Assessing the Financial Flows for REDD+: the Pledge-Implementation Gap

- Of the $200 million pledged for the FCPF Readiness Fund, $86.19 has been committed and $9.857 million has been spent in fiscal year 2009 and 2010, equating to an expenditure rate of 11.44%.
- Of the total $94 million that was deposited in the UN-REDD programme accounts, $26.7 million was transferred to the accounts of the country offices of the FAO, UNDP & UNEP, as of February 2011. It is unclear how much has been spent.
- Major implications of low expenditure rates and transfers are that implementation of REDD+ using the FCPF and UN-REDD is unlikely to curb deforestation any time soon, whilst private sector capital inflow is – and will remain – largely absent for some time.
- Somewhat more speculatively, REDD+ does not provide as much hope for multilateralism as is often purported, and the countries that are most in need of the finance risk being left behind in efforts to tackle deforestation.

Introduction

As policy-makers continue to struggle to find agreement on how nations can limit temperature rise to 2°C, it is now acknowledged that curbing deforestation can make a significant contribution to the efforts to mitigate climate change, given they account for approximately 20% of global emissions.

The reason for the failure to tackle deforestation to date is largely a result of incorrect incentives. Correcting these incentives is the rationale behind the new mitigation action known as REDD+ (reducing emissions from deforestation and forest degradation in developing countries, as well as the role of conservation, sustainable management of forests and enhancement of carbon stocks). REDD+ incentivises forest preservation and conservation by pricing carbon above the forest's value as timber – keeping trees in the ground.

A number of countries have instigated programmes that aim to build the capacity to initiate REDD+ based emissions reductions and attract investment. The two largest – in terms of expenditure rates and transfers rather than deposits – are the UN-REDD+ programme and the Forest Carbon Partnership Facility (FCPF).

This article discusses the current state of financing achieved for REDD+ programmes through the FCPF and the UN-REDD programme, how the state of these REDD+ programmes will affect the implementation of REDD+ and consequent impacts on multilateral efforts to reduce emissions.

The Forest Carbon Partnership Facility

The FCPF became operational in 2008, with the World Bank as trustee. It aims to prepare forest countries for REDD+ implementation – known as REDD+ Readiness. Finance for REDD+ Readiness flows through the FCPF's Readiness Fund. At later stages, once forest countries are ready to implement REDD+ programmes, the FCPF should also begin investing in the reduction of deforestation through the Carbon Fund. In total $345 million has been pledged, with $200 million and $145 million flowing towards the Readiness and Carbon Funds, respectively[1].

Amongst its achievements to date, the FCPF claims to have created a framework for countries to get themselves ready for REDD+. This means that since 2008 the FCPF considers itself having accumulated enough knowledge to put in place the protocols and procedures that now allow REDD+ Readiness programmes to be rolled out. Put another way, it has helped countries to get ready for REDD+ readiness, a questionable achievement.

This stands in contrast to the anecdotal evidence from many forest countries, who consider themselves already ready for REDD+, having largely funded REDD+ Readiness using domestic public sources. To get a better idea of what the FCPF has achieved, it may be more instructive to look at the rate of financial follow through at each level of the pledges, commitments and agreements, then to look at the programmes on which the money has been spent.

Of the total $200 million pledged for the Readiness Fund, $123.5 million has been signed in Donor Participation Agreements (DPAs), and $86.19 million of that has been transferred to the accounts of the Readiness Fund. Of the $86.19 committed, $9.857 million has been spent in fiscal year 2009 and 2010; this equates to an expenditure of 11.44% of the Fund's total available balance in the first two fiscal years of operation. The expenditures for fiscal year 2011 are not yet available.

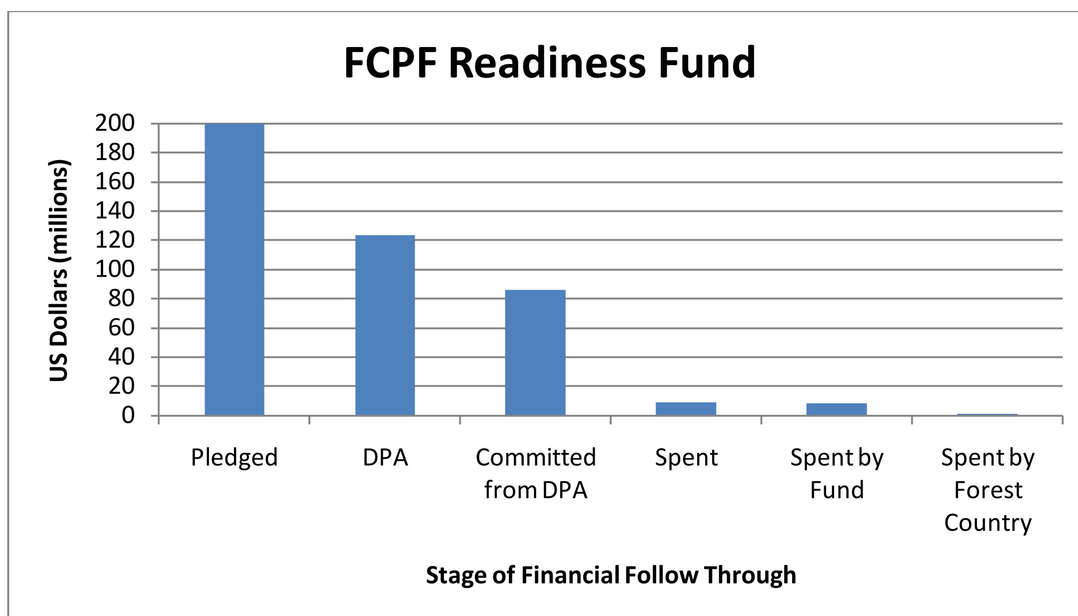
The yearly budget and spending decisions of the $9.857 million already spent are at the discretion of the Readiness Fund. Although possibly an oversimplified distinction, the FCPF can either spend the money itself in the forest country, or it can entrust it to the forest country's government to spend.

Understandably, many forest countries are keen to handle the money themselves, believing they have a better understanding of what the money should be spent on. In order to receive this money, known as receiving a grant, a country must submit a Readiness Preparation Proposal (R-PP). Eight countries have submitted R-PPs successfully, subsequently signing agreements to receive $2.6 million in grants, graduated over time rather than as a lump sum. As of the end of fiscal year 2010, $959,000 had been given to forest countries to spend themselves[2].

Therefore, the Readiness Fund has spent $8.898 million itself in forest countries. Looking at it another way, of the $9.857 million of the Readiness Fund's total expenditure, 9.7% has been given in grants whilst 90.3% has been spent by the Readiness Fund themselves.

[1] http://www.forestcarbonpartnership.org/fcp/node/12
[2] *FY2010 Annual Report*, Forest Carbon Partnership Facility, October 2010.

Figure 1. FCPF level of financial follow through



Of the total available balance, grants to forest country governments amount to 1.1% of the available balance, whilst spending by the Readiness Fund itself amounts to 10.3%. It is unclear to what extent this fulfils the Fund's mandate of spending the money themselves or through the forest country governments. In fact it is unclear if such a mandate exists, although it does beg the question of what the money is being spent on.

Figure 2. FCPF expenditure by service provided

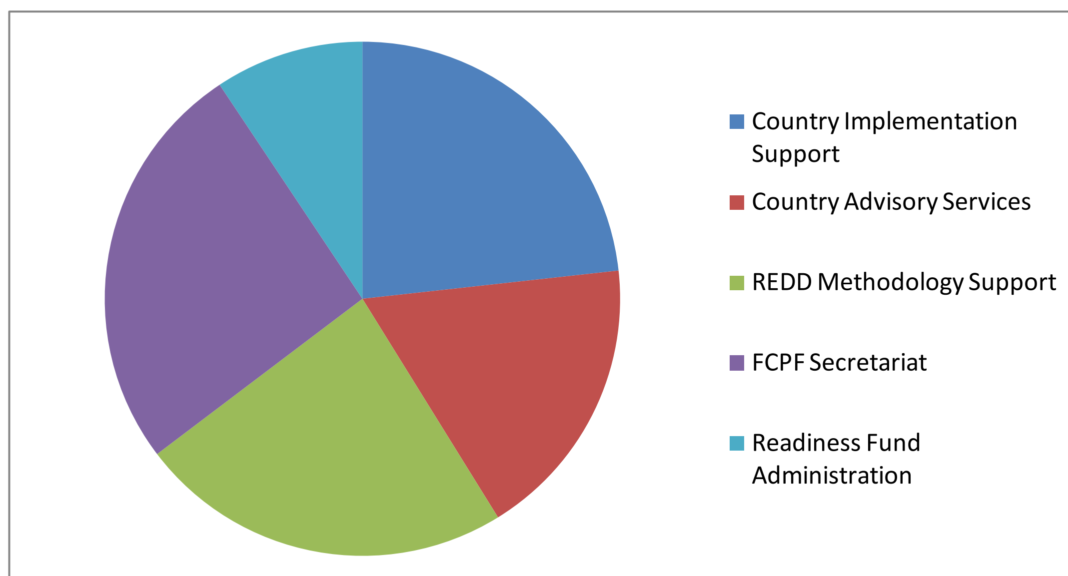


Figure 2 shows the breakdown of expenditure by service provided. Readiness Fund and Secretariat administration costs account for just over 35% of the total spending by the FCPF in the forest country. The remaining 65% is expenditure on support services, i.e. services that are additional to a country's internal funding – or part-funded through the $959,000 in grants – of their REDD+ Readiness programmes.

It appears that the FCPF Readiness Fund has in fact done little other than contribute a relatively small amount of funding to advisory and support services – which were presumably provided by the FCPF themselves or external consultants – rather than *directly* funding REDD+ Readiness programmes in forest countries – the latter being the mandate for the Readiness Fund. Moreover, it appears that none of the Carbon Fund's pledges have been received.

The UN-REDD Programme

The UN-REDD programme was launched in September 2008 to assist developing countries prepare and implement national REDD+ strategies, and builds on the power and expertise of the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP).

The programme has 29 partner countries, many of which are also members of the FCPF. An unspecified amount was pledged, and just under $94 million has been committed and deposited in the accounts of the UN-REDD programme.

As of February 2011, of the total $94 million, $26.7 million has been transferred to the accounts of the country offices of the FAO, UNDP & UNEP in Bolivia, Democratic Republic of Congo, Indonesia, Panama, Tanzania, Vietnam and Zambia. Another $24.6 million has been transferred to accounts for programmes labelled International Support. A further $24.6 million has been approved but not yet transferred[3].

Therefore, monies transferred to the accounts of multilateral organisations in each of the forest countries corresponds to a transfer ratio of 28.5%, or as high as 54.6% if International Support is included.

As is clear from above, the UN-REDD programme uses a different mechanism for transferring money to forest countries than does the FCPF. Because of this, and because there appears to be no spending disclosure policy, the transfer rates of the UN-REDD programme cannot be compared on a like-for-like basis with the expenditure rates quoted earlier for the FCPF. It therefore makes little sense to investigate what the money has been spent on within the forest countries since it is uncertain how much has actually been spent, if indeed any at all.

Little can therefore be said about the difference in expenditure and transfer ratios, other than that the UN-REDD programme appears to function more efficiently as a mechanism that transfers funds to the forest countries than the FCPF, albeit in to the hands of the multilateral organisations and not necessarily spent inside the country. In the absence of information demonstrating otherwise, it appears that the UN-REDD programme has achieved little more than act as a financial transfer mechanism.

[3] *UN-REDD Programme Fund Funding Framework*, UN-REDD Programme, March 2011.

The Implications of the Pledge-Implementation Gap

The BBC recently published an article titled "Bankers take centre stage in fight to save rainforests."[4] This title sums up the soaring rhetoric surrounding REDD+, with governments, bankers and NGOs all waxing lyrical on the progress being made in attempts to halt deforestation. However, this research note suggests that the major international finance channels have so far provided very little money to the forest countries.

As is common to many forms of Overseas Development Assistance (ODA), the cause of these failures is most likely political intransigence masked behind a cloak of bureaucratic complexity. Nonetheless, whatever the reasons for the lack of spending and opaque transfer policies, some immediate consequences for REDD+ are fairly clear.

First, REDD+ programmes will not be implemented any time soon, at least not on a meaningful scale. Without even the preliminary stages of REDD+ Readiness completed to the satisfaction of the UN-REDD programme and the FCPF, and assuming the forest countries cannot mobilise the funding themselves, implementation at scale – which is subsequent to completing REDD+ Readiness – is decades away.

Second, the lack of public funding going towards laying the institutional, regulatory and technical groundwork only compounds the private sector's trepidation when considering investing in REDD. As the author of the BBC article cited above explains, REDD+ is being presented to the private sector as an offsetting mechanism, a new financial market. This means that companies complying with domestic regulation of emissions can use the carbon saved by avoided deforestation to meet their targets rather than reduce emissions at home. It is therefore offered as a win-win opportunity: carbon emissions are reduced and money can be made.

Using public money to ensure that private money can be used to properly implement REDD+ is perquisite to an inflow of capital from the private sector, which is a fundamental purpose of REDD+ Readiness programmes. This means that the inflow of private sector money is unlikely to happen any time soon. In fact the repeated assertions by various organisations that private sector capital is essential to REDD+'s success miss this point – if it is essential to use private sector capital then spending the public money as promised is essential to encouraging this inflow in the first place.

Third, the incorporation of these institutions and the gradual inching towards some kind of international REDD+ mechanism is being showcased as evidence that progress can be made at the international negotiating level on climate change issues. Clearly this proposition is undermined if the institutions themselves spend insufficient amounts of money and don't do enough to facilitate the establishment of an international REDD+ mechanism.

Finally, the slow follow through risks splitting the forest countries apart. Those countries with the capacity to prepare for REDD+ may do so in the absence of multilateral financing. Those without the capacity must wait for funding from the so far lethargic multilateral institutions, despite being the countries most in need of the funding.

[4] http://www.bbc.co.uk/news/business-13348919

This risks creating a two track system where REDD+ finance flows to richer and better equipped forest countries whilst entrenching and expanding the relative division that already exists between those with and without the ability to implement REDD+.

It is fairly clear that these mechanisms have yet to provide clear and tangible benefits in efforts to scale up REDD+ implementation, with far-reaching consequences. More work needs to be done understanding the reasons for the poor financial follow through. Only with this knowledge can these and other mechanisms efficiently and expediently lay down the institutional, regulatory and technical groundwork needed to facilitate greater public and private sector inflows of capital, thus contributing to the sensible aim of curbing deforestation in the near future.