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CLIMATEFOCUS

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A report for the Climate Investment Funds

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Contents

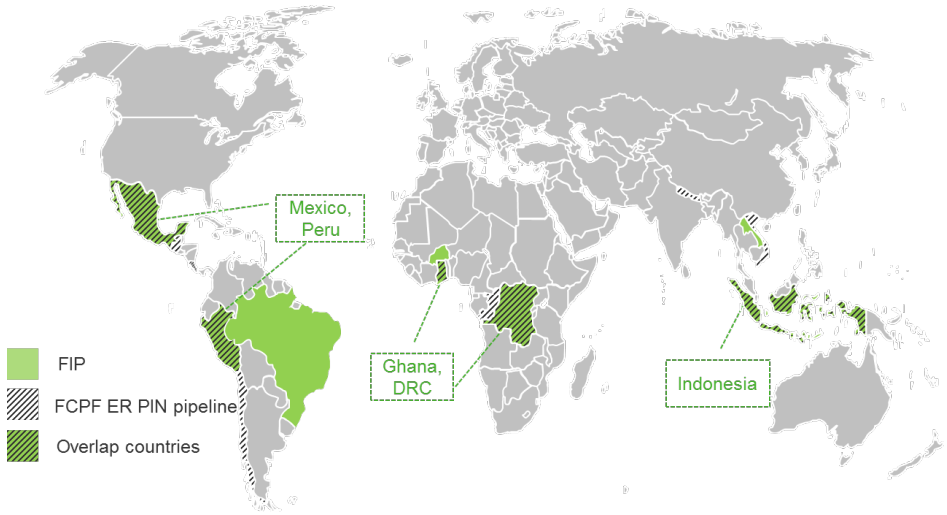
List of Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBA	Community-based adaptation
CDM	Clean Development Mechanism
CIF	Climate Investment Fund
CO_2	Carbon dioxide
COP	Conference of the Parties
EBRD	European Bank for Reconstruction and Development
ERPA	Emissions Reduction Purchase Agreement
FAO	Food and Agriculture Organisation of the United Nations
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Programme
IDB	Inter-American Development Bank
IFC	International Finance Corporation
LDCs	Least developed countries
MDB	Multilateral development bank
MF	Methodological Framework
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAMs	Policies and Measures
SCF	Strategic Climate Fund
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

Executive Summary

REDD+ finance is currently channeled through a range of bilateral and multilateral sources. In general, however, the overall scale of finance is far below the estimated levels needed to halt and reverse tropical forest loss. As such, improved coordination of finance is essential to ensure that donor finance is being used effectively and efficiently in achieving REDD+ outcomes. This paper explores the linkages between two major sources of REDD+ finance - the Forest Investment Programme (FIP) and REDD+ performance-based payments - and provides options to improve the coordination of international REDD+ finance.

The Forest Investment Program is one of four funds within the framework of the Climate Investment Funds (CIF) that supports developing countries' efforts to reduce emissions from deforestation and forest degradation and promote sustainable forest management and enhancement of forest carbon stocks. FIP funds are channeled through five multi-lateral development banks (MDBs) to support eight countries: Brazil, Burkina Faso, DRC, Ghana, Indonesia, Lao PDR, Mexico, and Peru. In parallel to their efforts to reduce emissions under the FIP, five pilot countries – DRC, Ghana, Indonesia, Mexico, and Peru – have signaled their intention to participate in a performance-based payment scheme for emission reductions under the FCPF Carbon Fund (see below). In addition many REDD+ countries are now receiving bilateral payments for both ex-ante and ex-post results.



While the Forest Investment Programme and Carbon Fund have differing methodological frameworks and design documents, as well as different donors and participants, they both aim to achieve the same overall objective: to reduce emissions from deforestation and forest degradation through national (or subnational) programs in tropical forest countries. Both these funds also have key differences. For example the FIP provides up-front finance to developing countries and strongly emphasizes the role of development in its program design. The FIP also uses a significant proportion of its funding to support readiness and capacity building activities. The FCPF on the other hand provides ex-post payments for emissions reductions achieved, and places a stronger emphasis on the development of reference levels and the measurement and reporting of results (see below).

	Forest Investment Programme	FCPF Carbon Fund
Source of payment	ODA	ODA / private
Type of payment	Grants and Loans	Purchase agreement
Timing of payment	Ex-ante	Ex-post
Generation of ERs	✓	✓
Transfer of title of ERs	✗	✓
Pricing of ERs	N/A	Up to $5/tonne
Reference Levels / MRV systems	Country decides	Fund provides framework
Timeframe of payments	2013 - 2020	2016 – 2020
Scale of activities	National/Subnational	National/Subnational

Recognizing the potential overlaps between the outcomes of the FIP and performance-based payments including the FCPF Carbon Fund, this report presents recommendations on three questions outlined by the FIP Sub-Committee:

(a) To what extent the sustainability of FIP results should depend on future carbon payments that may or may not materialize;

(b) The challenge of ascribing GHG emission reductions achieved with FIP finance to be included in payments for performance through other REDD+ programs – the issue of “double funding”; and

(c) Contributor concerns around financing the same results in the FIP that would be reported in a performance-based mechanism as their results – the issue of double results reporting.

The conclusions of our recommendations are presented below.

Sustainability of results

- A key consideration for the sustainability of results is whether or not a project needs ongoing finance beyond the lifetime of ODA investments. Determining the financial needs of sustainable interventions is complex, however, and data is often not available

- Where carbon payments are needed to ensure the sustainability of results, FIP projects should still be funded even though future revenues may not be secured

Double funding of activities

- The current fragmentation of REDD+ finance is likely to persist and flexibility in the use of carbon payments is essential to improve the coordination of REDD+ activities.

- To maintain climate integrity and avoid the diversion of ODA, emission reductions arising from ex-ante ODA should not be further used towards Annex B country targets.

- Focus on the attribution of emission reductions to specific activities should be avoided; instead a clear and simplified system of accounting of emission reductions should be developed.

- Ex-ante ODA and carbon payments should be clearly sequenced to improve the coordination of international REDD+ finance. Where this is not possible, ex-ante payments can be provided in the form of concessional or non-concessional loans.

Double counting of emission reductions

- There are two possible options for the treatment of double counting: either overlaps *are* treated as double counting, in which case both funds will need to align their use of reference levels, MRV and registries (as described above), or overlaps *are not* treated as double counting, in which case restrictions placed by the Carbon Fund on emission reductions may need to be revisited.

Cross-cutting issues

- Not all countries will be ready to enter into a system of ex-post carbon payments directly; ex-ante funding through e.g. the FIP may be needed in low-capacity countries to support capacity building and REDD+ implementation, prior to beginning ex-post carbon payments.

- Coordination of programming should be improved at the fund level to address issues arising from the fragmentation of funding. This could include coordination of program designs and joint meetings of funds.

1. Introduction

Developing countries can now access donor finance from a range of multilateral and bilateral sources to support efforts that lead to a reduction of emissions from deforestation and forest degradation. These funds are used for a range of activities, from capacity building to payments for emission reductions. This paper explores the linkages between the Forest Investment Programme and REDD+ performance-based payments and provides options to improve the coordination of REDD+ finance.

To date, donors have committed around USD 7 billion to reduce emissions from deforestation and forest degradation in developing countries (REDD+).[1] These funds have been provided through a range of multilateral and bilateral sources targeting a range of outcomes from institutional and technical capacity building to policies that reduce deforestation and payments for emission reductions. While there has been a significant increase in the overall finance available, it is still far below estimates for the levels needed to reverse and halt forest loss in developing countries. As such, the coordination and alignment of REDD+ finance is central to ensuring that limited resources are target effectively.

This coordination is already happening to some extent both at the programmatic and country-level. The UN-REDD programme and the World Bank's Forest Carbon Partnership Facility (FCPF) Readiness Fund, for example, have developed joint programming documents for countries REDD+ readiness programmes. Large bilateral donors including Norway, UK, Germany and the US are also jointly programming REDD+ finance in key target countries, including Colombia, Peru and Indonesia. And there is some degree of coordination among trust funds, e.g. through joint participation and joint coordination of fund meetings.

[1] Norman,M. and Nakhooda, S. (2014) The State of REDD+ Finance. Available at: http://www.cgdev.org/publication/state-redd-finance-working-paper-378

To a large extent, however, the coordination of finance is only occurring on an ad-hoc basis, leading to potential overlaps and inefficiencies in the programming of REDD+ finance - both at the donor level and in partner countries. This paper explores the specific issues arising in the coordination of traditional up-front development assistance to reduce emissions from deforestation and forest degradation such as those provided by the Forest Investment Program (FIP), and ex-post performance-based payments including payments for emission reductions such as those provided by the FCPF Carbon Fund (hereafter Carbon Fund).

This paper does not look into the coordination of readiness activities with results based payments. Linkages between REDD+ readiness and the Forest Investment Program have been addressed in a prior paper produced for the Forest Investment Programme.[2]

1.1 Background

The FIP is one of four funds within the framework of the Climate Investment Funds (CIF) that supports developing countries' efforts to reduce emissions from deforestation and forest degradation and promote sustainable forest management and enhancement of forest carbon stocks.[3] In addition to this central goal, the FIP supports a range of additional objectives including the contribution to sustainable development, supporting the livelihoods of forest dependent communities, and sustaining biodiversity and ecosystem services. FIP funds are channeled through five multi-lateral development banks (MDBs) to support eight countries: Brazil, Burkina Faso, the Democratic Republic of Congo (DRC), Ghana, Indonesia, Lao PDR, Mexico, and Peru.

In parallel to their efforts to reduce emissions under the FIP, five pilot countries – DRC, Ghana, Indonesia, Mexico, and Peru – have signaled their intention to participate in a performance-based payment scheme for emission reductions under the FCPF Carbon Fund.

Recognizing the potential overlaps between the outcomes of the FIP and the Carbon Fund, especially in the five FIP pilot countries that have entered the Carbon Fund pipeline, the June 2014 *Semi-Annual Report on FIP Operations*[4] highlighted the following key concerns and questions regarding the link between FIP investments in such countries and performance-based payment mechanisms:

(d) To what extent the sustainability of FIP results should depend on future carbon payments that may or may not materialize;

(e) The challenge of ascribing greenhouse gas (GHG) emission reductions achieved with FIP finance to be included in payments for performance through other REDD+ programs – the issue of "double funding"; and

[2] Linkages between REDD+ Readiness and the Forest Investment Program (2014) Available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Linkages_between_REDD_readiness_and_FIP_Nov2014.pdf

[3] Design Document for the Forest Investment Program, a Targeted Program under the SCF Trust Fund, paragraph 13. Available at https://www.climateinvestmentfunds.org/cif/node/111

[4] FIP semi-annual operational report. Available at: https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_12_3_FIP_Semi_Annual_Operational_Report.Rev_.1.pdf

(f) Contributor concerns around financing the same results in the FIP that would be reported in a performance-based mechanism as their results – the issue of double results reporting.

The semi-annual report was reviewed and discussed by the FIP Sub-Committee (SC) at its meeting on June 28th, 2014. As a result of the discussion, the FIP Sub-Committee requested the CIF Administrative Unit, in consultation with the Sub-Committee members, FIP pilot countries, MDBs, and relevant international entities, to prepare for consideration at its next meeting, a paper providing guidance on the link between FIP investment funding and REDD+ performance-based mechanisms, taking into account the international REDD+ architecture and, in particular, the *Warsaw Framework for REDD-plus*.[5]

1.2 Objective and Methodology

The purpose of this report is to assess and summarize the linkages between FIP investments and performance-based payments. Specifically the report clarifies the role of different forms of finance and how finance can be coordinated where multiple sources of finance are present in a given country. The report also summarizes options to coordinate up-front ('ex-ante') finance for REDD+ investments under the FIP with ex-post, performance-based payments for emission reductions under the Carbon Fund and other performance-based payment programs.

This study draws upon interviews with FIP pilot countries (including relevant actors such as the private sector and civil society), FIP contributor countries and MDBs.

This study was undertaken in four phases:

- **Inception phase**: A comprehensive literature review was undertaken and a methodology and framework for assessing interlinkages between FIP finance and performance-based payments within FIP countries was developed. This framework considers a variety of sources, including policy documents, procedures of entities providing performance-based finance, and project documents submitted by the MDBs for FIP funding approval.

- **Data collection phase**: An online questionnaire was developed and sent to over 200 relevant contacts representing stakeholders from all eight FIP countries, MDBs and the FIP Administrative Unit (questionnaire is included in the Annex). A total of 39 responses were received from a broad range of stakeholders (see Figure 1) linked to over 20 countries (Figure 2). Follow up interviews were then conducted remotely and in person with government, NGO, and MDB contacts. Participation in the questionnaires and interviews was voluntary and responses are confidential.

- **Data analysis and reporting phase**: The questionnaire and interview responses were combined with country-specific literature reviews to develop recommendations across the three questions identified by the

[5] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FINAL%20FIP%20Sub-Committee%20Summary%20of%20the%20Co-Chairs%20June%2028.pdf

FIP SC. Additional analyses were conducted in the five FIP pilot countries developing emissions reduction (ER) programs that further explore the linkages between FIP investments and performance-based payments.

- **Review phase**: Drafts of the report were sent at various checkpoints to the CIF Administrative Unit, MDB partners, the FCPF facility management team (FMT), FIP and FCPF pilot countries government focal points and FIP and FCPF contributor countries for review and comments. These comments and suggestions were taken into account in finalizing the report.

Figure 1 Type of Organization of respondents (n=39)

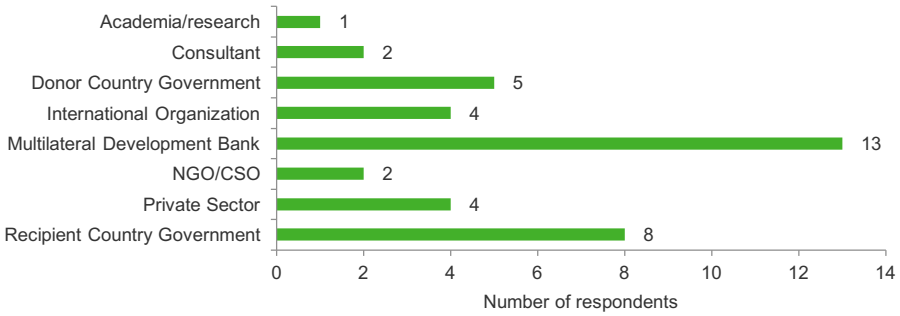
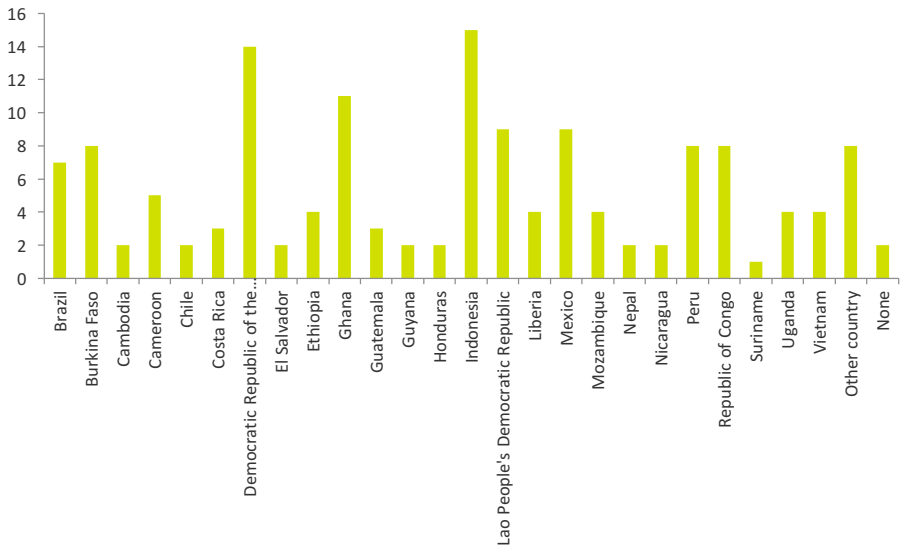


Figure 2 Responses to the question: "Which REDD+ implementing country or countries (e.g. FIP or FCPF) are you associated with?"



This report is primarily intended to inform the ongoing programmatic process of the FIP, but holds relevance for other bilateral and multilateral entities - including the Green Climate Fund - that intend to target investments towards various phases of REDD+, and understand the linkages between those phases, including the role Official Develop Assistance (ODA) may play.

1.3 Outline of the Report

This report is broken down into seven sections, as follows. **Section 2** presents an overview of REDD+ finance including linkages between ex-ante development assistance such as the FIP and performance-based finance as provided under the FCPF Carbon Fund. This section introduces the concept of

the phased approach to REDD+ and identifies different schools of thought on the role of finance within the different phases of REDD+. It also provides an overview of pay for performance approaches in other sectors and the ways in which they have combined with other more traditional forms of aid. **Section 3** presents a landscape of REDD+ finance and the overlaps between FIP pilot countries and performance-based finance, outlining the extent to which these programs intersect with performance-based finance. **Section 4** addresses the first question outlined by the FIP Sub-Committee on the sustainability of FIP results and to what extent they should depend on future carbon payments that may or may not materialize. This section presents various models for structuring REDD+ finance, differentiating between various sources of finance, degrees of attribution of emission reductions, and financial needs of different forest conservation models over time. **Section 5** addresses the issue of *double funding* and the challenge of ascribing GHG emission reductions achieved with FIP finance to payments for performance through other REDD+ programs. This section explores the relationship between emission reductions and removals achieved under the FIP and the eligibility to receive future payments for results in FIP countries. **Section 6** explores the issue of double counting and looks at options to ensure the additionality and environmental integrity of emission reductions achieved under both the FIP and future performance-based payments. Finally, **Section 7** provides conclusions and highlights the implications for existing and future REDD+ finance.

2. Overview of REDD+ finance

Developing countries have been the recipient of ODA to support reforms in the forest sector for decades. More recently, performance-based finance has been applied to reduce emissions from deforestation and forest degradation. This section explores the relationship between traditional aid and performance-based payments within REDD+ and how this issue has been addressed in other sectors.

REDD+ finance can be delivered through a range of modalities and channels (i.e. bilateral and multilateral). In the current fragmented landscape of REDD+ finance this can lead to overlapping arrangements between donors and recipients. This section presents an overview of REDD+ finance including guiding principles of REDD+ finance, the evolution of the phased approach under the UNFCCC and a typology of REDD+ finance that will be used throughout this paper.

2.1 Guiding Principles of REDD+ finance

The delivery of REDD+ finance should adhere to a set of common guiding principles including effectiveness, efficiency, and equity (often referred to as the 3Es) and additionality. These principles are informed in part by general principles on aid effectiveness as well as by the more specific principles elaborated under the UNFCCC on the delivery of climate finance.[6] In the following we will discuss efficiency (or cost-effectiveness) and additionality of REDD+ finance as these two principles seem to be particularly relevant for performance-based finance.

[6] The principles of effectiveness and efficiency were outlined in the Paris Declaration on Aid Effectiveness (2005) Paper presented at the Paris High Level Forum on Aid Effectiveness, Paris, France. Equity and the principle of '*common but differentiated responsibilities and respective capabilities*' is embedded within the Convention (1992), and additionality is discussed in multiple areas of the UNFCCC including "*new and additional*" finance as referred to under the Convention and Bali Action Plan

2.1.1 Efficiency

Efficiency or **cost-effectiveness** refers to the ability of a project or program to maximize returns per unit investment and is typically measured as a cost per unit output, e.g. $/tCO$_2$. Targeting low-cost mitigation options is an economically rational approach to achieving the largest mitigation outcomes with a limited or finite pool of donor resources (i.e. activities that cost $5/tCO$_2$ should be funded before activities that cost $100/tCO$_2$).

From the outset, REDD+ has been perceived as a low-cost abatement option[7], so much so that initial concerns centered on an oversupply of cheap REDD+ credits in a future carbon market.[8] While this assumption has been questioned more recently, with some emerging studies highlighting that REDD+ interventions will have a range costs, there is still a widely held expectation that REDD+ can be implemented at a lower cost than other mitigation opportunities.

Efficiency is also important in the context of scarce ODA resources. The OECD defines efficiency as "*a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results*".[9] An efficient use of aid is important in maximizing the benefits or results arising from international development assistance. There is also competition in the use of ODA resources to other pressing sectors (e.g. health, educations), and if development assistance is not perceived to be delivering results, then donors will channel scarce resource to other areas.

2.1.2 Additionality

In the context of the UNFCCC, additionality often refers to three distinct concepts associated with climate finance[10]: **Financial additionality** refers to provision of "*new and additional finance*" [11] that is the requirement that climate finance provided by donors is additional to - and not a diversion of - current spending on ODA; and **Environmental additionality**, the requirement that emission reductions are "*real, measurable, and long-term benefits related to the mitigation of climate change*"[12] . The third concept is not anchored in the UNFCCC or the Kyoto Protocol, but commonly used in the assessment of carbon market projects (CDM, VCS) to evaluate the impact of financing provided. **Program additionality** refers to the need to demonstrate that projects or programs supported by climate finance would not have gone ahead absent donor finance.

These three terms are illustrated in Figure 3 and outlined in more detail below.

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[7] See e.g. Stern, N (2008) Key elements of a global deal on climate change, London School of Economics and Political Science; and Eliasch, J et al (2008) *Climate Change: Financing Global Forests. The Eliasch Review.* Office of Climate Change

[8] See e.g. Neeff, T., & Ascui, F. (2009). Lessons from carbon markets for designing an effective REDD architecture. *Climate Policy*, *9*(3), 306-315. Available at http://www.tandfonline.com/doi/pdf/10.3763/cpol.2008.0584

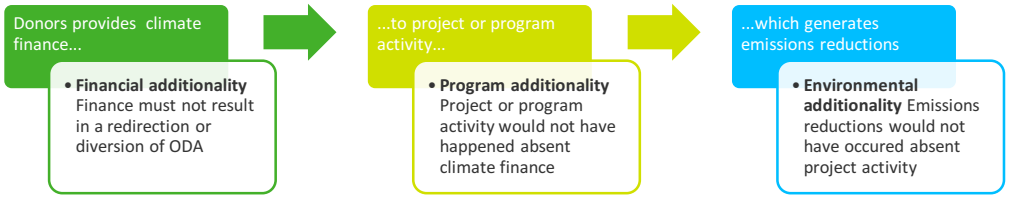
[9] OECD (2012) Glossary of Key Terms in Evaluation and Results Based Management

[10] The literature often refers to two forms of additionality (financial and investment), but here we split out investment additionality into two sub-components for clarity. See e.g. Streck, C. (2010) The Concept of Additionality under the UNFCCC and the Kyoto Protocol: Implications for Environmental Integrity and Equity. London: University College

[11] The Copenhagen Accord, Art. 8, FCCC/CP/2009/11/Add.1

[12] Artile 12 (5) (b) of the Kyoto Protocol with respect to the Clean Development Mechanism.

Figure 3: Three types of additionality requirement associated with climate finance



Financial additionality

The idea that climate finance should be '*new and additional*' to existing ODA has been embedded in climate negotiations since the 1990s and is expressed clearly in the Copenhagen Accord in relation to the provision of fast-start finance,[13] and in decisions of the Green Climate Fund.[14] While there is no commonly accepted definition of the phrase '*new and additional*'[15], several interpretations are prominent within the debate, namely:[16]

- Climate finance is classified as ODA and has to be addtional to the 0.7% of GNI ODA target
- Climate finance is classified as ODA and has to be additional to historical spending on ODA (e.g. 2009 levels)
- Climate finance is not classified as ODA

Each of these options has its individual merits but all aim to ensure that donor finance is over and above, and does not simply divert existing (and needed) aid flows.

Program additionality

Program additionality aims to ensure that a project or program would not have occurred in the absence of finance. This is important for both the environmental integrity of emission reductions arising from project or program activities, as well as the use of scarce ODA resources. Various approaches have been developed to address program additionality including guidance under the Convention, which states that developed countries should provide "*such financial resources … needed by the developing country Parties to meet the agreed full incremental costs*" of implementing climate mitigation and adaptation measures. The Global Environment Facility (GEF) acting as the financial mechanism to the Convention, states that "*the GEF...shall operate for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits*".[17] This is embodied within the selection and approval processes of the GEF trust funds as well as in their results frameworks. Finally, the Clean Development Mechanism (CDM) Executive Board has developed extensive guidelines for project participants to demonstrate that carbon projects are additional (for example, by demonstrating investment, institutional or

[13] The Copenhagen Accord, Art. 8, FCCC/CP/2009/11/Add.1

[14] Governing instrument for the Green Climate Fund, para. 3, Decision 3/CP.17, Annex, FCCC/CP/2011/9/Add.1

[15] *See* Nakhooda, S. et al., (2013), Mobilising International Climate Finance: Lessons from the Fast-Start Finance Period, Table 6, available at http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8687.pdf

[16] Brown, J., et al, (2010) 'Climate Finance Additionality: Emerging Definitions and Their Implications'. Climate Finance Policy Briefs 2. London: Overseas Development Institute., available at http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/6032.pdf

[17] GEF (2011) Instrument for the Establishment of the Restructured Global Environment Facility. Available at http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF_Instrument_Oct2011_final_0.pdf

technological barriers that prevent project implementation absent the CDM).[18] The counterfactual nature implied in defining program additionality continues making it a controversial concept.[19]

Environmental additionality

Finally, climate additionality aims to establish the environmental integrity of climate finance by ensuring that emission reductions or removals arising from project or program activities are over and above any that would have occurred in the baseline scenario. This is usually developed through the formulation of baselines or reference levels, against which emission reductions can be measured. Guidance on reference levels have been provided under the UNFCCC and the Warsaw Framework for REDD+[20], which requests Parties to develop "*a national forest reference emission level and/or forest reference level or, if appropriate, as an interim measure, subnational forest reference emission levels and/or forest reference levels".* Further guidance is provided under the CDM on project additionality, which states that projects must generate *"reductions in emissions that are additional to any that would occur in the absence of the certified project activity*"[21].

There has been little guidance on whether and how additionality requirements should be implemented in REDD+ finance. Financial additionality will be relevant in the context of scarce ODA funds and to ensure that donor funds are being used effectively, environmental additionality will be important if finance is being used to offset mitigation activities in other sectors, and program additionality will be relevant in the context of scarce ODA funds and if finance is being used to offset mitigation activities in other sectors.

2.2 The Phased Approach

The phased approach to REDD was first outlined in a 2009 paper prepared for the Government of Norway as a means to acknowledge the diverse capacities and circumstances of REDD countries and the near-term constraints of the global financial crisis.[22] At the time, it was envisioned that under a Phased approach countries would progress in a stepwise approach through three phases:

- **Phase 1 or 'readiness'**: National REDD strategy development, including national dialogue, institutional strengthening, and demonstration activities.

- **Phase 2 or 'implementation'**: Implementation of policies and measures (PAMs) proposed in those national REDD strategies.

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[18] *See* Clean Development Mechanism, Tool For The Demonstration And Assessment Of Additionality

[19] For many: Streck, C. (2010) The Concept of Additionality under the UNFCCC and the Kyoto Protocol: Implications for Environmental Integrity and Equity. London: University College; Valatin, G. (2014), Additionality of Climate Change Mitigation Activities, in: Fenning, T, (eds) (2014), Challenges and Opportunities for the World's Forests in the 21st Century, p.341, 342. He, G., Morse, R. (2013) Addressing Perverse Incentives in Global Climate Policy: Lessons from Chinese Wind CDM. Energy Policy 63 (2013), 1051-1055. Valatin, G. (2012), Additionality and climate change mitigation by the UK forest sector, Forestry Vol. 85, No. 4, 2012.

[20] See e.g. Decision 1/CP.16, Decision 12/CP.17, Annex (c). Confirmed as part of Warsaw Framework for REDD+, Decision 13/CP.19.

[21] Kyoto Protocol, Art. 12.5.c. UN Doc FCCC/CP/1997/7/Add.1, Dec. 10, 1997; 37 ILM 22 (1998).

[22] Angelsen, A. et al. "Reducing emissions from deforestation and forest degradation (REDD): an options assessment report." (2009). Available at http://www.redd-oar.org/links/REDD-OAR_en.pdf

- **Phase 3 or 'results-based payments'**: Payment for performance on the basis of quantified emission reductions and removals against agreed reference levels.

A year after the REDD+ options assessment report (OAR) was published, the phased approach was officially adopted under the UNFCCC at COP 16 in Cancun in 2010. The Cancun Agreements stated that:

> *"[REDD+] should be implemented in phases, beginning with the development of national strategies or action plans, policies and measures, and capacity-building, followed by the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results-based demonstration activities, and evolving into results-based actions that should be fully measured, reported and verified".*[23]

The Cancun Agreements also introduced a degree of flexibility in the three phases, recognizing that for each REDD+ country, the choice of starting phase will depend on the specific national circumstances, capabilities and capacities of that country.[24] The ability to skip phases, provided that countries meet eligibility requirements, was also a recommendation of the REDD+ Options Assessment Report, which further noted that within countries, overlap between phases might be necessary.

Central to the OAR's argument for a phased approach was the identification and alignment of separate and appropriate sources of finance for each of the three phases of REDD+. Using this construct, it was anticipated that Phase 1 activities would be paid for through existing ODA channels, with little expectation of results (i.e. emission reductions) other than the development of a national REDD+ strategy and relevant capacities (e.g. MRV and national forest monitoring systems). More predictable finance was anticipated for Phase 2 that should be generated above and beyond existing ODA pledges, e.g. through the auctioning of allowances or an international levy on aviation. Under Phase 2, results were to be measured using proxies e.g. reductions in deforestation rates measured in hectares. Finally, Phase 3 would be financed through international compliance carbon markets, and results would take the form of emission reductions measured against robust reference levels.

Each phase would also have agreed activities that would be implemented according to the progress of the country (Table 1). Phase 1 would include capacity building and demonstration activities alongside the development of a national REDD+ strategy. Phases 2 and 3 both involve the implementation of policies and measures (PAMs) identified in the national REDD+ strategy, with the sole difference being that under Phase 3 the results of those activities could be fully measured, reported and verified (MRV).

[23] Decision 1/CP.16 paragraph 73. FCCC/CP/2010/7/Add.1

[24] ibid paragraph 74

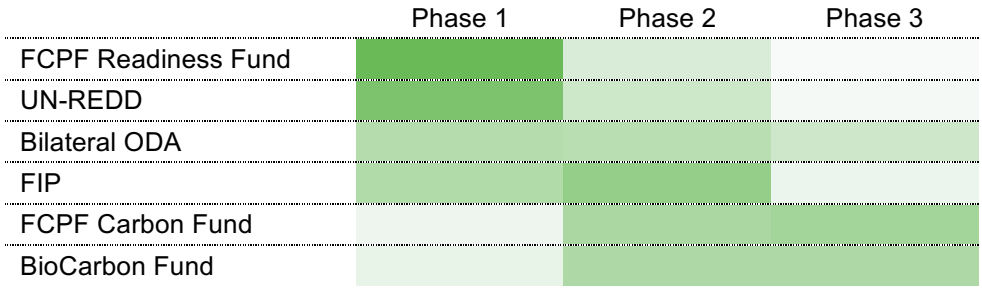
Table 1: Examples of activities to be undertaken under the three phases of REDD+[25]

REDD PHASES	EXAMPLES OF ACTIVITIES
PHASE 1	• National REDD+ strategy development • Planning of policies and measures (PAMs) • Initial capacity building • Initial demonstration activities
PHASE 2	• PAM and REDD+ strategy implementation • Scaled-up capacity building • Scaled-up demonstration activities
PHASE 3	• Consolidation of PAM implementation

While in theory there is a clear delineation between the three Phases of REDD+ and their respective sources of finance, in practice there has been no formal assignment of how the Phases should tie in with the primary sources of international REDD+ finance. Multilateral and bilateral funds have to some degree tried to align finance to these three phases, but it has become clear that in many instances funding for the different phases is overlapping rather than following a clear sequence (see Figure 4).

Figure 4 Percentage of respondents answering survey question "In your view, how do the following multilateral and bilateral funds relate to the three Phases of REDD+?"

(Darker shades = more respondents).



In addition, there is also no clear guidance on how finance should be delivered when countries are participating in two phases simultaneously or are attempting to transition from one phase to another. This is particularly true of Phase 2 and Phase 3 finance; both of which include the implementation of PAMs, and both of which are expected to yield results (albeit using proxies in the context of Phase 2 finance).

2.3 Typology and framework of REDD+ finance

Given the lack of distinction highlighted above between the three phases of REDD+ and different sources of REDD+ finance, we present here a typology and a framework of REDD+ finance based on the current major sources and channels of REDD+ finance. This typology is based on three major distinctions in the design of REDD+ financial flows as follows:

2.3.1 Ex-ante versus ex-post

One of the key distinctions in the current landscape of REDD+ financial flows is whether payments are delivered up-front (ex-ante), or upon the delivery of results (ex-post). To date, the majority of international aid - for both the

[25] Adopted from Angelsen, A. et al. "Reducing emissions from deforestation and forest degradation (REDD): an options assessment report." (2009).

environment and other sectors (e.g. health, education) - has been delivered ex-ante. Ex-ante support is clearly needed in countries with a shortage of up-front financial resources to implement structural reforms. It is also hard to imagine how ODA can be delivered ex-post for activities that involve technical assistance from donors, notwithstanding concerns over technical assistance versus other forms of 'country programmable aid' (CPA).[26]

In recent years, however, there has been a shift with some donors away from traditional ex-ante ODA towards ex-post payments for results.[27] There are two main arguments in favor of linking payments to results: one, that paying for performance creates a more country-driven approach, and devolves aid programming to recipient countries rather than a top-down donor-driven programmatic approach; and two, that some of the burden of risk is transferred to recipients - moving away from a model in which finance is provided even in the absence of results.

There are a several funds within the current REDD+ architecture that deliver ex-ante finance, including the FCPF Readiness Fund, UN-REDD, FIP and the majority of bilateral donors. Ex-post payments are provided through the BioCarbon Fund, FCPF Carbon Fund, Germanys' REM Program, and Norway's bilateral REDD+ finance.

2.3.2 Offsetting of emission reductions

A second important qualification of REDD+ finance is whether or not payments lead to the generation of credits that can offset emissions from other sectors. The generation of offsets requires the definition and transfer of title of emission reductions. When REDD+ was first conceived, some proponents felt that international emissions trading could provide the much-needed scale of finance to slow and halt forest loss in developing countries. This scale of finance can only be achieved through the transfer of title of emission reductions, i.e. a developed country party pays for a reduction in emissions in a developing country to meet its national targets.

There has, however, been considerable opposition to international emissions trading for forest carbon, and while most existing sources of REDD+ finance are intended to achieve the outcome of REDD+, very few have the expectation that emission reductions will be transferred from the host country government. Notwithstanding this we include this distinction in our typology, as payments for emission reductions have the potential to be a significant source of REDD+ finance under certain conditions (see Box 1), and carry their own particular requirements.

Under the different contractual structures of carbon finance, emission reductions can be "*cancelled*" i.e. they may no longer be used for compliance with an emission target; or they can be "*retired*" i.e. they *may* be used for compliance against an emission target.[28] Furthermore, while these definitions were created in the context of the Kyoto Protocol, retirement and cancellation could conceivably occur within a host country government accounting scheme.

[26] Benn, J., Rogerson, A., & Steenson, S. (2010). Getting Closer to the Core: Measuring Country Programmable Aid. *Development Brief*, *1*.

[27] De Renzio, P., & Woods, N. (2008). The Trouble with Cash on Delivery Aid: A note on its potential effects on recipient country institutions. *Note prepared for CGD initiative on cash on delivery*.

[28] http://unfccc.int/kyoto_protocol/registry_systems/registry_functions/items/4066.php

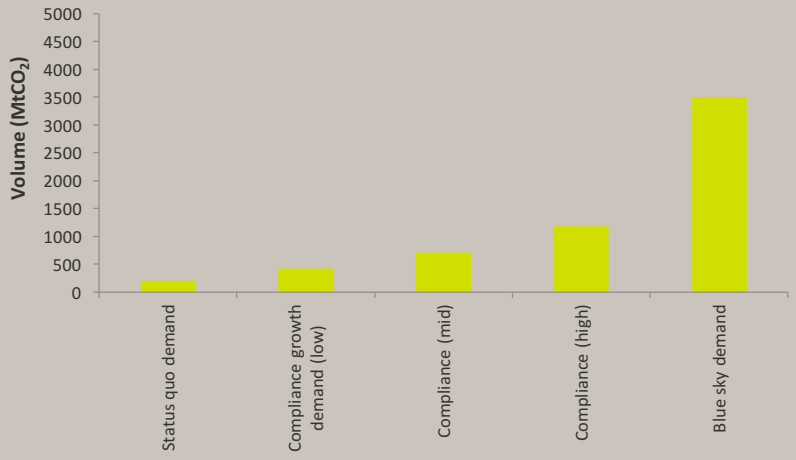
Box 1: Projected supply and demand of REDD+ credits

Due to uncertainty concerning the future of national and international climate policy and the role that REDD+ will play within that, the scale of future payments for REDD+ is also uncertain. However, one USAID funded report has provided broad range estimates for future supply and demand of REDD+ credits from 2015 to 2025.[29]

Two estimates have been provided for supply: potential supply, calculated from the potential volume of REDD+ credits that may be generated by registered VCS REDD+ projects plus the potential volume from additional REDD+ projects and subnational or jurisdiction level REDD+ programs under development; and expanded supply, which includes other more uncertain REDD+ credits to the potential supply, such as those potentially generated by Brazilian national level emissions reductions.

Three estimates have been provided for demand; status quo demand, which includes the voluntary market, Japan and fixed dollar funds such as the FCPF; compliance growth demand which includes potential future demand created by regulations or national purchases; and blue sky demand, which represents the highest and least likely demand scenario and is predicated on strong domestic action by national governments.

Figure 5 Cumulative supply and demand of REDD+ credits by 2025



Cumulative supply by 2025 is estimated between 918 $MtCO_2$ (potential supply) and 4800 $MtCO_2$ (expanded supply). In most scenarios, supply is projected to be significantly higher than demand. As the report notes, "*the oversupply situation means that prices subject to market forces will remain depressed and expanding demand to absorb supply is critical*."

[29] *See* USAID (2014), Report Brief: REDD+ Supply And Demand 2015-2025, available at http://www.fcmcglobal.org/documents/REDD_Market_Brief_2015-2025.pdf

While most sources of REDD+ finance are intended to achieve the outcome of REDD+, very few have the expectation that emission reductions will be transferred from the host country government

The choice of retirement or cancellation will impact developing country mitigation objectives and the ability of donor finance to contribute towards domestic mitigation targets. This can further have implications for the sources and scale of finance that may be available for REDD+. For example, if emissions reductions are retired in a donor country (i.e. they are used as offsets), this could, in theory, create additional finance for REDD+ credits (see above box). On the other hand, if emissions reductions are cancelled, this might provide a disincentive for developing country participation, as they would no longer be able to count emissions toward their Intended Nationally Determined Contributions (INDC).

Currently, only the Forest Carbon Partnership Facility (FCPF) Carbon Fund and BioCarbon Fund require the transfer of title of emission reductions. Tranche A of the Carbon Fund leaves the option open for some fund contributors to use these credits for compliance (i.e. retire against donor targets). Germany's REM program, on the other hand, provides performance-based finance without purchasing any emission reductions. Instead they require the developing partner country to retire credits in an emissions registry.

Although it is possible to retire or cancel credits under some bilateral and multilateral agreements, this possibility does not yet exist under the UNFCCC rules, which only mandates registry functions for Annex I Parties. In relation to REDD+ the only guidance that has been provided on this matter is that of the information hub, which states that "*Insertion of results in the information hub does not create any rights or obligations for any Party or other entity*".[30]

2.3.3 Official Development Assistance

A third distinction is whether or not REDD+ finance is classified as Official Development Assistance (ODA). The Organisation for Economic Co-operation and Development (OECD) defines ODA as flows of finance from official agencies to developing countries that have "*economic development and welfare of developing countries as its main objective*" and is "*concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).*"

Alternatively REDD+ finance could be classified under other official flows (OOF), which are defined as "*transactions by the official sector with countries on the List of Aid Recipients which do not meet the conditions for eligibility as Official Development Assistance or Official Aid, either because they are not primarily aimed at development, or because they have a Grant Element of less than 25 per cent"*.

As highlighted above there is a concern that climate finance could result in the diversion of aid from other sectors. Classifying REDD+ finance as OOF would partially allay these concerns. In addition, there are concerns around ODA being used to pay for emission reductions, especially where they could be retired against donor targets. To address some of these concerns, the UNFCCC and OECD guidelines place specific restrictions on diversion of aid from the CDM but as yet no such extension has been applied to other payments for emission reductions (see Box 2).

[30] Decision 9/ CP.19, Art 16

Box 2: Diversion of aid and the Clean Development Mechanism

At COP 7 in Morocco - under discussions on the Clean Development Mechanism (CDM) - it was agreed "*that public funding for clean development mechanism projects from parties in Annex 1 is not to result in the diversion of official development assistance and is to be separate from and not counted towards the financial obligations of Parties included in Annex I*".[31] The OECD Development Assistance Committee (DAC) further proposed "that the value of any CERs received in connection with an ODA-financed CDM project should lead to a deduction of the equivalent value from ODA. The DAC should also rule out the possibility of counting as ODA funds used to purchase CERs".[32]

While this restriction was in specific reference to CER sales a similar concept could readily be applied to all payments for emission reductions. In this case a clearer distinction would need to be drawn between ODA, which is by definition voluntary and without expectation of a return on investment and payments for emission reductions, which would in some way benefit the donor country.

This issue has also been explored in some detail under the CIF, in a paper that explored interactions between the CIF - focusing on the Clean Technology Fund (CTF), and carbon markets.[33] This paper found that carbon finance sought by CTF projects was "*more aspirational"* than what reality has borne out. In total, five CDM projects have been in part funded through a combination of grant and loan financing from the CTF. With respect to the diversion of ODA, one design document states that there is no involvement of public funding from Annex I Parties to the UNFCCC, and two other design documents mention the involvement of the CTF but affirm that there is no diversion of ODA from Annex I Parties. The remaining two make no mention of ODA.

It is our recommendation that more consideration needs to be given to the definition of "*diversion of aid*" and a more expansive approach taken to both the definition of aid – including development assistance (both grant- and loan-based) that is provided through multilateral funds – and the consideration of other payments for emission reductions outside of the CDM.

[31] Decision 17/CP.7. Modalities and procedures for a clean development mechanism as defined in Article 12 of the Kyoto Protocol. Available at http://cdm.unfccc.int/Reference/COPMOP/decisions_17_CP.7.pdf

[32] DAC/CHAIR(2004)4/FINAL ODA Eligibility Issues For Expenditures Under The Clean Development Mechanism (CDM)

[33] CIF Financing and Carbon Markets. CTF/TFC.11/12 (2013) Available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_TFC.11_12_CIF_financing_and_carbon_markets_summary.pdf

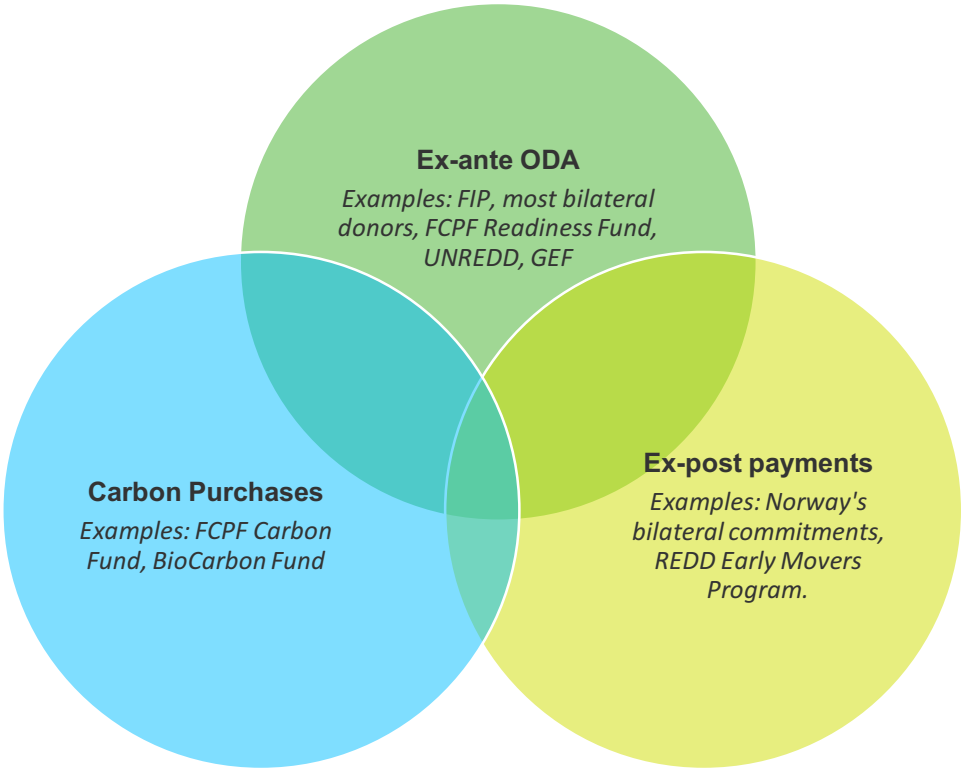
2.3.4 Loans versus grants

A final distinction in the current landscape of REDD+ finance is the degree of concessionality of funds. Funds can be provided either in the form of loans (i.e. with an expectation of return by the donor), or as grants. To date most REDD finance is being provided in the form of grants. The exception has been under the FIP, which has around a third of total endorsed funding in highly concessional loans. There are no emerging lessons of current experiences in grant versus loan-based finance, except to say that debt financing will be less appropriate for readiness activities where there will be no expectation of return on investment. Carbon payments would be considered as neither grant nor loans as these are essentially a purchase of emission reductions

2.3.5 Framework of REDD+ finance

Using these four classifications, REDD+ finance can be categorized into three overarching groups (see Figure 6) as follows:

Figure 6 Three categories of REDD+ finance and possible areas of overlap between these sources of finance



- **Ex-ante ODA** has been the dominant approach in financing REDD+ activities to date. Funding is delivered up front, typically for a pre-defined package of activities using some form of methodological design document to guide recipient countries. Typically this type of funding is directed towards Phase I and II activities but could be used for Phase III. Finance is predominantly grant-based but loans can also be used.

Ex-ante can also be provided through technical assistance (which represented 12.7 percent of ODA in 2009).[34]

Examples: FIP, most bilateral donors, FCPF Readiness Fund, UNREDD, GEF

- **Ex-post payments** also called results based payments, or cash on delivery (COD) aid, in which payments are made upon the delivery of results. This mechanism has been used for some years in the health sector, and more recently as a means for delivering REDD+ finance. In its purest form, ex-post ODA would involve little or no up-front programming and would disburse finance upon the achievement of certain pre-agreed metrics. A few donors (driven predominantly by Norway) are now providing REDD+ finance in this manner. In this report we distinguish ex-post ODA from payments for emission reductions as there is no transfer of ownership of emission reductions under ex-post ODA. The performance unit could, however, still be the achievement of a reduction in emissions measured in tonnes of carbon dioxide (tCO_2) as used in the Norway-Guyana agreement, for example.

  Examples: Norway - Guyana, Norway - Brazil, and Phase 3 of the Norway Indonesia agreement, REDD Early Movers Program.

- **Carbon purchases** rely on the transfer of title of an emission reduction that can then be used to offset emissions in other sectors. Carbon purchases can be made through international markets, bilateral exchanges or multilateral funds. The main distinction we make between carbon purchases and ex-post payments is that carbon purchases will include a transfer of title of emission reductions (i.e. a cancellation or retirement) from the host country. In its purest form, carbon purchases would not be classified as ODA; however, the distinction is somewhat blurred in the current landscape of REDD+ finance. The FCPF Carbon Fund, for example is mostly funded through ODA contributions, even though in some cases, i.e. U.S., the decision has still not been made how resulting emission reductions would be used. Equally, the choice of whether emission reductions would be retired or cancelled has still not been decided under many funds, leading to further confusion in the landscape of carbon payments. In general, however, carbon payments would not, typically, include upfront programming of activities, and financing would be delivered ex-post, although again there is some variation on these elements in the design of current multilateral and bilateral programs.

  Examples: FCPF Carbon Fund, BioCarbon Fund

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34 http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Towards%20Human%20Resilience/Towards_SustainingMDGProgress_Ch5.pdf

Table 2: Mapping of current REDD+ finance to the three types of finance identified in our framework, namely: ex-ante ODA, ex-post ODA and carbon payments.

EX-ANTE ODA	EX-POST PAYMENTS	CARBON PURCHASES
• Forest Investment Programme • UN-REDD (Phase II) • GEF	• Norway-Guyana • Norway-Brazil • Norway-Indonesia (Phase III) • REDD Early Movers Program	• FCPF Carbon Fund • BioCarbon Fund ISFL

We refer to these three different forms of finance throughout this report. It is important to note, however, that within this typology, ex-ante ODA, and to some extent ex-post ODA, are not payments for emission reductions. Under both scenarios, the emission reductions would still be considered a part of domestic emission reduction efforts. Only under a carbon purchase are emission reductions transferred to a donor entity.

As far as we aware the distinction between the two different forms of performance-based payments that we make here (i.e. between ex-post payments and carbon purchases) has not yet been made explicit within the discussions on REDD+ finance. This is an important division, however, given the different implications of these sources of finance. It is also worth noting that although current forms of REDD+ finance fit conceptually into this framework (see Table 2), there are important variations within each source of finance.

While these three options for REDD+ finance are distinct, there is the opportunity - given the current multitude of sources of REDD+ finance - for one, two or all three of these payment options to be provided to a country or region at any given time. The remainder of this report explores the issues that can arise when these three sources of finance are delivered concurrently in a given country or region, and discusses options to address coordination of finance across these three major sources.

This report is not intended to be an evaluation or assessment of the individual mechanisms themselves.

3. Overlaps in REDD+ Finance

Five FIP pilot countries: DRC, Ghana, Indonesia, Mexico, and Peru have signaled their intent to receive carbon payments under the FCPF Carbon Fund. While these funds differ in the programming of finance, they both aim to achieve reductions in emissions from deforestation and forest degradation. An important question arises therefore in how to coordinate these efforts where funding is being provided for the same geographies, timeframes or activities.

This section explores the overlaps in REDD+ finance, specifically the overlaps between the two primary funds developing national level REDD+ programs, namely the Forest Investment Programme and the FCPF Carbon Fund. This section is intended to provide a background on the different ways in which these two funds differ and overlap, both methodologically and physically, in terms of the geography, timing and activities being funded.

3.1 Overview of the funds

While the Forest Investment Programme and FCPF Carbon Fund have differing methodological frameworks and design documents, as well as different donors and participants, they both aim to achieve the same overall objective: **to reduce emissions from deforestation and forest degradation through national (or subnational) programs in tropical forest countries**. Both these funds also have key differences. For example the FIP provides up-front finance to developing countries and strongly emphasizes the role of development in its program design. The FIP also uses a significant proportion of its funding to support readiness and capacity building activities. The FCPF on the other hand provides ex-post payments for emissions reductions achieved, and places a stronger emphasis on the development of reference levels and the measurement and reporting of results. Table 3, below highlights the main elements of the Forest Investment Programme and FCPF Carbon Fund and the differences and overlaps in their approaches to program design. This is elaborated further in the following subsections.

Table 3 Comparison of approaches to program design between the Forest Investment Programme and FCPF Carbon

	Forest Investment Programme	FCPF Carbon Fund
Source of payment	ODA	ODA / private
Type of payment	Grants and Loans	Purchase agreement
Timing of payment	Ex-ante	Ex-post[35]
Generation of ERs	✓	✓
Transfer of title of ERs	✗	✓
Pricing of ERs	N/A	Up to $5/tonne
Reference Levels / MRV systems	Country decides	Fund provides framework
Timeframe of payments[36]	2013 - 2020	2016 – 2020
Scale of activities	National/Subnational	National/Subnational

3.1.1 FIP program design

One of the core principles of the FIP is to be "*results-based over time*", and to "*promote measurable outcomes with regard to the effectiveness of FIP investments on REDD*".[37] The FIP Design Document further states that, the FIP was established "*to catalyze policies and measures and mobilize significantly increased funds to facilitate the reduction of deforestation and of forest degradation and promote improved sustainable management of forests, leading to emission reductions and the protection of forest carbon stocks* ".[38]
The FIP Design document recognizes that it will not be the sole source of funding for results with the qualification that the FIP "*will not in itself provide the incentives presently necessary to significantly reduce forest-related GHG emissions, but would enable pilot countries to leverage such incentives.*" The FIP investment guidelines further state that "*certain activities financed by the FIP may not result in immediate emission reductions, but may rather serve to enable countries to leverage REDD+ incentives in the future*."

Nonetheless, the FIP Results Framework includes as a core objective reducing GHG emissions from deforestation and degradation, which will be calculated at the project/program level and aggregated over FIP investments as a whole.[39] At the project level, each proposal for FIP funding must provide an assessment of the direct GHG savings over the lifetime of the proposed program"[40] and the cost effectiveness of the project must also be calculated in terms of the cost per ton of CO_2 emissions reduced or avoided.[41]

[35] With some possibility of advanced payments

[36] The timeframe of both the FIP and FCPF are subject to potential changes

[37] Design Document for the Forest Investment Program, a Targeted Program under the SCF Trust Fund, paragraph 13. Available at https://www.climateinvestmentfunds.org/cif/node/111

[38] ibid. paragraph 7

[39] FIP Results Framework, Table 1, objective A1. Available at https://www.climateinvestmentfunds.org/cif/content/fip-results-framework

[40] FIP Investment Criteria and Financing Modalities, para. 9.

[41] ibid, para. 15.

3.1.2 FCPF program design

The Carbon Fund aims "*to pilot a performance based payment system for emission reductions generated from REDD activities*"[42] The FCPF is divided into two funds, the Readiness Fund, which builds the requisite capacity in REDD+ countries, and the Carbon Fund which aims to "*to pilot the implementation of REDD+ programs, via [the] use of positive incentives*".[43]

The Methodological Framework (MF) of the Carbon Fund provides guidance for the design of these pilots and elaborates a set of criteria and indicators that emission reduction programs (ER Programs) must satisfy. Like the FIP, ER Programs generate emission reductions within an accounting area that is calculated against a reference level.[44] Unlike the FIP, however, once emission reductions are measured, reported and verified, the ER Program entity then transfers title of ERs to the Carbon Fund in exchange for payment and according to the terms agreed in an Emissions Reduction Purchase Agreement (ERPA).[45] The Carbon Fund then transfers emission reductions to Carbon Fund Participants (i.e. the fund contributors) who can either sell or use the emission reductions for compliance purposes (unrestricted), or cancel the emission reductions upon acquisition (restricted). To accommodate both options, the Carbon Fund has been structured into two tranches; "*Tranche A*" for Fund Participants acquiring unrestricted emission reductions, and "*Tranche B*" for Fund Participants acquiring restricted emission reductions.[46]

The Carbon Fund can be implemented through ER Programs at the national or subnational level, according to the preference of the host country. Sub-national activities, however, still need to be accounted for within national accounting frameworks, with emission reduction transactions recorded on a national registry (or centralized registry managed by a third party) in order to avoid multiple claims to emission reduction titles and to ensure against the reuse of emission reductions (i.e. double-counting).[47]

3.2 Overview of programs

As of March 2015, eight countries were implementing national level programs under the Forest Investment Program, namely: Brazil, Burkina Faso, DRC, Ghana, Indonesia, Lao PDR, Mexico, and Peru. In addition, eleven countries: Chile, Costa Rica, Democratic Republic of Congo, Ghana, Guatemala, Indonesia, Mexico, Nepal, Peru, Republic of Congo, and Vietnam had submitted Emission Reduction Program Idea Notes (ER-PINs) to the FCPF Carbon Fund and had been accepted into the ER-PIN pipeline. In total, therefore, five countries: Mexico, Peru, Ghana, DRC and Indonesia are engaging in both the FIP and Carbon Fund to develop national REDD+ programs (see Figure 7).

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[42] FCPF Charter 2.1(b) available at https://www.forestcarbonpartnership.org/sites/fcp/files/2014/July/FCPF%20Charter%20-%208-13%20clean%20correct%20ToC.pdf

[43] FCPF Carbon Fund Methodological Framework. General Approach, available at https://www.forestcarbonpartnership.org/carbon-fund-methodological-framework

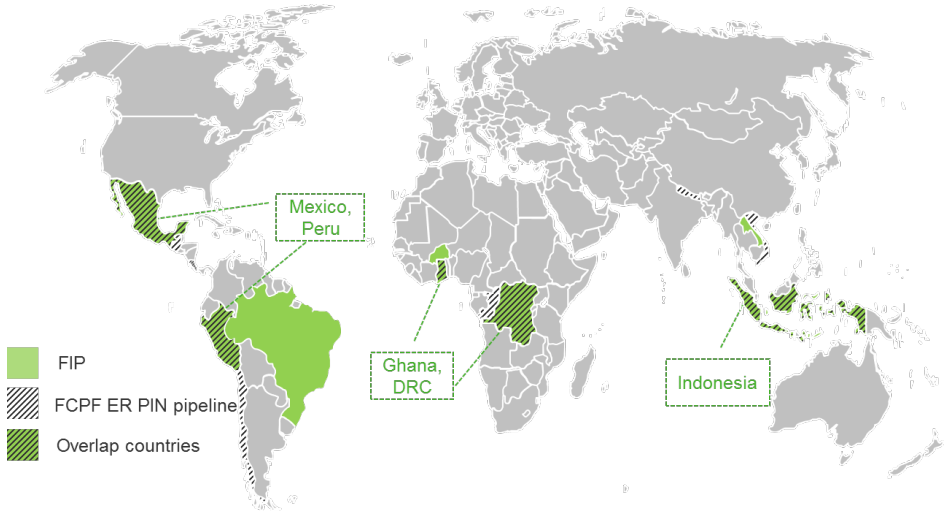
[44] MF Cr. 3.

[45] MF ER Program Transactions, Context and Rationale for Criteria and Indicators

[46] FCPF Charter, Chapter I Definitions, 73-76.

[47] MF Cr. 37 and 38.

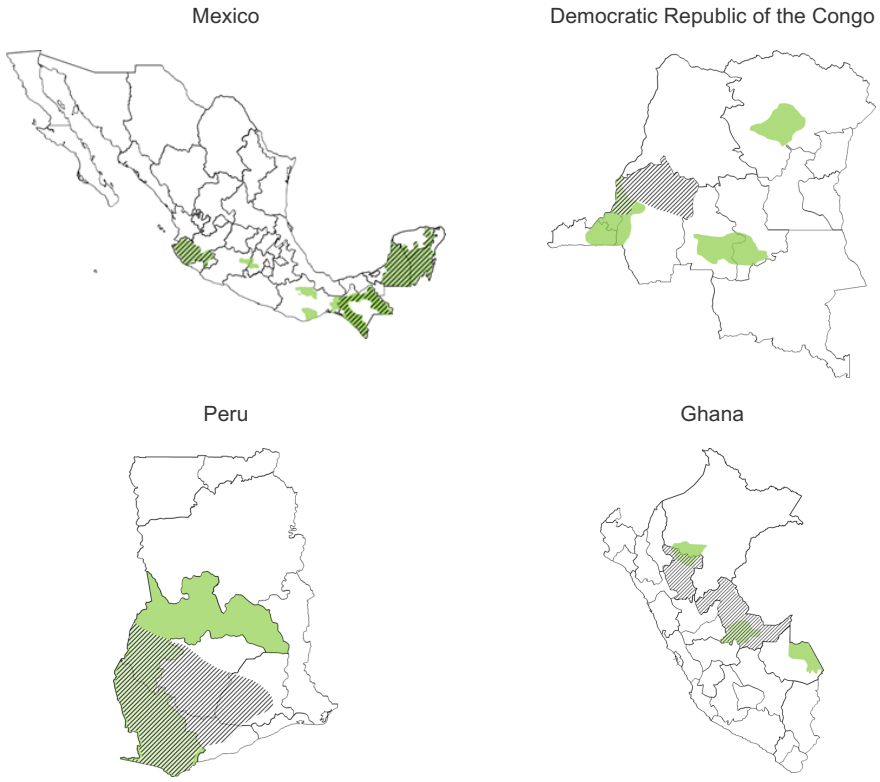
Figure 7: Map of FIP and Carbon Fund countries with overlaps in Mexico, Peru, Ghana, DRC and Indonesia



3.2.1 Geographic overlaps

Of the five countries identified above, four have geographic overlaps between FIP and Carbon Fund activities, though the extent of these overlaps varies (Figure 8). Indonesia is not illustrated as locations for FIP interventions have yet to be finalized.

Figure 8: Regional overlaps of FIP funded interventions and ER Program locations. Clockwise from top left: Mexico, DRC, Peru and Ghana. (countries not shown to scale)



In Mexico there is almost total geographic overlap at the regional level, whereas in the DRC overlaps are only evident in those parts of the Mai Ndombe region, which come within the 'Kinshasa Supply Area' as defined by the FIP. It is interesting to note that the ER-PIN submitted by Peru in May 2014 proposed identical intervention zones to those chosen for FIP investments. The Carbon

Fund Participants requested Peru to revise this ER-PIN, and the version resubmitted in October 2014 proposed overlapping but distinct areas. Indonesia has yet to decide on the locations of FIP investments beyond West Kalimantan, but the regions in which ERP activities will take place (Central Kalimantan, Central Sulawesi, East Kalimantan and Jambi provinces) have all been highlighted as potential locations in the FIP Investment Plan.

Given that regional locations for FIP and Carbon Fund supported interventions are selected according to similar criteria (e.g. emissions reduction potential or social and environmental co-benefits), and that these choices should be consistent with national REDD+ strategies, one would expect regional overlaps between activities supported by either fund.

It is still not possible in many instances to determine whether planned activities overlap at the sub-regional or site-specific level as planning documents may not yet contain this level of detail. However, there are some cases of more geographically precise overlaps. For example, the district of Raymondi in Atalaya Province in the Ucayali Region, Peru, is highlighted as an intervention area in both the FIP IP and the ER-PIN.

3.3 Timing overlaps

As illustrated by Figure 9 there are significant temporal overlaps in four of the five countries scheduled to receive funds from the FIP and Carbon Fund, with only Mexico receiving FIP and FCPF payments sequentially.

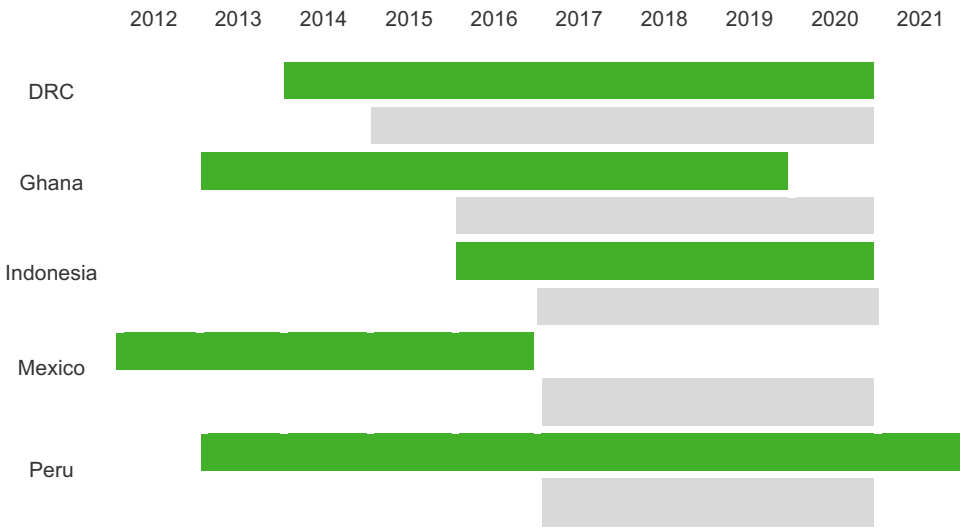


Figure 9: Timing of FIP payments and accounting period for which the Carbon Fund purchases emission reductions (Green: FIP, Grey: FCPF)

These overlaps in timing are explicitly recognized by FIP and FCPF programs. In Ghana, for example, the ER Program aims to "*formally align with and leverage activities"* related to Component 1 (Policy Reforms and Institutional Strengthening) and Component 2 (Pilot Investments for Improved Forest and Landscape Management) of the IP. Mexico describes one of the key learning values of the ER program as understanding the link "*between FIP investment activities and the Carbon Fund*" and the "*complementarity between the two mechanisms*".

3.4 Activity type overlaps

There are overlaps in the types of activity funded across all five FIP/Carbon Fund countries. Given that the FIP funds activities that directly generate

emission reductions in some of the participating countries, and that the Carbon Fund's primary objective is to pilot a performance-based payment system for emission reductions generated from REDD+ activities, overlaps in site specific activities are to be expected. Examples include fuelwood interventions and agroforestry in DRC, sustainable cocoa production in Ghana and payment for ecosystem services in Peru. Perhaps more surprisingly, there are also overlaps in capacity building and governance activities. Examples include training and capacity building of forest management units in Indonesia (known as KPHs) and capacity building of regional environmental authorities in Peru.

Mexico's ER-PIN notes that there is 'full harmonization' between FIP and Carbon Fund interventions. Accordingly, activities in Jalisco and the Yucatán Peninsula will be 'supplemented' by activities set out in the FIP IP, and Carbon Fund resources will supplement FIP investments in capacity building and REDD+ pilots. As such, activities described in Mexico's ER-PIN (running from 2016 to 2020) are framed as a continuation of early actions funded by the FIP (from 2012 to 2016). A National Emissions Reduction Registry will establish measures to avoid double counting of emission reductions. Thus there should be no risk of double payments, as emission reductions achieved from 2012 to 2016 can be attributed to FIP investments, and those achieved from 2016 to 2020 will be attributable to the Carbon Fund.

The scale of emission reductions to be achieved under the FIP in Mexico is unclear, however. Although a core objective of Mexico's IP is to reduce GHG emissions from deforestation and degradation, the IP does not indicate the scale of emission reductions that each of its interventions are designed to generate, or provide an emissions reduction target for its overall program of activities. Further, the reference level proposed by the ER-PIN is based on the historic rate of forest cover change from 2002 to 2010, which would not take into account long-term emission reductions achieved by FIP interventions from 2012 to 2016. If it is not clear how many emission reductions are to be attributed to the FIP, and reference levels used by the Carbon Fund are not adjusted to take FIP interventions into account, then there is an increased risk of double counting of results.

The project components of the four countries with temporal and activity type overlaps are described in detail in Table 4. More detailed analysis can be found in the Annexes.

Table 4: Activity overlaps in DRC, Ghana, Indonesia, and Peru

COUNTRY	READINESS/CAPACITY BUILDING ACTIVITIES	SITE SPECIFIC ACTIVITIES
DRC	• Land use planning and management • Strengthening governance for sustainable management of natural resources	• Improved energy efficiency through sustainable charcoal production and alternatives to inefficient wood energy, e.g. the use of improved cook stoves. • Agroforestry and innovative production systems as alternatives to slash-and-burn agriculture and as a source of sustainable fuel wood for farmers' organizations
Ghana	• Capacity building for government and local communities • Supporting policy reforms, leveraging existing programs, projects and initiatives, and at a local/community scale	• Promotion of climate smart cocoa production activities • Promotion of climate smart agroforestry • Agroforestry and innovative production systems as alternatives to slash-and-burn agriculture and as a source of sustainable fuel wood for farmers' organizations
Indonesia	• Support KPHs (forest management units) and other subnational institutions, in particular in relation to participatory planning, spatial planning, community outreach and related management and business plan development. • Support for land registration	• Community based forest management
Peru	• Capacity-building of Government Institutions • Legal processes that include the recognition, and titling of the lands occupied by native communities • Strengthening the business and administrative capacities of logging companies • Developing systems of land use monitoring and enforcement of land use • Designing credit instruments more aligned with needs of the forestry sector	• Payment for ecosystem services

4. Sustainability of results

The sustainability of results is a central requirement of international aid and the Forest Investment Program. Where results are dependent on (uncertain) future results based payments this poses a challenge for international donors in the programming of REDD+ finance. This section explores the sustainability of results under the Forest Investment Program and linkages to future results based payments.

The first issue outlined by the FIP Sub-Committee refers to the "*sustainability of FIP results*" and the extent to which these results "*should depend on future carbon payments that may or may not materialize*." This chapter begins by framing the issue of sustainability and its importance as it relates to finance, emission reductions and transformational change. We then provide a brief example of sustainability in the forestry sector, to highlight how carbon payments can play a role in the sustainability of results. We conclude with some options to address the sustainability of results by considering a) whether or not finance is needed to sustain results and b) what are appropriate sources of finance to sustain results.

Given the focus of this study on linkages between the FIP and results based payments, this analysis focuses on FIP investments that lead to results in the form of emission reductions. The Forest Investment Program also invests in a range of important readiness activities that are unlikely to result in emission reductions. Given, however, that there are no perceived issues resulting from the financing of these activities and finance through performance-based payments, these activities are excluded from our analysis.

4.1 Framing the issue

Three issues underpin the issue of sustainability of results in the context of REDD+ finance: financial sustainability, climate sustainability and transformational sustainability. These three elements can be mutually reinforcing but do not always go hand in hand. For example, an activity may become financially sustainable but it may not necessarily target the appropriate drivers of deforestation, nor ensure that emission reductions avoid leakage and reversals, which are essential in ensuring the long-term sustainability of

emission reductions. Likewise a project may be transformational within a country but it may not be financially sustainable (without additional ongoing resources).

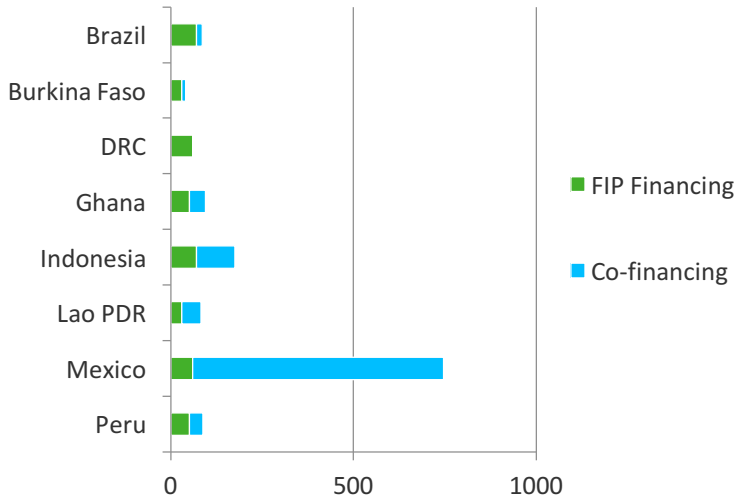
The remainder of this section will look at these three issues of sustainability including a case study of investment in a forest commodity to illustrate the issue of financial sustainability. The results of the questionnaire and interviews will be included in this analysis.

4.1.1 Financial sustainability

The first issue describes the degree to which an intervention is self-sustaining and economically viable: whether following an initial investment, a project is able to generate revenue or attract additional investment. The OECD defines this component of sustainability as "*the continuation of benefits from a development intervention … after major development assistance has been completed.*"[48] Benefits in this sense include a broad range of social, economic and environmental outcomes.

REDD+ countries access finance from a multitude of national and international sources. In our analysis of investment plans under the FIP and FCPF, fund contributions are often only a small component of overall investments (see Figure 10).

Figure 10 Co-financing of activities from other sources of ODA under the Forest Investment Programme (USD millions)

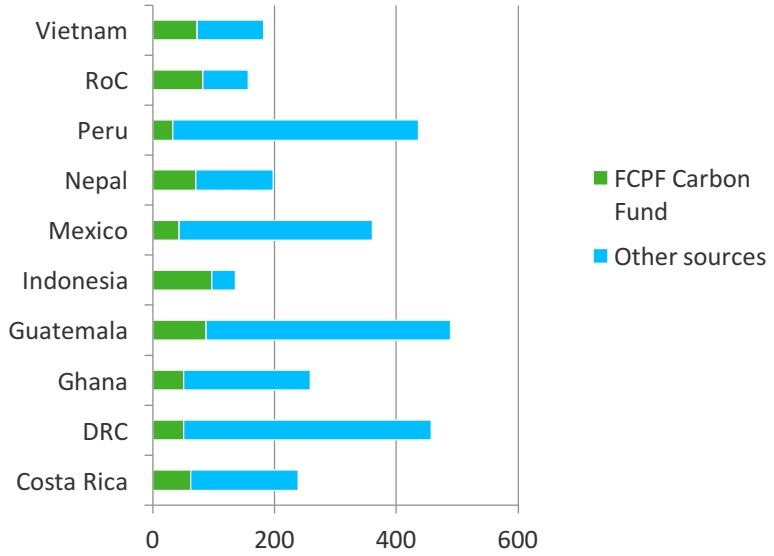


Indonesia for example has received significant bilateral REDD+ support from Norway, Australia, Japan, Korea, the USA and the UK, and has accessed multilateral funds from the FCPF and UN-REDD as well as the FIP.[49] Indonesia's FIP Investment Plan notes that site selection will prioritize areas where FCPF and other donor-supported REDD+ programs can provide synergies with the FIP, and that cross-program learning and collaboration will be explored both at the project and policy level.

[48] Glossary of Terms Used in Evaluation, in 'Methods and Procedures in Aid Evaluation', OECD (1986)

[49] Climate Investment Funds, October 2012, FIP Investment Plan for Indonesia p.16 [hereinafter Indonesia FIP Investment Plan] available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_6_Indonesia_0.pdf

Figure 11 Co-financing from other sources under the FCPF Carbon Fund (USD millions)



According to the financial plans set out in the ER-PINs of those countries in the FCPF ER-PIN pipeline, current projections are that approximately 20% of financing for ER Programs is expected to be sourced through the sale of emission reductions to the Carbon Fund. The ratio of Carbon Fund financing to other sources varies between countries, with the Carbon Fund expected to provide 70% of financing in Indonesia, and only 10% in the DRC.

There are also significant differences within country financial plans about how alternative sources will be raised. According to DRC's ER-PIN, revenue from the sale of additional emission reductions to unknown purchasers represents 93% of expected revenue that is additional to Carbon Fund contributions. By way of contrast, the Government of Guatemala will be providing the vast majority of ER Program financing through forest incentive programs funded through national laws and through ministerial budgets.

The FIP provides guidance to ensure the financial sustainability of projects. At a high level, the FIP design document outlines ten criteria to guide the review of and to prioritize investment strategies, programs and projects. The criterion on economic viability states that "*investment strategies, programs and projects should catalyze self-sustaining financially profitable models for REDD at scale without the need for continuing subsidies*."[50] Within the FIP Investment Criteria, economic viability is evaluated under the criterion of Cost-effectiveness.[51] This criterion on the one hand requires investments to report on the expected cost per ton of CO_2 reduced and additional financial resources leveraged (including through public and private sources). Within their investment plans and project proposals, countries are required to provide information on the "*anticipated ratio of FIP co-financing to leveraged additional financial resources*".[52]

Finally, within the FIP Results Framework, the sustainability of FIP investments is evaluated through two key criteria. The first is more a question of

[50] CIF. 7 July 2009. Design Document for the Forest Investment Program, a Targeted Program Under The SCF Trust Fund. p.9

[51] CIF. 29 June 2010. FIP: Investment Criteria And Financing Modalities. FIP/SC.3/4. P. 4.

[52] Ibid. p. 25.

mainstreaming of sustainable development goals, and measures whether environmental, GHG, and deforestation considerations are "*integrated into the processes of creating economic incentives*" for new policies and programs.[53] The second, however, measures whether the use of FIP finance enables the country to leverage additional financial incentives to achieve sustainable forest management goals by improving "*access to predictable and adequate financial resources, including results-based incentives for REDD+ and sustainable management of forests*."[54]

4.1.2 Climate Sustainability

The second issue relates specifically to whether or not a project is able to sustain emission reductions in the absence of donor finance. Two factors underpin the environmental sustainability of investments (i.e. their ability to generate real and additional emission reductions) as follows:

- **Permanence:** Carbon sequestered in biomass may be later released because of non-anthropogenic hazards (e.g. fire, wind, and floods), or anthropogenic causes (e.g. fuelwood, timber or conversion of land to agriculture). This risk of reversal or 'non-permanence' constitutes a fundamental difference between biological sequestration projects on the one hand and projects that reduce emissions on the other.[55]

- **Leakage** is the concern that forest protection in one area could result in increased pressure and therefore deforestation in a nearby (or more distant) forest area, with no net GHG impact. Although this example relates to the land-use sector, project activities in virtually all sectors of GHG mitigation (energy, transportation, etc.) have the potential to cause leakage.[56]

Because of these concerns, measures are needed to ensure that emission reductions achieved today are not simply displaced or reversed by emissions increases in the future or in other areas. When future funding sources are uncertain for forest protection activities, these issues become even more acute in the absence of funding local actors may revert to previous, unsustainable activities that degrade forest areas.

Sustainability under the Carbon Fund is primarily considered through the lens of permanence and additionality of emission reductions achieved. The Methodological Framework of the Carbon Fund outlines two key criteria to determine the sustainability of emission reductions. The first of these is how countries account for reversals (i.e. non-permanence of emission reductions) through activities such as fire, or unplanned / illegal logging.[57] Countries are required to identify potential sources of reversals in their ERPD and create a

[53] CIF. 13 May 2011. Forest Investment Program Results Framework. P. 13, 30.

[54] Ibid. p. 14, 31.

[55] Chomitz, K., 2002. Baseline, leakage, and measurement issues: how do forestry and energy projects compare?, *Climate Policy* **2**, 35-50.

[56] Schwarze, R., O. Niles, J., Olander, J., 2010 Understanding and Managing Leakage in Forest-Based Greenhouse-Gas-Mitigation Projects. *Philosophical Transactions: Mathematical, Physical and Engineering Sciences*, Vol. 360, No. 1797. Available at http://links.jstor.org/sici?sici=1364-503X%2820020815%29360%3A1797%3C1685%3AUAMLIF%3E2.0.CO%3B2-W

[57] FCPF. 18 October 2012. FCPF ERPA Term Sheet: For Discussion. P. 9. http://www.forestcarbonpartnership.org/sites/fcp/files/Documents/tagged/FCPF%20ERPA%20Term%20Sheet%2010-18-2012%20clean.pdf

management plan for limiting the risk of reversals. The Methodological Framework allows flexibility in how this is achieved, suggesting "*buffer reserves (the default mechanism), or use of insurance, host country guarantees, etc., as long as the mechanism can be shown to address the risk of Reversals effectively and address ER sustainability during and after the Term of the ERPA*".[58] Countries are encouraged to develop reversal management plans by 2019 to implement at the close of the Carbon Fund currently scheduled for 2020.[59] Countries are also required to account for displacement (leakage), which ensures that reductions obtained in the project areas are not subsequently reversed due to corresponding increases in reductions elsewhere.[60] Unintentional reversal events are managed through these mechanisms, while intentional reversal events (due to seller's omission or negligence) can lead to a default, which if unresolved, can lead to termination of the ERPA.[61]

Under the UNFCCC, leakage and permanence are addressed by ensuring that reference levels and MRV systems are implemented at the subnational, moving towards the national level. Parties are responsible for the information provided which is then subject to independent review.[62]

While the FCPF has detailed guidance on climate sustainability, the FIP provides little guidance on achieving permanence of emission reductions and avoidance of leakage. The FIP Investment Criteria requires that the "*Investment Strategy should…explain how permanence and leakage risks have been addressed*"[63], and intends to evaluate whether "*Permanence and leakage risks and current mitigation measures*"[64] were incorporated into the investment plans.

4.1.3 Transformational sustainability

The third area of sustainability relates to the transformational impact of a project. Given the underlying complexities in forest conservation, coupled with scarce donor resources, donors continually aim to ensure that the impacts of any given intervention endure beyond the period and geography of donor finance. The FIP, Carbon Fund and GCF have all laid out criteria to ensure transformation in project activities.

The FIP design documents aims to achieve "*transformational change*" using a range of practices including "*addressing key direct and underlying drivers of deforestation and forest degradation", "facilitating scaled-up private investment",* and *"improving forest law enforcement and governance, including forest laws and policy, land tenure administration, monitoring and verification capability, and transparency and accountability".*[65] The Investment Criteria further require

[58] FCPF. 20 December 2013. Carbon Fund: Methodological Framework, Final. Section 3.6, p. 14. http://www.forestcarbonpartnership.org/sites/fcp/files/2014/MArch/March/FCPF%20Carbon%20Fund%20Methodological%20Framework%20Final%20Dec%2020%202013.pdf,

[59] FCPF. May 2014. Carbon Fund Methodological Framework: Overview of key concepts. Presentation.

[60] FCPF. 20 December 2013. Carbon Fund: Methodological Framework, Final. p. 13-14.

[61] FCPF. November 2014, General Conditions Applicable to Emission Reductions Payment Agreements for Forest Carbon Partnership Facility Emission Reductions Programs, s.16.03 FCPF. 18 October 2012. FCPF ERPA Term Sheet: For Discussion. P. 9.

[62] Warsaw Framework for REDD+, Decision 13/CP.19.

[63] CIF. 29 June 2010. FIP: Investment Criteria And Financing Modalities. FIP/SC.3/4. p. 5.

[64] Ibid. p. 25.

[65] CIF. 7 July 2009. Design Document for the Forest Investment Program, a Targeted Program Under The SCF Trust Fund. p. 6.

that "*each project and program should include information on how achieved results will be sustained after completion of the FIP investment, including measures that generate positive incentives and reverse problematic incentives across sectors and lead to lasting change*".[66]

The Methodological Framework of the FCPF Carbon Fund is somewhat less explicit on how to ensure the transformational sustainability of a country's program. Criteria for sound ER program design are provided under the section on "*Sustainable Program Design and Implementation*", which encourage countries to address numerous forest-related issues through implementation.[67] These criteria include addressing land and resource tenure issues, addressing key drivers of deforestation and forest degradation, developing benefit sharing arrangements in a transparent and participatory manner, and promoting the generation of priority non-carbon benefits, in addition to identifying and mitigating the risks of displacements and reversals (described above).[68]

While there is no requirement that actions lead to financially self-sustaining models, the GCF emphasizes that the overall desired outcome of GCF-funded activities is a "*paradigm-shift*" to "*low-emission sustainable development pathways*." This is elaborated as the extent to which activities demonstrate their contribution to keeping global temperature rise below 2 degrees, achieving "*knowledge and learning*", creating an "*enabling environment*", and strengthening "*the regulatory framework and policies*".[69] The same paradigm-shift objectives are provided for the GCF's adaptation framework.

There are limits, however, to the sustainability of results that can be achieved under the short funding cycles of development programs. Whereas most donor interventions last four to five years, it can take far longer to reverse deforestation trends, and forest cover is subject to a variety of economic influences, the scale of which may vastly exceed FIP investments and which may be beyond the host countries' capacity to control in the short term. As Mexico's IP notes, "*the transformative impact dimension of the FIP is determined by many factors which are outside of the direct influence of FIP operations in a specific country. Systematic and coherent improvements in this dimension cannot be observed in the short-term and not attributed to a single development actor. Transformation will be the result of multiple activities in a specific country over a longer period of time*."[70]

Even where investments aim to achieve specific outputs, such as adoption of a new technology by farmers in Brazil, sustainable achievement of results may still be influenced by external factors beyond the scope of the FIP, including world demand for crops and livestock commodities, the impact of the technologies on productivity, climate factors and the overall macro-economic situation.[71]

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[66] ibid. p. 5, and pp. 24-25.

[67] FCPF. May 2014. Carbon Fund Methodological Framework: Overview of key concepts. Presentation.

[68] FCPF. 20 December 2013. Carbon Fund: Methodological Framework, Final. p. 21-22.

[69] Ibid. p. 13.

[70] Mexico FIP Investment Plan, p.47.

[71] BR SPACAU p.9.

4.2 A business model for sustainable land use

The FIP and FCPF are investing in a range of activities that will have different associated costs and revenues as well as different levels of financial sustainability. Determining these costs can be challenging and very little data exists on the incremental costs of sustainable land use investment. For the purposes of demonstration, the following case study of a sustainable forestry project, provides an example of how financial needs in a particular land use investment can affect the sustainability of results.

Sustainable forestry projects face a number of hurdles, not least the financial barriers they are likely to face compared with business-as-usual projects. Finance from sources like the FIP can be used to overcome these hurdles. The following figures exemplify the difference in cash flow over a ten-year period for two types of project.

Figure 12 Project A: Cashflow for a hypothetical business-as-usual forestry project

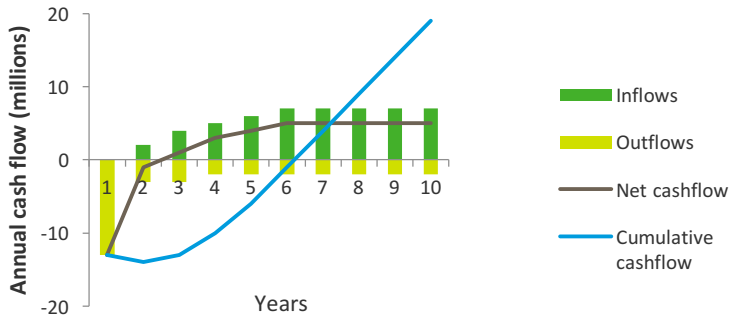
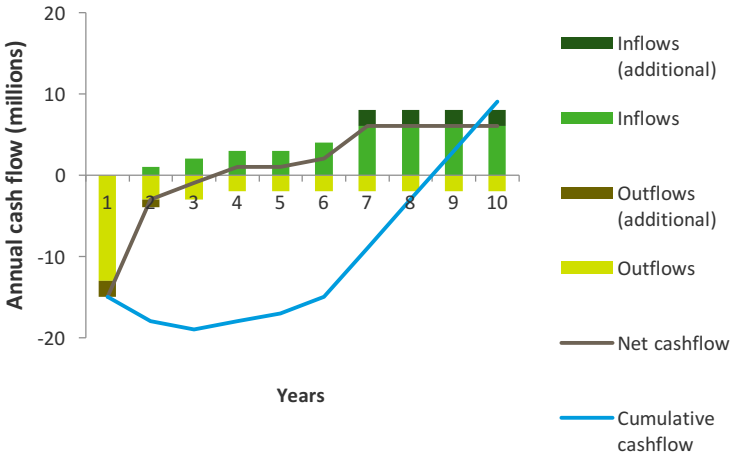


Figure 13 Project B: Cashflow for a hypothetical sustainable forestry management project



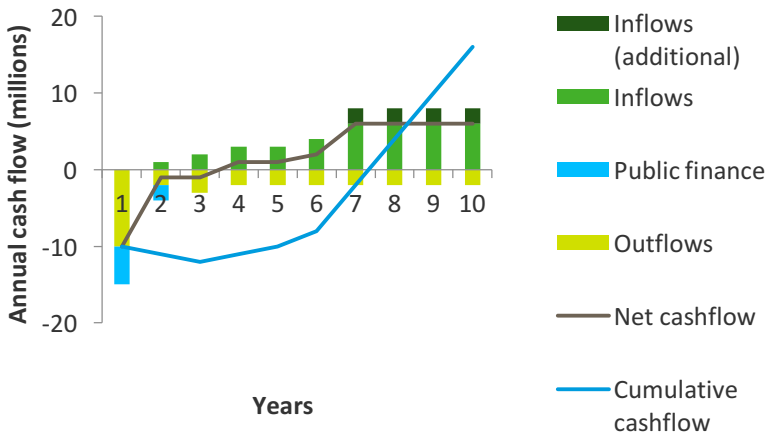
Typically, productivity will be lower for the sustainable forest management project (Project B), and returns (i.e. inflows) will be supplemented either from external sources (e.g., the sale of carbon credits or other ecosystem services) or by charging a premium on produce (e.g., timber that is 'certified'). Further, sustainable projects will typically have additional upfront costs, for example, training costs of farmers/agricultural workers in innovative planting/harvesting practices. Project proponents therefore struggle to access capital sources (such as private banks) to finance sustainable activities. Absent legislation forcing

sustainable production, sustainable projects will not be able to compete with business-as-usual projects.

Costs and revenues for Project A balance earlier than for Project B. This is partly due to higher upfront costs of Project B as described above, but also the assumption that productivity will be lower whilst new practices take root in the initial years of Project B. The internal rate of return (IRR) of Project A, as illustrated above is 14%, whereas that of Project B is 6%. In other words, a sustainable forestry/other land use project presents higher risks and lower returns than a business-as-usual project. This means that project proponents will struggle to access capital sources (such as private banks) to finance sustainable activities. Absent legislation forcing sustainable production, sustainable projects will not be able to compete with business-as-usual projects.

Where upfront costs associated with sustainable projects are partially covered with either loans or grants from public sources, however, (which then bear the risk of project failure), the attractiveness of a project for private investors increases dramatically. Figure 14 below illustrates the impact on cumulative cash flow from private investment where public finance is used to cover the 'additional outflows' required for sustainability (only 20% of total outflow). This leads to an increase in the IRR from 6% to 14%, equal to the business-as-usual project. Further, the very fact of public investment in a project may act as a signal to private investors, increasing their confidence in its viability. This is another way in which public finance can be used to 'leverage' private investment.

Figure 14 Project C: Sustainable with public financing



Once an innovative enterprise progresses beyond the early development stage and demonstrates strong performance, it will be able to access lower risk capital sources, and the cost of capital (e.g., interest rates on loans) will fall. At this point, the project should become financially sustainable, as it will no longer be reliant on public financing.

In contrast to the example above, there are also examples in which sustainable agricultural commodity interventions are sufficiently attractive to private investors *without* the need for public support, or additional inflows in the form of carbon payments once upfront costs have been covered. In these instances, using ex-post payments (either in the form of ODA or to purchase emission reductions) in addition to upfront public finance could result in an over-subsidization of project activities. Problems associated with over-subsidization

include directing public resources where they are not most needed, crowding out private financing, providing an unfair competitive advantage to certain activities/investors, and signaling to private investors that activities would not be sustainable in the long term once public subsidies are withdrawn. One way to mitigate this risk would be a cost-benefit analysis requirement for upfront and ex-post subsidies.

4.3 Options to address the sustainability of results

REDD+ countries can take a variety of approaches to address the sustainability of results. As outlined above, sustainability can be achieved in three ways: a) by leveraging financial resources to cover ongoing project costs b) through mechanisms to ensure that emission reductions are real and permanent (even beyond project timeframes), and c) through transformational change i.e. once financial, technical or institutional barriers have been overcome. The following section is broken down into these three groups.

4.3.1 Achieving financial sustainability

Financial sustainability can be achieved in several ways including:

- **Promotion of private sector investment:** activities can become revenue generating through e.g. future revenues from sustainable commodity sales to support ongoing activities;
- **Domestic budgetary support**: public spending often replaces upfront ODA to support ongoing activities. This can either be to support the private sector where continued subsidization is needed to achieve sustainable outcomes, or as a public policy where sustainability is achieved through public interventions.
- **Other sources of international ODA**: projects often receive ODA from multiple sources that can be delivered over several tranches.
- **Carbon payments**: carbon finance can serve as an additional source of revenue for projects that achieve measurable, reportable, and verifiable emission reductions or removals.

In our questionnaire when we asked respondents what additional sources of finance they would consider appropriate to sustain emission reductions and removals beyond the lifetime of FIP investments, the majority of respondents indicated that they would consider all of the above sources of finance relevant. The only source that was less favored as a source of sustainable finance was continued ODA, due to the concerns highlighted above over the scarcity of ODA resources. The remainder of this section explores these four sources of revenue in more detail.

Promotion of private sector investment

One way for FIP interventions to achieve financial sustainability is to invest in projects and programmes that overcome these barriers and enable activities to generate revenues without the need for continued external support.

In the DRC, for example, one FIP project will set up a business value chain for high-quality charcoal stoves.[72] The programme argues that stove distribution is

[72] The World Bank, May 2014, Improved Forested Landscape Management Project, Project Appraisal Document, p.22 [hereinafter DRC IFLMP PAD] available at http://www-

ultimately profitable once barriers - such as poor distribution networks or lack of access to credit - are overcome. The project uses FIP funding to tackle those barriers and ensure that the project results are sustainable once FIP financing comes to an end. In Burkina Faso, the supply of forest product exploitation and processing kits aims to lead to increased development of wood and non-wood forest products and, hence, higher income for beneficiary households.[73] In Ghana, the government is promoting sustainable cocoa, agriculture, and charcoal production and aims to create one thousand sustainable green jobs (see Box 4).[74]

By leveraging the resources and expertise of Cocobod, which determines national cocoa policy, prices, and the prevailing cultivation system, the projects will allow conservation practices to be adopted at the community level, as well as institutionalized at the national level. The investment plan also aims to promote and pilot sustainable cocoa certification efforts in coordination with international companies, certification bodies, the government, and farmers along the cocoa supply chain to increase demand for sustainably grown cocoa.[75] Although success will be gradual, the FIP's approach recognizes the need to align incentives among all actors in the supply chain in order to transition Ghana's cocoa sector to shade-grown, climate-resilient, agroforestry systems.

Though most revenue-generating activities supported by the FIP are aimed at local enterprises, they can also target large-scale businesses. One FIP project in Ghana, for example, provides technical support to companies that bulk purchase commodities such as cocoa, timber and/or palm oil, to achieve greater sustainability.[76]

Domestic public spending

Funding of FIP projects by domestic governments is another means to achieve financial sustainability in the absence of development assistance. These types of approaches are more appropriate in cases where there are ongoing costs to support sustainable activities but continued ODA funding is either no longer available or desirable. Domestic funding in these examples can come from a variety of sources. In the case of the FIP 'Mexico Forests and Climate Change' project the FIP's contribution of USD 42 million is co-financed by a USD 333 million contribution by the Mexican government and a USD 350 million loan by IBRD. These figures suggest that FIP investments are contributing to an ongoing program of activities that will continue to generate results once FIP financing is complete. The case is slightly more complicated because the IBRD loan has an element of concessionality, and can therefore be considered further development assistance.

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wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/06/000470435_20140606115926/Rendered/PDF/PAD5940PAD0P12010Box385226B00OUO090.pdf

[73] African Development Bank Group, July 2013, Gazetted Forests Participatory Management Project For Redd+ (Pgfc/Redd+), Project Appraisal Report, p.10 [hereinafter BF PGFC/REDD+) available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/AfDB_Burkina_Faso_FIP_Project_Document.pdf

[74] African Development Bank Group, October 2013, Engaging Local Communities in REDD+/Enhancement of Carbon Stocks (ELCIR+), Project Appraisal Report p.11 [hereinafter G. ELCIR+] available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/AfDB_FIP_Ghana_Project_Document_6Sept2013.pdf

[75] CIF (2012). Forest Investment Program: Ghana Investment Plan. October 2012. p. 86.

[76] Climate Investment Funds, November 2012, FIP Investment Plan for Ghana p.102 (hereinafter Ghana FIP Investment Plan, available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_5_Ghana.pdf

Box 3: Financial sustainability in Ghana's cacao sector

Ghana is the world's second largest producer of cocoa. Cocoa is grown by 800,000 smallholder farmers in the south of the country, and generates income and employment for approximately one-third of the country's population.[77] Cocoa production increased substantially in the early 80's, when the Government of Ghana began investing in the increased use of hybrids, fertilizers, quality standards, and improved disease and pest control.[78] The centralized marketing and production support from the Ghana Cocoa Board (Cocobod) has resulted in a progressively higher proportion of the sale price staying with farmers. Although Ghana's yields per hectare are only half those of its main competitor, Côte d'Ivoire, one of Ghana's major strengths lies in its reputation for producing consistently high-quality cacao.

The growth in cocoa cultivation is one of the primary drivers of deforestation in Ghana. While cocoa was traditionally grown under shade agroforestry systems, cocoa's rise since the 1980's has depended on a hybrid variety of full-sun cocoa, which yields greater short-term profits to farmers due to its shorter growing cycle. It is often cheaper for cocoa farmers to clear new forest land to expand cocoa plantations rather than replant and restore existing plantations.[79] As remaining forestland diminishes, Ghana's challenge is to maintain a competitive and profitable cocoa sector - which has greatly reduced the country's level of poverty - while working to reverse the deforestation this activity has caused.

Ghana's Investment Plan aims to address this challenge directly by working with cocoa supply chain actors and local communities to improved the sustainability of cocoa production. The program achieves this first by improving policies that provide local communities with increased management rights and tree tenure security, particularly by establishing Community Resource Management Areas (CREMAs) so that communities have assurance they will be able to manage and benefit from diverse activities on their lands, including from cocoa agroforestry practices.[80] The investment plan also aims to improve coordination between Cocobod, government bodies, the private sector and communities to ensure that sufficient support reaches cocoa farmers. These efforts include: establishment of tree nurseries and distribution of improved cocoa seedlings; training on cocoa agroforestry practices to improve climate resilience and native tree diversity; and technical support and inputs to improve cocoa yields. Other activities will encourage the restoration of old cocoa fields to maintain productivity and prevent on-going expansion into forestlands.[81]

[77] Ministry of Lands and Natural Resources (2014). Forest Investment Programme (FIP): Enhancing Carbon Stocks In Natural Forests and Agroforest Landscapes: Environmental and Social Management Framework. D\

[78] Kolavalli, S. and M. Vigner (2011). "Cocoa in Ghana: Shaping the Success of an Economy." In *Yes, Africa Can. Success Stories from a Dynamic Continent*, edited by Chuhun-pole and Angwafo, 201-218.

[79] Ruf, F. O. (2011). The Myth of Complex Cocoa Agroforests: The Case of Ghana. *Human Ecology*, 39, 373–388.

[80] Ghana MLNR (2014). Ghana FIP - Enhancing Natural Forest and Agroforest Landscapes (P148183). Project Information Document Concept Stage.

[81] CIF (2014). Ghana: Enhancing Natural Forest and Agroforest Landscapes Project. Review by FIP Sub-Committee: Matrix of Comments and Responses. December 5, 2014

Other FIP countries have committed to continue funding FIP activities through general budgetary allocation. In Brazil, for example, the National Rural Learning Service (SENAR) and the Ministry of Agriculture, Livestock, and Food Supply (MAPA) have the budgets to continue funding FIP programs deemed to be successful.[82] In DRC, the government will create a counterpart fund to pay for the development of community-managed territorial micro-woodlots.[83]

A further way to sustain FIP activities is to develop new domestic funding instruments, and earmark the proceeds for continued investment in activities associated with FIP interventions. Both Lao PDR and Peru have proposed the introduction of a payment for environmental services (PES) scheme to support the sustainability of FIP investments. In the case of Lao PDR, this will be funded through a one percent levy on the hydro sector.[84] Burkina Faso - on the other hand - has created a 'Fund for Environmental Investments' (FIE) as a component of its Environmental Protection Law.[85] The FIE will be funded through a new tax mechanism (yet to be determined) and is intended to become the financial instrument through which all domestic and international environmental funds are channeled.

Carbon payments

FIP investments can also be sustained through a payment for emission reductions. As outlined in Section 3, five FIP pilot countries (DRC, Ghana, Indonesia, Mexico and Peru) have already signaled their intent to sell emission reductions to the FCPF Carbon Fund. In the case of DRC, the IP notes, "*emission reduction payments will ensure the long-term sustainability of the various activities being proposed, especially those with a long-term nature such as reforestation and support for communities to manage their forest lands*."[86] An element of Ghana's FIP program involves the provision of technical support to companies interested in purchasing REDD+ credits on the voluntary carbon market, aiming to link stakeholders from demand and supply sides.[87]

Though Lao PDR has not indicated that it will seek payments for emission reductions achieved through FIP interventions, one of its projects states that "*the main risk…which also applies to other FIP implementation projects, is the willingness of the global carbon markets to pay for the carbon sequestered*".[88]

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[82] The World Bank, April 2014, Sustainable Production In Areas Previously Converted To Agricultural Use Project, Final Appraisal Draft, [hereinafter BR SPACAU] p.8 available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/P143184_Appraisal%20PAD%20%28disclosable%29%20for%20FIP%20April%207.pdf

[83] African Development Bank, July 2013, Integrated REDD+ Project In The Mbujimayi/Kananga And Kisangani Basins, Project Appraisal Report, p.15 [hereinafter DRC MKKB] available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/AfDB_DRC_FIP_Project_Document_July_2013.pdf

[84] The World Bank, April 2014, Scaling –Up Participatory Sustainable Forest Management Project, Project Appraisal Document, p.9 [hereinafter Lao PSFM] available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/05/09/000442464_20130509094508/Rendered/PDF/756320PAD0P130010Box377288B00OUO090.pdf

[85] The World Bank, December 2013, Forest Investment Program - Decentralized Forest And Woodland Management Project, Project Appraisal Document p.86 [hereinafter BF DFWMP] available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/01/08/000461832_20140108124847/Rendered/PDF/PAD6060PAD0P14010Box382111B00OUO090.pdf

[86] Climate Investment Funds, June 2011, FIP Investment Plan for DRC, [hereinafter DRC FIP Investment Plan] available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP%204%20DCR%20IP_0.pdf

[87] Ghana FIP Investment Plan p.100.

[88] Climate Investment Funds, October 2011, FIP Investment Plan for Lao PDR, p.43 [hereinafter Lao FIP Investment Plan] available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP%204%20Lao%20PDR%20IP.pdf

This suggests that Lao PDR does view performance-based payments as key to securing the long-term sustainability of projects.

As highlighted in section 2.1, if carbon payments are provided to further sustain project activities then checks should be put in place to ensure that emission reductions are real and additional. These would ideally include the demonstration that emission reductions would not have been generated in the absence of carbon finance (investment additionality) and that emission reductions are above a counterfactual baseline (climate additionality). If emissions are going towards donor targets then additional checks may be required to ensure that donor contributions are not diverting ODA (financial additionality).

4.3.2 Achieving climate sustainability

Both the FIP and FCPF aim to address permanence and leakage in their program designs. If the FIP succeeds in its attempts to ensure that "*permanence and leakage risks have been addressed*"[89], then arguably there is no need for carbon payments to further sustain FIP results. Currently, however, FIP countries make little or no reference to permanence and leakage in their investment plans. DRC makes passing reference to the "*need to capitalize on the transformational opportunity created by … new economic perspectives … in the context of REDD+ permanence requirements/incentives*." Other countries make no reference to permanence. In this context, we can only assume that countries under the Forest Investment Programme are not developing specific systems to ensure the climate sustainability (i.e. permanence) of FIP investments. In interviews, respondents often highlighted the transformational nature of FIP investments (as reference also by DRC) in achieving permanence of emission reductions.

Under the Carbon Fund, countries are required to develop reversal management plans.[90] At the end of Carbon Fund payments (currently scheduled for 2020) it can therefore be expected that emission reductions will be secured through buffers, reserves, or some other mechanism to ensure that reversals do not occur.

4.3.3 Achieving transformational sustainability

Transformational sustainability implies a transition towards more sustainable economic and political models. This can be achieved through a variety of means highlighted below.

High-level policy alignment and departmental coordination
The alignment of high-level policies within long-term economic development strategies, and the coordination of relevant government departments can create political momentum that ensures the sustainability of results beyond FIP interventions. As stated in finding 43 of NICFI's 2014 evaluation "*Whilst the promise of funding has been an important factor in country engagement, results-based finance has acted as a political motivator rather than an economic incentive*".[91]

[89] CIF. 29 June 2010. FIP: Investment Criteria And Financing Modalities. FIP/SC.3/4. p. 5.

[90] FCPF. May 2014. Carbon Fund Methodological Framework: Overview of key concepts. Presentation.

[91] Norad (2014) Real-Time Evaluation of Norway's International Climate and Forest Initiative Available at: http://www.norad.no/globalassets/import-2162015-80434-am/www.norad.no-ny/filarkiv/vedlegg-til-publikasjoner/3.14-real-time-evaluation-of-norways-international-climate-and-forest-initiative.-synthesising-report-2007-2013.pdf

Brazil's FIP Investment plan notes that the transformational impact of the program derives in part from the synergies it will establish between the four leading institutions (which include the Ministry of Agriculture and the Ministry of the Environment).[92] In Laos, the Sustainable Forestry for Rural Development Project (SUFOD) has introduced several approaches and models, which have gained acceptance with key ministries and departments, including the Ministry of Agriculture and Forestry and the Ministry of Industry and Commerce.[93] This has meant that participatory approaches in land use planning and sustainable harvesting, promoted by SUFOD, are now widely practiced in the forestry sector, over which these Ministries exercise control. A project appraisal document (PAD) for a FIP project in Burkina Faso indicates that government commitments to sustainable natural resource management, and to the process of decentralization and land reform, both key objectives of FIP investments, are evident in recent policy statements, detailed action plans, legislative commitments and recent organizational changes in national ministries.[94] The PAD thus concludes that prospects are strong for 'policy sustainability'.

Strengthened institutional capacity

Overcoming technical barriers is one of the ways in which the sustainability of FIP investments can be secured. In Lao PDR, improved systems for monitoring and reporting on international timber flows and domestic timber sales, funded by the FIP, will allow more efficient capture of associated tax revenues, which will in turn be reinvested in forest protection.[95] In Brazil, FIP investment will build the capacity of the National Forest Inventory (NFI) and the National Forestry Information System (NFIS). The information provided by the NFI and NFIS will help the monitoring system to measure deforestation, forest degradation and enable GHG emissions in the Cerrado be properly calculated, which will enable the implementation of performance-based GHG emissions reduction schemes in the region. The development of an early warning fire prevention alarm system in Brazil will contribute to the reduction of forest fires and the damage caused by fires, and thus provide long-term benefits to communities and the environment whilst avoiding associated financial losses.[96]

The experience of designing and implementing FIP projects will also provide national institutions with replicable models for additional interventions. For example, DRC's investment plan notes that through the preparation and implementation of the FIP, templates of project models and business plans adapted to the context in DRC will be available for other REDD+ interventions. Thus, it is expected that "*more land owners and national and international investors are going to follow the way paved by the FIP*."[97] In Brazil, it is expected that the implementation of a rural environmental cadaster (CAR) in the Cerrado as part of the FIP, will enable all institutions involved to acquire knowledge on how CAR could be implemented elsewhere.[98]

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[92] Brazil FIP Investment Plan p.38.

[93] Lao PSFM p.8.

[94] BF DFWMP p.23.

[95] Lao PSFM p.9.

[96] BR SPACAU p.36.

[97] DRC FIP Investment Plan p.129.

[98] Climate Investment Funds, April 2012, FIP Investment Plan for Brazil, p.38 [hereinafter Brazil FIP Investment Plan] available at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_4_Brazil_IP_0.pdf

Changes to legal and regulatory framework

Most FIP country Investment Plans list insecure or unclear land tenure regimes as a driver of deforestation, and seven of the eight FIP countries include some degree of tenure reform as a planned intervention (excluding Mexico, which according to its IP already clearly defines land tenure rights). It is commonly understood that uncertainty surrounding long term use rights and access to land will discourage land users, or outside investors, from investing in sustainable land use, and that security of tenure is thus an enabling factor for REDD+ implementation.

Thus in Ghana, changes in tree tenure and benefits regimes are proposed that would provide incentives to plant, retain and manage trees, especially naturally occurring trees in off reserve areas.[99] For Indonesia, tenure clarification is a critical priority to enable land stewards with reasonably good control over clearly delimited lands is a necessary condition for establishing an effective and credible REDD+ scheme.[100] Indonesia's FIP investments will also take a 'social fencing' approach to forest conservation, whereby formal recognition of community rights and responsibilities to access and tenure over forest resources, including forest carbon, assists in building 'social fences' that can help protect forests through community-agreed rules. In the DRC, interventions focus on both reforming the Land Tenure Code at the national level, and local level interventions such as authentication.[101] Although FIP finance may be required to incentivize governments to initiate such reforms, once taken reforms will generate long term benefits that extend beyond the FIP investment period, ensuring sustainability of results.

Other legal and regulatory reforms could include the revision of forestry and mining concessions, the penalization of illegal logging and the regulation (e.g. through licensing) of markets in timber and other forest commodities to restrict the trade in illegally harvested goods.

Participatory engagement at the community level

Empowering indigenous groups and forest dwelling communities to engage in land use decision making processes and the design and implementation of investments will also create local ownership of projects, and introduce the type of structural reform into the land use planning process that can deliver positive results in the long term. In Burkina Faso, the FIP will support the development and implementation of local charters in forest governance through participatory methods, and will also fund the development and implementation of community-driven simple management plans to guide forest management activities.[102] FIP interventions in Ghana will aim to build capacity of local communities to enable them to participate effectively and efficiently in decision-making and sustainable activities. Ghana's IP notes that "*capacity building should aim at strengthening skills and abilities of fringe communities to overcome the cause of their exclusion from resource management*."[103]

A number of FIP countries affirm that grounding FIP programs in existing institutions, as opposed to creating new structures, will create sustainable change. At the local level, Indonesia's Investment Plan notes that interventions

[99] Ghana FIP Investment Plan p.46.

[100] Indonesia FIP Investment Plan p.52.

[101] DRC FIP Investment Plan p.39.

[102] Burkina Faso FIP Investment Plan p.121.

[103] Ghana FIP Investment Plan, p.86.

will develop existing community and local institutions, strengthening local coordination capacity, improving social cohesion and expanding local networks by bridging communities.[104] At the governmental level, DRC's Integrated REDD+ Project In The Mbujimayi/Kananga And Kisangani Basins will be 'anchored' in the Directorate of Sustainable Development and Ministry of Environment, Nature Conservation and Tourism.[105] According to the project document, this approach is consistent with the Paris Declaration on Aid Effectiveness and will contribute to the sustainability and ownership of the project's outcomes.

[104] Indonesia FIP Investment Plan p.52.

[105] DRC MKKB p.15.

5. Double funding of activities

REDD+ finance is currently being channeled through a range of bilateral and multilateral sources. In general the scale of finance being provided through these sources is far below required the investments to halt forest loss. As such, improved coordination of finance is essential to ensure that donor finance is used effectively and efficiently in achieving REDD+ outcomes.

The second question raised by the FIP Sub-Committee is the issue of "*double funding*" and the issue of paying for GHG emission reductions achieved with FIP finance through payments for performance through other REDD+ programs. This section begins by describing the issue of double funding using the framework and typology developed in Section 2. We provide examples of overlaps in FIP pilot countries and in the health sector and conclude with some options to address the double funding of activities. While addressing this issue may seem relatively straightforward on the face of things (finance should be coordinated to avoid double funding), it can be deceivingly complex in some instances, with varying forms of interpretation.

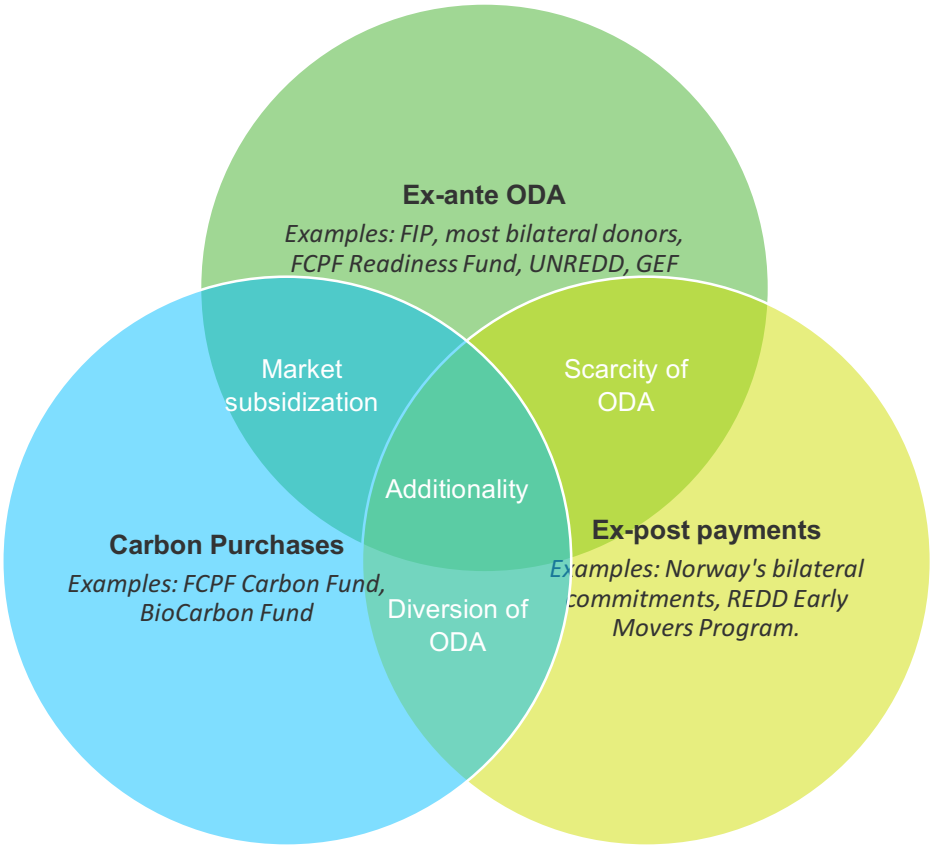
5.1 Framing the issue

This section applies the framework outlined in Section 2 to illustrate potential overlaps in REDD+ finance. To recap, this framework groups and classifies the multitude of current sources and types of REDD+ finance into three overarching groups.

1. **Ex-ante ODA** including FIP, and the majority of bilateral aid.
2. **Ex-post payments** through Norway's bilateral arrangements and REM
3. **Carbon purchases** including FCPF Carbon Fund and Biocarbon Fund

Based on this framework, three potential overlaps emerge in the financing of REDD+ activities. These overlaps are illustrated in Figure 17 and elaborated in the remainder of this section.

Figure 15 Three categories of REDD+ finance and potential issues that can arise in the overlaps of funding sources (some elements are repeated but not shown here for visual simplicity)



This paper does not look into more general overlaps that can occur when multiple donors are present in a given country (e.g. two countries providing ex-ante ODA). Co-financing arrangements are common in REDD+, and occur when two or more donors choose to pay for the same activity and result together. Leveraging finance from various sources is promoted by most donors, and the FIP, FCPF and GCF provide guidelines in ensuring these funds are complementary and additional. The FIP Design Document encourages countries to complement and coordinate with other REDD+ efforts in the host country so that each program contributes according to its "*comparative advantage*".[106] Programmatically, country-level investment strategies for the FIP should "*build on and avoid duplication of existing work and development strategies.*"[107] In addition, "*cooperation and coordination mechanisms [should] be in place and operating effectively at the national level.*"[108] These requirements imply that efforts should be made to ensure that sources of finance do not overlap in funding the same activities, although this is not a specific requirement. The Green Climate Fund's Governing Instrument also outlines basic requirements for the GCF to establish "*complementarity and coherence*" with other sources of climate finance both inside and outside of the UNFCCC "*to better mobilize the full range of financial and technical capacities. The Fund will promote coherence in programming at the national level through*

[106] CIF. 7 July 2009. Design Document for the Forest Investment Program, a Targeted Program Under The SCF Trust Fund. p. 6.

[107] CIF. 29 June 2010. FIP Operational Guidelines. P. 15

[108] CIF. 7 July 2009. Design Document for the Forest Investment Program, a Targeted Program Under The SCF Trust Fund. p. 19.

appropriate mechanisms".[109] While the GCF does not specifically cite the risk of overlap or double-funding, it does require projects to report on the cost per tCO2eq decreased through GCF-Funded mitigation actions, encouraging transparency in helping understand expected ex ante costs to establish mitigation actions, as well as encouraging costs to decrease over time.[110]

In instances of co-financing, clear allocation of resources is imperative to avoid coordination of funding. This allocation and reallocation process is already applied in most countries' programmatic activities. Mexico, for example, has allocated funding from the FIP and FCPF based on their existing Strategic Forest Program which provides a cohesive plan for what activities will be implemented when, and for how much. Given that the FIP and FCPF funds do not sufficiently cover all activities under the program, Mexico decided to bridge FIP and FCPF finance by placing them in sequential order – so that the FCPF finance will give continuation to FIP activities. In instances where allocation of co-financing is less clear, revisions and clarifications are usually requested. In Peru, for example, the FCPF requested a revision of Peru's ER-PIN to better differentiate between FIP and FCPF activities (see Box 3 for more detail).

5.1.1 Ex-ante ODA combined with ex-post payments

The first potential overlap that can occur is between ex-ante ODA and ex-post payments (the upper right overlap in Figure 17). This problem could occur when bilateral or multilateral ODA is provided to a country that is then further supported by ex-post payments. While there are very few examples of this occurring within REDD+ (since there are very few examples of ex-post REDD+ payments), a hypothetical case is presented as follows for illustrative purposes:

- FIP finances activities in Indonesia, and then Norway subsequently funds Indonesia through its bilateral MoU for results generated by FIP activities;

The cost of achieving an outcome is a key concern when allocating donor resources

The main concern with overlaps between two sources of ODA is the inefficient use of donor resources or the **scarcity of ODA**. There are however, two sides to this issue.

On the one hand, with limited ODA resources, donors continually aim to maximize the efficiency and effectiveness of funds. One could argue, therefore, that if a particular activity has already been paid for, then paying again is an inefficient use of ODA. Compounding this issue are the competing requests for ODA funding: every dollar spent in one sector is a dollar that cannot be spent somewhere else. The cost of achieving a particular outcome is therefore a key concern when allocating donor resources. In REDD+ this can be expressed in terms of the cost per tonne of emission reductions. If donors engage in a particular activity, therefore, with the understanding that it can be achieved at a certain cost per tonne of CO_2, subsequent payments reduce the efficiency and increase the opportunity cost of engaging with alternative mitigation options that may be more affordable.

[109] Green Climate Fund. Governing Instrument for the Green Climate Fund. Approved by UN FCCC, Decision 3/CP.17. FCCC/CP/2011/9/Add.1. See <http://gcfund.net/fileadmin/00_customer/documents/pdf/GCF-governing_instrument-120521-block-LY.pdf>

[110] Green Climate Fund. 6 October 2014. Further Development of the Initial Results Management Framework. GCF/B.08/07.p. 13

Box 4: Peru Case Study

Peru is pursuing all three phases of REDD+ simultaneously through a range of funding sources, presenting a challenge in attributing funds to specific activities and results. Virtually all REDD+ initiatives in Peru focus on the Amazonian region, where 94% of Peru's forests are found.[111] Current committed REDD+ donor funding totals over USD 212 million, with an additional USD 158 million in predicted revenues from productive activities, and an additional USD 92 million estimated from sales of emission reductions.[112] To improve the coordination of finance, Peru has worked to refine and clarify the specific activities and targeting of investments to be implemented under both the FIP and FCPF Carbon Fund, although the process is on-going and will likely require further clarification on coordination between the two programs as project design and implementation proceeds.[113]

In both the FIP investment plan and ER-PIN, Peru makes it clear that FIP funding is intended to support the "*enabling environment and conditions*"—through, e.g. governance, land tenure, or promoting incentives for sustainable forest management - which are necessary to generate emission reductions. Half of these emission reductions are to be offered to the Carbon Fund, while the rest will be offered to other sellers.[114] The FIP investment plan focuses on integrated landscape management and targets three geographic areas: (1) the Tarapoto-Yurimaguás corridor in the San Martín and Loreto regions, (2) the Atalaya province in the Ucayalí region, and (3) the Puerto Maldonado-Iñapari corridor and the Amarakaeri Communal Reserve in the Madre de Dios region. A fourth national-level project helps to build forest monitoring capacity and pilot new financial mechanisms.[115]

Peru's ER-PIN initially targeted the same three geographic areas. To address concerns of activity overlap, in June 2014, the FCPF requested that Peru update its ER-PIN to clarify which activities leading to emission reductions would be funded under the FIP vs. under the Carbon Fund.[116] Although the revised ER-PIN was accepted into the pipeline in November 2014, it remains vague on complementarity between FIP and FCPF activities, stating that, "*care will be taken to separate on-the-ground activities undertaken by the two projects, as well as their financing*."[117] The latest revision of the ER-PIN only targets San Martin and Ucayalí regions, while Madre de Dios has been removed from the proposed ER Program entirely.[118] Activities under the Carbon Fund are expected to run from 2017 – 2020, and under the FIP from 2016 – 2020.[119]

[111] Government of Peru. 12 September 2014. Emission Reductions Program Idea Note: Emission Reductions In The Peruvian Amazon. Forest Carbon Partnership Facility (FCPF) Carbon Fund. P. 20.

[112] Ibid. pp. 48-50.

[113] FCPF. Carbon Fund: Eleventh Meeting (CF11). Chair's Summary. Washington, DC, October 6-8, 2014.

[114] Government of Peru. 26 May 2014. Emission Reductions Program Idea Note: Emission Reductions In The Peruvian Amazon. Forest Carbon Partnership Facility (FCPF) Carbon Fund. pp. 62.

[115] Government of Peru. 18 October 2013. FIP Investment Plan for Peru. FIP/SC.11/4/Rev.1.

[116] FCPF. Carbon Fund, Tenth Meeting. Bonn, Germany, June 16-19, 2014 Chair's Summary.

[117] Government of Peru. 12 September 2014. Emission Reductions Program Idea Note: Emission Reductions In The Peruvian Amazon. Forest Carbon Partnership Facility (FCPF) Carbon Fund. p. 14.

[118] Ibid.

[119] Ibid. pp. 25.

On the other hand, given the scale of finance needed for REDD+, it can also be argued that REDD+ activities often require both up-front and ex-post payments to ensure the delivery and permanence of results. REDD+ activities have proven to be more expensive, complex and protracted than anticipated. Experience from the readiness phase (FCPF Readiness Fund and UN-REDD) has shown that gauging the cost of REDD+ activities can be difficult, with some programs requiring up to four times the amount of time and resources initially allocated.[120]

Ex-ante payments are often needed in less-advanced countries to build capacity; ex-post payments can then be used to reinforce that behavior

Ex-ante payments are often needed in less-advanced countries to build capacity and create a transformational change in behavior and practices. Ex-post payments can then be used to reinforce that behavior and ensure the continuation of a certain practice. In certain cases, in the absence of reinforcing incentives (or strictly enforced laws) actors may revert to unsustainable practices over time. The timing and conditions associated with payments are key considerations, as multiple payments can result in both reinforcement as well as confusion among recipients if the purpose and conditionalities of payment are not clearly coordinated (see Box 4).

As noted above, ex-post payments need not necessarily be reinvested in the same area. Brazil for instance may receive payments for reducing deforestation in the Amazon and invest this money to enhance forest carbon stocks in the Atlantic Forest. Some degree of flexibility in how ex-post payments are used will allow REDD+ counties to better coordinate and allocate REDD+ payments to areas with the greatest needs.

A further consideration is the *concessionality* of ex-ante ODA payments. If up front ODA is provided through loans then many of the concerns over the scarcity of ODA are mitigated due to the reduced concessionality of the original payment. On this issue, the FIP Investment Criteria suggest that care should be taken not to "*overlap or duplicate support, but rather complement what is available from related programs, such as the [FCPF] or UN-REDD.*"[121]

5.1.2 Ex-ante ODA combined with carbon purchases

The second potential overlap arises when ex-ante ODA-funded activities are later supported by carbon purchases (the upper left overlap in Figure 6). A more prominent occurrence in current funding flows for REDD+, this overlap can lead to several potential issues. For illustrative purposes the following are two hypothetical examples of where this overlap might occur:

- The UK funds activities through ODA in Colombia, and the BioCarbon Fund then pays for emission reductions generated by UK activities
- FIP finances activities in Peru, and then the FCPF Carbon Fund pays for these emission reductions

[120] IEG (Independent Evaluation Group). 2011. The Forest Carbon Partnership Facility. Global Program Review. Vol. 6, Issue 3.

Stewart HM, Swan S. 2013. Final evaluation of the UN-REDD Viet Nam Programme. UN-REDD Programme.

[121] CIF. 29 June 2010. FIP: Investment Criteria And Financing Modalities. FIP/SC.3/4. P. 10, 12, 20.

Box 5: Paying for results in the health sector

Typically, input and outcome-based funding follows a sequenced approach in the health sector. The Global Alliance for Vaccines and Immunization (GAVI) offers a prominent example. GAVI was founded in 1999 to increase the rate of childhood immunizations in developing countries.[122] GAVI's Immunization Services Support (ISS) program provided performance-based financing to countries to improve rates of diphtheria-tetanus-pertussis (DTP3) vaccinations to children under 1 year old. ISS provided a five-year financing program in two phases: the initial two-year investment phase funds the immunization safety and delivery system, with the grant amount based on the predicted numbers of children to be immunized in the first two years. The country then enters the three-year reward phase, in which ISS pays the country $20 per additional child immunized up to 80% coverage, and $25 per child above 80% coverage.[123]

In initial years, based on official reported data, ISS was found to significantly increase immunization rates in countries with a baseline below 65% coverage, while countries starting above 65% coverage did not show significant increases. A few important lessons emerge from this experience. Firstly, a single donor and payment system with a standardized budgeting and project design process can greatly streamline and simplify how countries can access input-based and performance-based finance. The problem of overpayment due to duplication of processes was reduced, although the difficulty of determining the correct price of the incentive remains.

Secondly, GAVI demonstrates that practically speaking, a combination of input-based and performance-based finance remains necessary to both launch an intervention and incentivize successful results. Clear sequencing of activities and timelines are essential to ensure funding is spent and applied efficiently. Input-based finance can be set based on a specific financial need, whereas performance-based finance should not be assumed to represent the underlying cost of the result obtained.

The ISS program is currently being phased out in favor of a Health System Strengthening (HSS) program that works to strengthen the country reporting and verification systems, while also providing greater flexibility on the allocation of input-based and performance-based payments. Notably, under the new HSS, in the first year 100% of annual funding will be ex-ante to strengthen in-country systems and fund progress towards intermediate results. In subsequent years up to 80% of annual funding will be ex-ante, and additional performance-based payments can be received to fund specific performance measures up to a total of 150% of first year funding.[124]

[122] Wittet S. 2000. Introducing GAVI and the Global Fund for Children's Vaccines. *Vaccine*; 19: 385–86.

[123] Lu, C., Michaud, C. M., Gakidou, E., Khan, K., & Murray, C. J. (2006). Effect of the Global Alliance for Vaccines and Immunisation on diphtheria, tetanus, and pertussis vaccine coverage: an independent assessment. *The Lancet*, 368, 1088–1095.

[124] GAVI. Health System Strengthening Support. Available at http://www.gavi.org/support/hss/ and Performance Based Funding information sheet Available at http://www.gavi.org/Library/GAVI-documents/Guidelines-and-forms/Performance-Based-Funding-information-sheet/

The first issue is the potential **diversion of ODA**. Underlying this issue are two concerns. Firstly, the Convention clearly articulates the historical responsibilities of developed countries in contributing to climate change and their commitments to mitigate domestically and provide financial resources to developing countries to meet their commitments.[125] The diversion of ODA was foreseen as a potential consequence of increased Annex B commitments to climate change mitigation, resulting in less money available for traditional ODA activities. Secondly, there is a concern that emission reductions resulting from donor finance may be transferred to Annex B Parties to meet their national Kyoto (or non-Kyoto) targets. In that sense the outcomes of these activities can have direct financial benefits to the donor country.

As discussed in Box 2, it was agreed in Marrakesh in 2001 that "*public funding for clean development mechanism projects from Parties in Annex I is not to result in the diversion of official development assistance and is to be separate from and not counted towards the financial obligations of Parties included in Annex I*". The intention behind this decision was twofold: 1) that donors not divert funding from otherwise needed priorities (e.g. health, education); and 2) that funding should not be used to support donor benefits.

The OECD further agreed that "*the value of any Certified Emission Reductions (CERs) received in connection with an ODA-financed CDM project should lead to a deduction of the equivalent value from ODA, irrespective of whether the CERs are sold or retained by the donor"* and to *"rule out the possibility of counting as ODA funds used to purchase CERs.*" This very clear guidance is intended to ensure that ODA is not used to directly generate emission reductions that could further benefit donors. While this issue is stated clearly in the context of the CDM, there is much less clarity in how this principle should be applied in the current, fragmented and diverse landscape of climate finance and emission reductions methodologies.

The second issue arising in the ex-ante ODA funding of emission reductions projects is **market subsidization**. Using upfront ODA to subsidize future emission reductions can raise several problems. Firstly, subsidies create market distortions that can lead to an overprovision of goods to one location and an under provision of goods and services to others. In the case of REDD+ this could positively favor countries that have received significant ODA funding and negatively impact those that have not. Secondly, subsidization can crowd out the private sector. It is expected that in a carbon market, the private sector would be a key actor in the supply and demand of emission reductions. There is a risk, however, that a subsidized market - with public actors using public resources - would crowd out the private sector and weaken their ability to play a role in REDD+.

Notwithstanding these concerns, many markets exist only because they are heavily subsidized (e.g. health, agriculture, defense) and there is a clear rationale to support sectors that provide a public good and address an externality.

As above the issues of subsidization and aid-diversion are mitigated somewhat if ex-ante ODA is provided through loans, as this partially transfers risk and the

[125] United Nations Framework Convention on Climate Change (1992) preamble and Article 4

burden of payment to recipient countries. The degree of concessionality of these loans will be an important consideration, as the grant-based component of concessional finance would still constitute potential market subsidization and diversion of aid.

5.1.3 Ex-post ODA combined with carbon purchases

The third potential overlap in payments arises when ex-post ODA-funded activities are also supported by carbon purchases (the bottom overlap in Figure 17). To date, given the relatively untested funding through performance-based payments and carbon finance, few if any overlaps exist in practice. The following examples, however, illustrate this issue:

- Indonesia receives payments for performance under the Norway-Indonesia agreement, then receives carbon payments for these emission reductions through the BioCarbon Fund

Given that ex-post ODA is still provided as development assistance, the same concerns around **diversion of aid** and **market subsidization** exist that are described above.

A secondary related concern is the political impact that such an action would have on international relations where donors have assumed that ex-post ODA is intended to preclude the further resale of emission reductions. Under the Amazon Fund agreement for example, the project document states that *"diplomas issued shall be personal, nontransferable, nonnegotiable, and they shall grant no ownership rights or any kind of credit.* ***The greenhouse gas emissions corresponding to the donation may not be negotiated in carbon markets****. The diplomas issued and their amounts will be published on the Web."*[126] It would therefore be against the intent of this agreement if Brazil were to sell emission reductions resulting from ex-post ODA under the Amazon fund in carbon markets (we are not suggesting here that this is even a remote possibility).

5.1.4 Crosscutting overlaps

In addition to the concerns highlighted above, two crosscutting issues can arise in the coordination of REDD+ finance. Firstly as discussed in Section 2.1, REDD+ finance should be **additional** to business as usual activities. If finance is not additional this would as a minimum constitute an inefficient use of scarce financial resources (since emission reductions would have occurred absent climate finance), and at worst would result in '*hot-air*' and a lack of climate integrity, should these emission reductions be counted as offsets towards another countries' targets (as they do not constitute an actual reduction in emissions).

Notwithstanding these concerns, constructing counterfactual emission reduction scenarios, and demonstrating investment additionality can be incredibly complex and subjective. It may therefore not always be possible to fully ensure that projects are additional in their climate outcomes.

[126] Amazon Fund Project Document (2009) http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Boletins/Amazon_Fund_-_Project_Document_Vs_18-11-2008.pdf

Country investment strategies funded by FIP are required to demonstrate additionality by "*describing what and how activities will result in significantly reduced GHG emissions or enhanced carbon sequestration that would not have occurred or are significantly enhanced had it not been for the FIP investment*," although details of how this would be accomplished are not provided.[127] Nor is there any indication within the FIP operational documents that countries would have any restrictions on how they use the emission reductions they achieve; that is, they would likely be free to sell them to a willing buyer.

Given the multitude of factors contributing to forest loss it is extremely difficult (if not impossible) to establish which activity has contributed to emission reductions

This issue is complicated by the fact that **attributing** emission reductions to specific activities is very difficult. MRV systems currently cannot accurately track and verify emissions from each FIP or ER-PIN intervention, especially when there are multiple non-FIP and ER-PIN activities in the same spatial boundary or jurisdiction. Furthermore, given the distributed nature and multitude of factors contributing to forest loss it is extremely difficult (if not impossible) to establish which activity contributed to the resulting reduction in emissions. For example, it may be difficult to verify whether a community-based forest management project was responsible for the emission reductions sold in a certain area, if during the same timespan, there was also an un-related initiative to increase enforcement of forest policies by the government. This is illustrated in economic studies that found Costa Rica's payment for ecosystem services program was only minimally responsible for the avoided deforestation in the first five years of its operation, even though it is credited with most of the results.[128]

In the FIP Results Reporting framework, countries are required to provide a measurement of the number of tons of emissions reduced per year attributed to the FIP investments, both as an overall reduction relative to a forest emissions reference level, and as the number of tons of CO2e sequestered per dollars invested by the FIP.[129] The GCF provides explicit criteria for disaggregating funding sources in order to determine the percentage contribution of different funds to specific emission reductions or other results obtained and measured within the framework. The GCF indicators on leveraged finance require implementing entities to report on: the amount provided by the GCF, amounts provided by public and private non-Fund sources, and the amount of finance that is "*leveraged*," meaning the amount that would not be applied to the project in the absence of GCF finance. For leveraged finance, the determination of additionality requires the "expert judgment of the project/programme officers".[130]

5.2 Options to address double-funding

As outlined above, double funding can result in four main issues: a) inefficient use of scarce ODA resources b) market subsidization c) diversion of ODA and

[127] CIF. 7 July 2009. Design Document for the Forest Investment Program, a Targeted Program Under The SCF Trust Fund. p. 3

[128] See the following for a detailed discussion of attribution. Robalino, J.A., Pfaff, A. (2013) Ecopayments and Deforestation in Costa Rica: A Nationwide Analysis of PSA's Initial Years. Land Economics vol. 89 no. 3 432-448; Pfaff, A., Robalino, J.A. and Sanchez-Azofeifa, G.A. (2007) Payments for Environmental Services: Empirical Analysis for Costa Rica, Available at: http://www.apec.umn.edu/documents/AlexPfaffEnvirSem07.pdf; Pfaff, A., Robalino, J.A. (2011) Human choices and policies' impacts on ecosystem services: Improving evaluations of payment and park effects on conservation and carbon. Chapter 11 in Avoided Deforestation: Prospects for Mitigating Climate Change ISBN-13: 978-0415619806; Sills, E., Arriagada, R., Pattanayak, S., Ferraro, F., Carrasco, L., Ortiz, E. and Cordero, S. (2006) Impact of the PSA Program on Land Use, paper presented at the Workshop on Costa Rica's Experience with Payments for Environmental Services, San José, 25-26 September 2006.

[129] CIF. 13 May 2011. Forest Investment Program Results Framework. P. 27, 29.

[130] ibid. pp. 13 and 30-31.

d) non-additionality of climate finance. Based on expert interviews and questionnaire responses, we present a series of strategies to address the challenge of double funding, organized into the four overarching situations presented above.

5.2.1 Efficient use of ODA

Where ex-ante payments are used to support the provision of future emission reductions, some potential solutions include the use of concessional or non-concessional loans, non-ODA related sources of international public finance (e.g. auctioning of allowances) or domestic public funding.

The Carbon Fund is currently considering the use of advanced payments to support ER program activities that will ultimately result in emission reductions. These could be either concessional or non-concessional, and would be deducted from future emission reduction payments. There are many precedents for this approach under the Kyoto carbon funds (e.g. BioCarbon Fund tranches 1 and 2, and the Prototype Carbon Fund). Providing concessional or non-concessional loans through other multilateral or bilateral funds would provide a similar mechanism to these up-front payments.

If ex-ante payments were generated through non-ODA sources, it would be important to show that finance was not still resulting in a reduction in ODA in other sectors. Some governments, e.g. Germany, have piloted the use of non-ODA sources of REDD+ finance by using the proceeds of auctioned allowances to support Phase II and Phase III activities. These funds have the advantage of being additional to ODA and therefore not in competition with other donor priorities.

5.2.2 Market subsidization

Subsidies are common in supporting emerging markets (e.g. feed in tariffs for solar panels), and public goods (e.g. access to energy for the rural poor). Where carbon payments are provided to cover environmental externalities, however, ODA could constitute an over-subsidization. The issue of over-subsidization can be addressed through the sequencing of payments; public support can be slowly phased out over time, so that when and if carbon markets are fully developed and are able to address market externalities, ODA can be replaced by carbon revenues. In such an example, sequencing should aim to ensure the minimum overlap between ODA and carbon payments.

Secondly, up front ODA in the form of grants may not be the most appropriate instrument for market subsidization in the first instance. More innovative instruments may be implemented that target the specific needs of private sector participants such as credit guarantees, concessional microfinance, and in kind subsidies (e.g. infrastructure or transportation), Mexico's FIP project, for example, to create a dedicated financing line for low carbon strategies in forest landscapes led by FINADE[131] and supported by the micro financing institution FINDECA aims to use the loan resources under the FIP to create a dedicated

[131] Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y Pesquero

financing line, accessible by communities and ejidos or their members for identified low carbon projects in forest landscapes.[132]

5.2.3 Non-diversion of ODA

The issue of aid diversion can be resolved in several ways. Firstly, aid diversion has been discussed in detail under the context of the CDM. To address concerns over the non-diversion of aid, UNFCCC and OECD guidelines place specific restrictions on the use of ODA to support CDM projects and the use of CERs resulting from ODA against Annex B targets. As yet, however, no such restrictions have been applied to other payments for emission reductions (see Box 1). Extending current OECD guidelines to multilateral finance, and non-CDM generated emission reductions would be one solutions to the diversion of ODA.

Secondly, to avoid the concern that donors receive any benefits arising from emission reductions, emission reductions could be “canceled” as opposed to “retired” against Annex B targets. Cancelled emission reductions can be considered as a contribution to the global public good and therefore are not specifically benefiting donor countries per se. A further alternative (that would favor developing countries) would be to develop a system for retiring any emission reductions generated through ODA against developing country targets. This area is complicated by a lack of certainty and transparency in the systems that will be adopted to account for emission reductions, and the methods of communication between systems.

As yet, no common framework has been developed to account for emission reductions in developing countries nor to transfer emission reductions between developed and developing countries, and so it is hard to say how such an approach would be put in place in practice. The Warsaw Framework outlines a process for developing an “information hub”[133], which will in part present the results for Parties expressed in tonnes of carbon dioxide equivalent per year.

Both of these approaches could be supported by an amendment to the current OECD guidance on aid diversion that ensures that any revenues resulting from emissions transfers are deducted from ODA flows, and that funds provided to support emissions projects in general are not declared as ODA.

5.2.4 Additionality

Given the potential for emission reductions to be paid for twice - in particular when transitioning to ex-post carbon payments - two possible alternatives have been suggested to address the additionality of emission reductions.[134] Firstly, emission reductions or removals achieved during ex-ante ODA payments could be deducted from future carbon payments. As discussed above though, the attribution of these results to a given source of finance would be difficult, with

[132] Support for Forest Related MSMEs in Ejidos and Communities – Implementation of the Forest Investment Program (FIP) in Mexico. Available at https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Feb12_PID_Proj4_MEXICO_1.pdf

[133] Decision 9/CP.19

[134] The first was suggested in Angelsen, A. et al. "Reducing emissions from deforestation and forest degradation (REDD): an options assessment report." (2009). Available at http://www.redd-oar.org/links/REDD-OAR_en.pdf

high uncertainties if there are various other land-use activities and interventions operating in the same area.

Alternatively, payments could be sequenced between ex-ante ODA and ex-post carbon payments. If an activity generates emission reductions, and has been funded using ex-ante ODA over a given timeframe, then carbon payments could be used to support the continuation of that activity. In Mexico, for example, ODA runs from 2013-2016 and carbon finance from 2017-2020.

Finally, as discussed above, if ex-ante finance is provided on a concessional or non-concessional basis, carbon payments would be considered additional, as up-front finance would simply be a loan to achieve these reductions. Such an approach would mimic the system of advanced payments that is now being developed under the Carbon Fund.

If any of the above approaches were to be adopted, Angelsen et al. suggest that there should be no disincentive for countries to generate emission reductions through ex-ante ODA. They propose that once carbon payments begin, reference levels should be constructed to exclude the outcomes of ex-ante payments. It is unclear how such a system would work in practice though, given the increased focus on national level activities, the long timeframes of forest-based activities and the often-overlapping nature of activities (i.e. forest management activities can support sustainable woodfuel for cookstoves programs).

6. Double counting of emission reductions

Emission reductions can currently be generated through a range of bilateral and multilateral sources. When donors report on the effectiveness of international aid, it is important that these emission reductions are not counted twice, thereby inflating the perceived impact of donor finance. In addition, to ensure the environmental integrity of the climate system, donors and partner countries should not *ac*count for these emission reductions twice.

The third question raised by the FIP Sub-Committee is the issue of "*double results reporting*" or double counting, i.e. reporting the same results twice - both under the FIP and under a performance-based mechanism. This section explores the issue of "double counting" and looks at options to ensure the additionality and environmental integrity of emission reductions under both the FIP and performance-based mechanisms.

6.1 Framing the issue

In a purely performance-based REDD+ system, double counting of emission reductions clearly undermines environmental integrity, as one REDD+ credit will not be additional to the other. However, this is less clear when transitioning from ex-ante to performance-based funding.

Our analysis of FIP and Carbon Fund projects highlights that results generated under ex-ante funding are unlikely to be defined, monitored and recorded in the same way as results under carbon purchases. An emissions reduction only exists as a counterfactual, and is quantified according to the methodology used to define and measure it. If these methodologies differ, then it will not be possible to delineate and account for emission reductions generated by different investments.

The approach on FIP Monitoring and Reporting of results has been under active discussion in recent meetings. A document on *Results Monitoring and*

Reporting in the FIP was approved by the SC in October 2013,[135] and the FIP Monitoring and Reporting Toolkit was released in June 2014.[136] The Toolkit provides guidance on a number of indicators countries are encouraged to monitor to provide information on their progress under their investment plans. The Toolkit encourages countries to use "*existing national or sub-national monitoring systems where possible*" in order to complement existing reporting activities under other UNFCCC or REDD+ financing streams.[137] As the FIP does encourage reporting from existing country monitoring systems, there is no requirement to prevent results reported under the FIP from being reported in other programs. Conversely, results obtained using funding from other sources may potentially also be reported to the FIP, although the country focal point completing the monitoring report is asked to provide information on what have been the specific contributions of FIP investments to the indicators.[138] Essentially, there is nothing that would prevent a country from reporting the same results more than once, for example, under the FIP and under another REDD+ or similar donor-funded program.

The FCPF Carbon Fund's Methodological Framework addresses the risk of double-counting by prohibiting any emission reduction transferred to the Carbon Fund from being "*sold, offered or otherwise used or reported a second time by the ER Program Entity*."[139] This requirement explicitly prohibits duplication (whether the Carbon Fund is the first or second entity) in an expansive manner, specifying that "*any reported and verified emission reductions generated under the ER Program that have been sold and/or transferred, offered or otherwise used or reported once by the ER Program Entity shall not be sold and transferred to the Carbon Fund*," which clearly prohibits double-reporting. It could also be interpreted to mean the prohibition of double funding, if interpreted to mean the double purchase and ownership of a specific emission reduction. This requirement prohibits the country from selling, offering, using, or reporting any emissions reduction that has already been transferred to the Carbon Fund.[140]

Since it could be argued that transferring rights to an emission reduction is different from reporting, it is helpful to see where these definitions arose. A 2013 discussion paper written to inform the Carbon Fund's Working Group identified three different forms of double counting:[141]

- Multiple interventions claiming the same emission reduction;
- The same emission reduction being recorded/issued more than once; and
- The same emission reduction being sold to more than one buyer.

The IBRD's General Conditions Applicable to Emission Reductions Payment Agreements for the FCPF states that (1), transferred ERs shall not be used by

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[135] CIF. 30 October 2013. Results Monitoring and Reporting in the FIP.

[136] CIF. June 2014. FI{P Monitoring and Reporting Toolkit. https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Monitoring_and_Reporting_Toolkit_final.pdf

[137] ibid. p. 3.

[138] Ibid. pp. 6-7.

[139] FCPF. 20 December 2013. Carbon Fund: Methodological Framework. Final. Section 3.7. p 17.

[140] Ibid. p. 16.

[141] FCPF Carbon Fund Methodological Framework Discussion Paper #10: REDD+ Registry Systems for the Carbon Fund. Original April 2013, Posted October 2013.

the Program Entity "*for sale or public relations (as far as such latter use implies or suggests the Program Entity's continued ownership of or right to claim such ERs)*" and (2) the Program Entity can only use or claim transferred ERs towards domestic compliance "*if and in so far as the Trustee, following consultations with Carbon Fund Participants, has provided its express prior written consent.*"[142] Hence pursuant to the MF, any emission reduction that has been transferred to the Carbon Fund cannot be sold, offered or otherwise used or reported a second time by the ER Program Entity, though pursuant to the ERPA General Conditions, an emission reduction that has been transferred to the Carbon Fund, may be used by the Program Entity for domestic compliance if it has the consent of the Carbon Fund Trustee and Participants.

The MF specifies that to prevent the risk of double counting, it is necessary for the country to set up a national or centralized "*REDD+ Programs and Projects Data Management System, which is effectively an emission reductions registry that provides transparent public information and guarantees that emission reductions are not being claimed twice*. The "*ER transaction registry should ensure that each ER is appropriately issued, serialized, transferred, retired, and/or cancelled; provide clear linkages to other information included in an ER Programs and Projects Data Management System; and ensure that ERs are not issued, counted, or claimed by more than one entity*."[143] Management of the system can be national or outsourced to a third party, and the registry must include information on the entity holding title to the emission reduction, the geographical boundaries of the project, scope of REDD+ activities and carbon pools, and the reference level used. The host country is to work with the Carbon Fund to select an appropriate arrangement for the registry and to ensure that it meets the requirements that emission reductions are not counted, reported, sold, or otherwise generated more than once.

As mentioned above, the GCF specifies that the "*Fund's REDD+ RBP mechanism will seek to avoid double counting for emission reductions. The determination of whether emission reductions have already been supported by ex-ante financing should be made ex-ante*".[144] One way in which double counting can be avoided is found in the GCF's Initial Results Management Framework, which provides a draft methodology. This document specifies that the GCF will require projects to report on the tons of CO_2e reductions "*attributable to the Fund intervention alone*." In the instance of co-funded projects, the contribution "should be calculated as a pro-rata share of funding" (i.e. 10 percent of funding equals 10 percent of a project's emission reductions attributed) "*unless another justification can be claimed…Attribution methodologies that diverge from the simple pro-rata rule above need to be approved*".[145]

To measure emission reductions under the GCF requires the establishment of a baseline emissions trajectory, and a calculated net change due to the GCF-funded project. To determine CO_2 reductions from land use and forestry

[142] FCPF. November 2014, General Conditions Applicable to Emission Reductions Payment Agreements for Forest Carbon Partnership Facility Emission Reductions Programs, s.5.02

[143] FCPF. 20 December 2013. Carbon Fund: Methodological Framework. Final. Ibid. Section 6.2. p. 26.

[144] Green Climate Fund. 17 October 2014. Initial Logic Model and Performance Measurement Framework for REDD+ Results-based Payments. GCF/B.08/08/Rev.01. p.1.

[145] Green Climate Fund. 6 October 2014. Further Development of the Initial Results Management Framework. GCF/B.08/07. pp. 24-25.

mitigation activities, the GCF allows "*data to be drawn from a combination of monitoring, reporting, and verification (MRV) systems where these are in place, ministries of forests, country-level REDD+ reporting, and desk reviews*." Countries may also use guidance from "*the Forest Carbon Partnership Facility methodological framework (Dec. 2013), work underway by UN REDD, and emerging UNFCCC guidance on REDD+*." Effectively, reporting is to be carried out through the use of known and established REDD+ MRV mechanisms that are in line with level of the recipient country's capacity.[146]

If a project is managed completely through the GCF process, it should reduce the risk of double reporting because the GCF requires—in order to determine the cost USD per tCO_2e reduction achieved—that "*the [project] cost is the amount of USD needed for the entire project/programme."* Additional costs, such as stakeholder consultations or training can also be considered as part of the program costs, allowing a project to determine the direct technical costs of mitigation, or the overall cost per tCO2eq including these indirect costs.[147]

6.2 Options to address double counting

If double counting of emission reductions is to be avoided, REDD+ host countries will need to ensure consistency of reference levels used between programs, design robust MRV systems to accurately monitor GHG emission reductions achieved under each program, and ascribe emission reductions achieved to specific programs in REDD+ registries. The section below analyses whether this level of alignment currently exists between the FIP and Carbon Fund.

6.2.1 Reference levels

A reference level (RL) provides the benchmark against which a project's success in achieving GHG emission reductions can be measured, and describes the business-as-usual baseline of forest emissions had the project not taken place. Though RL setting is complex and takes into account a wide range of country specific factors, it is enough for this discussion to note that the RL used by one project or REDD+ intervention should take into account other planned REDD+ activities in the same intervention area, in order that GHG emission reductions achieved by one intervention should not be double counted, and attributed to another intervention.

The Carbon Fund MF notes that "*additionality primarily is addressed through conservative approaches to setting Reference Levels (e.g. including existing and clearly funded programs or activities within the Reference Level)*."[148] This echoes UNFCCC guidance on REDD+, which determines that "*significant pools and/or activities should not be excluded*" in the construction of reference levels.[149] The FIP Results Framework, whilst not explicitly requiring RLs to take other activities into account, provides that GHG emission reductions should be measured relative to a forest reference level "*following relevant UNFCCC/IPCC guidelines.*"[150] The FIP Monitoring and Reporting Toolkit notes that FIP

[146] Ibid. p. 27.

[147] Ibid. p. 29.

[148] FCPF. 20 December 2013. Carbon Fund: Methodological Framework. Final. Ibid. Section 3.3. p. 9.

[149]Decision 12/CP.17 , Annex (c). Confirmed as part of Warsaw Framework for REDD+, Decision 13/CP.19.

[150] CIF. 13 May 2011. Forest Investment Program Results Framework, p.27.

countries can construct reference levels using either the simple historical average of annual emissions as the baseline, or, if they are able to do so, estimate the business-as-usual level of emissions in the absence of the FIP investment.[151] The Toolkit does not contain guidance on the inclusion of other REDD+ activities.

The methodology used or proposed for calculating RLs for FIP interventions is not always clear from project documentation, and there is no indication in any of the FIP countries that RLs will take into account activities funded in parallel. In Peru and DRC, calculated emissions in the intervention area for the first year of the project is the baseline against which emission reductions achieved by the project end are measured.[152] It is not indicated whether GHG emission reductions achieved by other projects in that period are taken into account. The reference level chosen for an intervention in Burkina Faso assumes the same conversion rate as observed between 1992 and 2002,[153] whereas that used for Lao PDR estimates likely changes in emissions from 2011 to 2015, taking into account planned deforestation, such as forest clearance due to hydropower.[154] Again, neither indicate RL sensitivity to other REDD+ interventions.

Of the five countries with overlapping FIP and Carbon Fund activities, only the ER-PINs of Mexico and DRC indicate clearly that other activities will affect RL formulation. Mexico's ER-PIN notes that "*Mexico has to improve its reference levels by incorporating other activities to reduce emissions and increase GHG absorption*."[155] DRC's ER-PIN meanwhile calculates expected GHG removals from afforestation/reforestation projects funded by the FIP and Novacel, and then includes this figure in estimating gross emission reductions for the ER Program (though it should be added that the figures used in the ER-PIN to calculate FIP emission reductions are different to those used in the FIP project documentation, which, in addition to afforestation/reforestation, also project achieved emission reductions from direct and indirectly avoided deforestation).[156] The ER-PINs of Indonesia and Ghana propose a reference level calculated purely according to average historical rates of forest cover change between 2000 and 2009/10, with no adjustment made for interventions subsequent to that period. Peru's ER-PIN meanwhile proposes a RL based on historical rates adjusted with annual increments in emissions expected due to new road construction.[157]

Reference levels proposed in FIP investment plans and at the ER-PIN stage of the Carbon Fund are preliminary and subject to revision. However, it is clear from this review that reference levels proposed by FIP and Carbon Fund interventions are not currently harmonized and thus may not meet the requirements of the fund design documents.

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[151] CIF. June 2014. FIP Monitoring and Reporting Toolkit, p.7.

[152] DRC MKKB p.vi,, Peru FIP Investment Plan p.50.

[153] BF DFWMP p.86.

[154] Lao PDR FIP Investment Plan, p.86.

[155] FCPF, April 2014, Emission Reductions Program Idea Note (ER-PIN) p.45 (hereinafter Mexico ER-PIN) available at http://forestcarbonpartnership.org/sites/fcp/files/2014/February/Mexico%20ER-PIN%20CF9%20English.pdf

[156] FCPF, March 2014, Emission Reductions Program Idea Note (ER-PIN) p.56 (hereinafter DRC ER-PIN) available at http://forestcarbonpartnership.org/sites/fcp/files/2014/February/DRC%20ER-PIN%20CF9.pdf

[157] FCPF, September 2014, Emission Reductions Program Idea Note (ER-PIN) p.53 (hereinafter Peru ER-PIN) available at https://www.forestcarbonpartnership.org/sites/fcp/files/2014/september/PERU_ER-PIN_Sept.%2012.2014.pdf

6.2.2 Measurement, Reporting and Verification (MRV)

Accurate measurement, reporting and verification (MRV) systems are essential for the reliable accounting of emission reductions under REDD+. In order to avoid double counting of emission reductions by various programs, MRV systems used should be consistent across programs. The Carbon Fund MF stipulates *inter alia* that: monitoring systems must use the same methods or demonstrably equivalent methods to those used to set the reference level; that activity data are determined at least twice during the term of the ERPA; that deforestation should be determined using IPCC Approach 3; and that community participation in monitoring and reporting should be encouraged.[158] The FIP Results Framework states that in order to avoid developing parallel structures, the monitoring of FIP results will be integrated into existing national monitoring and evaluation systems, and that for countries that have no national monitoring system or limited capacity, a grant should be provided to support national capacities to monitor REDD+ results.[159] However, the FIP design documents do not provide further guidance as to the form monitoring systems should take.

Most FIP programs will fund the development of MRV systems that meet international standards, so as to enable host countries to access scaled-up performance based REDD+. However, it is less clear which MRV systems will be used to monitor FIP results themselves. Ghana's Investment Plan refers to 'national monitoring systems' as the data source for meeting GHG emission reduction targets, though does not provide further information about the form this will take.[160] At the same time, an appraisal document for one of Ghana's FIP projects references 'project MRV and carbon project's design document' as a means of verification, without providing additional information as to these sources.[161] Indonesia and Lao PDR documents are similarly indefinite, referring to the 'Forest/Climate change focal point' and 'MRV report of national REDD+ Office' respectively as the source of ER results, without providing further information. DRC's FIP documentation provides some more detail, stating that emission reductions from avoided deforestation and degradation will be monitored using proxies and will rely on the MRV system set-up under the FAO (through UN-REDD), whereas emission reductions derived from indirect investments aiming at improving the energy efficiency of cookstoves will be measured according to the CDM Small-scale Methodology (AMS-II.G.).[162] Emission reductions under Mexico's FIP investments will be monitored through an MRV system being developed through the Mexico-Norway Initiative.[163]

The ER-PINS of Ghana and Indonesia acknowledge that additional investment will be required to establish forest monitoring systems, and little information is provided regarding their operation other than to confirm that monitoring will be conducted under the umbrella of national MRV systems, and that it will be consistent with Carbon Fund requirements.[164] In contrast, the ER-PINS of DRC and Mexico contain more detailed information about monitoring standards, the

[158] FCPF. 20 December 2013. Carbon Fund: Methodological Framework. Final. Ibid. Section 3.4. pp. 12-14.

[159] CIF. 13 May 2011. Forest Investment Program Results Framework, p.36.

[160] Ghana FIP Investment Plan, p.63.

[161] G. ELCIR+ p.ii.

[162] DRC IFLMP PAD p.36.

[163] Mexico FIP Investment Plan p.47.

[164] Ghana ER-PIN, p.50, Indonesia ER-PIN, p.38.

technologies deployed, the protocol for calculating emission reductions and institutional arrangements.[165] Both confirm that MRV systems used for the ER Program are either consistent with or identical to proposed national MRV systems.

6.2.3 REDD+ Registries

REDD+ registries are systems that are designed to ensure accurate, efficient and transparent recording of emission reduction programs and their respective emission reductions or other performance indicators, as well as the issuance of REDD+ units and/or tracking of performance-based payments.[166] By maintaining clear records of emission reductions issued, traded and retired, effective registries are vital to prevent the double counting of emission reductions, either from the same area of forest by two different projects, or through the double counting of the same emission reduction at the subnational and national level.

The Carbon Fund MF states that for ER Programs an emission reduction transaction registry is required to "*ensure that ERs are not issued, counted, or claimed by more than one entity*."[167] Host countries can decide whether to maintain their own national emission reduction transaction registry, or instead use a centralized emission reduction transaction registry managed by a third party on its behalf. The FIP Design Document and Result Framework does not contain any reference to registries, or discuss the platform on which GHG emission reductions achieved through FIP investments should be recorded.

Of the eight FIP pilot countries, only documentation for projects in DRC and Lao PDR explicitly indicate that results will be recorded in registries. Initiatives associated with the Improved Forest Landscape Management project in DRC "will be registered and monitored through the national registry for REDD+ projects and payments will be recorded in the National REDD+ Fund."[168] The Lao PDR Investment Plan states that coordination and monitoring of FIP investments will be conducted by the REDD+ Office which "will be responsible for maintaining a register of all projects as well as developing a carbon registry."[169] However, it is not clear whether emission reductions achieved through FIP investments will be recorded in the Lao PDR carbon registry, or whether the National REDD+ Fund in DRC will record emission reductions generated from FIP investments or simply details of project activities and financial flows.

The ER-PINs of all five FIP/Carbon Fund countries describe measures to be taken to establish registries that track ER Program emission reductions. However, it is not clear in each case whether these registries are intended to track FIP results. Ghana for example, intends to establish a registry that will remove from ER Program accounting emission reductions achieved through projects funded outside of the ER Program (a VCS project is highlighted in the ER-PIN).[170] However, the ER-PIN notes elsewhere that FIP activities are

[165] DRC ER-PIN, pp. 63-68, Mexico ER-PIN, pp.49-53.

[166] See KfW Entwicklungsbank (2011), National REDD+ Registries, An Overview Of Issues And Design Options, p.10, available at http://climatefocus.com/downloads/National%20REDDplus%20Registries.pdf

[167] FCPF. 20 December 2013. Carbon Fund: Methodological Framework. Final. Ibid. Section 6.2. p. 26.

[168] DRC IFLMP PAD p.91.

[169] Lao PDR FIP Investment Plan p.42.

[170] Ghana ER-PIN pp.65-66.

"limited by the relatively short term nature of the funding…and the absence of any clear funding to carry the activities forward towards realized emission reductions,"[171] which makes it unclear whether the registry would be expected to track FIP results. Mexico's ER-PIN notes that the registry will "establish measures to avoid double counting of emission reductions that are verified within the national territory"[172] though it is unclear whether FIP results would come under this definition. Peru's ER-PIN states that the registry "will contain more detailed information generated by the ERP and by other projects regarding reference scenarios, emission reductions achieved, safeguards, non-carbon benefits, and emissions property rights and thus will help avoid… double or triple accounting of emission reductions."[173] This language suggests, more than the other ER-PINs, that FIP results would be recorded on the registry.

The above review indicates that emission reductions under the FIP and under the Carbon Fund are not currently quantified in the same way, which will make the double counting of emission reductions financed by the FIP and Carbon Fund difficult to avoid. Given that MRV systems for both FIP and Carbon Fund interventions are tied to national MRV systems, the monitoring of emission reductions should not present a double counting problem. However, the design and use of reference levels and registries, particularly as regards the calculation and recording of emission reductions from FIP interventions, would need to be clarified and harmonized.

[171] Ibid p.14.

[172] Mexico ER-PIN, p.65.

[173] Peru ER-PIN, p.73.

7. Conclusions

This section provides conclusions and highlights the implications of multiple funding streams for existing and future REDD+ finance supporting Phase 2 and Phase 3. This section is broken down across the three guiding questions of this document in addition to crosscutting conclusions.

7.1 Sustainability of results

A key consideration for the sustainability of results is whether or not a project needs ongoing finance beyond the lifetime of ODA investments. Determining the financial needs of sustainable interventions is complex, however, and data is often not available

It is a requirement of FIP investment criteria for countries to show how "*results will be sustained after completion of the FIP investment*". Where FIP investments state that additional finance is not needed to sustain results it is clear that further payments from any source would not be an additional or cost-effective use of resources. It should be noted, however, that current IPs and ERPINs fail to fully elaborate the financial sustainability of projects. Short funding cycles of programs (typically 4-5 years) and increased pressure to disburse from donors can mean that there is more importance placed on delivering programs quickly rather than developing sustainable business plans.

Where carbon payments are needed to ensure the sustainability of results, FIP projects should still be funded even though future revenues may not be secured

Forest investments face many uncertainties, including regulatory, financial (e.g. fluctuating carbon prices) and market uncertainties (e.g. changes in demand for commodities). As such an element of risk is inherent in FIP investments, and sustainability may be difficult to achieve. These risks will be borne in part by the donor and in part by the recipients of REDD+ funds.

To avoid penalizing countries in the face of uncertainty, and to ensure that a future REDD+ mechanism does not become overly burdened in its coordination, countries that identify carbon payments as a potential future source of revenue should still be funded by the FIP even if the certainty of carbon payments are not secure. To avoid undue risk, countries should aim - to the extent possible - to diversify future sources of finance to ensure that projects can still succeed in the absence of carbon finance.

7.2 Double funding of activities

The current fragmentation of REDD+ finance is likely to persist and flexibility in the use of carbon payments is essential to improve the coordination of REDD+ activities.

Where payments for emission reductions are made *ex-post*, but there are stipulations that require those funds to be applied to activities already being funded, flexibility clauses on those funds should be considered so that funds can be reallocated to other interventions. For example, the Carbon Fund requires that payments for emission reductions be used for activities identified in the ER-PIN. In some cases, donors may want to consider weakening or removing such stipulations so funding can be used based on needs. Allowing more flexibility and fewer stipulations on where finance can be invested, would allow developing countries to reallocate finance to additional REDD+ activities thereby increasing the potential to reduce emissions through carbon payments.

To maintain climate integrity and avoid the diversion of ODA, emission reductions arising from ex-ante ODA should not be further used towards Annex B country targets.

Clear guidelines have been established under both the UNFCCC and OECD around the non-diversion of ODA resulting from investments in the Clean Development Mechanism. Similar constraints should be developed in the current landscape of REDD+ finance, in which emission reductions can be generated from a range of multilateral sources. The OECD should develop a clearer mandate for developing countries on the use of ODA towards emission reductions generating activities, and the UNFCCC could reaffirm principles of non-diversion of aid in the context of carbon payments more broadly (i.e. not just under the CDM).

Focus on the attribution of emission reductions to specific activities should be avoided; instead a clear and simplified system of accounting of emission reductions should be developed.

Given the existing hurdles already facing REDD+, the process of attributing emissions reductions to given sources of finance should be avoided at all costs. REDD+ outcomes will occur over a period of decades, not years, and changes in deforestation will be the result of a combination of policies and measures, shifting market forces and evolving political economies. A simplified accounting system should be developed, which builds on the “information hub” under the UNFCCC, that ensures that emission reductions funded by developed country Parties both bilaterally and multilaterally, are accounted for clearly and transparently.

Ex-ante ODA and carbon payments should be clearly sequenced to improve the coordination of international REDD+ finance. Where this is not possible, ex-ante payments can be provided in the form of concessional or non-concessional loans.

Where activities are concurrently financed using ex-ante ODA and carbon payments, there is a potential for aid diversion, market subsidization and non-additionality of emissions reductions. In situations where REDD+ countries are

receiving both ex-ante ODA and carbon payments, donor and partner countries should promote a clear sequencing of finance to fund REDD+ activities, such as the system implemented by Mexico under the FIP and Carbon Fund. Where this is not possible, and funding windows overlap, up-front finance can be provided through concessional or non-concessional loans to finance future emissions reductions. If future emissions reduction payments are not forthcoming then some portion of the original loan could optionally be forgiven (i.e. converted to a grant).

7.3 Double counting of emission reductions

There are two possible options for the treatment of double counting: either overlaps *are* treated as double counting, in which case both funds will need to align their use of reference levels, MRV and registries (as described above), or overlaps *are not* treated as double counting, in which case restrictions placed by the Carbon Fund on emission reductions may need to be revisited.

The Carbon Fund Methodological Framework states that emission reductions transferred to the Carbon Fund may not be "*sold, offered or otherwise used or reported a second time by the ER Program Entity*" and that "*any reported and verified emission reductions generated under the ER Program that have been sold and/or transferred, offered or otherwise used or reported once by the ER Program Entity shall not be sold and transferred to the Carbon Fund*". It is possible to argue that these restrictions do not apply to the FIP, as the FIP is not generating emission reductions as formally defined by the Carbon Fund, emission reductions under the FIP are not 'sold' or 'reported' in the sense given by the Methodological Framework, and the restrictions apply to the ER Program Entity, not the FIP. However, the wording used by the Methodological Framework is particularly broad, and the reporting of emission reductions by the REDD+ country to the FIP may fall foul of these restrictions. Thus, if overlaps between the FIP and Carbon Fund are not treated as double counting, the Carbon Fund may need to clarify that the reporting of results funded by ex-ante payments under phase 2 of REDD+ does not constitute double counting.

7.4 Cross-cutting issues

Not all countries will be ready to enter into a system of ex-post carbon payments directly; ex-ante funding through e.g. the FIP may be needed in low-capacity countries to support capacity building and REDD+ implementation, prior to beginning ex-post carbon payments.

The phased approach is based on the principle that not all countries have the same national circumstances and capacities, and that some will not be in a position to achieve measureable, reportable and verifiable results in tonnes of carbon dioxide equivalent. Ex-ante payments will therefore be needed in less advanced countries to build the necessary capacity and create a transformational change in behavior and practices. Ex-post payments can then be used to reinforce that behavior and ensure the continuation of sustainable business practices through the payment of results. These payments can either be delivered through an international carbon market (which has yet to materialize) or through ex-post ODA, such as that provided by Norway to Guyana, Brazil, and Indonesia. The expectation of large-scale finance through

either of these mechanisms, however, should be treated with some degree of skepticism.

Coordination of programming should be improved at the fund level to address issues arising from the fragmentation of funding. This could include coordination of program designs and joint meetings of funds.

There are some good precedents for the coordination of programming at the fund level. The FCPF Readiness Fund and UN-REDD Programme, for example, developed a harmonized programming template to reduce the burden of readiness planning for countries engaging in both funds.[174] Similarly, UN-REDD and FCPF Participants Committee meetings are held back to back to ensure that participants can minimize travel and time out of country. Finally, administrative teams are often invited to each other's meetings to stay abreast of developments and report on progress. These linkages could be improved between the FIP and FCPF, which both encourage countries to develop national or subnational REDD+ programs. There is, however, as yet no coordination between the ER-PIN process and the Investment Plan preparation under the FIP, even though in many respects they are asking countries to develop similar programs. To further improve coordination fund managers could meet more regularly, and fund meetings could be coordinated more closely with one another, especially as more countries begin to participate in both of these processes.[175]

[174] R-PP Template Version 6, for Country Use (April 4, 2012) Available at http://www.unredd.net/index.php?view=document&alias=6953-fcpf-unredd-r-pp-template-version-6-april-4-2012-final-clean-6953&category_slug=harmonized-un-redd-fcpf-rpp-template-1448&layout=default&option=com_docman&Itemid=134

[175] The FIP is inviting up to four more countries to develop investment plans and the Carbon Fund is hearing from up to eight more countries at the twelfth meeting (CF12) to be held in Paris in April 2015.

8. Annex I

This section provides an overview of each of the eight FIP pilot countries and their investments under the Forest Investment Programme and the FCPF Carbon Fund. A map that identifies the geographical location of investments accompanies each country.

8.1 Brazil

The focus of FIP investments in Brazil is the Cerrado biome, which spans 11 states to the south and west of the country. Over half of the Cerrado has been converted to other uses in the past 50 years, and the aim of the FIP program is to replicate the reduction in forest loss rates in the Amazon biome achieved by existing programs. FIP investments will be split across two thematic areas. The first is the management and use of previously converted land, where projects will aim to 1) implement rural environmental regularization/compliance systems and 2) increase sustainable production in areas previously converted to agricultural use.

The second theme is the generation and management of forest information, where projects will aim to 1) produce new, updated and accurate information on forest resources and their use and 2) implement systems for monitoring vegetation cover and preventing forest fires. Though Brazil has not set emission reduction targets for FIP funded activities, they have agreed to estimate potential emission reductions related to each project indicator. For example, a FIP funded project on sustainable production on land previously converted to agricultural use has been estimated to have an emissions reduction potential of 4.6 $MtCO_2e$.[176]

There are a number of ODA funded REDD+ programs in Brazil, preeminent among them the Amazon Fund, a performance-based payment mechanism for forest emission reductions in the Amazon, using international (mostly Norwegian) finance and administered by the Brazilian National Development Bank (BNDES). The Germany's REDD Early Movers (REM) fund has also agreed to provide performance based payments for REDD+ credits generated in the state of Acre. However, no REDD+ performance based finance is currently being provided for activities in the Brazilian Cerrado, and hence there are no potential overlaps with FIP investments.

176 https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/P143184_Appraisal%20PAD%20%28disclosable%29%20for%20FIP%20April%207.pdf

8.2 Burkina Faso

Burkina Faso's FIP Investment Plan outlines two investment projects.[177] The first is decentralized forest and woodland management, which will be implemented by four components: REDD+ strategy development and local consultations; integrated landscape development; forest products value chain; and information sharing, program coordination and lessons-learning and research. The second investment project is participatory management of state forests, which will contain three components: REDD+ reference levels and MRV development; forest and land governance; and management of state forests. Though all target areas have not yet been identified, participatory management projects will take place in the regions of Boucle du Mouhoun, the Centre-West, the South and the East.[178] It is estimated that FIP intervention have the potential achieve emission reductions between 30 and 70 $MtCO_2e$. No REDD+ performance based finance has been identified with potential overlaps with FIP investments.

8.3 Democratic Republic of the Congo

In the Democratic Republic of the Congo (DRC), FIP priority areas have been identified as supply areas to large urban centers, with supply areas to Kinshasa, Kananga, Mbuji Mayi and Kisangani selected as those areas most likely to meet FIP criteria and sub-criteria.[179] Supply areas should cover three type of landscape zone (urban, savannah and forest) with appropriate intervention activities designed for each zone (e.g. the distribution of energy efficient stoves for urban zones). The Kinshasa program aims to achieve 2.2 $MtCO_2e$, the Kananga/Mbuji Mayi program 3.9 $MtCO_2e$ and the Kisanangi program 3.2 $MtCO_2e$. In addition to supply area programs, the FIP will also fund a private sector engagement program achieving emission reductions of 8.8 $MtCO_2e$ and a small grants program outside of the priority areas. Across these program areas, five types of activity will be supported to varying degrees: biomass energy (e.g. afforestation/reforestation activities or improved cookstove distribution); community forestry; land use planning; modernizing land tenure; and support to project development (e.g. capacity building in public and private sectors). FIP investments are designed to align with the national REDD+ Readiness process, which has also received support from FCPF Readiness Fund and UN-REDD.

DRC submitted an ER-PIN to the FCPF Carbon Fund in March 2014, proposing an ER Program based in the Mai Ndombe region with the following five objectives to be achieved by 2020: Achieving emission reductions of 28 $MtCO_2e$; enhancing biodiversity; recognizing and strengthening statutory and customary rights to land; improving livelihood security and well-being of stakeholders; and mobilizing adequate and predictable resources to reward performance in priority forest areas.[180] As the Mai Ndombe region falls within the Kinshasa supply area as defined by the FIP investment plan, there is potential for significant overlap. In fact, the FIP PIREDD/MBKIS Project, which

[177] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_4_Burkina_Faso.pdf

[178] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/AfDB_Burkina_Faso_FIP_Project_Document.pdf

[179] https://www.climateinvestmentfunds.org/cifnet/sites/default/files/DRC%20FIP%20Investment%20Plan%20-%20Endorsed.pdf

[180] http://forestcarbonpartnership.org/sites/fcp/files/2014/February/DRC%20ER-PIN%20CF9.pdf

aims to improve community level natural resource management and boost local economic opportunities, overlaps directly with the ER Program and, according to the ER-PIN, work plans and budgets of both will be aligned to ensure complementarity. Issues may thus arise accounting for the emission reductions of 4 $MtCO_2e$ that the FIP project is expected to generate.[181] In April 2014, DRC's ER-PIN was selected into the Carbon Fund pipeline, with the recommendation that DRC give further attention to how Carbon Fund investments result in additional emission reductions, and to further explore the issue of potential complementarity with the FIP.[182]

Other ODA funded performance-based REDD+ programs with potential overlaps with FIP investments are set out below:

1. Congo Basin Forest Fund (CBFF), South Kwamouth Redd Agroforestry Pilot Project. This publically funded, privately led project implemented by NOVACEL (a local, community based company) aims to mitigate deforestation through the promotion of rational land occupancy and use methods in the provinces of Kinshasa and Bandundu.[183] Ten thousand hectares will be placed under rational management of which 1,300 ha will be earmarked for agroforestry; six million trees will be planted, deforestation will be reduced by 30% and 1 $MtCO_2e$ will be stored by 2017.

2. Ibi Batéké Sink Plantation Project. A privately led project by NOVACEL to reforest 4,200 hectares of degraded land in the Ibi Bateke plateau with the aim of sequestering an estimated 2.4 $MtCO_2e$ over the next 30 years, as well as funding health, education and agroforestry outcomes. The World Bank's BioCarbon Fund will purchase half a million emission reduction credits to be generated by the project by 2017.[184]

3. Wildlife Works Carbon (WWC). The Mai Ndombe REDD+ project protects approximately 300,000 hectares and is expected to reduce emissions by more than 100 $MtCO_2$ over the next 30 years. The area was a former logging concession on the shores of Lac Mai Ndombe and was suspended in 2007.

8.4 Ghana

FIP interventions in Ghana focus on the High Forest Zone (HFZ) areas of the Western Region and Brong Ahafo Region.[185] The key drivers of deforestation in the HFZ are farming systems, and in particular cocoa production, and FIP interventions will aim to change farming practices and cocoa production methods, which it is thought could result in significant emission reductions. The FIP Investment Plan sets out three projects to be financed with US$50 million in grants and loans: reducing pressure on natural forests through an integrated landscape approach (e.g. policy reforms/participatory landscape planning);

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[181] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/AfDB_DRC_FIP_Project_Document_July_2013.pdf

[182] https://www.forestcarbonpartnership.org/sites/fcp/files/2014/April/CF9%20Chair%27s%20Summary.pdf

[183] http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/RDC_-_South_Kwamouth_Redd_Agroforestry_Pilot_Project_-_AR_.pdf

[184] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22266092~pagePK:64257043~piPK:437376~theSitePK:4607,00.html

[185] https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_5_Ghana.pdf

enhancing carbon stocks by engaging local communities in REDD+ (e.g. promoting sustainable cocoa and agroforestry); and engaging the private sector in REDD+. The second of these will operate in the form of PES for hectares of agroforestry tree plantations, which it is estimated will generate emission reductions of 4.3 to 8.6 $MtCO_2e$ over a 30 year period.

Ghana is a pilot country in the FCPF Readiness Fund, and the FIP investment plan has been designed to build on and support activities funded therein. Ghana submitted an ER-PIN to the FCPF Carbon Fund in March 2014, the key aim of which is to reduce emissions across the HFZ driven by cocoa farming and other drivers by improving livelihoods opportunities for farmers and other forest users.[186] The program will span Ghana's Eastern Region, Central Region, Ashanti Region, Western Region and the Brong-Ahafo Region. Overlaps between this ER Program and FIP interventions are clear, and highlighted by Ghana's ER-PIN as strategic and complementary. According to the ER-PIN, whereas the FIP can fill institutional and policy gaps, the ER Program will be able to scale-up and implement these policies on the ground. Ghana's ER-PIN was selected into the Carbon Fund pipeline in April 2014.

8.5 Indonesia

According to Indonesia's FIP Investment Plan, sub-national REDD+ pilots will be tested and developed in provinces already targeted under Indonesia's National Action Plan (RAN GRK)[187] and its National REDD+ Strategy.[188] Though target areas are yet to be finalized, a number of provinces have been identified for potential FIP interventions in Indonesia, located in Sumatra (Aceh, Jambi, Riau, South Sumatra), Kalimantan (West Kalimantan, Central Kalimantan, South Kalimantan), Java (Central Java, DI Yogyakarta, East Java), Sulawesi (Central, North, and Southeast Sulawesi), West Papua and Maluku.

FIP support will be targeted according to three investment plan themes: institutional development for sustainable forest and natural resource management (with focus on participatory planning, spatial planning, and community outreach and related management and business plan development); forest enterprises and community based forest management (strengthening organizational capacity for smallholder groups, cooperatives and small and medium businesses); and community land use planning and livelihoods development (enhancing the capacity of local communities and their civil society representatives to participate in SFM and REDD+). Potential emission reductions, a key indicator of the FIP results framework, are estimated to fall between 45 and 72 $MtCO_2e$ over five years.

According to the FIP Investment Plan, activities will seek to align and make direct links with FCPF, UN-REDD and other REDD+ programs, with potential implementation sites prioritized where other REDD+ programs are already operative and can provide program synergies. Indonesia presented an 'Early Idea' outlining proposed emission reduction activities to the Carbon Fund[189] in

[186] https://www.forestcarbonpartnership.org/sites/fcp/files/2014/February/Ghana%20ER-PIN%20CF9.pdf

[187] Presidential decree no. 61/2011, available at http://forestclimatecenter.org/files/2011%20Presidential%20Decree%20of%20The%20President%20No%2025%20Year%202011Task%20Force%20for%20Preparing%20The%20Establishment%20of%20REDD%20Agency.pdf

[188] Available at

http://forestclimatecenter.org/files/2012-06-15%20REDD+%20National%20Strategy.pdf

[189] June 2014 presentation to Carbon Fund http://www.forestcarbonpartnership.org/sites/fcp/files/2014/June/CF10%20Indonesia%20Early%20Idea%20Presentation.pdf

June 2014 and it's ER-PIN was proposed in October at the 11th Carbon Fund meeting.[190] Identified sites (located in Central Kalimantan, Central Sulawesi, East Kalimantan and Jambi provinces) overlap geographically with potential FIP intervention areas, and proposed emission reduction activities (for example investment in community based forest management) also overlap thematically to some extent. Other ODA-funded performance-based REDD+ programs are set out below:

1. Norway-Indonesia REDD Partnership. The US $1 billion bi-lateral agreement between Norway and Indonesia contains a performance based element (contributions for verified emission reductions) that was originally scheduled to start in 2014.[191] Though implementation has been delayed, with the proposed moratorium on logging permits presenting particular challenges,[192] Central Kalimantan has been selected for a province level REDD+ pilot.

2. Forests and Climate Change Programme (FORCLIME). This €20 million GIZ funded programme will run until 2020 with the aim of implementing projects in pilot districts that reduce GHG emissions and protect local biodiversity.[193] Each demonstration activity should generate 300 to 400 thousand tCO_2 over five years, with pilots undertaken in three districts in Kalimantan (Kapuas Hulu, Malinau and Berau).

3. Berau Forest Carbon Program. This NGO led partnership aims to bring 800,000 hectares of forest under effective management in Berau District, East Kalimantan, resulting in annual emission reductions of 2 $MtCO_2e$ by 2015.[194] The program has received funding from USAID and AUSAID and though not strictly a performance based program, it will seek to pilot performance-based incentive programs with funds from both public and private donors.

8.6 Lao People's Democratic Republic

The Lao People's Democratic Republic (PDR) FIP Investment Plan outlines three implementation projects to address DD drivers: protecting forests for sustainable ecosystem services (e.g. developing PES systems to protect high conservation value forests); small holder forestry projects (e.g. smallholder woodlot development and industrial tree plantations); and up-scaling participatory sustainable forest management.[195] Target areas for FIP interventions are yet to be selected, though there will be a focus on existing production forests areas (PFAs) financed by investment from the World Bank and Finland. Further Finnish co-finance is expected to supplement FIP funding for participatory sustainable forest management. FIP investments are expected to result in emission reductions of 3.6 $MtCO_2e$ by 2020. No REDD+

[190] TBC.

[191] Phase 3 described in Norway-Indonesia LOI http://www.regjeringen.no/upload/SMK/Vedlegg/2010/Indonesia_avtale.pdf

[192] http://blog.cifor.org/13720/indonesias-redd-pilot-province-how-is-it-faring-two-years-on#.VAh2hvldUeg

[193] http://www.forclime.org/en/

[194] http://www.law.harvard.edu/programs/about/pifs/symposia/fcfs/2010-fcfs-briefing-materials/fishbein_forest_carbon.pdf

[195] http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP%204%20Lao%20PDR%20IP.pdf

performance based finance has been identified in Lao PDR with potential overlaps with FIP investments.

8.7 Mexico

FIP interventions in Mexico focus on Early Action REDD+ Areas (EARAs), comprising the states of Campeche, Chiapas, Jalisco, Quintana Roo, and Yucatan. These states have been selected according to four criteria: forest cover extent and forest loss rates; the environmental value of the area (in particular the biodiversity and hydrological value of the area); socio-economic development needs; and the presence of local stakeholders with sufficient capacity and experience to deliver results in the short term. Within these early action areas, four project types will be supported by the FIP: capacity building for sustainable forest landscapes management; mitigation resilience and sustainable profitability in forest landscapes; the creation of a dedicated financing line for low carbon strategies in forest landscapes; and strengthening the financial inclusion of ejidos (communally held lands) and communities through technical assistance and capacity building for low carbon activities in forest landscapes. Mexico has a national target of reducing emissions from the forest sector by 58 $MtCO_2e$ by 2020, and FIP interventions are designed to both generate an enabling environment for achieving this target and directly contribute to meeting this target, though the overall contribution of FIP activities to meeting the target is not estimated.

Mexico's FIP Investment Plan seeks to build on readiness activities already supported by the FCPF Readiness Fund. Mexico's ER-PIN was submitted to the FCPF Carbon Fund in April 2014, proposing three types of REDD+ activity spanning five states: integrated land management in the Jalisco coastal basins (Jalisco); natural resources conservation in the jungles of the Yucatan Peninsula (Campeche, Quintana Roo, Yucatan); and Conservation, restoration and sustainable use in Biological Corridors and the Lacandon Jungle in the state of Chiapas (Chiapas). As the ER-PIN notes, in Jalisco and the states on the Yucatán Peninsula, the ER Program will be supplemented by the activities carried out under the FIP Investment Plan, whereby the FIP provides an initial investment, preparing the ground for Carbon Fund investments. It is estimated that the ER Program will generate emission reductions of 8.7 $MtCO_2e$ between 2016 and 2020, with the proposal that 27% of these emission reductions will be assigned to the Carbon Fund. Mexico's ER-PIN was selected into the Carbon Fund pipeline in April 2014.

8.8 Peru

FIP intervention areas in Peru are the Atalaya area in the Ucayali region, the Tarapoto-Yurimaguas area in the San Martin and Loreto regions, and the Puerto Maldonado-Iñapari area in the Madre de Dios region. These have been selected according to four prioritization criteria: GHG emission reduction potential (calculated according to regional DD rates and carbon stock levels), social co-benefits, environmental co-benefits and cost-effectiveness. Forest planning and management in Atalaya is estimated to have the potential to reduce emissions by 7 $MtCO_2e$. Integrated forest landscape management in the Tarapoto-Yurimaguas area is estimated to have a mitigation potential of 13.8 $MtCO_2e$, and 8.8 $MtCO_2e$ in the Puerto Maldonado-Iñapari area. In addition to these geographically specific projects, the FIP will fund a fourth project in Peru to reinforce national forest governance and innovation, the impact of which is

expected to double the emission reductions achieved by the other three projects.

Peru is also an FCPF pilot country and has received FCPF readiness funding to develop, amongst other things, forest monitoring systems and reference scenarios. In May 2014, Peru submitted an ER-PIN to the FCPF Carbon Fund, singling out the same regions chosen for FIP interventions as priority areas. Accordingly, the ER Program will aim to: generate enabling conditions that improve the control of forest land and facilitate private investment; develop innovative business models and value chains; and strengthen capacities of institutions and producers and their access to resources and markets. Peru estimate that these activities will generate emission reductions of 19 $MtCO_2e$ of which 10 $MtCO_2e$ will be assigned to the ER Program and purchased by the FCPF Carbon Fund. Clearly, FIP and FCPF investments overlap to a large extent. According to Peru's ER-PIN, FIP investments improve enabling conditions that facilitate emission reductions, a number of which are then purchased by the FCPF Carbon Fund. Temporal overlap is also expected, with the ER Program running from 2017-2020 and partially including emission reductions achieved by the FIP during the period 2016-2020.[196] The ER-PIN notes that emission reductions that are reported and verified will be registered with a National REDD+ Initiatives Registry in order to avoid double accounting, which implies that emission reductions achieved by the FIP will not be reported and verified. Peru's ER-PIN was not selected into the Carbon Fund Pipeline at the June meeting of the FCPF Carbon Fund and Peru was invited to revise and resubmit for the October 2014 meeting.[197]

[196] ER-PIN Table 6

[197] https://www.forestcarbonpartnership.org/sites/fcp/files/2014/July/CF10%20Chair%27s%20Summary%2006302014%20final.pdf