

REDD+ Funding mechanisms

Context

As countries are progressing through the different phases of REDD+, they must deal with complex issues of coordination across sectors and government agencies, different sources of funding and different types of funding including ODA-type Phase 2 funding and results-based payments. Several REDD+ countries have made great progress on thinking through these issues and putting in place structures such as using existing funds to channel REDD+ funding, creating new national structures or using multilateral funds. An important issue in this context is how to ensure that national entities get access to the Green Climate Fund and what transitory solutions exist until this will happen. In addition, it is also essential that these structures for channeling REDD+ funding fit into the overall climate finance landscape of the country and that they can effectively coordinate (or contribute to the coordination of) the implementation of REDD+ through the funding streams they provide and the M&E systems they have put in place. Finally, ensuring integrity, transparency and accountability in fund management is key to delivering effective results, and to both domestic and international confidence in the way funds are managed. Potential countries (based on either progress made in the area or interest expressed in national strategies): Peru, Colombia¹, Ecuador, Mexico, Cote d'Ivoire, DRC, Republic of Congo, Liberia, Vietnam, Indonesia, Myanmar.

Rationale and approach

The UN-REDD Programme will produce knowledge and analysis in two related areas, hence suiting different country needs in this domain, as follows:

1. Knowledge and advice to achieve direct access to GCF, whether for phase 2 investments and/or for results based payments. In this, UN-REDD knowledge will serve to support the “fit for purpose” accreditation of national entities that will channel REDD+ resources. This is the preferred approach for countries with robust national governance and financial management systems, such as Mexico, Ecuador, and potentially Peru, Costa Rica and Colombia (but it is often not ideal for less developed countries).
2. Knowledge and best practice to the development of programmatic frameworks for investments (or investment plans) in support of REDD+ national strategies or NDC/AFOLU components more generally. From UN-REDD’s experience this support is needed in most countries which struggle with the coordination of support for the implementation of REDD+. This support will focus on the creation of detailed investment plans, elaborated with large participation of all relevant stakeholders through transparent processes, and operational cross-sectoral institutional arrangements to coordinate, sequence and align REDD+ finance, while avoiding duplication and mismanagement. Considering that there are multiple mechanisms to deliver domestic and international resources, the knowledge to be produced by UN-REDD will serve various needs:
 - Ensure that multiple streams of finance are coordinated around a given programmatic framework or investment plan; the so-called financial mechanism then becomes an opportunity to create official “joint -programming” mechanisms across donors, but also across Ministries and through public-private partnerships. A single investment plan has the potential to decrease duplications and inconsistencies and, through multi stakeholder decision-making and oversight, to reduced risks of mismanagement.
 - Ensure the development of robust financial strategies for these investment plans - combining regular budget resources, ODA grant, loans, guarantees, RBPs and private finance. This would

¹ There has been no formal request from the government of Colombia to UNREDD for support on these topics. Nonetheless as one of Norway’s priority countries we have listed Colombia here and have included some staff/days for technical advice on this topic. We expect this assistance would mainly take the form of South-South exchanges on this topic.

be the preferred approach for countries receiving support from multiple funding sources, such as Peru and Côte d'Ivoire. High fiduciary standards will be key to securing sustainable funding from multiple sources.

Based on the summary above the following topics will be covered through this knowledge stream:

1. Support direct access of national entities to the GCF (examples Brazil, Ecuador, Mexico)
2. Support the development of REDD+ programmatic frameworks and corresponding institutional, administrative and financial design; support financial planning and sequencing and combining different funding sources for the implementation of programmatic frameworks (DRC, Vietnam, Peru, Ecuador, Indonesia etc.)
3. Support indirect access to funding via multilateral funds while ensuring national ownership (e.g. CAFI, DRC, GCF)

Within the UN-REDD Programme, UNDP has been providing country support on most of above-mentioned topics above through its network of regional technical advisors and global advisors specialized in national strategies, investment planning, policy reforms, national funds and transparency. In addition, the UNDP REDD+ team has also developed guidance on differences between the Warsaw Framework and the FCPF RBP requirements.

Results Framework

| Outputs | Implementing agency | Indicators/Targets | Baseline | Means of Verification |
|--|----------------------------|--|--|---|
| Increased knowledge among REDD+ countries of specific requirements of funding sources (GCF, bilateral, FCPF) | UNDP | At least 15 timely guidance briefings and notes per year (2018-2020) ² | Guidance currently provided to countries needs to be constantly updated | Annual reports |
| Increased knowledge among REDD+ countries about country experiences on REDD+ programmatic and institutional frameworks | | At least one training (webinar, workshop, mission) per year delivered to each requesting country (2018-2019) | Advisory services continuously requested from most potential countries as cited in the text. | Knowledge and advisory products (briefs, notes) |
| | | 200 staff/Days per year of advisory services to selected countries (2018-2020) | So far, advisory services have been provided on a case-by-case basis. | Surveys conducted 3 months after delivery of key activity |
| | | | Three knowledge exchanges were conducted in 2015 | |

² These are not publications, but rather analysis and briefing notes to support operational objectives. These will be internal knowledge documents to be shared with counterparts and Norway. for example:

- A briefing note for the Ministers of Environment and/or NDAs on new developments with the GCF, issues related to accreditation of national, the development of country programmes, funding proposals or responding to the RFPs. Such briefing notes include analysis made by UNREDD team experts on the pros and cons of different approaches.
- An internal note on the lessons learned in developing project or programme proposals for the GCF and the implications for other proposals under development.

This knowledge component will contribute to performance of the indicators of the UN-REDD Strategic Framework, namely:

- Total finance mobilized by countries from domestic, bilateral, multilateral sources to implement their NS/AP for REDD+ as a result of UN-REDD support (Outcome indicator 3.2).
- Support development of investment plans for REDD+ results or other financing in line with country priorities and/or REDD+ strategies (indicator, output 3.1)
- Inter-institutional arrangements for REDD+ PAMs implementation in line with country context supported (indicator, output 3.2)

To make the day-to-day advisory services to selected countries more explicit we have integrated a table with a list of priority countries for knowledge and daily Technical Assistance support on this domain, and specified (in one line) the type of support they are likely to receive.

| Type of support | Country | days*yr |
|--|----------------------------|---------|
| Development of a “country investment programme” to support the achievement of the NDC for the LULUCF sector aligning investment portfolios and plans, as well as participatory mechanisms from various new or existing sources of public finance including the JDI/LOI and/or other key initiatives. This includes continued support to the improvement/updating of <ul style="list-style-type: none"> – the results and M&E framework of the JDI, LOI or other large funding – the detailed implementation plan for the JDI, LOI or other large funding – Environmental and social management planning to meet multiple requirements. – Reporting to multiple sources of finance in an integrated manner (UNFCCC, NICFI, FCPF, GCF, etc.) | Peru | 10 |
| | DRC | 10 |
| | Colombia ³ | 5 |
| | Ecuador | 20 |
| | Myanmar | 20 |
| Ensuring programmatic coordination between international public finance for REDD+, domestic policies, international trade policy and private sector commitments and investments to take deforestation out of their supply chains. | Cote d’Ivoire ⁴ | 10 |
| | Ecuador | 20 |
| | Peru | 10 |
| Advice to setting up an effective and transparent national REDD+ finance mechanism. Once designed, assistance to national institutions in putting innovative tools and economic instruments into practice, | Indonesia | 10 |
| | Peru | 5 |
| | Rep of Congo | 10 |
| | Vietnam | 10 |
| | Ecuador | 10 |
| | Liberia | 10 |
| Support direct access of national entities to the GCF | Ecuador | 15 |
| | Mexico | 15 |
| | Peru | 10 |

³ There has been no formal request from the government of Colombia for support on these topics.

⁴ In the context of a GCF funding proposal under development with UNDP as Accredited Entity, many cocoa multinationals have committed to provide co-finance and align their investments with the national REDD+ investment plan, these include Cargill (4,8 m USD), Barry Callebaut (8m), Mondelez (15 m), and Mars (60m) and CEMOI (1,1m).

Linkages with Domestic Policies and Private Sector

The implementation of the work on public finance under the current component will be complementary to, and integrated with the work on private finance. Indeed, domestic policies and finance, international finance for phase 2 and phase 3 of REDD+ and private investments into sustainable commodities supply chain initiatives, are currently advancing largely in isolation, separated by different scales of intervention, performance metrics and levers for shaping land user behavior. As a result, farmers are receiving few, if any, positive incentives to forgo legal forest clearing and to invest in more sustainable production systems. These tools need to be integrated in a coherent package of policies and measures for increasing food production while sparing forests and lowering carbon emissions. The role of international public sector finance is to support the implementation of existing government regulations for level playing fields, in countries where UN-REDD already has a strong position. This includes coordinated approaches to land-use planning, support for enforcement of existing regulations, traceability systems, and a reorientation of existing government subsidies. Partnerships with financial institutions and private sector will be required. Two models of how public finance for REDD+ can leverage private finance are currently being developed:

- In Ecuador, UNDP will be working with the Andean Corporation (CAF) in the development of new credit lines for deforestation free cattle, coffee, cacao and palm production through public financial institutions (namely National Finance Corporation and BanEcuador). This partnership offers the prospect of using REDD+ finance (Phase II and III) to leverage significant additional funds. Indeed, RBPs could be used to create a guarantee fund within the National Finance Corporation which could allow to leverage many times more resources than the guarantee itself for national public and private banks to use their own resources to extend highly concessional loans to zero deforestation commodity producers. Additionally, CAF could use RBPs to leverage its own resources in the form of loans if government so wishes.
- In Cote d'Ivoire, UNDP has helped leverage significant co-finance⁵ from multinational corporations to support the implementation of the National REDD+ Strategy. These corporations recognize that public funding will be essential to overcome the obstacles related to their own commitments to transition to sustainable production cocoa systems and to rid their cocoa supply chain from deforestation by providing the necessary enabling environment.

These partnerships bring the overall size of these initiatives well beyond the amount of international REDD+ finance well at the same time as it increases the sustainability of the REDD+ National Strategies or Action Plans. These models could become a very attractive model for the rest of the world.

Risk assessment

Establishing REDD+ financial mechanisms and programmatic frameworks requires the involvement of many ministries. Involving finance, agriculture, trade or planning ministries in REDD+ processes in country is a difficult task for our counterparts which are typically from ministries of environment and/or forests with limited political weight. The barriers are at 2 levels:

1. There has been limited involvement and awareness of relevant public finance stakeholders in REDD+ (finance ministries, national development banks, agricultural development banks). The focus for REDD+ has been on different engagement mechanisms and entry points focusing on indigenous peoples and local communities and ensuring grass-roots participation rather than high level power players.

⁵ In the context of a GCF proposal to support the implementation of the National REDD+ Strategy the following companies have committed to provide the following co-finance: Cargill (4,8 m USD), Barry Callebaut (8m), Mondelez (15 m), and Mars (60m)

2. Even when dialogue between finance and environment/forestry is established, the interest of public financial institutions remains low or non-existent due to the lack of clarity on short or medium term prospects to manage significant REDD+ funds.

In countries that have signed an MOUs with Norway, Germany and the UK (e.g. Peru, Colombia, DRC) or in countries that have mobilized significant finance from the GCF (e.g. Ecuador), these first 2 barriers are being lifted and we are evolving towards building a critical mass of key finance actors that know about REDD+. Most noteworthy is DRC, where many ministries are involved in the implementation of the investment plan; or Ecuador where the REDD+ National Action Plan is being implemented jointly by the Ministries of Environment and Agriculture in close collaboration with the Ministry of Foreign Trade. However, in this process environment ministries sometimes feel like they are losing power (losing control of budgets) and so they are reluctant to champion the involvement of finance ministries and the integration of REDD+ in the national public finance architecture.

| Risk description | Rating | Mitigation measures |
|--|----------------------|--|
| External risks | | |
| Guidance from the GCF takes time to be clarified, making UN-REDD advice moot | P=medium I = High | UN-REDD to keep abreast of the conversations at the GCF, the positions of GCF Board members and share intelligence on findings. |
| The advice/recommendations of the UN-REDD team are not adopted by the key government actors or powerful stakeholders in country | P=medium I = High | Ensure long-term engagement and technical advice to countries. Build bridge with other ministries such as finance, agriculture, foreign trade, planning. Build a common understanding of the relationships between foreign trade, domestic policies and international finance for REDD+. Build bridges with private sector actors and civil society through REDD+ roundtables, commodity platforms for dialogue. |
| The advances resulting from the assistance of the UN-REDD team are not attributed to the programme as it plays a supportive function | P = High I = TBD | Report co-operation efforts and synergies. |
| Internal | | |
| The presence of in-country support through longer missions is requested from governments and increases costs | P= High I=medium | Strategic re-orientation on top priority countries would have to be made when such demand is observed beyond what is planned for |
