Linkages between Different Types of REDD+ Financing, Including the FCPF Carbon Fund and the Forest Investment Program

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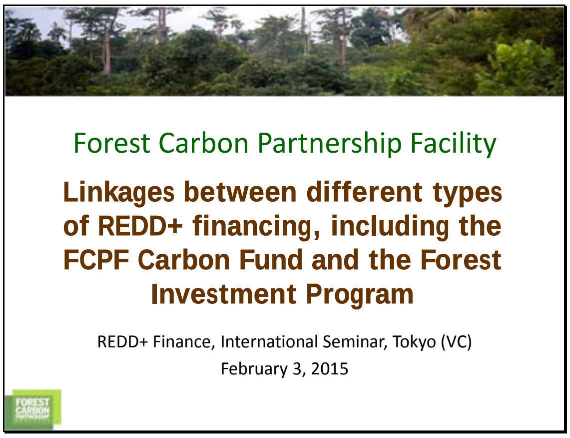
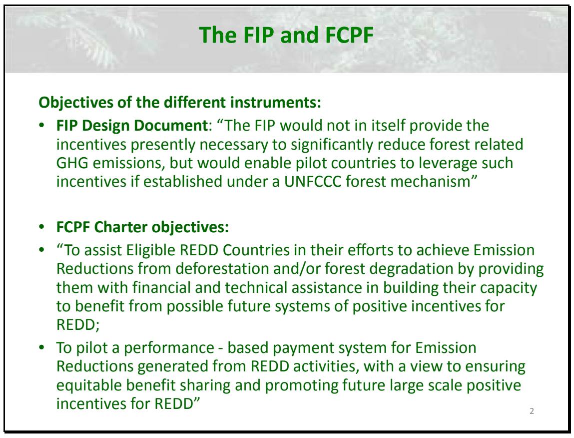
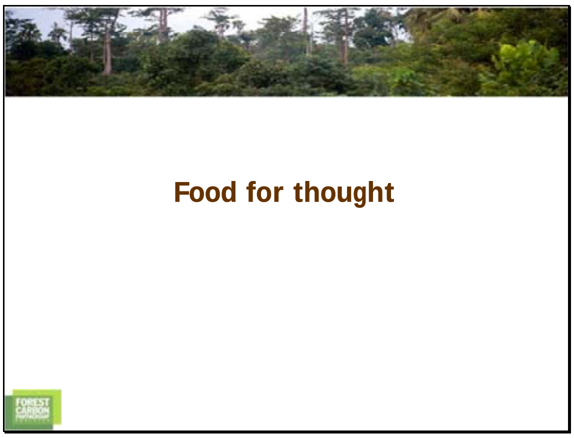
1. The FIP and FCPF





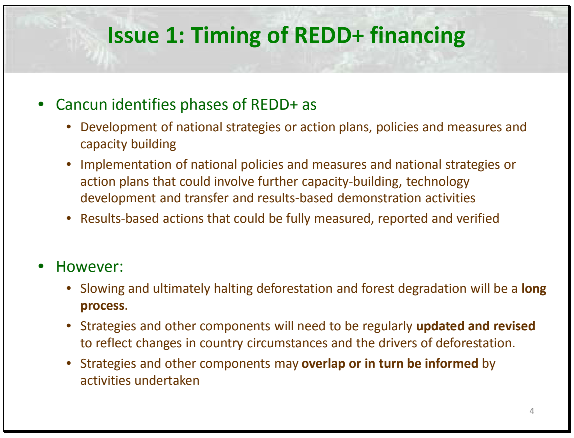
I would like to talk about two of the instruments that we have at the World Bank. One is the Forest Investment Program and one is the Forest Carbon Partnership Facility. The easiest way to distinguish between these programs is that the Forest Investment Program really does investments in forestry. The Forest Carbon Partnership Facility has two sources of funding. One is for technical assistance upstream, and more important is that we have a fund that can purchase emission reductions.

I have in a summary on the slide explained what the objectives of the different instruments are. I hope this is clear for the audience. Again, in summary, the Forest Investment Program does investments but it does not really need to measure any emission reductions. The Forest Carbon Partnership Facility is measuring emission reductions but it is also assisting countries in the REDD+ readiness process.



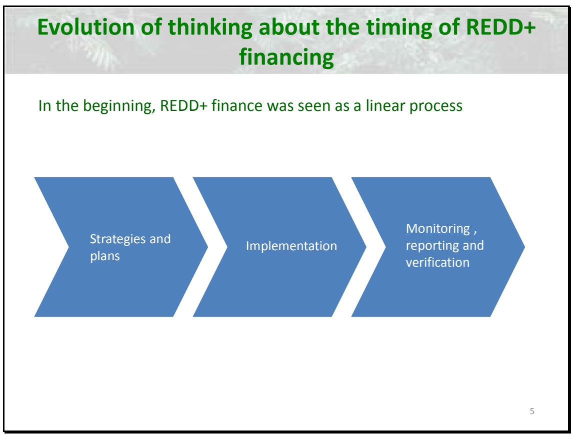
I just wanted to introduce some issues that are really important for thinking through in terms of REDD+ finance.

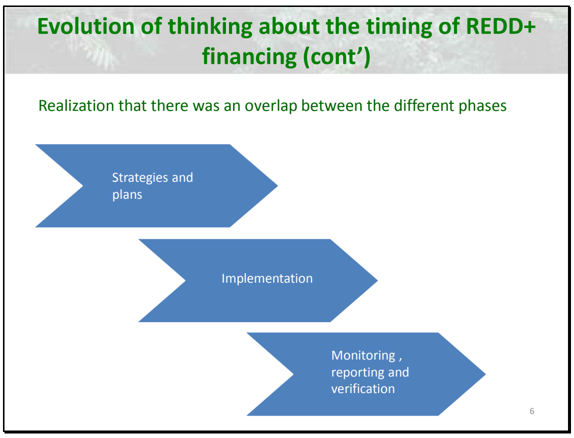
2. Issue: Timing of REDD+ Financing



The international agreements do identify that there are phases of REDD+ finance. Here the phases are seen as those that can help the development of national strategies or action plan, policies and measures and capacity building, but very much upstream preparation, what we call the Readiness Work. However, there is also 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. From our perspective, we consider this as moving in the direction of investments to make changes to business as usual so that the final piece of this puzzle (results-based actions) can be fully measured, reported, and verified.

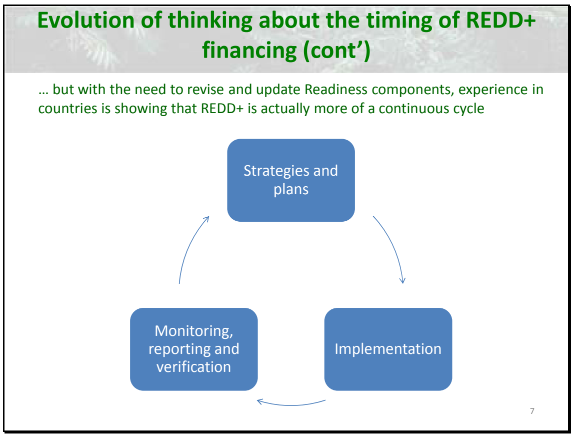
This, I am sure, the audience is aware, is the importance and the phasing, if you like, of the REDD+ finance. However, one thing we always stress is that it is very important to consider the timeframe and that in order to halt deforestation and forest degradation it is a long and a difficult process. Also, the strategies that countries are developing will need to be regularly updated and revised. We need to recognize that in time things do change, so what do we need to do to think about that? Also, some strategies may overlap. We have seen that in the existing work that we are doing. Strategies and components can overlap or in time be informed by other activities undertaken.





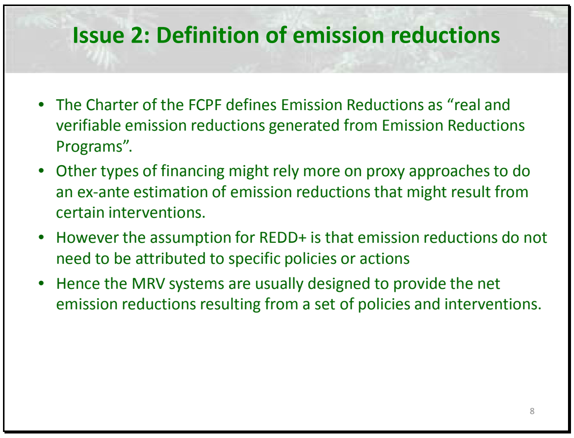
It is important here to consider how we have changed in our way of thinking about the timing of REDD+ finance. In the beginning, we thought this would be a linear process where you would have the readiness strategies and plans upfront. You would then move to implementation. You would then move to monitoring, reporting, and verification.

However, here again we are learning, and, in time, we realized that there is an overlap between the phases because sometimes the strategies and plans can be thought of at the same time. There are actions being taken and some implementation processes happening, which in turn overlaps with MRV[1] systems being set up for the production of emission reductions and the verification of those.



However, this has also changed and this is how we are now thinking of REDD+ financing. This is coming about because of our experience. These two funds are working in more than 40 countries on readiness, in eight countries on investments through the Forest Investment Program, and through 11 countries for emission reduction programs. Our own experiences have taught us that we no longer think of the three phases as a continuum but more as a cyclical and continuous cycle with the different pieces feeding through to each other. It is important to think that as a country is starting readiness, it will gain experience as it goes into implementation. That in turn, feeds into experiences of monitoring and verification. Therefore, the country may need to go back to adjust what its strategy was or how it is undertaking some of its REDD+ actions in time.

3. Issue: Definition of Emission Reductions



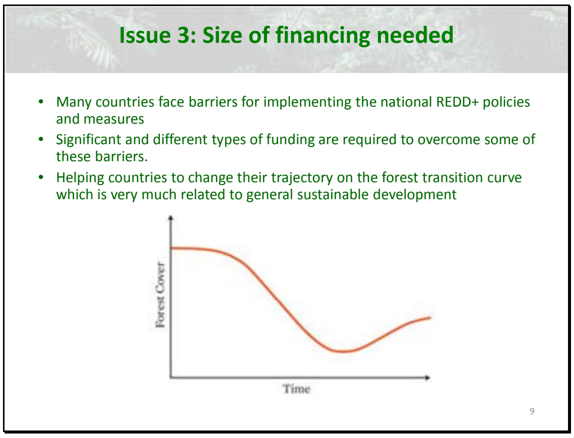
[1] Measurement Reporting and Verification

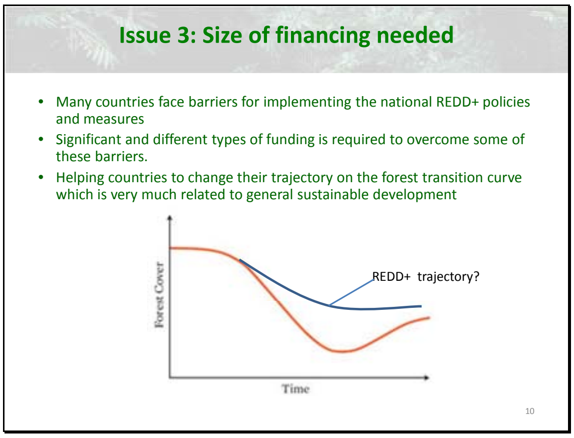
The other thing that is important is how to consider the definition of emission reductions. In terms of what we are doing in the Forest Carbon Partnership Facility, emission reductions are real and verifiable emission reductions generated from the emission reductions programs. I have mentioned we have in our pipeline 11 of these programs. In another respect, other types of financing outside of this program might rely on proxy approaches to do an ex-ante estimation of emission reductions that might result from certain interventions. Increasingly, we are seeing a lot of financial interventions occurring where one of the conditions for that financial intervention is that there is not a large carbon footprint. However, an ex-ante estimation is very different from a real and verifiable emission reduction and what it entails to get that emission reduction.

Another important aspect for us is that there is the assumption for REDD+ that emission reductions do not need to be attributed to specific policies or actions. This is very different from the Clean Development Mechanism world where we had very strong attribution between a specific action and a specific emission reduction, but REDD+ is really changing scale, so this direct attribution is not expected in our programs.

The MRV systems are designed to provide net emission reductions resulting from a set of a wide variety of policies and interventions. This is also an interesting shift in the mindset of how we think about emission reductions, but it is driven by scale and the importance of achieving scale to make a difference.

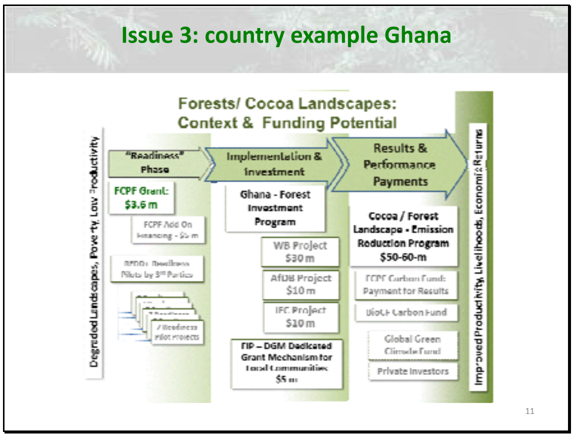
4. Issue: Size of Financing Needed



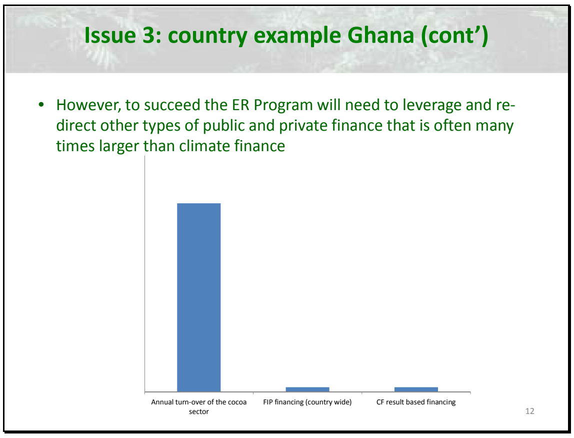


Third, one of the things that we are starting to realize is that the size of financing needed for REDD+ is very significant. Many countries are facing barriers for implementing their national REDD+ policies and measures. Of course, these barriers are very different, so they require significant and different types of funding.

What we are talking about here is that countries have to change their trajectory on the forest transition curve. If we want to change the trajectory, this takes a lot of investment, a lot of understanding of what is driving deforestation. It is really a question of green growth for a country and how it can attain real sustainable development.



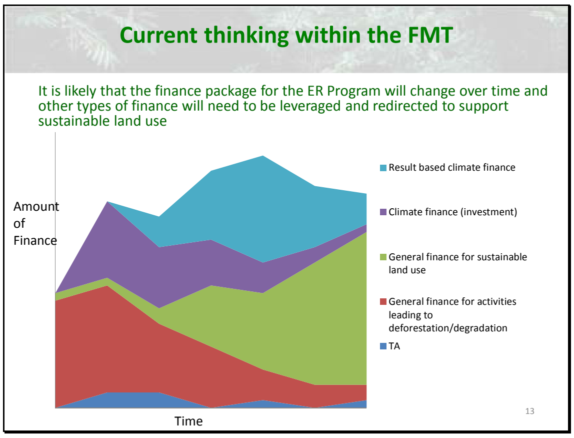
We often use an example of Ghana because we have many programs operating there. You can see the different phases: the readiness phase, investment phase, and results and performance based payments. We have highlighted the amount of funding that we are bringing to the table as the World Bank Group.

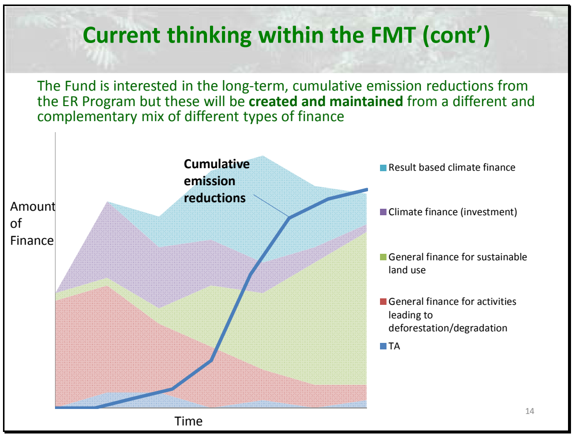


I think the next slide illustrates the point very well. Our programs in Ghana relate to the cocoa sector. You can see the chart where the annual turnover of the cocoa sector is estimated at $2 billion. You can see in comparison what the Forest Investment Program and the Carbon Fund Program are bringing to the country. It is very small in comparison to what needs to change within a very important economic activity within the country.

In order to succeed, REDD+ finance is not the solution by itself, but it has to leverage and redirect other types of public and private finance that is often many times larger (as you can see in this graph) than climate finance. I think it is really important to understand that we cannot offer a solution in terms of climate finance by itself but it has to be in parallel with what public and private finance is also doing within a country.

5. Current Thinking within the FMT

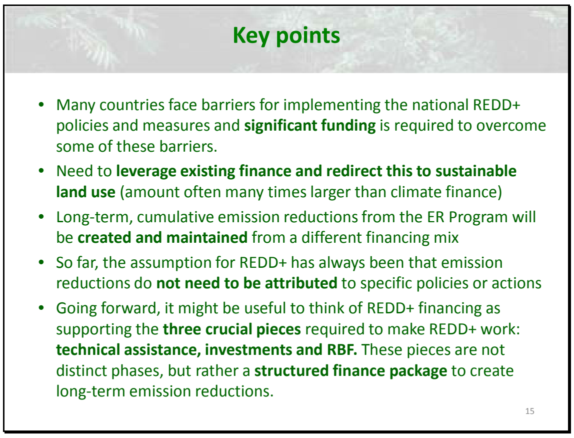




Our own thinking of what finance packages look like is on this colorful graph where you can see right at the bottom that, over time, the technical assistance component is expected to be relatively large early, but will probably ease off in time. The color red indicates where we are hoping finance for activities that lead to deforestation and degradation go down, and finance for sustainable land use can kick-in. You can then see what we have in terms of the climate finance. It is relatively a smaller proportion and may not be very well reflected in this graph, but where your investment finance would be larger in the early stages, and then your results-based climate finance can kick-in in a slightly later stage. It is very important and it is most likely that a finance package for an ER[2] program will change over time and other types of finance will need to be leveraged and redirected to support sustainable land use.

On the next chart, what we expect is that you can see accumulative emission reductions that will happen over time. This fund is certainly interested in those long term cumulative emission reductions, but we really believe that these will be created and maintained, which is very important, from a different and complementary mix of types of finance.

6. Key Points



To conclude, I would want to just say that, from our point of view, there are some takeaway

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2 Emissions Reduction

messages that we feel are really important for anybody who is interested in REDD+ finance. These key points are that many countries face barriers for implementing their national REDD+ policies and measures and significant funding is required to overcome some of these barriers. Funding is really needed to change what has been decades of "business as usual" which has not helped at all in the deforestation issues related to the countries involved.

The second point that is really important and a key point to take away is that there is a real need to leverage existing finance and redirect this to sustainable land use. Often this is going to be much larger than the finance that can come from the climate stream.

The third point here is that we believe the long-term cumulative emission reductions from an emissions reduction program will be created and maintained from a different financing mix. It is important to think different finance sources will be important to achieve successful REDD+.

Another point that we think is very important is that the assumption so far for REDD+ has always been that emission reductions do not need to be attributed to specific policies or actions. Again, I would like to emphasize this point because, if we want to go to scale, it means moving away from the project basis that we have known in climate finance to more of a program in a large jurisdiction. This is a very important point in order to achieve that scale.

Finally, going forward, it might be useful to think of REDD+ financing as three very crucial pieces that are needed to make REDD+ work. These are the technical assistance, investments, and payments for results; the results-based finance. These pieces are not distinct phases but there should be a structured financial package in order to create long-term emission reductions and to achieve sustainable development.

On that note, I think that is the final piece of my presentation.

DAY1
Session 2