Evolution of Finance for REDD+ in the UK: A History and Overview of the UK Government's Engagement with Forest Finance, with a Focus on Performance-Based Payments for REDD+

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Abstract

This paper offers a perspective on the political factors that have influenced the size, nature, and timing of UK commitments to forest finance, specifically the significant and committed finance being programmed under the International Climate Fund (ICF), during a time of austerity in the UK. In particular, the paper analyzes opportunities and constraints (past, current, and future) related to the channeling of funding through performance-based mechanisms, such as REDD+.

Towards the latter half of the 2000s, at a time when UK finance for forests under the international climate negotiations was scaling up, the global financial crisis put considerable pressure on the UK government's aid budget. This led to an increased scrutiny of ODA in general and an increased appetite across government for a more results-based approach to aid.

This paper explores how the UK government has channeled finance under its International Climate Fund (ICF) - the primary vehicle for forest finance - and how it has integrated results-based payments into its funding decisions. This analysis is based on a combination of desk research and expert interviews. A wide range of stakeholders with in-depth knowledge of forest finance in the UK were consulted, including current and past government staff, as well as representatives of NGOs and the private sector. Desk research included a review of information on UK forest aid projects, government commissioned reports, NGO reports and position statements, and media coverage.

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1. Introduction

This paper offers a perspective on the political factors that have influenced the size, nature, and timing of UK commitments to forest finance, specifically the significant and committed finance being programed under the International Climate Fund (ICF), during a time of austerity in the UK. In particular, the paper analyzes opportunities and constraints (past, current, and future) related to the channeling of funding through performance-based mechanisms, such as REDD+.

The concept of results-based finance – also known as payments for performance or payments for progress - was initially conceived to link additional aid to clear evidence of progress already achieved on the ground.[1] This was intended to transfer more autonomy to local institutions, while at the same time dealing with legitimate concerns from donors that aid pays for real and tangible progress. The success of results-based payments is generally evaluated on its ability to deliver on particular outcomes or goals. Early overviews of results-based finance (from outside the forest sector) found that financial incentives were effective for short-term and well-defined goals, but there was less evidence that financial incentives could sustain long-term changes.[2]

Forests are a recent addition to the discussions on results-based finance, arising from an increased focus under the international climate negotiations on Reducing Emissions from Deforestation and forest Degradation (REDD+), which addresses the climate impacts of forest loss.[3] The perception within the development community has long been that forests are a challenging area,[4] with complex interactions across the underlying causes of deforestation and forest degradation.[5] It has therefore been difficult, historically, to create and set targets in the forest sector, and to disburse money quickly against these targets. The last decade and a half has seen an evolution in forest aid, with

[1] Owen Barder and Nancy Birdsall, *Payments for Progress: A Hands-Off Approach to Foreign Aid,* Centre for Global Development, Working Paper Number 102, 2006.

[2] Early research for results-based aid has focused on the health sector, as one of the more prominent areas for application of results-based aid. See: Fretheim and Oxman, *An overview of research on the effects of results-based financing,* Report from the Norwegian Knowledge Centre for the Health Services nr 16, 2008.

[3] REDD+ is shorthand for 'policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation; and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks in developing countries'

[4] Alain Karsenty, et al., *Financing options to support REDD+ activities,* CIRAD report for the European Commission, 2012.

[5] See, c.f: Arild Angelsen and David Kaimowitz, "Rethinking the Causes of Deforestation: Lessons from Economic Models," *The World Bank Research Observer* 14(1), 1999; Geist and Lambin, University of Louvain LUCC Report Series 4, 2001.

increasing links to poverty reduction strategies,[6] and the recognition of rights, governance and social justice issues as a central component of forest protection.

The UK has long been a key supporter of tropical forest conservation, but the tenor and type of finance has gradually shifted over time. In the early 1990s UK interventions were predominantly technical in nature, with the UK government providing large-scale support, among other things, to the Tropical Forest Action Plan. Current UK interventions include governance reform programs, addressing illegality and impacts on poverty in the timber sector, and - in parallel with increased awareness in the global community - financing activities to address deforestation as a means to combat climate change.

Towards the latter half of the 2000s, at a time when UK finance for forests under the international climate negotiations was scaling up, the global financial crisis put considerable pressure on UK government's aid budget. This led to an increased scrutiny of ODA in general and an increased appetite across government for a more results-based approach to aid.

This paper explores how the UK government has channeled finance under its International Climate Fund (ICF) - the primary vehicle for forest finance - and how it has integrated results based payments into its funding decisions. This analysis is based on a combination of desk research and expert interviews. A wide range of stakeholders with in-depth knowledge of forest finance in the UK were consulted, including current and past government staff, as well as representatives of NGOs and the private sector. Desk research included a review of information on UK forest aid projects, government commissioned reports, NGO reports and position statements, and media coverage.

This paper is divided into six sections. In the following section, Section 2, we discuss the history of forest finance in the UK, tracing the political events shaping Her Majesty's Government's (HMG) approach to forest policy, as well as the key factors that triggered support in the UK for the emerging REDD+ mechanism. In Section 3 we look at the institutional arrangements in HMG and the implications of the division of decision-making on forest financing across multiple government departments. In Section 4 we examine ongoing and newly emerging forest projects from the UK's International Climate Fund (ICF), and Section 5 discusses the relative role of NGOs and the private sector in influencing forest finance decisions in the UK. Section 6 concludes with a discussion of likely future developments for results-based forest finance in the UK.

[6] Sven Wunder, "Poverty Alleviation and Tropical Forests – What Scope for Synergies?" *World Development*, 29 (11), 2001.

2. History of finance for forests in UK climate policy

The UK has long been a significant funder of tropical forest conservation. In more recent years, there has been a gradual shift in the focus of forest finance away from the more technical interventions of the early 1990s towards governance reforms, addressing illegality and climate change mitigation.

This section outlines the main political events shaping HMG's approach to forest policy in the 1990s and early 2000s before the emergence of REDD+, and the subsequent shift in policies towards the end of the 2000s at the prospect of an emerging climate and forest package under the United Nations Framework Convention on Climate Change (UNFCCC).

The last twenty years has seen major evolution in development approaches around the world. In the UK, these changes have affected support for forests, along with other developments related to the growing recognition of the role forests play in climate change. These influences can be seen by tracing the institutional arrangements for ODA for forests - initially managed in the UK by the Department for International Development (DfID).

2.1 The 1990s: Early lessons in conservation

The UK government has had a long-standing presence in tropical forest countries through international posts of DfID, and the Foreign and Commonwealth Office (FCO). In the late 1980s, the UK was a donor to the international framework known as the Tropical Forestry Action Plan (TFAP). Launched in 1985 by the United Nations Food and Agricultural Organization (UN FAO) and the World Bank, TFAP was a major international response to the growing crisis of tropical deforestation.[7] When it was launched, TFAP was hailed by aid agencies and environmental groups as the answer to the tropical forest crisis, but was later criticized for a bias towards industrial forestry and a lack of transparency.[8]

At the time, HMG was a major supporter of the initiative, with then Prime Minister and leader of the Conservative Party, Margaret Thatcher, delivering a far-sighted 1989 speech to the United Nations General Assembly, which spoke of the role of tropical forests in mitigating climate change: "We are seeing a vast increase in the amount of carbon

[7] FAO's Tropical Forestry Action Plan. http://www.fao.org/docrep/r7750e/r7750e06.htm

[8] Larry Lohmann and Marcus Colchester, "Paved with Good Intentions: TFAPs Road to Oblivion," *The Ecologist,* 20, 1990.

dioxide reaching the atmosphere… At the same time as this is happening, we are seeing the destruction on a vast scale of tropical forests which are uniquely able to remove carbon dioxide from the air".[9] In this speech, Thatcher announced £100 million of bilateral funding for tropical forestry activities over three years, a previously unprecedented amount for such an issue.

This large-scale commitment from the Conservative government led to a scaling up of capacity within DfID, and the management of significant project investments spread across twenty countries in all three tropical forest biomes. Projects were typically technical in nature and highly resource-intensive, with a focus on improved forest management, biodiversity conservation, and national parks. In a few countries, such as Nepal and Mexico, the program included some forward-looking assistance to an emerging model of community forestry. At around the same time, the cross-government International Forest Policy Working Group was established by HMG just after the Rio Earth Summit in 1992, and was the first example in the UK of this kind of cross-departmental coordination in any sector. Cross-departmental representatives convened regularly and held frequent meetings with non-governmental organizations (NGOs) and industry associations.

Yet, while there were some islands of excellence, UK bilateral projects were generally heavily criticized for having too little focus on policy reform, taking an overly sectoral approach on timber and being too dependent on external funding and external technical assistance to support activities. Internationally, the TFAP was experiencing the same difficulties, with critics arguing that the program was donor-driven and, with few exceptions, was taking the control and ownership of forests away from local communities.[10] By the early 1990s, the TFAP was failing and despite strong efforts at reform, donor interest declined and the program was wrapped up with less than half the funds disbursed.[11]

Poor experiences with the TFAP, as well as a growing recognition internationally that tropical deforestation was a much more systemic problem than had previously been recognized, led to a change in focus within DfID. In line with its general mandate as a development finance institution, and under a new Labour government (see below), it

[9] See Margaret Thatcher speech to United Nations General Assembly, 8 November, 1989. http://www.margaretthatcher.org/document/107817

[10] Vandana Shiva, *Forestry Crisis and Forestry Myths. A Critical Review of Tropical Forests: A Call for Action.* World Rainforest Movement, 1987. http://exacteditions.theecologist.org/exact/browse/307/308/5344/3/16?dps=

[11] Puntenney and Winterbottom, "The Tropical Forestry Action Plan: Is it Working?" in: *Global Ecosystems: Creating Options through Anthropological Perspectives*, 2009.

shifted priorities towards securing livelihoods, poverty alleviation and governance reform, which became the guiding principles for DfID's work in tropical forests from the late 90s and the early 2000s onwards. A long-term engagement in forests and the persistence of local field offices allowed DFID to build on existing relationships and work with long-standing partner countries such as Indonesia and Nepal - where DfID had a long engagement in community forestry – even during tumultuous periods of reform in these countries.

2.2 1997-2004: A decline in aid and foreign support

In the 1997 general election the Labour Party won a landslide victory under Tony Blair and the UK government shifted from a majority Conservative parliament to a majority Labour parliament. The incoming government was strongly supportive of climate action, including commitments in their 1997 Party manifesto to reduce emissions by 20 percent by 2020, and to '*green*' government.[12] At the same time, a declining interest in tropical forests - due in part to the lack of success of initiatives such as the TFAP - led to a significant decline in UK funding for forests.

Given DfID's focus on poverty reduction and governance, and an agreed limit on ODA expenditure in middle-income countries, there was a sharp decline in support for countries such as Sri Lanka and Mexico (although some middle-income countries including Indonesia, due to specific needs for support, still received significant investments from the UK). There was also a decline in area-specific forest projects, with more attention given to supporting forest policy and institutional change, including supporting a broad range of stakeholders within the framework of national forest programs.

At the same time, in response to emerging lessons of aid effectiveness within the broader development agenda, there was a move towards direct budget support and reduced investment in stand-alone bilateral 'projects'. Unlike other sectors such as health and education that had clear links to national budgetary processes, forests (with some exceptions) were not considered suitable for such investments, putting further pressure on already tight international budgets for forests.

This period also saw growing action on illegal logging, with increasing emphasis on improved governance in international forest policy and a recognition of the role of trade - and a shared responsibility between consumer as well as producer countries - in fuelling

[12] Labour Party Manifestos, "New Labour because Britain deserves better," 1997. http://www.labour-party.org.uk/manifestos/1997/1997-labour-manifesto.shtml

demand for illegal products. This led to the emergence of the Forest, Law Enforcement and Governance (FLEG) initiative[13] of which DFID was a key proponent, encouraging the World Bank to move beyond a traditional 'law enforcement' model to a broader governance approach. In 2002, a joint FERN/Chatham House study[14] proposed a framework for the European Union (EU) to control illegal timber imports that also included the role of trade, ultimately leading to the adoption of the EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT), launched in 2003.

The UK has from the beginning been a key player in the EU FLEGT Action Plan, with both NGOs and the timber industry playing a significant role in urging governments to use trade incentives to control illegal logging.[15] This period was characterized by a close collaboration between government and civil society in the UK, with regular meetings convened by cabinet ministers to discuss domestic and international forest policy across government departments as well as with civil society and the private sector. The UK was a key actor in enacting the various elements of the FLEGT Action Plan, including committing to an ambitious new procurement policy for sustainably sourced timber, culminating eventually in the enactment of the EU Timber Regulation in 2013,[16] making it a criminal offence to bring illegally sourced timber into the EU.

2.3 2005-2012: Carbon moves to center stage

Towards the end of the Labour government, from 2005-2009, a growing environmental movement on climate change and increased national and international pressure to broker a global climate deal played a considerable role in the way that international development, and in particular forests, were addressed within the UK government. In the UK, as in many other countries, the UNFCCC climate summit in Bali in 2007 and discussions on the emerging mechanism on forests known as REDD+ were a key catalyst for moving forests back up the domestic agenda.

While the UK did not rely on a prominent political champion as some other countries had to raise the profile of forests in the climate agenda, it did have key proponents of the forest and climate agenda across various ministers, the Prime Minister and high-level

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[13] The World Bank, Forest Law Enforcement and Governance, 2013. http://www.worldbank.org/en/topic/forests/brief/forest-law-enforcement-governance

[14] Duncan Brack, et al., *Controlling imports of illegal timber: Options for Europe,* FERN / The Royal Institute for International Affairs, 2002.

[15] Kate Dooley and Saskia Ozinga, "Building on forest governance reforms through FLEGT: the best way of controlling forests contribution to climate change?" *RECIEL* 20 (2), 2011.

[16] Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market Text with EEA relevance. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R0995&from=EN

public figures such as HRH the Prince of Wales (see section 5). Under Labour in 2008, a new department, the Department of Energy and Climate Change (DECC), was established, reflecting the rise of climate change to the top of national and international agendas.

The creation of DECC was broadly welcomed by environmentalists, and the placement of ambitious Labour politician, Ed Miliband, as Secretary of State for Climate and Energy ushered in a hopeful phase of environmental leadership in the UK when attention was focused on an international climate treaty in Copenhagen.[17] At the civil servant level, forest officials moved between departments to staff the newly established climate change unit, meaning that across all three government departments now working on forests there were a number of senior individuals with a long history in the sector. Through this constellation of factors, the UK government was set to lead the way in building the economic case for climate action, and in particular forests.

In late 2006, the UK Government released the Stern Review on the Economics of Climate Change, a report commissioned by Gordon Brown that impacted the way climate change was viewed across the globe.[18] Sir Nicholas Stern was, at the time, second permanent secretary at the Treasury and his report was fundamental to building climate policy in the UK as well as internationally, and greatly influenced government thinking in the UK. The Stern Review highlighted the key role of forests to address climate change and stressed the potential for "*highly cost-effective*" emissions reductions through measures to curb deforestation (Stern later acknowledged that rising commodity prices and administrative costs could increase the costs of emissions reductions from avoided deforestation, emphasizing the complexity of the issue, with development and land rights issues implicated).[19]

Following this, in 2008, Gordon Brown, acting in his new role as Prime Minister, commissioned the Eliasch Review, to further explore financing options for forests.[20] Johan Eliasch was a Swedish businessman, domiciled in the UK, and had previously been Deputy Treasurer of the UK Conservative Party. Eliasch was offered the job of Prime Minister's Special Representative on Deforestation and Clean Energy by Gordon Brown as part of a wider Labour strategy to enlist key Conservatives. The Eliasch

[17] John Vidal and Juliette Jowit, "Ed Milliband named as head of new climate and energy department," *The Guardian.* 3 October, 2008.

[18] Nicholas Stern et al., *The Stern Review: The Economics of Climate Change.* Cambridge University Press, 2006.

[19] Nicholas Stern, *Key elements of a global deal on climate change,* London School of Economics and Political Science, 2008.

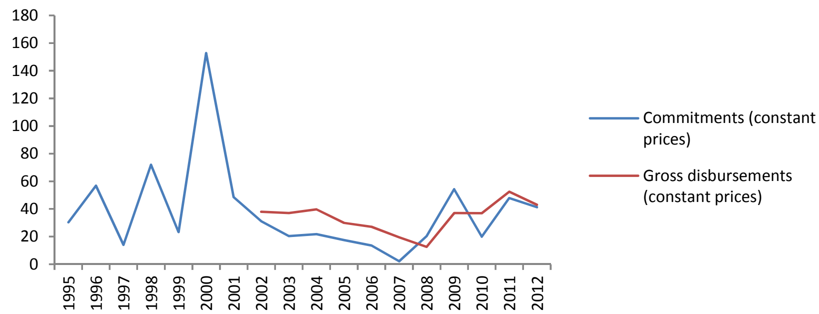
[20] Johann Eliasch, et al., Climate Change: Financing Global Forests. The Eliasch Review. Office of Climate Change, 2008.

Review drew on a wide range of newly commissioned and existing literature, as well as visits to key forest countries, and wide consultations with NGOs, academics and business groups. Eliasch built on the messages of the Stern Review that the forest sector was a relatively low cost abatement option. The Review also cautioned that substantial upfront investment would be needed for improved forest governance, and recommended a 'significant financial contribution' from the UK to tackle forest loss.

These two reports as well as considerable momentum under the international climate talks paved the way for a much larger emphasis on forests under the UK's international climate commitments, and in 2007 the UK government declared an £800 million international window under the Environmental Transformation Fund (ETF), a precursor to the current International Climate Fund (ICF). Following this, at the Copenhagen climate summit in 2009, the UK made a further commitment of £1.5 billion (about $2.4 billion) in fast-start finance (FSF) for the period 2010-2012, of which 20 percent, or £300 million, would go towards forests.[21]

[21] DECC and DfID. UK fast start climate change finance, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67657/BROCHURE_20UK_20FAST_20START.pdf

Figure 1 UK ODA for forestry from 1995 - 2012 (USD millions). Data taken from OECD DAC CRS database[22]



While this pledge is significant, it was not a major shift in UK government spending on forests, which had previously averaged around 0.5 percent of ODA, or £50 million per year (see Figure 1). Forests were now, however, one of the three target pillars of the ICF (alongside mitigation and adaptation), showing the huge rise in prominence of forests on the political agenda. More notable has been the continuation of the 20 percent earmarking of ICF funding established under the Copenhagen FSF pledges to ongoing international finance for forestry.

3. Coordinating forest finance

Decision-making on forest finance within the UK government is divided across three departments, each with clearly defined roles but somewhat less clearly defined positions on REDD+ finance. Imbalances in budgets, and discrepancies in departmental objectives and experience has - at times - led to tensions across government, both in terms of spending priorities and timely disbursement of funds.

3.1 Establishment and Governance of the ICF

Within the UK government, three departments take key responsibility for decision-making on international finance for forests. These are the Department for International Development (DfID), the Department for Environment, Food & Rural Affairs (DEFRA), and the Department for Energy and Climate Change (DECC).[23] Each of these departments plays a defined role in coordinating international forest finance. DfID's mandate is to promote sustainable international development including poverty

[22] OECD.Stat, Creditor Reporting System, 2014.

[23] The Foreign and Commonwealth Office (FCO) and Her Majesty's Treasury (HM Treasury) also play a role in the financial architecture of the ICF but are not involved in the programming of finance from the ICF.

alleviation, governance reforms and economic growth. DEFRA places its emphasis on biodiversity conservation and DECC focuses on climate mitigation impacts and reduced carbon emissions primarily from energy, but also forests/land-use.

In its 2010 Spending Review the UK Government allocated £2.9bn towards the ICF.[24] This budget was to be provided by each of the three departments as follows: DfID: £1.8bn, DECC: £1bn and DEFRA: £100m, the latter only for forest finance. In the 2015-2016 Spending Review these departments allocated additional finance to the ICF and current commitments are closer to £3.9bn (DFID: £2.4bn (or 60%), DECC: £1.3bn (33%) and DEFRA: £140m (3.5%)) for the period April 2011 - March 2016.[25] Joint ministerial oversight of the ICF is provided by the Secretaries of State for DfID, DECC, Treasury, and DEFRA (who share oversight on forests, but have no input to energy mitigation or adaptation budgets within the ICF), in consultation with the Foreign Secretary.[26]

The overall ICF budget aimed for a balanced allocation between adaptation (50 percent), low carbon development (30 percent) and forestry (20 percent) in line with the agreed thematic split for FSF..[27] At roughly £580 million over three years this represented a significant increase in international funding for forests from the UK. It is worth noting, however, that although their relative contributions to the ICF are different, each department contributes a relatively equal share to the forest component of the ICF.

Proposals for expenditure under the ICF were to be prepared for Ministers by an ICF Board comprising of Directors General from DECC, DFID, FCO, DEFRA, HM Treasury, and chaired by DFID. The ICF Secretariat would then provide feedback on ideas and those that were considered a good fit with the ICF implementation plan and strategy would be worked up by relevant officials into concept notes, setting out the strategic case for intervention, impact, expected results and feasible options. Decisions on whether concept notes are developed into full business cases - and subsequently whether business cases are approved - are taken by the ICF Board and delegated approval boards. Ministers are responsible for all final spending decisions, as outlined above.

[24] HM Treasury, Spending Review 2010 available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf

[25] International Climate Fund: supporting detail. https://www.gov.uk/government/policies/taking-international-action-to-mitigate-climate-change/supporting-pages/international-climate-fund-icf

[26] International Climate Fund (ICF) Implementation Plan 2011/12 – 2014/15. Technical paper. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/66150/International_Climate_Fund__ICF__Implementation_Plan_technical_paper.pdf

[27] *ibid*

Notwithstanding these systems for coordination, there are still significant differences in the approaches of government departments to meeting the forest-related objectives of the ICF, and differing theories of change for how forest finance should best be delivered, leading to tensions in funding priorities and ultimately budget allocation. This section explores these effects in more detail by looking at how the ICF strategy and governance arrangements affect the design of the range of forest initiatives funded by HMG.

3.2 Challenges in coordination across departments

The establishment of the International Climate Fund (ICF) and the changing institutional landscape that this entailed, required coordination across three government departments that had previously not worked together on the disbursement of international forest finance. In addition, each of these departments had vastly different experiences to contribute to the ICF. DfID, as the sole historical donor to forests internationally had the most expertise in project / program implementation, but had relatively little experience in climate change mitigation and prioritizing interventions based on emissions from tropical deforestation. DECC, on the other hand had the most experience in climate change and the international negotiations on REDD+, but relatively little experience in the implementation of tropical forest conservation. Finally, DEFRA had a vast amount of experience in the conservation of national forests and biodiversity but no experience in the tropics.

In addition, staffing in general across the three departments had received major cuts. The launch of the ICF happened during a time of global financial austerity, which led to a slashing of public expenditure in the UK, with major cuts across most government departments (with the exception of DfID). As a result, just a handful of civil servants are responsible for the planning and allocation of ICF funds for forests. Further exacerbating this problem is the often-short rotation cycle of civil servant positions: many of the departments' staff have very short rotation cycles, putting a strain on institutional capacity for funding decisions. There is, however, some continuity in international forest specialists within DfID, making it the only department to still have long-standing expertise in tropical forests.

A second upshot of the change in government spending was that the UK aid budget as a whole came under greater scrutiny and individual departments became more conscious that there was a need to demonstrate results more clearly and more persuasively than they had done previously. As a result, a much larger proportion of time is now spent in developing the rationale and theory of change for disbursements from the ICF (and indeed for ODA in general); as outlined above, long before funding is approved, a concept note needs to be developed followed by a business case. These business cases take considerable effort to develop and include detailed cost-benefit analyses, emissions reduction potentials, log frames and other justifications for the targeting of UK finance to particular activities. In the context of forest initiatives, with multiple stakeholders and delivery partners, program design can be a lengthy and complex process, with multiple departmental sign-off extending the process in the case of the ICF.

A key consequence of this increased focus on programming within the UK has been the long approval time and the slow disbursement of funds from the ICF. As of November 2013 - midway through the ICF's funding cycle - only £625 million (16%) of the total £3.9 billion pledge had been disbursed, and only £160 million (20%) of the approximately £800 million allocation to forests (see Section 4). Delays in disbursement can be attributed to a combination of factors, including the time taken for the creation of the ICF itself; the need for detailed economic appraisal during the development of projects; and the involvement of more actors in the decision making process with different experience and ideologies in how funds should be disbursed.

Counterbalancing these challenges to some extent is the increased rigor in funding under the ICF. A combination of interdepartmental coordination, a cross-departmental strategy, and guiding principles for ICF expenditure,[28] has strengthened the quality and focus of the resulting business cases and underlying program development under the ICF.[29]

3.3 Interpretations of results-based payments

The rising prominence of climate priorities in forest finance in the UK has coincided with shifts in the UK aid program at large. There is now a strong focus on delivering and measuring results, and on value for money. While these elements were always present, they now play a much larger role in government spending, and results-based aid (or payments for performance) is now a targeted approach across many aid sectors. There is also a strong focus on mobilizing private finance and investment, driven by the imperative of mobilizing USD 100 billion by 2020, as pledged at the UN climate summit in Copenhagen in 2009, and the recognition that public ODA alone is insufficient to achieve sustainable development.

[28] ibid.

[29] To understand the importance of management strategies, see for example the NIFCI evaluation, which recommends a more formalized management approach, including a clearly agreed results framework for all departments and partners involved. Real time evaluation of Norway's International Climate and Forest Initiative. Synthesising Report 2007- 2013. Norad Evaluation Department, 2014.

While in general the UK government is supportive of results-based payments as one of a number of different approaches to tackling deforestation, the two primary departments contributing to the ICF (DfID and DECC) have different views on and are responding to differing political imperatives about how results-based finance for forests should be delivered.

On the one hand, DfID presents a nuanced view of results-based finance, noting that in the forest sector there is not a strong body of evidence to support the results-based approach (defined here as ex-post payments for emission reductions and removals). Due to its long history in forest investments and poverty reduction, DfID focuses the majority of its funding in countries with weak institutions in need of governance reform, and consequently in areas where forest loss is likely to increase over time. This is evidenced through DfID's long-standing support for FLEGT and forest governance reform, which grew out of past experience in bilateral funding stemming from the nineties (as outlined in section 2). DfID's focus on poorer countries with little ability to immediately reduce emissions from deforestation and forest degradation is somewhat in contrast with a results-based approach, which presupposes the ability of a country to generate direct results and a certain level of institutional capacity.

DECC, on the other hand, as a department that works closely with the international climate process, has sought closer alignment with REDD+ and the goal of paying for performance in terms of emissions reductions or removals achieved. [30] DECC funding subsequently aligns more closely with middle-income countries, that have strong systems of governance in place and have a greater chance of achieving emissions reductions from deforestation in the short term.

Additionally, the type of finance that DECC, DfID and DEFRA are allocated from HM Treasury may influence departmental spending on forests. Under the UK fiscal system, budget that is allocated to and spent by government departments is known as the Departmental Expenditure Limit (DEL).[31] DELs are further split into resource spending (RDEL) and capital spending (CDEL). RDEL is targeted at "*day-to-day resources and administration costs*", whereas CDEL should be targeted towards "*investment and things that will create growth in the future*".[32]. DFID has the largest allocation of (the much more flexible) RDEL from Treasury, whereas DECC and DEFRA - who have a larger

[30] Decisions 9-15/CP.19 constitute the Warsaw Framework on REDD+. See: https://unfccc.int/meetings/warsaw_nov_2013/session/7767/php/view/decisions.php

[31] HM Treasury, *How to understand public sector spending* (2013). Available at https://www.gov.uk/government/publications/how-to-understand-public-sector-spending/how-to-understand-public-sector-spending

[32] *ibid.*

proportion of CDEL - are under a greater obligation to show some kind of return on investment. A recent review of the ICF conducted by the Independent Commission for Aid Impact (ICAI), observes that capital expenditure is not well suited to building institutional capacity or helping to put in place the policies, regulations and governance arrangements required for low-carbon and climate-resilient development.[33] The review notes that the ICF's extensive reliance on capital finance constrains its choice of activities and delivery partners,[34] and recommends a more flexible balance of resource and capital expenditure to give DECC and DEFRA more flexibility in program development.[35]

While the approaches of DfID and DECC remain in line with the guiding principles for ICF expenditure, each department has chosen to focus on a different aspect of the ICF's goals. For example, DfID's focus on governance reform and community forestry aims for results that are "*driven both in terms of poverty reduction and climate impacts*"[36], while DECCs preference to invest in middle-income countries fits the principle to "*invest in countries with a conducive political and policy environment for taking climate action"*[37]. This has resulted in two different responses in programming ICF funds. DfID has responded to the lack of evidence on results-based payments for forests with caution, whereas DECC sees this as a case for building more evidence.

Despite these differences of approach between departments, there is agreement across HMG that results-based approaches to forest finance need to be trialed and lessons learnt. A recent study commissioned by DfID highlights some of the challenges of payments for performance in the forest sector, arguing that activities that require large-scale up-front investments with uncertain outcomes are less appropriate for performance-based approaches, and that performance measures need to be closely correlated with the underlying variable of interest. [38]

The result of this complex landscape is that the UK government is funding a range of approaches – both governance-led and results-based - through bilateral and multilateral initiatives. The following section discusses in more detail how these different interpretations are shaping forest investments from the ICF.

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[33] Independent Commission for Aid Impact (ICAI), *The UK's International Climate Fund*, Report 38, December 2014, 12.

[34] *ibid,* 32.

[35] *ibid*, 34.

[36] ICF Technical paper, paragraph 11(iii)

[37] *ibid* paragraph 11(iv)

[38] Clist and Verschoor. *The Conceptual Basis of Payment by Results.* University of East Anglia, 2014.

4. UK Investments in Forests

The UK funds a broad range of investments including activities that are expected to result in emissions reductions and others that address underlying causes of deforestation, including forest governance. UK government departments are for the most part funding separate programs, in the context of joint responsibility for the ICF.

Despite internal and external recommendations on funding priorities, the UK government has struggled to finalize forest programs under the ICF, resulting in a slow track record of disbursement. As of November 2013 only £625 million[39] (16%) of the total £3.9 billion pledge had been disbursed, and while almost £700 million of the approximately £800 million allocated to forests has been approved (see Table 1), only £160 million (20%) had been disbursed. Of the funds that have been disbursed for forest initiatives, the majority are to multilateral funds, with less than a third going to bilateral initiatives. Table 1 below provides an overview of UK investments in forests to date under the ICF followed by a summary of the major initiatives.

4.1 Current UK funded initiatives

Although there is joint responsibility for coordination of the ICF, individual departments have different objectives, as discussed above, resulting in an array of joint and separate funding arrangements. Most of the UK's multilateral and bilateral investments tend to be funded through a sole (or lead) agency, sometimes supported by a secondary agency.

Of the approximately £700 million currently approved under the ICF, over £400 million (60%) is allocated multilaterally, and the remainder £265 million is disbursed bilaterally. The following section explores more deeply some of the different UK forest initiatives, and in particular the differences between UK multilateral and bilateral approaches.

[39] From Climate Funds Update: http://www.climatefundsupdate.org US$ converted to UK sterling using November 2013 exchange rate of £1 to $1.5925

Table 1. Overview of UK funding for forests (approximate values in £ million), sources provided in footnotes.

Recipient	Term	Dept.	Description	Approved
Bilateral				
Brazil	2013-ongoing	Defra	Financial and technical support to small and medium-scale farmers to develop and implement forest restoration and low carbon agriculture. The project will support a range of activities including integrated crop-livestock-forestry, commercial forestry and recovery of permanent preservation areas.[40]	25
Colombia	2013 - ongoing	Decc	Development of silvopastoral systems as part of amazon vision, which aims to achieve zero deforestation by 2020, and has received strong presidential backing. A key focus is on alternatives to beef and dairy production.[41]	15
Indonesia	2012 - 2013	Dfid	Comprises a number of programs including spatial planning and low carbon development in papua, degraded land mapping for kalimantan and papua provinces, and improved governance in lulucf.[42]	25
Nepal	2011-2015	Dfid	A multi-stakeholder forestry program (msfp) which focuses on community forestry. The aim of the msfp is to bring 1.7 million people out of income poverty over 10 years and assist about 550,000 vulnerable households become more resilient to the effects of climate change.[43]	20
Global	2011-2019	Dfid	A large proportion of global funding is provided via the global forest governance, markets and climate (fgmc) program, which aims to improve governance of forest resources to tackle illegal logging and reduce illegal deforestation caused by other agri-commodities.[44]	160
Global	2011-2016	Dfid	Improving the way knowledge on forests is understood and used internationally. Knowfor supports good practice forest management by working with leading international think tanks to influence policy and decision makers.[45]	20
Subtotal				**265**
Multilateral				
Fip	2009 - ongoing	Dfid	The uk have provided over one quarter of the funding for the forest investment program (fip), one of the strategic programs of the climate investment funds (cifs), which aims to achieve 'transformational change' in the forest policies and practices of initially eight pilot countries.[46]	223
Congo basin forest fund	2008 – ongoing	Dfid	The uk is one of three donor countries, providing 44% of cbff funding. Cbff aims to slow deforestation in the congo basin whilst alleviating poverty in the region.[42]	50
Fcpf-c	2008 – ongoing	Decc	The uk is a major contributor to the forest carbon partnership facility carbon fund, which aims to provide performance-based payments for emission reductions generated by avoided deforestation.[42]	56.5
Fcpf-r	2008 – ongoing	Dfid Decc	Uk support for the readiness fund comprises 1.5% of total funding. The readiness fund aims to assist developing countries to prepare to participate in a future, large-scale, system of positive incentives for redd+. Half the uk contribution to the readiness fund was from dfid and half from decc.[42]	3.5
Biocarbon fund - isfl	2013 - ongoing	Decc Defra	The uk provide around 40% of funds to the world bank-administered biocarbon fund tranche 3 initiative for sustainable forest landscapes (isfl) to transform current efforts to promote sustainable forest landscapes. The initiative will target landscape-level performance-based programs.[42]	75
Subtotal				**408**
Total				**673**

[40] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229597/pb14023-low-carbon-agri-intervention-summary.pdf
[41] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65631/7069-business-case-and-intervention-summary-silvopastor.pdf
[42] https://www.gov.uk/government/policies/taking-international-action-to-mitigate-climate-change/supporting-pages/reducing-emissions-from-deforestation-and-forest-degradation-redd
[43] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/67327/Multi-stake-forestry-prog-ann-rev-2012-1.pdf
[44] http://devtracker.dfid.gov.uk/projects/GB-1-201724/documents/
[45] http://devtracker.dfid.gov.uk/projects/GB-1-203034/documents/
[46] https://www.gov.uk/government/policies/taking-international-action-to-mitigate-climate-change/supporting-pages/reducing-emissions-from-deforestation-and-forest-degradation-redd and an additional £123 million pledged at the FIP Annual Sub-Committee meeting in November 2015

4.1.1. *Bilateral investments in Forests and Climate Change*

The UK's bilateral investments in forests and climate change are predominantly supported by DfID (£225 million) with smaller programs supported by DECC (£15 million) and DEFRA (£25 million). DfID's programs as discussed above tend to support lower income poor governance countries (with arguably the exception of Indonesia), whereas DECC and DEFRA are funding middle-income countries.

DfID (with support from DEFRA), is leading on a range of initiatives under the Forest Governance, Markets and Climate (FGMC) program. FGMC builds on the experience of the smaller FGT (Forest Governance and Trade) project, but has substantially increased funding to expand the lessons from illegal timber to that of other agricultural commodities that drive deforestation. DfID also supports several bilateral initiatives, including a long-running national community forest project in Nepal, and forest governance initiatives in Indonesia.

All three departments (DfID, DECC and DEFRA) were jointly involved in drawing up the business case for a major new forest fund with a working title of Forests and Climate Change (FCC). A joint discussion paper was released in November 2012,[47] which outlined an approach to reorient private sector investment towards more sustainable land use through public private partnerships, and suggested the establishment of a private sector facility to provide support to pilot countries.

Several UK NGOs questioned what they saw as a "*singular focus on partnerships with the private sector*" and subsequently, in a joint position paper, recommended the FCC focus on a mixture of regulatory demand-side measures in consumer countries and supply-side measures in tropical forested producer countries, to stimulate local community-based forest enterprises and to deal with the commodity production and supply chain issues driving deforestation.[48]

Due to delays in finalizing a business case and possible constraints in the type of finance that they were able to allocate, DECC and DEFRA ultimately channeled their funds to the Bio-Carbon Fund Initiative for Sustainable Forest Landscapes (ISFL) and the FCPF Carbon Fund (discussed in more detail below) and a new initiative in Colombia to support silvopastoral systems as part of Colombia's Amazon Vision, which aims to achieve zero

[47] *Forests and Climate Change: A Proposed New Set of UK Interventions to Tackle Deforestation.* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/70092/7050-discussion-paper-deforestation-event.pdf

[48] Joint NGO position paper on the UKs proposed Forests and Climate Programme. http://www.forestpeoples.org/sites/fpp/files/news/2013/10/NGO_FCC_paper_april_2013.pdf

deforestation by 2020.[49] At this initial stage, the FCC has been allocated a budget of £60 million under a new title of Investments in Forests and Sustainable Land Use (IFSL) initiative.[50] It is uncertain whether the FCC will continue with DECC and DEFRA support or will be solely funded by DfID.

4.1.2. Multilateral support for results-based finance

Funding support for multilateral forest programs, while initially led by DfID through the Congo Basin Forest Fund (CBFF) and the Forest Investment Program (FIP), is now being funded by all three departments, with significant recent contributions to the FIP, FCPF and BioCarbon Fund. Across the portfolio of investments, funding for multilaterals has been roughly in line with overall contributions to the ICF: DfID provides roughly £275 million of the total (70%) and DECC and DEFRA the remaining £125 million (30%).

DfID was an early contributor to the FIP, and is one of the more active members of the Sub-Committee (SC) overseeing this fund. At the recent SC meeting in November 2014, DfID pledged a further £123 million to the FIP to support up to four new countries to join the program. DfID explicitly requested that these countries be lower income countries in line with their overall funding goals.

DECC and DEFRA have similarly increased support for multilateral programs and have pledged £45 million to the FCPF Carbon Fund and £75 million to the BioCarbon Fund ISFL: a joint US, UK and Norwegian program announced at the climate summit in Warsaw in December 2013 that aims to disburse finance through results-based carbon payments, while incentivizing more sustainable supply chains.

A clear distinction can be seen between the multilateral investments of DfID and those of DECC and DEFRA, with DfID investing in lower income countries and broader development objectives (CBFF, FIP), while DECC and DEFRA are prioritizing investment in results-based approaches (FCPF, ISFL).

These pledges represent a large investment in multilateral programs for the UK. In 2011, an independent review into scaling up forest finance in the UK cautioned against channeling too much REDD+ finance into multilateral initiatives, given their untested track record in

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[49] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65631/7069-business-case-and-intervention-summary-silvopastor.pdf

[50] https://www.gov.uk/government/policies/taking-international-action-to-mitigate-climate-change/supporting-pages/reducing-emissions-from-deforestation-and-forest-degradation-redd

disbursement of funds, and called for a more balanced approach including bilateral investments.[51] While DfID has maintained a balanced portfolio in its finance with roughly equal shares of funding going to bilateral and multilateral programs, DECC and DEFRA have channeled the majority of finance through multilaterals.

There are several reasons that may account for DECC and DEFRA's preference for multilateral finance. First, governments favor disbursements via multilateral funds such as those managed by the World Bank because money is registered as disbursed from government departments once it has been received by the fund. This has the significant advantage that funds appear to be moving when there is pressure to deliver forest finance. The slow disbursement rate in multilateral funds, however, has been widely noted[52] and this process only serves to pass the pressure of disbursement on to a different organization.

Second, funding through multilateral initiatives relieves some of the burden of program management from donors. Under a multilateral approach such as the FCPF Carbon Fund, FIP or BioCarbon Fund, multilateral development banks (MDBs) and fund secretariats (e.g. the Facility Management Team (FMT) of the World Bank) would take over responsibility for program management and implementation.

Another rationale for investing in multilateral funds is to leverage and influence a larger portfolio of finance than would otherwise be accessible. With the UK's latest pledge from the ICF to the FCPF Carbon Fund, it has increased its commitment from only 5 percent to almost 20 percent of total funding requirements. By increasing its stake it also, arguably increases its influence in the fund, and among donor countries in general.[53]

Last but by no means least, working through multilateral funds allows HMG to coordinate their activities more closely with other donors. This can be particularly helpful both to fill capacity gaps and to align priorities with like-minded donors. As described in the following section, however, this has also increasingly been the case with bilateral initiatives. The recent ICF review highlighted that there has been an over-reliance on multilateral spending

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[51] Funding for Forests: UK Government Support for REDD+. Prepared by PWC, Winrock, Climate Focus and IUCN, (2011).
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48074/1832-funding-for-forests-uk-government-support-for-red.pdf

[52] *Real time evaluation of Norway's International Climate and Forest Initiative, (*2014): 80, 87.

[53] DECC. *An International Climate Fund business case for DECC investment in the BioCarbon Fund and the Forest Carbon Partnership facility Carbon Fund,* (22 April 2014); 36

channels,[54] and recommended stronger coordination between multilateral and bilateral initiatives at the country level.[55]

4.2 A plurilateral approach to forest finance

In general, over the last ten years donors have worked more collaboratively to lessen transaction costs for recipient countries, in line with the principles of aid harmonization.[56] Throughout this period, in which REDD+ has moved rapidly up the agenda, the UK has worked closely with the World Bank and bilateral donors such as Norway, Germany, the US, the European Commission, Switzerland and Finland. Joint announcements at high-level events such as the 2012 meeting at the Prince of Wales' International Sustainability Unit,[57] the BioCarbon Fund announcement at Warsaw in November 2013,[58] and most recently the New York Declaration on Forests[59] with associated pledges from key donor countries are evidence of close relationships between all partner countries, resulting in high profile collaborations that boost the political importance of forests.

The move to work more collaboratively has led to a partnership model, with many respondents referring to the strong community among forest nations, donors, (international) civil society, business and forest peoples', as one of the positive outcomes of REDD+. At the same time, increased multilateral finance and work across multiple donors brings with it its own politics and as noted above, coordination of donors and recipients can increase programming times in multilateral funds.

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[54] ICAI, The UK's International Climate Fund, 3

[55] ibid, 36.

[56] Monterrey Consensus of the International Conference on Financing for Development, (2003). International Conference on Financing for Development, Monterrey, Mexico.

[57] The Prince of Wales ad the Duchess of Cornwall, The Prince of Wales co-hosts meeting to tackle the destruction of the worlds topical rainforests, (Nov 29, 2012). http://www.princeofwales.gov.uk/news-and-diary/red-isu-meeting

[58] Joint announcement of REDD+ funding by Germany, Norway, UK and USA (Nov 20, 2013). https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/273335/joint_announcement_on_redd_by_germany_norway_uk_and_usa.pdf

[59] UN Climate Summit 2014, New York Declaration on Forests, Action statement and Action Plans, (Sep 23, 2014). http://www.un.org/climatechange/summit/wp-content/uploads/sites/2/2014/09/FORESTS-New-York-Declaration-on-Forests.pdf

5. Non-governmental actors in UK policy making

The role of UK non-governmental organizations (NGOs) and the private sector in UK policy making around forest finance has varied over time due to a number of factors, including intersection between current policy and private sector interests, funding impacts on NGO activity and engagement, and openness of government to dialogue with civil society.

NGO and private sector advocacy to the ICF has been sporadic over the 15 years since its inception. During the 1990s there were regular cross-departmental meetings with civil society through the International Forest Policy Working Group, as explained in section 2.1. The working group was made up of representatives of DfID, DEFRA and the Forestry Commission (and eventually DECC once it was established), and convened regular internal cross-departmental meetings, as well as externally with NGOs and industry associations. In the past decade, this sectoral coordination has tapered off with no clear Ministerial champion to give it momentum.

5.1 The role of NGOs in the debates on forest finance

During the past five years, UK NGOs working on forests have loosely organized themselves under the umbrella of the Bond Development and Environment Group (DEG)[60], with the forest group known as DEG-REDD. This group was most active during 2011-2012, when it was chaired by the International Institute for Environment and Development (IIED).[61] The DEG-REDD group has suffered from a lack of leadership, and as the key vehicle of communication between the government and NGOs in recent times, this has resulted in a lack of input, or less than effective input, during the years of development of the FCC.

Another factor that has contributed to the lower involvement of UK NGOs in domestic policy-making has been the desire to instead influence policy within the European Union. This arguably has a bigger impact than domestic advocacy, since EU policy drives the direction of forest policy across all EU Member States. This has been particularly evident in the push by certain NGOs to exclude forest carbon offsets from the EU emissions trading

[60] Bond is the UK membership body for NGOs working in international development. http://www.bond.org.uk/about-us/groups

[61] Active members of the group have included the Royal Society for the Protection of Birds, the World Wildlife Fund, FERN, Rainforest Foundation UK, Global Witness, Forest Peoples' Programme, Global Canopy Programme, Greenpeace, the Green Belt Movement, and ClientEarth.

scheme (EU ETS).[62] Notably, the EU-wide 20 percent emissions reductions by 2020 target also does not include forests and other land use change, with lack of robustness in monitoring emissions cited by the European Commission as the reason behind this, although discussions are currently underway for how to include forests and land use change in the EU 2030 Climate and Energy package.[63]

The more recent decline in the level of dialogue on forest policy both between different government departments, and between these different departments and civil society has been unfortunate in the sense that this has limited debate on the complex issues REDD+ seeks to address. In the past, open and constructive debates with civil society were credited with helping to improve coherence across departments. Several NGO respondents noted the irony between the objectives of REDD+ to increase coherence between different Ministries in recipient countries, and a perception that there seems less coherence between UK departments than before the advent of REDD+.

While there was agreement among UK NGOs on the need for forest finance to focus primarily on improving the way forest and land was governed in tropical forest countries, there was not always agreement on results-based payments, including the effectiveness of forest carbon trading as an approach to address deforestation, as well as the terms of engagement with the corporate private sector and the World Bank. However, with ongoing problems in the EU ETS, and the crash in carbon prices in 2011, the REDD+ debate in general turned from carbon markets to results-based payments (the difference being that results could ultimately be financed from a variety of sources), hence discussions over the source of finance became less urgent than the definition of results.

Although UK NGOs in general support the idea of a results-based approach, there are strong differences in their positions on the definition of what constitutes a result, with some groups arguing strongly against results being defined only as carbon. Arguments for a broader definition of results were made by UK and international NGOs at the UNFCCC,[64]

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[62] DIRECTIVE 2009/29/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 23 April 2009 amending Directive 2003/87/EC so as to improve and extend the greenhouse gas emission allowance trading scheme of the Community

[63]European Commission, "LULUCF in the EU," December 2014. http://ec.europa.eu/clima/policies/forests/lulucf/index_en.htm

[64] *REDD+: an incentive structure for long term performance: a discussion paper for the UNFCCC session in Bangkok,* September 2012. http://www.regnskog.no/en/rainforest-news/climate/redd-an-incentive-structure-for-long-term-performance

and a harmonized approach to developing forest and REDD+ governance indicators was undertaken by a range of donors, NGOs and countries in FAO hosted meetings.[65] At the same time academics argued that ex-post payments would not provide support for the most vulnerable countries.[66]

5.1 The Convening power of the PRP

Another key influence in the UK beginning around the time of the run up to the Copenhagen climate summit was HRH Prince Charles. Through the Prince's Rainforests Project (PRP) established in 2007, which later became the International Sustainability Unit (ISU), the Prince successfully raised the profile of the plight of tropical forests and cemented views in the UK that tropical forest loss was a critical issue of immediate urgency. The PRP acted at multiple levels: convening academics, policy makers, NGOs, private sector and think tanks to hammer out the details of a possible REDD+ agreement; engaging investors and finance institutions to look at options for financing tropical forests and launching a consumer facing ad campaign featuring key political figures, celebrities, and religious leaders.[67] This strategic convening of meetings by the PRP helped maintain political attention to continued support for REDD+ finance among key donor countries.[68]

The PRP also hosted the first meeting of the Informal Working Group for Interim Finance for REDD, which ultimately led to the establishment of the interim REDD+ Partnership in Oslo in May 2010.[69] The REDD+ Partnership was noted by many across government as key to building a partnership approach to REDD+, and facilitating donor harmonization as well as lesson learning between REDD+ countries (see section 4.3 for further discussion on donor harmonization). Intended as an interim platform to scale up immediate action, the REDD+ Partnership was officially ended in November 2014, with a review of the four years of the Partnership considering the REDD+ Partnership "a modest success."[70] The review

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[65] FAO, Framework for assessing and monitoring forest governance, (2010). http://www.fao.org/forestry/governance/monitoring/71390/en/

[66] Alain Karsenty and Symphorien Ongolo, "Can "fragile states" decide to reduce their deforestation? The inappropriate use of the theory of incentives with respect to the REDD mechanism," *Forest Policy and Economics,* (2011).

[67] The Prince's Rainforest Project 'Frog', June 2009. http://www.framestore.com/work/princes-rainforests-project-frog

[68] Charlene Watson et al., *Fast Start Finance for Forests: The challenge of maintaining momentum.* ODI Working Paper, 2014.

[69] REDD+ Partnership. http://reddpluspartnership.org/73855/en/

[70] Tony La Viña and Donna Lee, *Assessment of the results of the REDD+ Partnership,* November 14, 2014.

highlighted the achievement of objectives such as providing an informal space for communication, sharing knowledge and building trust between partners, and increasing transparency, in particular through the Voluntary REDD+ Database which documents REDD+ finance.

5.2 The role of the private sector

One of the ICF's objectives is 'to build an enabling environment for private sector investment and to engage the private sector to leverage finance and deliver action on the ground.' In the area of forest protection, it would seem that the task of leveraging private sector finance has proven more challenging than anticipated and private sector involvement has varied largely in response to the way political incentives have aligned with business interests.

The early days of interest in REDD+ coincided with a high carbon price and a steep growth in carbon markets. This created a surge of interest in carbon credits in the UK - one of the financial centers of the world, and many banks opened carbon desks, and brokerage firms emerged focusing on forest carbon. The ultimate lack of a market signal for REDD+, along with the decline of carbon markets in general, precipitated a drop off in private sector involvement in forest carbon with now only a few UK companies working in this space. The increased focus on increasing sustainability of commodity supply chains in recent funding initiatives (FCC and ISFL), has brought with it closer collaboration with the private sector, although the degree of commitment from the private sector in these initiatives is as yet unclear.

At the international level, private sector companies have been engaged with multilateral funds, e.g. by participating in the design of the FCPF Carbon Fund as well as receiving money directly from funds such as the FIP that have a private sector set aside (although a recent review of the FIP has shown that very little money has flowed to the private sector through this mechanism to date).[71]

In the UK context, some private sector respondents blamed the lack of a clear signal from the UK government on the direction for REDD+ finance for the inability of all but the most tenacious companies to operate in the forest carbon space. In order to mobilise private capital at scale, government incentives would need to align more closely with modes of

[71] ICF International, Independent Evaluation of the Climate Investment Funds, Washington, DC: World Bank, 2014.

operation for the private sector. The ICF reviewers state "*we are not convinced that existing programmes in the ICF portfolio have engaged the private sector sufficiently*,"[72] and recommend the ICF to work through "*a more nimble set of financial channels, so that it can respond within the tight timelines on which private investors need access to capital.*"[73] The ICF review also suggested the ICF should make greater use of civil society organizations, stating "*more considered and consistent outreach programs would be beneficial*,"[74] and suggested the ICF Secretariat could organize annual updates on progress and invite input from interested stakeholders.

6. Conclusions

At around the time of the Bali Climate Change summit in 2007, a constellation of factors allowed the UK government to lead the way in building the economic case for climate action, in which forests played a significant role. This ultimately led to a £2.9bn pledge to the International Climate Fund (ICF), of which 20 percent was targeted towards forests and land use. Unlike Norway, which had a prominent political champion on forests driving the political agenda, the UK has achieved its successes through a combination of high-level ministers, an active civil service and a diverse group of non-governmental actors, including HRH the Prince of Wales, the NGO community, and the private sector. What has emerged from this '*primordial soup*' of influences is a range of views and approaches on international forest finance.

In the absence of a clear political leader, coordination of funds under the ICF is occurring largely at the civil servant level. DfID, DECC and DEFRA (along with Treasury) share joint responsibility for coordination of the International Climate Fund; their approaches are guided by a cross-agency strategy on forests. Ultimately, however, each department's funds are allocated according to their individual departmental priorities. DfID for the most part has engaged in bilateral work in countries with which it has historical ties, and expresses caution regarding results-based finance, particularly in situations of weak governance. DECC places a greater degree of emphasis on carbon payments as a means of securing emission reductions, and has increased support for large-scale multilateral programs that aim to achieve these ends. DEFRA to a large extent has followed the lead of DECC in supporting multilateral programs for forests but does not in and of itself focus on carbon as either a result or a metric.

[72] International Commission for Aid Impact, *The UK's International Climate Fund,* December 2014, 15, http://icai.independent.gov.uk/reports/uks-international-climate-fund/.

[73] *Ibid.*

[74] *ibid,* 34.

This, in conjunction with an increased scrutiny of the UK aid sector, has ultimately created tensions and inefficiencies within and across government departments, and disbursements have fallen short of intended targets on forest spending. This slow rate of delivery on top of a lack of concrete results emerging from the current ICF portfolio on forests may ultimately affect the degree to which the ICF receives further pledges under the next government Spending Review. Although it is difficult to speculate what would create a more successful forest program in the UK, we would suggest that a single political champion with a clear vision on tropical forests could bring a more robust momentum to the sometimes divided interdepartmental decision making processes on forests.

While there have been some successes from results-based finance in other sectors, the forest sector still remains largely untested in this regard; and although the difference of opinion within UK government around how REDD+ finance should be delivered has slowed the overall pace of disbursements, the UK government is now well placed to evaluate outcomes from a variety of different approaches to forest conservation. Which of these approaches are ultimately adopted in the UK will rely heavily on the success (or failure) of current funding programs for forest finance programs supported by the UK. As former World Bank chief economist Joseph Stiglitz remarked in 2009, "*what we measure determines what we do, and if our measurements are flawed, decisions may be distorted*."[75]

[75] Joseph Stiglitz et al., "Report by the commission on the measurement of economic performance and social progress." Paris: *Commission on the Measurement of Economic Performance and Social Progress* (2010).

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