPDA) has addressed regulatory constraints and issues within Peru relating to REDD+ activities. This includes some of the issues and challenges which indigenous and small scale project developers have faced in tackling the information gaps or understanding on points of legal clarity in applying for and setting up REDD projects in Peru. SPDA are also an example of a CSO with relevant insights to contribute to future REDD+ funding arrangements within Peru. Finally, Derecho, Ambiente y Recursos (DAR), established in 2005, DAR focuses on legal and political issues around environment and energy. Issues have included regulation and environmental impact assessments, indigenous rights and REDD, transparency in REDD processes, and the development of effective legal frameworks.

Institutional frameworks

Based on consultations, the following summary suggests potential roles which current and forthcoming government entities could have in a national REDD+ scheme.

Figure 23: Peru - Potential future government roles in a national REDD+ scheme



Managing funding flows

The draft Peru Environmental Services Act currently going through Congress refers to a possible new fund to be created for managing PES payments and that a fund structure similar to that of FONAFIFO in Costa Rica might be preferred. Consultations with stakeholders suggest this might not be necessary given PROFONANPE's track record and capacity. We understand that PROFONANPE has and continues to build its capacity to increase funds under management. PROFONANPE has to date raised USD120m and manages endowment, sinking and mixed funds (starting as sinking funds, then using accrued interest to create a new endowment fund). PROFONANPE believes it has the capacity to scale up activities significantly, but if required to manage funds over several hundred million dollars, would need additional capacity.

Our consultations have not revealed any significant barriers to increasing the REDD+ capacities of environmental funds within Peru. We understand it would be generally straightforward to set up REDD+ specific trust funds allowing for the time required to agree roles and functioning with all parties (e.g. 6 – 12 months to set up an endowment fund for example). In Peru there are four banks with trust funds units (e.g. Banco de Credito del Peru, and Scotia Bank) including specialists in trust fund management¹⁸².

Some private banks in Peru are apparently able to set up new structures such as social funds for mines relatively easily, and these have now managed several hundred million dollars in Peru. Within the Peruvian extractives sector in particular there are companies that have significant funds already budgeted for investment in sustainable development projects. For example Hunt Oil has committed around USD 3 million towards the management of the Paracas Marine Reserve. These are direct investments from companies in individual projects. More generally, there is currently a system in place in Peru where compensation funds paid by the mining sector are pooled into collective trust funds. For example Camisea compensation funding is managed by the PROFONANPE environmental fund. These compensation funds could provide models for the financing of future REDD+ projects.

Funding flows at present usually involve international funding moving into national fund management structures, and on occasion flowing directly to projects, for example the DfID ESPA fund will provide funds directly to projects. Also, there are funding sources originating for REDD+ activities from within Peru itself – not all funding is from international sources.

A key area of uncertainty in attracting increased private sector funding into Peru and elsewhere remains how private investors' funds and returns will be taxed and where. There are numerous discussions running in parallel between project developers, legal specialists and government stakeholders on this issue but no clarity at time of writing.

¹⁸² Given that certain banks such as Banco de la Nacion, COFIDE, and Caja municipales have national local level networks it may also be possible that such institutions could play a role in local REDD+ fund disbursement.

5. Conclusions and suggested next steps

How might Peru fit with generic 2012 and 2015 funding models?

Whilst it is difficult to accurately predict the future REDD+ funding framework in Peru, it is possible to compare the assumptions made in the generic 2012 and 2015 models against the likely role of environmental funds, state budgets, individual REDD+ project or portfolio funds, national capacity building programmes and voluntary REDD+ projects in Peru.

Role of environmental funds

There are a relatively limited number of environmental funds in Peru. Furthermore, these do not have direct experience in REDD, but have demonstrated institutional permanence, and the ability to handle a significant volume of funds. Funds under management may potentially be increased to the level which might be destined to Peru under Fast Start funding or other international sources in 2011-2015. Although some capacity increases might be required (e.g. a specialized REDD unit within PROFONANPE) these would not be significant issues. A more important question is whether or not PROFONANPE, FONDAM and other existing options have the required level of independence from the Peruvian government to satisfy donor agency expectations. Our consultations have not identified any particular reasons why such REDD fund vehicles would need to be located offshore.

Given the presence of existing large environmental funds operating across Latin America and South America, some stakeholders consulted suggested a regional REDD might be advantageous. This would have potential for more effective monitoring of transboundary projects and MRV systems but might deter donors and perhaps moving towards 2015 the private sector financiers who would want to manage country risk and have clear means of extracting investment returns at a country level.

Role of state budget/sector ministries

MINAM appears to be the only state agency receiving or applying for REDD+ funding for capacity development purposes. Funding from international and other sources is not generally flowing into environmental funds for REDD purposes. As funding levels increase this may not be an ideal arrangement for donor agencies who will want clear visibility over funds. Moving towards 2012 and certainly 2015 we might expect a national funding arrangement to provide capacity building funds to MINAM and other sector ministries but which ensures REDD funding coming into Peru is held separate from State budget.

Individual REDD+ project/portfolio funds

Private REDD+ projects are already playing an important part in informing the development of REDD+ in Peru and these projects will be a vital partner in the national REDD+ readiness effort. There is however limited local fund experience with REDD+ projects and some concerns have already been raised over the efficiency of funds in managing and distributing payments by local communities. At present there is not enough actual REDD+ project activity (versus REDD+ capacity building) to require any form of portfolio fund. Funding is tending to flow direct from funding agency to project management organisation to beneficiaries, however several organizations are exploring whether endowment funds can be used to provide long term financing mechanisms for specific projects.

National capacity building programmes

Various funds are being made available to support capacity building efforts in Peru particularly in regions such as San Martin and Madre de Dios. As more funds flow into Peru for this we might expect that conditions are included from donor governments which recognize the importance of building capacity and support from within indigenous communities across Peru. Achieving REDD+ at scale in Peru between 2011 and 2015 will be largely dependent on indigenous support and funding will need to be directed towards actively enabling this.

Active voluntary REDD+ projects

Our funding model assumptions for 2015 assume that countries will have significantly increased actual REDD+ emission reduction project activities, and that funding flows will similarly be flowing mainly into project versus capacity building activities. This might be the case in Peru in 2015, but stakeholders certainly see this currently as being highly unlikely by 2012. The REDD project activity landscape within Peru at present comprises a set of generally disparate

emission reduction projects with no national coordination. We might expect this to change as we near 2012 and this would of course help in attracting large private sector players to REDD+ opportunities within Peru.

Next steps - Consulting with relevant government institutions, civil society and project developers

Government

Many of the outstanding issues raised above are most relevant for MINAM, but also the Peruvian Treasury and finance ministries who will require robust analyses to support their own decisions regarding potential funding mechanisms for Peru. It would seem essential for the ongoing development of REDD readiness activities in Peru that MINAM directly and through its proposed new entities responsible for forest carbon matters takes a strong lead in coordinating the various stakeholder groups working heavily on REDD within Peru.

Civil society and indigenous and community groups

Through the national REDD working group, Peru already has a multi-stakeholder forum which brings together various CSOs and groups working closely with community groups. However our consultations did not identify any significant national activities engaging indigenous groups in REDD and there appears to be a lack of activities in this area. Consultation with indigenous groups is crucial to REDD+ development at scale.

Project developers

Our consultations with project developers revealed the significant challenges faced in establishing (implementing is not yet an issue at such early stages in Peru's REDD market) REDD projects on the ground. Project developers are working often separately to negotiate novel contracting arrangements in the absence of certainty of legal titles, revenue sharing rules and potential tax treatments. A potentially effective step which we are not aware has yet been taken, would be a mechanism in Peru for project developers to have regular opportunity to formally input into policy and institutional development to ensure these are fit for purpose and encourage greater REDD project activities.

REDD funding readiness – outstanding issues

The table below identifies the outstanding issues that require attention in order to increase Peru's readiness to manage and distribute REDD+ funding to achieve equity, efficiency and effectiveness.

Outstanding issues with REDD+ funding in Peru	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
The Peru R-PP requires significant improvement for FCPF acceptance	Unknown – the TTAP Review report was issued very recently	MINAM, NCCC, Peru REDD Working Group / Roundtable and other parties	There are a variety of roles CSOs can play in supporting the RPP development but efforts must be led by MINAM and NCCC. Many areas raised in the TTAP Review relate to areas in which CSOs have been working for some time and wide and meaningful engagement in R-PP development will likely result in a more acceptable submission to the FCPF.	<p>Are CSOs being encouraged to play an optimal role in the development of the RPP?</p> <p>To what extent have the concerns raised in the R-PP review been discussed amongst stakeholder groups and activities planned to address these?</p>
National level fund management arrangement for optimal management of international funding streams	Not visibly (i.e. in open fora)	MINAM developed the Environmental Services Provision Act currently being reviewed by Congress. It is unclear to what extent environmental funds within or outside of Peru have been involved in discussions on fund management.	The draft Act refers to a possible new fund to be created for managing PES payments. Consultations suggested this might not be necessary given PROFONANPE's track record and capacity. It may be that either existing institutions within Peru could be modified and supported to manage increased funds in future. However a review of environmental fund operating models and governance arrangements in the region may be valuable at this stage.	<p>What would be an effective national fund management strategy which achieves the '3es'?</p> <p>Would regional fund management options be advantageous? What endowment, sinking and mixed funds would most effectively work within Peru?</p> <p>If existing options e.g. PROFONANPE were prioritized, what support might they require to satisfy stakeholder requirements regarding independence and implementation capacity?</p>
Local level fund disbursement and benefit sharing	Partly	Several CSOs and limited number of private sector organizations	<p>Through REDD+ pilot projects and forest conservation projects led by CSOs, Peru is gaining good experience in piloting and managing forest protection and compensation schemes, conservation agreements, and new equity sharing models involving private investors and local communities.</p> <p>CSOs should share practices on successful models and help engage communities in designing equitable models for much expanded future REDD activity.</p>	<p>How are project successes and innovative approaches being captured and shared?</p> <p>How can these models be further developed for transparency, achievement of the '3es' and expansion nationally in 2011-2012?</p> <p>How might endowment funds be used at a project level without communities incurring delays in first payments or fund management fees?</p>

Outstanding issues with REDD+ funding in Peru	Is this being addressed already?	Relevant parties and their involvement	Next steps – potential role of CSOs and funds in addressing these	Follow on questions
Community and indigenous groups' reaction to REDD (relevant to investment risk)	Not visibly	<p>A number of groups are working with indigenous groups although no coordinated national effort is underway to gauge reactions</p> <p>REDD activity is typically being led by international NGOs</p>	<p>Capacity building support has to date focused heavily on public sector organizations and much less on indigenous groups, and local. There appears to be a lack of studies on how indigenous groups will react to large scale REDD finance in exchange for 'their' carbon rights. This is a large area of uncertainty which will become more pressing with REDD+ activity at scale. CSOs can engage these groups, ensure clear information is provided on REDD, and ensure they are involved in REDD projects which generate benefits in a sustainable arrangement.</p>	<p>To what extent would a national initiative and formal responsibility for raising indigenous groups' awareness and capacity for engaging REDD be possible?</p> <p>Would national principles and agreed upon practice for establishing prior consent for REDD projects be of value?</p> <p>How can investment and funding risks due to potential indigenous group resistance to REDD best be avoided?</p>
Land and ecosystem service rights and taxation	Partly	Various CSO groups listed within this report	<p>Potentially limited direct role although for environmental funds, however CSOs are already working on project by project basis and with regional communities.</p>	<p>When should CSOs and concessionaires expect legal clarity on title over ecosystem service rights?</p> <p>Could contracting and revenue sharing agreements be established under a national framework agreement and REDD contracting template</p>
Permanence and integrity of REDD implementation and MRV systems	Partly	MINAM, NCCC, and CSOs developing regional MRV systems	<p>Unidad de Carbono Forestal (UCF) and a Sistema Nacional de Monitoreo e Verificación de Carbono Forestal (SISNACAF) are proposed to manage REDD project management and certain aspects of MRV. Yet it is not clear how these will learn from CSO activities across Peru and ensure alignment of activities.</p> <p>Many CSOs are involved in innovative MRV systems yet are also subject to political risk and institutional changes in national and regional government.</p>	<p>Does Peru have sufficient arrangement to ensure future national REDD activities coordinated and managed by MINAM or other institutions have independent monitoring and oversight?</p> <p>Is division of remit between government institutions clear?</p> <p>How will these new units function within a decentralized government framework?</p> <p>Will these be subject to risks of change in government and have sufficient independence and permanence?</p>

High level case
study countries:
The role of
environmental
funds and civil
society
organisations
in REDD+

Introduction

Our approach and objectives

In late 2009 interviews were carried out with stakeholder representatives from government, civil society, academia and the private sector in Brazil, Cambodia, Colombia, Costa Rica, DRC, Ecuador, Indonesia, Madagascar, Mexico, Peru, Tanzania and Uganda. The results of these interviews were used to analyse the current and potential future role for environmental funds and civil society in the development of REDD+.

The specific objectives of this high level case study are to analyse the role of environmental funds and civil society in:

- Fiduciary management – Managing funds for REDD+ activities and any income they produce, including the pre-agreed distribution of revenue between actors.
- Stakeholder engagement – Engaging stakeholders, whether at an international, national or local level, to ensure their support for REDD+ activities.
- Monitoring of project activities – Assessing the ongoing performance of REDD+ projects to accurately quantify emissions reductions, and the wider biodiversity and socio-economic benefits delivered over time.

Introducing environmental funds and REDD+

Beyond the provision of funding

Whilst environmental funds may retain a core purpose of sourcing funding from multilateral and bilateral donors, carbon markets and the private sector and managing these funds and disbursing or investing in project implementation activities, there are a number of other roles they may play in the development of REDD+.

Whilst environmental funds are primarily financing vehicles, as opposed to project implementation agencies, they may provide capacity building support to their grant recipients and assume a proactive role in programme design, partnership formation and capturing lessons learnt. Environmental funds can also act as conveners of civil society REDD+ learning networks and contribute to national level policy dialogue¹⁸³. Additionally most environmental funds have existing field monitoring capabilities for grants that may make carbon reduction project monitoring a logical extension of existing competencies.

It is likely therefore that environmental funds could play a strong role in these aspects within the REDD+ market, in addition to providing the underlying funding.

Environmental fund types & REDD+ development

The Rapid Review of Conservation Trust Funds¹⁸⁴ identifies six environmental fund types. These fund types are not always exclusive and an environmental fund may fall under more than one of these categories at the same time. Table 7 below provides a summary of these fund types along with their potential relevance to REDD+ fund disbursement.

¹⁸³ Scott Lampman, personal communication 23rd July 2010

¹⁸⁴ Rapid Review of Conservation Trust Funds, Conservation Finance Alliance, 2008

Table 9: Environmental fund types

Environmental fund type	Description	Relevance to REDD+ fund disbursement
Grants Fund	Channels resources to target groups (typically NGOs and CBOs) for a broad range of conservation and sustainable development projects, not limited to PAs.	Distribution of grants for REDD capacity building for NGOs, CBOs and government
Green Fund	Primarily finances activities related to biodiversity conservation.	Funding focused on biodiversity benefits from REDD+ projects, typically with the involvement of national or international conservation CSOs
Parks Fund	Finances the management costs (and sometimes also the establishment costs) of specific PAs, or of a country's entire PA system. PA management costs can also include financing for alternative livelihoods or sustainable development activities in PA buffer zone communities.	Particular relevance for countries taking a national REDD+ approach, to add REDD+ funding support to national parks or other protected areas.
Endowment Fund	Capital is invested in perpetuity, and only the resulting investment income is used to finance grants and activities.	Can provide additional financial sustainability for REDD+ funds, important where funding investments provide low to no financial returns (e.g. capacity building, project establishment costs)
Sinking Fund	The entire principal and investment income is disbursed over a fairly long period (typically ten to 20 years) until it is completely spent and thus sinks to zero.	Can provide funding for project establishment and capacity building costs and well suited to phase 1 of the REDD+ phased approach
Revolving Fund	Income from taxes, fees, fines, or Payments for Ecosystem Services (PES), that are specially earmarked, regularly go into the fund to be used for specified purposes	Where REDD+ projects are producing verified emissions reductions (VERs) these funds may provide a means to pool, invest and disburse VER revenue

Introducing NGOs and REDD+

NGOs have been prominent in the development of the REDD+ agenda both at international and national policy levels, through advocating and advising on the functioning of REDD+¹⁸⁵, and at a sub-national level through project development, technical assistance and training. NGOs have been directly involved in both national REDD+ policies (e.g. through supporting most case study countries in the development of FCPF REDD Readiness Plans (R-Plans), which have helped to advance national policies in these countries) and in developing REDD+ projects (e.g. the Aceh Ulu Masen (Fauna and Flora International), local NGO and Carbon Conservation Ltd partnership). It has been widely recognised that through this activity NGOs are playing a key role in the design and implementation of equitable and effective REDD+ projects.¹⁸⁶

Introducing local NGOs, communities and REDD+

Local communities and their representative groups will have an important role in how REDD+ disbursement mechanisms function at a grassroots level. Community based organisations often receive and manage funding for community development initiatives. This includes direct funding or project relationships with local, national or international NGOs. This track record of funding receipt and management may mean that community based organisations are selected by project developers and funders to manage fund disbursement and investment at the community level. Indigenous or local community representatives could also take up roles on the boards of environmental funds managing the financial resources for a REDD+ involving their customary forestland to reduce the chances that REDD+ projects contradict community plans.

Well defined and enforceable community land rights and tenure are fundamental for local communities to engage with REDD+. This is important in the process of identifying who owns forest carbon, and whether this includes above ground biocarbon, below ground biocarbon or both.

The ability of local communities to define and enforce land rights differs significantly across geographies. For example, between the tropical forest nations there is a marked heterogeneity in the access of indigenous communities to

¹⁸⁵ Peskett et al 2008, Making REDD work for the Poor: A Poverty Environment Partnership (PEP) Report.

¹⁸⁶ Schwartzman et al 2008 'Getting REDD right: Reducing Emissions from Deforestation and Forest Degradation (REDD) in the United Nations Framework Convention on Climate Change' The Woods Hole Research Center, Environmental Defense and Instituto de Pesquisa Ambiental da Amazonia.

customary land rights. For example indigenous land rights were formalised in the 1988 Brazilian Constitution¹⁸⁷ and whilst there remain concerns over how effective this legislation has been for indigenous people to successfully claim and defend their land rights, there is a marked contrast with countries such as Indonesia where there are concerns that there is a “lack (of) any effective legal means to recognize, secure and protect indigenous peoples’ rights to their lands, territories and resources”¹⁸⁸. It is widely understood that formal land rights are a prerequisite for indigenous peoples to receive an equitable share of revenues from REDD+ projects. In worst case scenarios a REDD+ mechanism which does not recognise ancestral or customary land rights could in theory exclude indigenous peoples from their traditional lands.¹⁸⁹

187 Valenta, L (2003). Disconnect: The 1988 Brazilian Constitution, Customary International Law and Indigenous Land Rights in Northern Brazil. *Texas International Law Journal* 38 pp.643-661

188 UNCERD, (2009) Available online: http://www.forestpeoples.org/documents/asia_pacific/indonesia_cerd_response_mar09_eng.pdf

189 Rai, M (2009), REDD and the rights of Indigenous Peoples: Ensuring equity and participation in World Bank funds. Available online: www.brettonwoodsproject.org/art-564322

Recommendations for the future roles of environmental funds and NGOs in REDD+

Based on our results (see next section) REDD+ provides a unique opportunity for environmental funds and NGOs to build on the roles they are already playing and develop new and innovative functions. Presented below is a selection of roles that environmental funds and NGOs could adopt in the evolution of an international REDD+ scheme, based on our analysis of stakeholder views.

Table 10: Potential future roles of environmental funds in REDD+

Carbon finance and revolving fund functions	If the predicted transition from grant based funding to carbon market based finance occurs, REDD+ environmental funds with revolving fund functions may have capacity to maintain or diversify the types of funds they manage to include both private finance and public funding.
Increasing private sector confidence and investment	Environmental funds could act as a vehicle through which public/private co-funding agreements are channeled. The provision of co-funding from public sources could encourage private sector investment and reduce investment risks by sharing start up investment costs for new REDD+ projects. Environmental funds may also help reduce investment risk by providing a transparent and accountable fund management service for investors.
Convening REDD+ actors	Through managing public and private funds, and by having multi-stakeholder board members, environmental funds may be well placed to assume a cross-sector convening role. Having oversight of multiple REDD+ initiatives may be useful in the design and timing choice for multi-stakeholder meetings.
Capacity building and support to funding recipients	To increase the likelihood of project portfolios meeting objectives, it may be in the interest of donors, investors and the wider stakeholder community for environmental funds to provide in-house capacity building support to fund recipients. This will be of particular importance in countries or remote provinces where project developers have little experience of managing external funding and investments.
Building government capacity	Environmental funds may contribute to building institutional REDD+ capacity or supporting the capacity building process through sharing their expertise and project evaluations with the government. If an environmental fund is engaged in project monitoring, it may also be able to share technical knowledge or GIS technology with Ministries of Forestry, Environment or Planning. Environmental funds could also provide direct funding support for REDD+ projects with local government partners (as has been the case in the Amazon Fund), contributing to decentralised government capacity.
Provision of low interest, long time horizon, risk-tolerant loans	Environmental funds may also encourage private REDD+ project establishment by providing low interest loans with long repayment periods and with high risk tolerance. This could help increase investment confidence in the private sector and enable for projects to reach the capacity they need to attract private sector investment. Interest from loan portfolios could be channeled into a revolving fund to boost the financial sustainability of the fund.
Province or ecosystem level portfolio funds	In countries that adopt a nested or other sub-national approach to REDD+, province or ecosystem level portfolio funds could play an important role in managing public and private REDD+ funding and linking sub-national projects into the national carbon accounting system. Provincial or ecosystem level funds could provide a direct link for donors or investors between their funds and specific projects. This could allow for greater flexibility and choice in funding decisions and generate increased funding interest from donors and investors.
Micro-credit based funds	In countries such as the DRC, where the provision of alternative livelihood options could be central to the success of REDD+, micro-credit programmes could play a key role in supporting low forest impact activities (e.g. fuel wood tree domestication, agroforestry), which often involve initial start up costs outside the reach of low income households. Environmental funds may be well positioned to manage micro-credit funds, using a micro-credit management partner such as a national NGO or bank. Interest from micro-credit loan portfolios could be channeled into a revolving fund to boost the financial sustainability of the fund.

Table 11: Potential future roles of NGOs in REDD+

Transition to managing grant funding to carbon market investment and revenue	Many established REDD+ projects are NGO managed. These projects are likely to be some of the first to reach maturity. As this happens, both international and national NGOs could focus on developing the financial management structures to receive and administer private sector investment and carbon market revenue.
Continue building trust and engagement from the public and private sector	NGOs may play a vital role in encouraging the scaling up of both public and private sector funding in REDD+, instilling confidence that projects will be managed according to the principles of the three Es (equity, efficiency and effectiveness).
Distribution of international funding to the local level	In some instances NGOs will be best placed to managed international REDD+ funding and revenue, distributing it in an equitable manner to local communities or investing it in the creation of alternative livelihood or microcredit schemes.
Raising awareness in forest communities – particularly in areas where there is low trust of state actors	Before meaningful engagement from forest communities can be achieved, considerable efforts are needed to raise awareness of climate change, forest carbon and REDD+. NGOs, particularly at the national and local level, have a crucial role to play in this process and are often uniquely placed to deliver this service in areas with low trust in state actors.
Building REDD+ capacity of forest communities	Where forest communities are willing to engage in REDD+, NGOs have a crucial role to play in building the capacity of forest communities to engage in REDD+ through project design, monitoring and reporting.
Technical assistance to national and local government in REDD+ policy development	NGOs can build on their current technical support to governments in carbon monitoring and utilise lessons learned from project development in supporting government REDD+ policy development.
Territorial planning using remote sensing and GIS technology	NGOs may have an important role to play in facilitating REDD+ development between local government, communities and project developers by using GIS technology as a tool for collaborative planning. NGOs can also support forest communities in negotiating with private developers, governments or other NGOs in the development of REDD+ projects using GIS technology.
Legal support for forest communities	NGOs may be able to support forest communities in securing legal support to define and, where necessary, defend customary land rights during REDD+ project development.

Results

This section summarises the results of our interviews with REDD+ market participants; the results reflect responses received and are not the views of the report authors.

We discuss in turn the results for the three areas of focus for our work: fiduciary management, stakeholder engagement, and monitoring. For each of these we outline the common results across all geographies along with stakeholder views and case study examples to illustrate.

Fiduciary management

The following section describes the responses given by study participants regarding the role that environmental funds and NGOs play in the management and disbursement of REDD+ funds, broken down between the three study regions. It should be noted that our survey did not identify any significant revenue disbursement activity; ‘fiduciary management’ at the time of writing is therefore almost exclusively the management of capacity building grants and seed finance for early stage projects.

Key trends across the study regions:

Role of environmental funds

- Environmental funds provide comparatively high levels of transparency and accountability: important for REDD+ fund disbursement.
- Current funding is predominantly disbursed on a not-for-profit basis in the form of grants and low interest loans to national and local NGOs.
- These grants and loans are currently focused on REDD+ capacity building activity, in accordance with phase 1 of the REDD+ phased approach.
- Many respondents indicated that environmental funds would be well placed to manage REDD+ revenue disbursement when financed through the carbon markets in later phases.
- There are examples in place where environmental funds are reducing the investment risk for investment in the carbon markets by the private sector through providing technical assistance and access to start-up financial resources.

Role of NGOs

- NGOs involved in REDD+ often have close relationships with forest communities and significant knowledge of the local level socio-economic and political landscape.
- This enables NGOs to play a key role in implementation of a REDD+ disbursement process, as they offer a unique ability to bring both local and national actors together.
- The level of funding handled by NGOs appears to depend on financial management, capacity. Funds often flow from large NGOs to many smaller ones.

Potential constraints to increase future activity

- There is currently a lack of a clear legal framework on REDD+ at a national and international level. This is a challenge for NGOs who are looking for regulatory certainty before committing significant resource into REDD+ activities.
- At the local level there is a lack of organisational capacity within communities to manage REDD+ disbursement mechanisms.
- Conflicting or a lack of information at a community level can make it difficult for communities to trust and engage with REDD+ disbursement agents, such as NGOs.

Role of environmental funds in fiduciary management

Respondents indicated that environmental funds’ primary role is to provide the financing required for REDD+ capacity building and demonstration projects, bringing their experience from other areas of conservation finance to REDD+ fund disbursement.

Financing is predominantly grant based but also includes low interest loans; reflecting the early development stage of REDD+ and the need for donor funding for capacity building prior to private sector scale investment in projects aimed at generating carbon credit revenue. Environmental funds such as the Amazon fund in Brazil are also directing resources to pilot new REDD+ project approaches, developing knowledge and capacity across governments and NGOs. This may ultimately give environmental funds greater influence over how REDD+ disbursement occurs at a local level, as they are currently investing in the testing and refining of best practice. Some public environmental funds also provide capacity building for NGOs implementing the projects by helping to build NGO financial management capacity and improving the efficiency of funding flows.

From the interviews held it appears that public/private partnership environmental funds are generally felt to provide a more accountable REDD+ fund disbursement service than government departments through the supervision provided by public/private governing boards and public disclosure of grants. This encourages funding interest from a range of international donors. For example the Mexican Fund for Nature Conservation (Fondo Mexicano Para La Conservacion De La Naturaleza) receives bi-lateral, multi-lateral funding and funds from private foundations.

We found that environmental funds provide grant or loan funding to communities and projects either through the use of local NGOs as intermediaries, or directly.

In some cases environmental funds prefer to work directly with local communities and one respondent noted that the “fewer the intermediaries, the more transparent the funds.” As a result, their environmental fund prefers to work directly with communities unless there are local NGOs directly located in the field and working closely in the community.

Through the provision of grant and loan financing to support capacity building at a community level, environmental funds may also help in increasing the levels of REDD+ funding retained within the community. The more management and monitoring capacity a community has, the less outsourcing is needed and payment for these services can stay at a local level.

Several respondents believed carbon markets to eventually be the best source of income for environmental funds in the long run and that this would favour the revolving fund model, whereby environmental funds receive income from the sale of carbon credits. However, given that most REDD+ activities are in phase 1, endowment funds are seen to be more suited to financing and implementing capacity building activities. Whilst there was general agreement on this as the most suitable type of fund for the current REDD+ market, participants did note that endowment funds can be more difficult to secure than other funds, such as sinking funds (see table 7).

There are non-REDD+ environmental funds that are using revolving fund models which could be relevant for REDD+ funds as they progress to managing carbon market finance in addition to public funding. One such fund is the Fondo para Accion Ambiental y la Niñez (FPAAN) in Colombia:

Example of potential revolving fund model relevant to REDD credit sales - Fondo para Accion Ambiental y la Niñez (FPAA), Colombia

The Fondo para Accion Ambiental y la Niñez (FPAA) in Colombia is a private Colombian not-for-profit organisation created in 2000 under the Bilateral Agreement of the Initiative for the Americas with the government of the United States of America¹⁹⁰. The fund has formed a strategic partnership with the National Center of Cleaner Production and Environmental Technologies to promote access to the Clean Development Mechanism (CDM) and to facilitate the participation of industry in clean technology development and carbon markets. This arrangement includes the provision of technical assistance, carbon market information and financial incentives to stimulate technological change in industry and mass transportation. Once a reduction in greenhouse gas emissions is achieved due to the introduction of new technologies financed by industry, the avoided CO₂ emissions can be traded as carbon credits in the market.

Up to 30% of the returns obtained from the transaction are voluntarily donated to a revolving fund set up by Fondo Acción and the National Center to finance new industry partnerships and further emission reduction activities. This 'donation' of financial returns to the revolving fund is also attractive to private companies due to the fiscal benefits that can be gained from such donations¹⁹¹.

This form of revolving fund, with finance provided from the sale of carbon credits, could be a useful model to integrate into REDD+ environmental fund structures and could encourage private sector engagement in REDD+ project development by reducing investment risk and providing fiscal incentives for contributions to a pooled fund.

Role of NGOs in fiduciary management

The interviews suggested that NGOs are providing an important link in REDD+ financing flows between funding sources and local communities. This generally occurred at the level of international or national level NGOs due to the perception that they have increased financial management capacity and governance standards more aligned to those required by funders. However, it is worth noting that some national and local level NGOs appear to enjoy high levels of funder trust across the study regions and there are numerous cases of funds being distributed directly from environmental funds or other funders directly to national and local NGOs.

For capacity building projects this funding may be entirely used at an NGO level, e.g. for training programmes or capital expenditure. Where funding is intended to stimulate avoided deforestation activities directly, funds may be further disbursed by NGOs to communities (often via a representative community group) or invested in community level livelihoods projects designed to create sustainable revenue flows for community members.

Local NGOs are seen as important in REDD+ disbursement due to their on-the-ground experiences and strong community links. This gives them excellent knowledge of community level socio-economic, legal and political characteristics; important in ensuring that REDD+ fund disbursement mechanisms are designed to have maximum impact.

Considering the emerging importance of local organisations in revenue management and distribution, greater efforts will need to be placed in building trusting relationships between these organisations and local and national government.

190 Convention on Biological Diversity, (2009). Colombia – National Celebrations. Available online: www.cbd.int/2010/country/?country=co

191 Latin American and Caribbean Network of Environmental Funds, (2009). Getting the private sector on board: Fondo Acción motivates Colombian companies to reduce greenhouse gas emissions. Available online: www.redlac.org/index.php?option=com_content&view=article&id=148:profonanpe-encourages-the-collaborative-management-of-protected-areas-in-peru&catid=59:news-redlac&Itemid=52&lang=en&date=2010-05-01

Example of NGOs in disbursing REDD funds – The Amazonas Sustainable Foundation and the Bolsa Floresta project

In the state of Amazonas, The Amazonas Sustainable Foundation manages the Bolsa Floresta programme, established in September 2008 by the secretariat for the Environment and Sustainable Development of the State of Amazonas as part of their Zona Franca Verde (Green Free Zone) policy. The aim of Zona Franca Verde is to generate employment and income from the sustainable use of natural resources. Bolsa Floresta, which is financed by Brazil's largest private bank Bradesco, set up to compensate families and communities who reside in conservation units and commit to zero deforestation on this land.

The first form of this compensation is the Bolsa Floresta Familiar (BFF), which is a monthly payment of 50 reais (US\$30) per month to the families in the conservation units. The second component, the Bolsa Floresta Associação (BFA), is paid direct to the State's residents' associations in the conservation units. This is equivalent to 10% of all BFF funds and aims to strengthen community based organisations and ensure that the rules and commitments of the Bolsa Floresta program are respected. The third part of the programme is the Bolsa Floresta Social which provides grants of an average of 4,000 reais per year to forest communities and aims to fund improvements in education, health, communication and transportation.

By September 2008, 4,244 families had been registered, with 2,702 of these eligible to receive funds from the BFF programme.¹⁹²

Although the Bolsa Floresta programme is in its early stages, some Brazilian respondents expressed concern that the payments are made in a passive manner and may encourage a culture of reliance. One interviewee suggested that REDD+ disbursal projects from NGOs are a good opportunity for forest communities to increase their involvement in the local economy and payments should not be given as handouts but used to support local employment and livelihoods programmes.

¹⁹² Viana, M, Virgílio, (2008). Bolsa Floresta: an innovative mechanism to promote health in traditional communities in the Amazon. *Estudos Avançados*, vol.22 no.64 December 2008

Stakeholder engagement

For REDD+ projects to be successful, they must ensure the permanent avoidance of deforestation and degradation. This requires that all stakeholders, whether at an international, national or local level, are supportive of the concept and projects being implemented. This section describes the responses given by study participants on the role that environmental funds and NGOs play in encouraging engagement in REDD+ from local communities, government and the private sector.

Key trends across the study regions:

Role of environmental funds

- The national and international profile, and financial influence, of environmental funds, means that they are actively engaged with the government and private sector.
- Public and private/public environmental funds can provide a transparent and effective vehicle for governments to fund REDD+ at a national level.
- Environmental funds can provide important input into policy development based on their previous experience in fund management for forest conservation and protected areas.

Role of NGOs

- NGOs play an important role in encouraging participation and facilitating dialogue between actors.
- Local and national NGOs have a key role to play in building understanding and awareness of REDD+ at a local community level.
- NGOs at all levels can provide valuable guidance for government policy regarding REDD+ based on their experience from pilot projects.
- NGOs can help represent the views of groups with low levels of political power and visibility, such as indigenous communities.

Potential constraints to increase future activity

- Poor relationships between some NGOs and some governments due to past conflicts or political differences.
- Capacity challenges at local NGO level.
- Low levels of trust in NGOs by forest communities in some areas where previous contact has had negative impacts where there has been little or no previous contact.
- Government concerns over losing decision making power for REDD+ funding to NGOs and private sector organisations need to be addressed.
- Concerns about policy and carbon market incentives and other risk factors, constraining private sector appetite for REDD+ investment

Role of environmental funds in stakeholder engagement

The strength of relationships between environmental funds and governments appear to vary. In many cases, there are very close relationships between funds and various levels of government, with some funds having government representatives on their board or having been set up by government entities. Environmental funds also expressed that they often try to align their activities with government programmes or priorities.

The level of government at which engagement takes place varies by country. In Brazil, engagement appears to be strongest at state and local levels. For instance, the Amazonas Fund is active in funding government projects at local levels and building local government capacity in REDD+. In Mexico, funds appear to have stronger links and engagement with the national government and respondents expressed that local level relationships appear weaker. Colombian respondents noted that relationships between environmental funds and all levels of government were very strong.

Strong government involvement at both the state and local level was viewed as an important advantage for environmental funds in championing the REDD+ agenda and facilitating the development of REDD+ projects, especially in countries such as the Philippines and Indonesia where forests are state owned, where obtaining the permissions and licenses needed to implement projects can be an arduous process.

Environmental funds were seen as providing an excellent opportunity for wider government engagement in REDD+, by involving environmental and forestry ministries in the REDD+ project evaluation process. Project evaluations could inform government policy positions and increase government understanding of 'on-the-ground realities' by sharing lessons learnt from pilot REDD+ projects and from previous community forestry conservation projects. Environmental funds were also seen to be important information resources for government, and provide a pool of scientific expertise for the development of national REDD+ policies and training of government staff.

Example from international NGO on REDD+ pilot project and information sharing with government

"In Madagascar we are sharing information from pilot REDD capacity building projects and providing data for the formation of the national REDD policy. As an NGO we have the flexibility to experiment with different REDD models and can absorb the risks associated with this if there are valuable lessons from the process learnt."

Environmental funds are also seen as well placed to engage and influence government utilising their financial influence in the region. Funding relationships between governments and environmental funds were also reported as an effective medium through which to engage government in the REDD+ agenda.

Interview results indicated that environmental funds may play a particularly important role in engaging the private sector to invest in REDD+. Environmental funds, as a transparent and trusted fund manager, were seen to be of particular importance in countries with high investment risk assessments.

Respondents noted that whilst funds have existing connections to the private sector through pre-REDD+ implementation activities, direct private sector engagement in REDD+ projects was not reported to be particularly strong. Although there are examples of private sector involvement in PES initiatives, a number of observers noted that even with an international agreement on REDD+, private sector engagement in REDD+ is likely to reach scale only once legal frameworks have evolved and examples of successful projects can be showcased.

Environmental funds we spoke to emphasised the importance of increasing the private sector investment in REDD+, especially as competition for traditional donor funding intensifies and becomes more difficult to access.

Responses on the role of environmental funds with respect to community engagement were mixed, with some respondents emphasising that their strengths lie in financial management and disbursement as opposed to direct engagement with communities. Others emphasised the importance of environmental funds keeping in contact with the projects they are funding and in engaging these communities in the REDD+ process. However they were undecided on whether this engagement would be best done directly, or through a local partner NGO.

Environmental funds as sources of information and training: Philippine Tropical Conservation Foundation (PTFCF)

The PTFCF is actively involved in sharing REDD+ information between a wide range of stakeholders in the Philippines. The foundation is working with indigenous communities to help them develop their forest conservation plans. Staff from the PTFCF help indigenous groups to refine their forest conservation project proposals, train them in negotiating skills and help them to decide on how best to monitor and verify projects.

In some instances, existing government policy conflicts with forest conservation and the PTFCF is assisting local government to identify where these conflicts are occurring and how they can be mitigated. All forest land in the Philippines is state owned and there is currently a lack of clarity over which parts of this land are eligible for the forest carbon market. PTFCF is assisting the Philippine government in assessing the eligibility of forest land and helping to calculate the carbon content of indigenous tree species which have not previously been assessed.

Role of NGOs in stakeholder engagement

Engaging local communities in REDD+ requires local education and capacity building in a number of different thematic areas. During this process community expectations need to be managed and suspicions generated by any previously unfulfilled promises overcome.

Addressing these community challenges requires a strong understanding of the needs and expectations of communities. NGOs are active in addressing the barriers communities face when engaging in REDD+. Respondents highlighted that NGOs are working with communities on many aspects, including raising awareness and increasing knowledge of REDD+ related concepts (e.g. education on climate change), capacity building, providing legal support and expertise, supporting the distribution of revenues, and resolution of land tenure issues. It was also felt that the NGO community has an important role to play in assisting forest communities in negotiating REDD+ deals with external stakeholders such as private developers, governments or other NGOs.

In some case study countries, local NGOs enjoy greater levels of trust than local government, especially in indigenous communities where there may have been conflict with government. Where this increased level of trust exists, local NGOs have played an important role in engaging and educating communities about REDD+. An emphasis by NGOs on investing resources in information sharing and communication has meant that knowledge of REDD+ has begun to spread into forest communities in many areas. This process has however not always been straightforward, with cases of confusion and widely varying interpretations of the meaning of REDD+ (resulting from community education programmes) being reported. Local NGOs were seen to be well placed to address this confusion and provide ongoing REDD+ education for forest communities.

One of the challenges of working with forest communities highlighted by the interviews is understanding community power structures. This was seen to be an important step in ensuring that community groups benefit from REDD+ on an equitable basis. Local NGOs were regarded as the best placed actors to understand and navigate these power structures and help design equitable REDD+ benefit mechanisms.

Local NGOs were also seen to be helping in the process of expectation management and giving communities a realistic view of the carbon revenues (if any) that may result from interacting with REDD+ projects. One lawyer stated that:

“the visibility of international NGOs can swell expectations from communities that financial benefits will [be] delivered sooner and in greater quantity than what is feasible”.

This underlines the importance for international NGOs to partner with local NGOs in delivering projects in order to ensure community expectations are managed.

As one international NGO noted:

“Local NGOs have a unique role in providing the social link to communities and the ability to help engage with them and change behaviours. They can therefore play a key role in participatory engagement either representing local groups or facilitating their engagement with other stakeholders.”

Several respondents emphasised the need for a variety of actors to engage stakeholders within a strong governance framework, one example being the multi-stakeholder council created for the Juma project in Brazil. A number of respondents noted that NGOs together with governments make the strongest combination for engaging communities and indigenous peoples. One respondent commented that:

“strong links with government allow NGOs to ‘unlock’ the system for local communities, allowing them to gain the highest value and actively engage with REDD+.”

International NGOs often working with their national counterparts tend to have strong relationships with government bodies, in some cases national and local NGOs also have significant influence on government policy. For example, in Mexico, national NGOs form part of a consultative council to provide government guidance on forest conservation. In Brazil, international and national NGOs have supported local governments to apply for and secure funding from the Amazonas Fund. The NGOs involved also provide capacity building support for local municipalities and play a coordinating role in bringing together multiple municipalities for creating joint project proposals.

International NGOs are heavily involved in training government officials from the level of the forestry department to national REDD+ policy makers. In Africa, REDD+ has not received widespread legal and policy support from government and it is often international NGOs who are helping guide government in their policy decisions.

Governments across the tropical forest nations are starting to develop policies and plans for REDD+ funds, but in some cases lack the knowledge and capacity to do so. It is widely felt that NGOs have a role to play in building this knowledge and capacity and contributing to policy development. As many REDD+ nations are still developing legal frameworks for the implementation of REDD+, there is an opportunity for NGOs to collaborate with government to ensure that policy frameworks are effective and reflect realities ‘on the ground’.

Interviewee response to NGOs & community trust in Latin America

“For REDD projects to succeed there is a need to develop plans in close contact with local communities, and to be able to demonstrate to them the benefits of REDD. Trust from the community is therefore important, and NGOs have this.”

One of the pre-conditions for communities to engage with REDD+ is for community members to be able to understand and enforce land rights so that an effective system of payments for forest carbon can be designed. Local NGOs are well placed to facilitate this process as they are often well connected to remote communities compared to local governments, and many in fact have a more detailed knowledge of local land tenure systems. The importance of trust between local NGOs and communities was re-emphasised here, as it is a precondition for communities turning to NGOs for support in negotiating their carbon rights.

Another important way in which NGOs were seen to encourage participation in REDD+ by governments is through the provision of information and the sharing of lessons learnt. NGOs are well placed to establish experimental REDD+ pilot projects and bear the risks associated with project failure, providing governments with an opportunity to learn about what is or is not working on the ground.

International and national NGOs were also seen as important in encouraging investment from the private sector in REDD+ as they could provide assurance for investors that projects would be managed effectively on-the-ground, and in accordance with international standards of project monitoring and governance. National and local NGOs were seen to provide an important support function in private sector projects, primarily by increasing local stakeholder engagement in the development of private sector REDD+ projects as local communities often trust them highly. NGOs also have an important role for the private sector in managing REDD+ projects so that they do not negatively impact forest dependent and indigenous communities. This was seen as a unique NGO strength and an important component of managing reputational risk for the private sector.

Monitoring

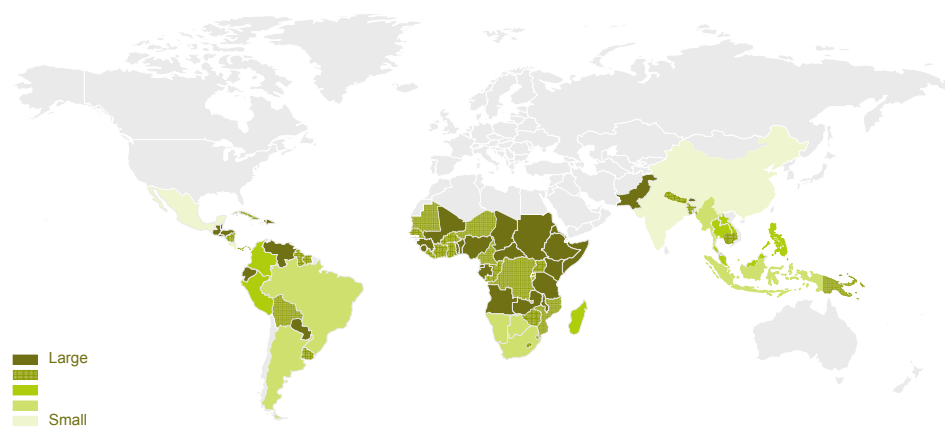
Monitoring of REDD+ projects to accurately quantify emissions reductions is a key activity under any REDD+ mechanism. However, despite its importance there is limited capacity to undertake national forest based GHG emissions monitoring at the level likely to be required by the international community.

A recent report on the monitoring capacity for REDD+ across non-Annex 1 countries concluded that:

“The assessment of current monitoring capabilities has emphasized that the majority of countries have limitations in their ability to provide a complete and accurate estimation of greenhouse gas (GHG) emissions and forest loss. Less than 20% of the countries have submitted a complete GHG inventory so far, and only 3 out of the 99 countries currently have capacities considered to be very good for both forest area change monitoring and for forest inventories.”¹⁹³

The same report outlined the REDD+ monitoring ‘capacity gap’ for each of the study countries, defining this as the difference between what is required and what currently exists for countries to measure and verify the success of REDD+ implementation actions using the IPCC Good Practice Guidance (GPG). This is shown in Figure 24 below.

Figure 24: Spatial distribution of the capacity gap for different countries analyzed.



There is significant variation within this broader picture. For example in Brazil, advanced monitoring technologies are sophisticated enough to deliver reliable measures of deforestation rates. The Brazilian state of Acre has implemented a deforestation monitoring system that combines remote sensing data and property level monitoring.

As more REDD+ pilot projects are implemented at the local, state and national levels, and the learning from projects such as those in Acre is shared, the capacity for monitoring will only improve. However, with most countries starting at a low base, a significant amount of money and resources will be required to build capacity in this area.

This section identifies the role environmental funds and NGOs could play both in capacity building, and REDD+ monitoring directly. As few REDD+ projects have started project monitoring, this section highlights the challenges identified by study participants due to existing realities of projects and participants.

¹⁹³ An assessment of national forest monitoring capabilities in tropical non-Annex I countries: Recommendations for capacity building, Global Observation of Forest and Land Cover Dynamics Land Cover Project Office, 2009

Key trends across all regions:

Role of NGOs in monitoring

- In all regions, NGOs were identified as playing a role in the carbon, environmental and social aspects of REDD+ project monitoring.
- Larger international NGOs commonly provide technical expertise and capacity building for governments and local partner organisations, as well as supplying monitoring services and information directly.
- Local communities and NGOs are often seen as lacking the technology or the technical knowledge required for measuring the carbon stocks of projects according to recognised standards. Interviewees therefore indicated that there is a need in all study regions for greater levels of knowledge transfer to local NGOs and communities.
- Local NGOs are playing a vital role in biodiversity and socio-economic monitoring, as they hold some or all of the necessary skills already.
- Several respondents noted that local NGOs were also on occasion assisting local communities in carbon monitoring.

Role of environmental funds in monitoring

The role of environmental funds in monitoring varies significantly by region:

- Existing national funds for REDD+, such as the Amazon Fund, whilst funding monitoring capacity building, do not engage in REDD+ monitoring themselves.
- Some environmental funds engaged in protected area and forest conservation funding, but not explicitly in REDD+ activity, are engaged in supporting the monitoring efforts of funding recipients. This feeds into the overall monitoring process of fund effectiveness, which could provide a starting point for incorporating fund monitoring reports into the national REDD+ monitoring process.

Potential constraints to increase future activity

- Whilst there is some capacity to effectively monitor REDD+ projects within larger NGOs and project developers, this capacity is very limited at local levels.
- Meeting the current recommended standards for monitoring often requires the use of external expertise, which many study participants commented has negative developmental impacts and misses an opportunity to create employment for local beneficiaries.
- REDD+ projects often occur in large, remote areas where carbon and ecological information may be unavailable or inaccurate and field monitoring is difficult and expensive.
- Technologies such as satellite systems can make monitoring more effective but interviewees suggested that these are often difficult to access due to cost and a lack of the technical expertise required to interpret results. However, innovative partnerships, such as the IMAZON initiative in Brazil, may help to increase monitoring capacity at a local level whilst integrating community members into the REDD+ project planning process.

Role of environmental funds in monitoring

Responses indicate that environmental funds have an important role to play in financing monitoring efforts but direct involvement in technical monitoring activities remains limited, mostly because monitoring activities in general are also limited. However, as one interviewee noted, the technical ability to calculate and monitor carbon stocks is not a core competence of many environmental funds. This view was balanced by others who felt that, as funders of projects, environmental funds could seek to gain assurance over their investments through becoming more closely, or possibly directly, involved in monitoring activities.

Some environmental funds act as the focus point for monitoring REDD+ project activities, using economies of scale and attracting high level monitoring expertise and technology with multiple project portfolios. This may be limited to landscape level monitoring or extended down to the community level through internal monitoring and evaluation experts. This approach helps environmental funds to ensure that project governance is of an appropriate standard and that benefits are being shared equitably.

Other funds outsource the monitoring component of projects to external consultancies as they do not see this as a core competency. This diverts economic and capacity building benefits from the project community, potentially reducing the projects' sustainability and economic benefits.

A third approach discussed by interviewees was a collaborative effort where environmental funds work together with international NGOs, and potentially local NGOs, to create a reporting flow from community level up to fund level. This requires a smaller monitoring team at the environmental fund level to provide checks and balances on NGO monitoring reports.

Role of NGOs in monitoring

Respondents indicated that some NGOs are involved in monitoring efforts in the region. Examples of NGO activity included providing interpretation of satellite data, measuring carbon stock levels, helping to create baselines and developing monitoring tools. In the Juma project in Brazil for example, the NGOs involved in the project established their own measurement criteria and monitored these throughout the project. However, interviews indicated that these activities are largely confined to the larger NGOs as they typically have more technical expertise and resource capacity.

NGO & community monitoring in the Juma reserve, Brazil

IDESAM (the Institute for Conservation and Sustainable Development of Amazonas) has partnered with the Amazonas Sustainable Foundation (FAS) and the consulting company Carbon Decisions in establishing the baseline scenario and monitoring the carbon emission reductions in the Juma sustainable development reserve REDD project.

In the Juma reserve IDESAM & FAS are helping to connect on-the-ground community monitoring systems to satellite remote sensing data. Building community capacity to monitor forest carbon stocks costs is particularly important in remote and inaccessible areas such as Juma where external monitoring is costly and less effective.

NGOs play an important supporting role in the REDD+ monitoring process at both the national and local levels. International conservation NGOs operating in Africa have greater access to remote sensing data and possess better technological capabilities than many government ministries. Interviewees provided numerous examples of NGOs providing technological capacity building to governments in order to help assess national forest cover changes, for example in Madagascar this is being done by international NGOs and universities who are collaborating on REDD+ projects. This type of support will continue to be critical for national level REDD+ monitoring.

At a community level, local NGOs are seen to provide an important source of monitoring support, particularly in the monitoring of the biodiversity and socio-economic benefits that REDD+ projects deliver. However, there appears to be little technical carbon experience among local NGOs. Responses indicated that local NGOs are likely to require significant training and support from international NGOs to build their capabilities to monitor carbon effectively.

Managing community monitoring approaches: Viewpoint from NGO, Africa

“The involvement of local NGOs as well as communities in the monitoring process is often advocated as a means of reducing costs without consideration for the costs borne by these parties. Local communities are seen as some form of free labour. This can reduce engagement of local communities in the project as well as produce poor quality monitoring results. National and international NGOs should be aware of this and make a concerted effort to incorporate community viewpoints on their role in the monitoring process ”

Local NGOs are likely to have a key role in monitoring due to their geographical proximity to project locations, strong relationships with local communities and (relative to the private sector) lower cost. Local NGOs are best placed to integrate communities into the monitoring process, to bring about sustainability benefits and ensure more of the economic benefits from projects are retained.

In some monitoring structures, interviewees indicated that NGOs provide primary and secondary level monitoring at the local and international NGO levels respectively. However, like other regions, there appears to be widespread capacity within the local NGO community for monitoring biodiversity and socio-economic aspects of REDD+ projects.

Annex 1

Interviewees by REDD project geography

Interviewee location	Number interviewees
Brazil	12
Cambodia	8
Colombia	5
Costa Rica	1
DRC	9
Ecuador	5
Peru	7
Tanzania	3
Uganda	4
Indonesia	14
Madagascar	6
Mexico	6
Other	8
Total	88

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