

REGIONAL KNOWLEDGE EXCHANGE: "REDD+ FINANCING"

25 - 27 MAY 2016

REDD+ PARTNERSHIP

UN-REDD
PROGRAMME



Food and Agriculture
Organization of the
United Nations



Domestic financing options: Subsidies and fiscal instruments

Day 2, Session 5

Gabrielle Kissinger



Categories of REDD+ finance

Support for REDD+

Enables REDD+ implementation and future emission reductions:

- Development of national strategies or action plans
- Capacity building and institutional development
- Technical assistance for MRV, safeguards, reference levels, driver studies, awareness-raising, etc.

Support for REDD+ implementation

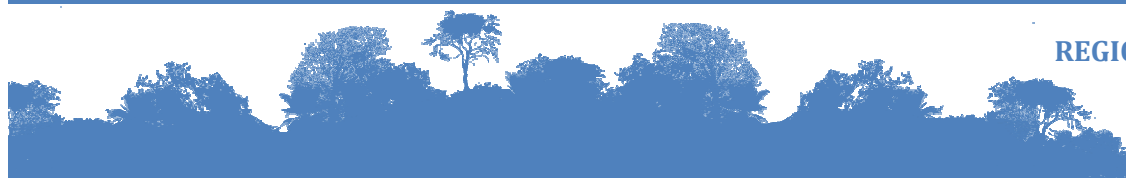
Activities that directly support the reduction of emissions:

- **Implementation of national policies and measures**
- **Activities in REDD+ national strategies or action plans that address drivers and underlying causes**

REDD+ results based finance

Payments for emission reductions in the forest sector:

- Jurisdictional results-based pilot programs at the subnational or national level (e.g., Amazon Fund or the Forest Carbon Partnership Facility (FCPF) CarbonFund)
- Disbursed funds or pledged/parked funds for results
- The expectation of potentially receiving results-based funds in the future



Domestic approach to REDD+

- Is REDD+ broadly understood to be a means to achieve better forest management and governance, an international mechanism, or both?
- Is REDD+ viewed as a pillar of a national climate change strategy?
- Is climate change (and REDD+) being mainstreamed into national development planning?
- Is REDD+ viewed broadly as a range of activities necessary to address the drivers of forest loss?



Developing a finance plan for REDD+: Role of domestic finance

Reverse of amend incentives that contradict REDD+

Expenditure review: how is gov funding REDD+ compatible activities? (central gov + sub-national)

How to grow quantity of compatible expenditure in other sectors?

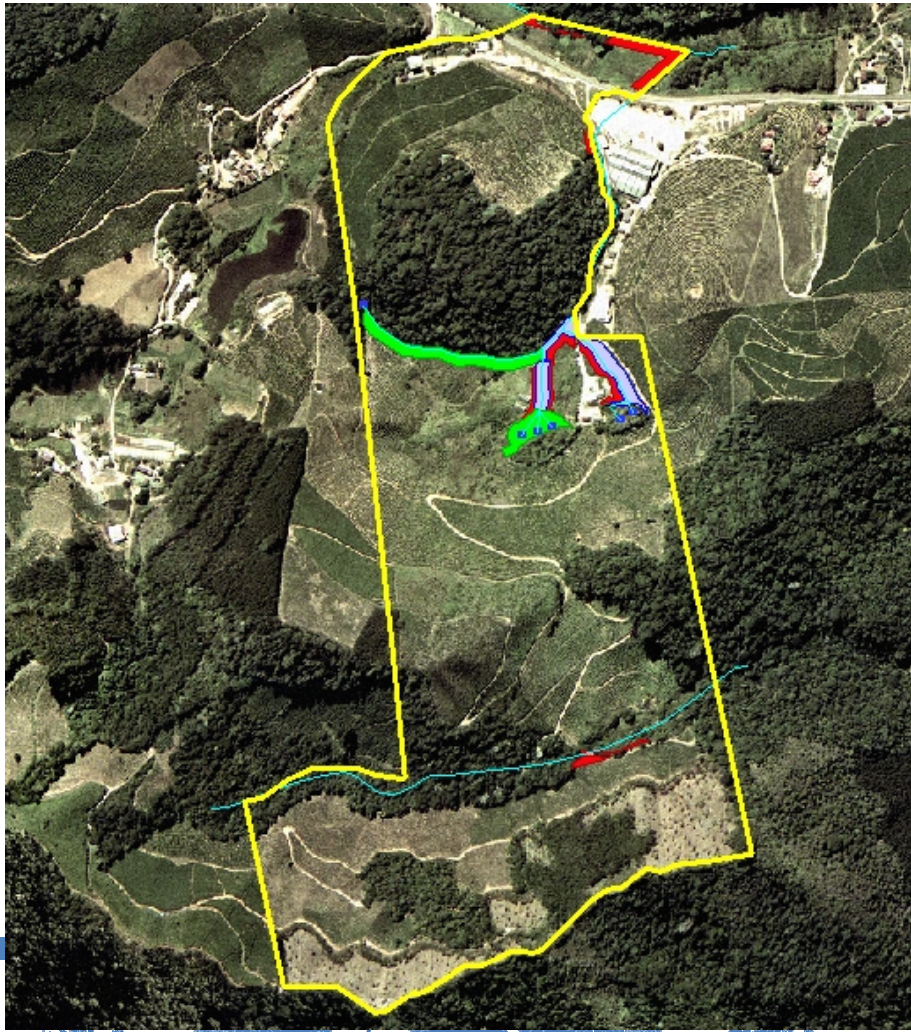
How to send the right signals to the private sector?

Smart and strategic use of international climate finance

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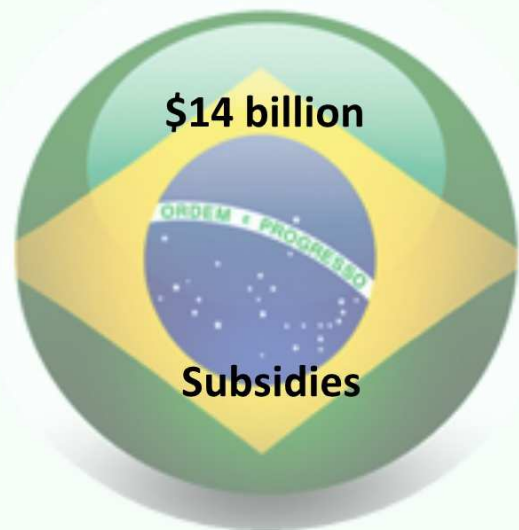
Fiscal incentives and subsidies for agricultural commodities usually not compatible with REDD+



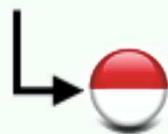
Indirect drivers: subsidies that work against REDD+

BRAZIL

\$580 million



FOREST AID



\$660 million

INDONESIA

\$27 billion

Subsidies

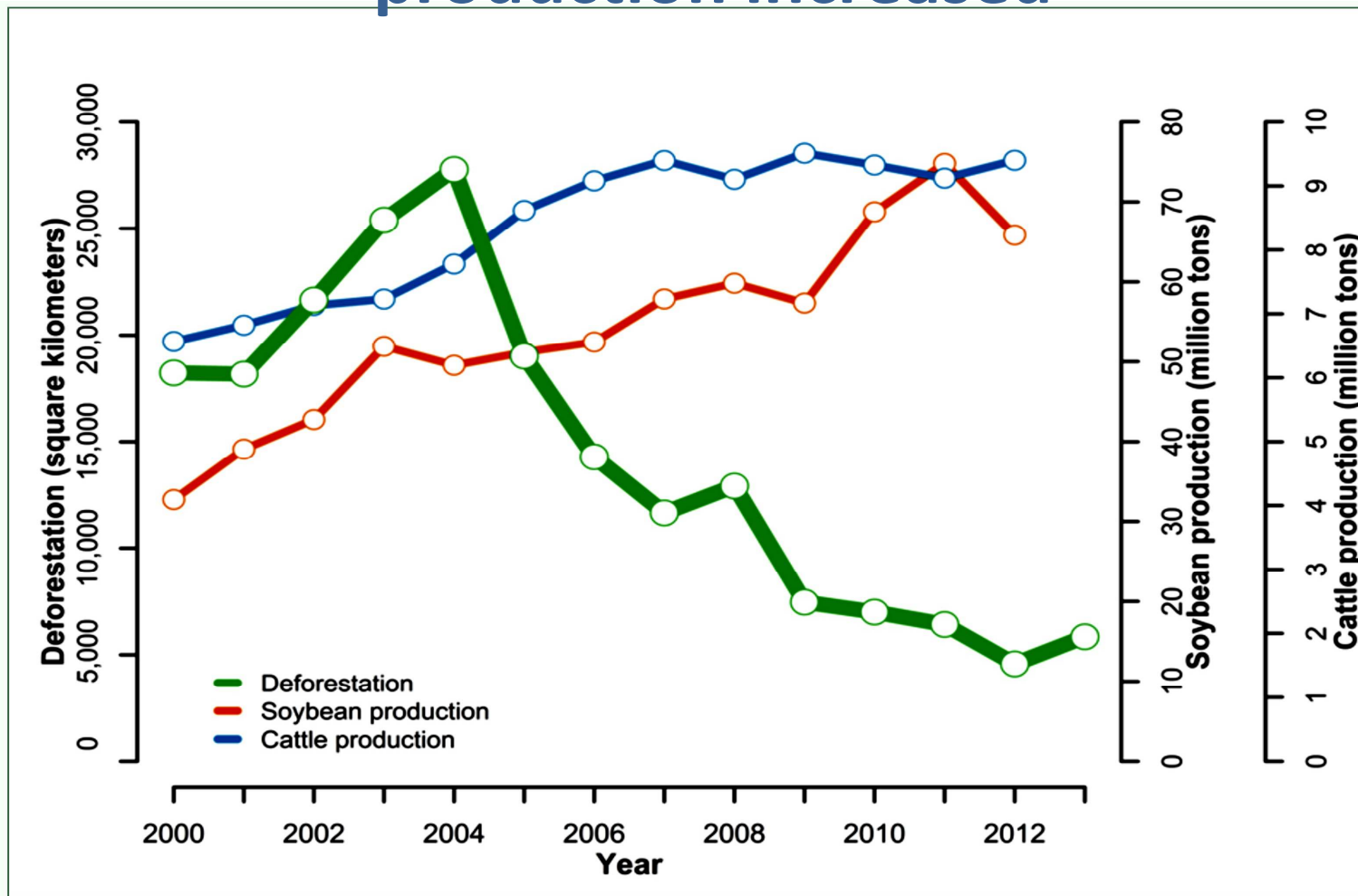
Source: McFarland, Whitney, Kissinger, 2015



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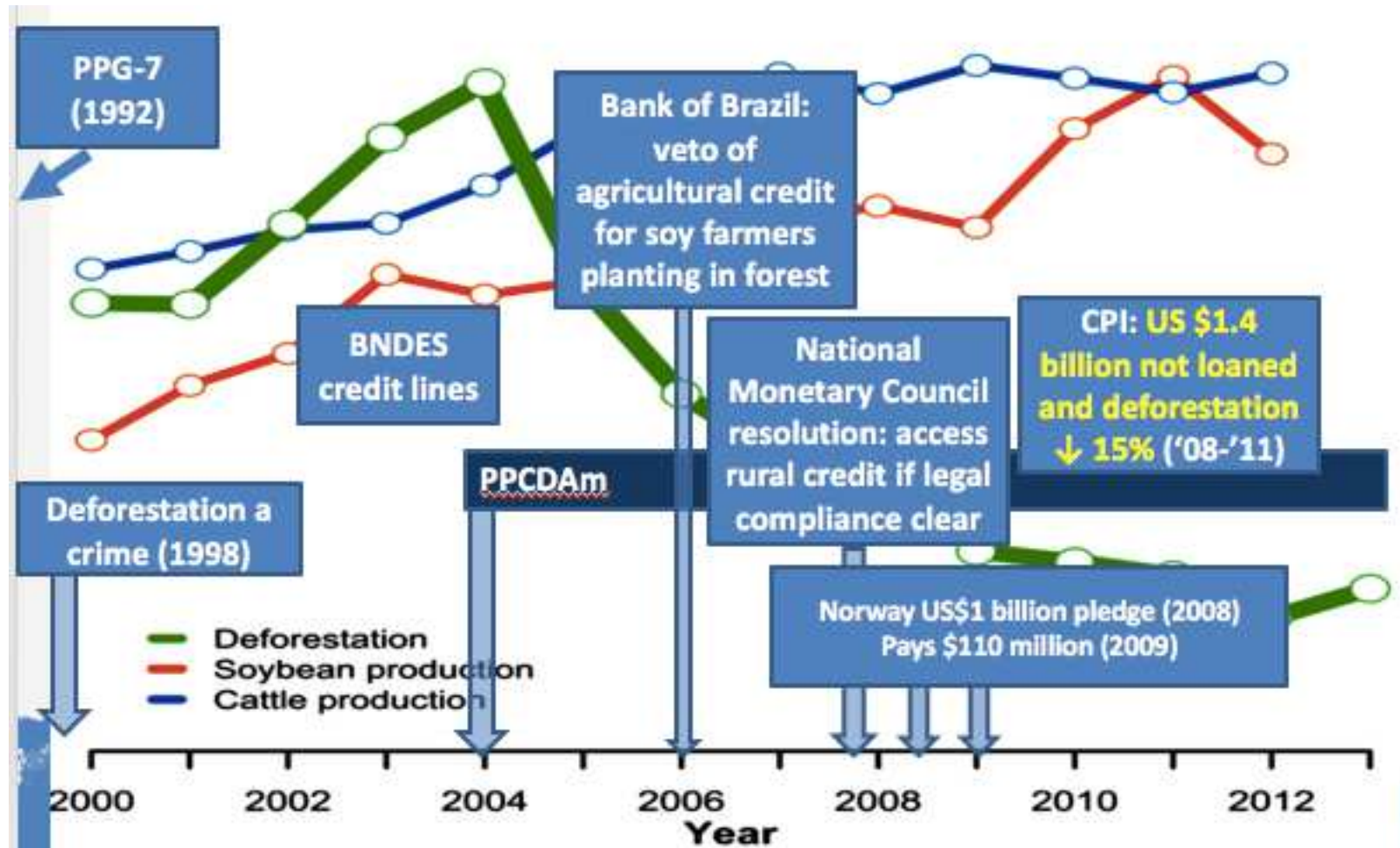
Brazil: Deforestation decreased, while agric production increased



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Brazil: Domestic finance and incentive reform



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Brazil: Domestic finance and incentive reform

PPCDAM implementation relied considerably on domestic finance:

- 3 phases (2004 – 2015) of the action plan
- Action Plan - 40 federal agencies, 195 activities in three thematic axes
 - Land tenure regularization and land use planning
 - Monitoring and control
 - Promotion of sustainable productive activities



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WTO: Subsidy is ‘any financial contribution by a government, or agent of a government, that confers a benefit on its recipients.’

Type	Example
Grants and other direct payments:	<i>Subsidized land, fertilizer subsidies, inputs, rural development grants</i>
Tax concessions:	<i>Tax exemptions, credits or deferrals</i>
In-kind subsidies:	<i>Non-monetary but confer a benefit on the recipient: streamlined land access and permitting, corruption</i>
Cross-subsidies:	<i>price discrimination within the scope of one unit</i>
Credit subsidies and government guarantees:	<i>Loss compensation, concessionary interest rates</i>
Hybrid subsidies:	<i>Tax-free bonds, tax increment financing</i>
Derivative subsidies:	<i>Compensatory or countervailing support, subsidy clusters</i>
Procurement:	<i>Public procurement commitments seeking to support domestic producers</i>
Market price support (in the producer country):	<i>Fuel blending mandates, artificial price support</i>

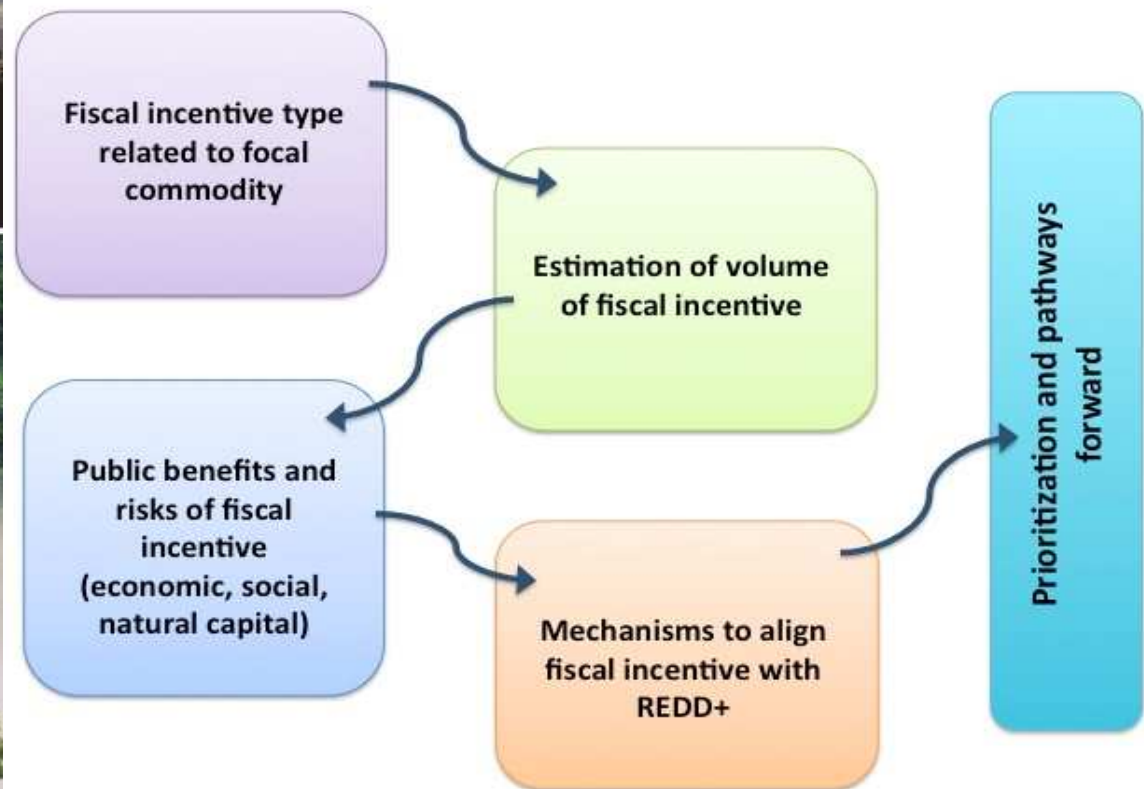
Author adapted, based on GSI



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Framework for analyzing fiscal incentives



Ecuador: fiscal incentives for oil palm

High probability of negative impact	High probability of positive impact	Low to medium impact
Subsidies to urea	Programa Nacional de Palma Africana (National Programme for Palm)	Income tax exemptions on new investments
Socio siembra (Planting Partner Programme)	Income tax deductions available for clean technologies	Deductions for hiring staff with disabilities
Subsidies to fuel and electricity	Exonerations from payments on advances to IT for agroforestry and silviculture	The ITR generated x 4 will be deductible IR Global
Exonerations from payments on advances to IT for new investments outside of Quito and Guayaquil	Exemption from tax for rural land under 25 ha	0 % VAT rate on import of edible oils
0 % in VAT for import of seeds , bulbs, fertilizers , pesticides, etc.	Exemptions from tax on rural land communes , unions, etc.	0 % VAT rate on import of agricultural machinery
0 % VAT rate in fumigation service	Tax exemption in rural land affected natural disasters	0 % VAT rate on extraction by mechanical or chemical means to produce edible oils
Purchase of productive lands	0 % in VAT for import of agricultural products	0 % VAT rate for transfers in and imports of goods for agricultural use
	Agroforestry Credit	Emergency Programme for the Agricultural Sector
	Crédito Asociativo	Production and trade credit
	Associative credit	National Guarantee Fund
		Agro seguro (agricultural insurance)

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Indonesia

Disconnect:



- Indonesia's Intended Nationally Determined Contribution (INDC): 29% reduction of greenhouse gas emissions by 2030 and 41% with international support
- Indonesia aims to increase palm oil production levels by 53% between 2013 and 2020, to serve an increasing biofuel blending mandate and ramping up crude palm oil (CPO) exports
- How to achieve both goals?

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Fiscal incentives: Indonesian oil palm production

- **High-level political commitment is essential** for alignment between the 2015-2019 National Mid-Term Development Plan and Green Growth.
- Review the **intergovernmental fiscal transfer system**.
- Bring coherence to management of forest land outside the forest estate (incl. HCV), but **consider using spatial planning and regulatory tools rather than new fiscal incentives** for plantation estates.
- **Link smallholder access to fiscal incentives** and government-facilitated land tenure clarification, **concessional loans for certified producers**.
- **Limit access** to credit subsidies and government guarantees through state banks, and tax concessions, **on the basis of performance measures**.

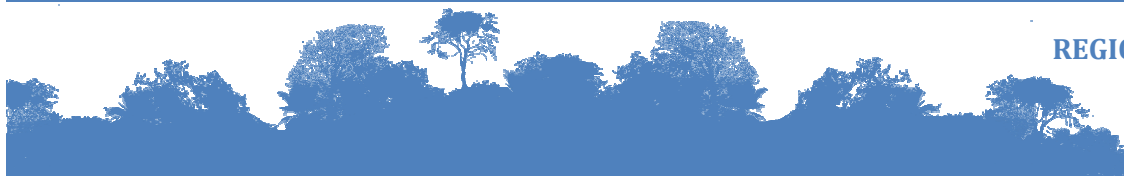


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Indonesia: Intergovernmental fiscal transfers to incentivize good management

- **Costly**: Peat fires – 21 deaths, respiratory ailments, 2.6 million ha peat lands burned, cost economy US\$16.1 billion (IDR 221 trillion) in 2015 (World Bank).
- Restoration = too much IDR, too late! Better investment is in safeguarding natural forest and peat lands.
- Dana Alokasi Umum (DAU) is IDR 385 trillion (US\$28 billion) in 2016
- Law 23 of 2014: Changes in decentralization provides the opportunity for provinces to better value natural assets:
 - DAU is expected to increase due to Law 23. So, it is timely to insert shifts in the allocation formula (political feasibility)
 - Does not prescribe how provinces should spend the revenue, is performance-based....and revenue-neutral



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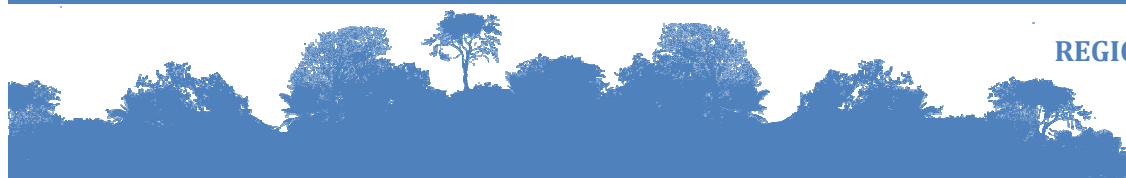
Inspiration: India's intergovernmental fiscal transfer system + forest criterion

India's 14th Finance Commission: Declining revenue from forests was a concern to some states, due to the implementation of the National Forest Policy.

Table 1: Criteria and Weights

Criteria	Weight (%)
Population	17.5
Demographic Change	10.0
Income Distance	50.0
Area	15.0
Forest Cover	7.5

- The percentage weight allocated to forest cover is expected to deliver US\$6 billion a year to states.
- Amounts to US\$120 per hectare per year and is competitive with agriculture production earnings
- Is revenue neutral!



Reflection:

- Where can government have influence?
- Look at success stories (fisheries, etc.)
- What agencies need to be involved, when?
- Public benefits and risks?
- Political economy: Packaged interventions, or house within medium-term development plans
- Best practices in production in order to access incentives or rural credit
- No-regret options – adaptation + mitigation, livelihood improvements, tenure



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Thank You

Gabrielle Kissinger

Consultant to UNEP/UN-REDD Programme

gabrielle@lexemeconsulting.com



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