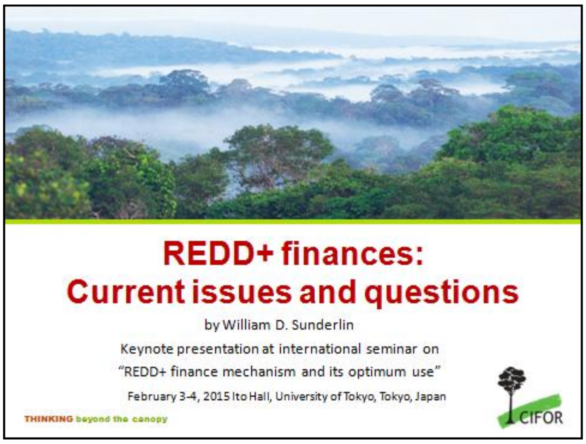
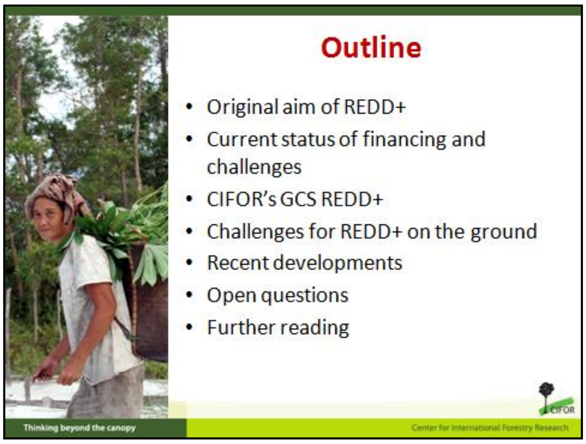
REDD+ Finances: Current Issues and Questions William Sunderlin (Center for International Forestry Research)

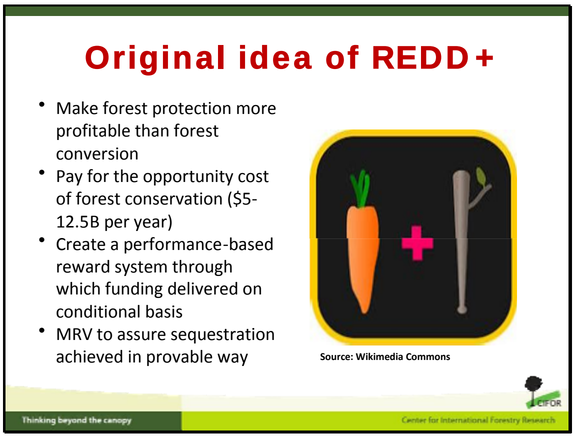
CIFOR as an institution owes part of its strength to an enduring and high quality relationship that we have had with Japanese researchers and institutes. That relationship is extremely valuable and will go on. The talk that I am going to be giving you this morning is somewhat different from what you have heard so far. I will not be touching much on the mechanics of finances and REDD. I will not be talking much about negotiations. Instead, I am going to try to focus on some rather fundamental, square one issues. What I want to do is examine what it is that REDD was meant to be, how it is evolving and how that is playing out against the realities on the ground in the context of subnational initiatives or projects, as we call them.





Here is what I intend to cover in my talk. I will talk briefly about the original aim of what REDD was intended to do. I will touch on some of the current status of financing and the challenges related to that. I will devote a substantial amount of attention to CIFOR's global comparative study on REDD and, more specifically, on research findings that we have produced in the last couple of years and how they relate to the topic of finances and REDD. I will briefly touch on developments that have happened in the last few months. Then I will touch on some questions that I believe are unanswered or at least not answered satisfactorily enough about the issue of finances and REDD. I hope to be provocative and engage an intellectual exchange on this. I will close with some ideas on resources that you might want to consult in relation to this talk.

1. Original idea of REDD+

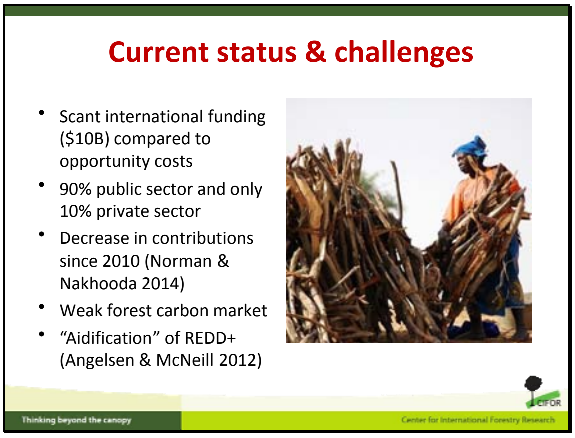


As we know, over the centuries in all countries, not just developing countries, there has been a trend towards the elimination of forest cover, at least initially. The reasons for this are wide ranging, but there tends to be a common thread through all of the experiences. It has to do with population growth. It has to do with the development of a consumer culture, increasing demands for natural resources, and getting them from forests. It has to do with the growth of infrastructure and roads. It is closely tied to the appropriation of the state in all countries over forest as a resource. Importantly, it has to do with the fact that, generally speaking (from an economics point of view), converting forest to non-forest uses has tended to be more profitable than keeping them standing.

REDD surfaced about 10 years ago in the context of decades of efforts to stop tropical deforestation that by and large failed pretty badly. From the point of view of people who came up with the idea of REDD, since many of our problems worldwide we try to address financially, so there must be a financial solution to the problem of deforestation. In the midst of this complexity, the focus of the REDD idea has been to try to make forest protection more profitable than forest conversion. Lying behind this idea is the notion of opportunity costs or the idea that there needs to be a substantial reward or payment to those who lose out from their decision to protect forests. Sometimes it is called the 'opportunity cost of foregone deforestation'. The estimates for this range really wildly from $5 billion per year worldwide to another of $12.5 billion per year by a CIFOR researcher. However, they go up to as high as $60 billion a year. It is an inexact science. Some people have called it a useless exercise, but I believe that there is some value to it in coming to an understanding of what it is that we are paying for and on what scale.

The idea was to mobilize a substantial amount of funding and to deliver it to REDD stakeholders through a performance-based reward system or mechanism through which this funding would be delivered, and to create a system of measuring, reporting, and verification (MRV) to assure that sequestration has actually been attained. Of course, this is a key part of the financial mechanism. Here I have illustrated the carrot and a stick that we talked about it yesterday, a conventional notion in economics. This in the REDD context refers to the fact that there is a positive incentive (namely the reward), the main stick being the threat of withdrawing that stream of rewards if the target (namely the protection of forests) is not attained.

2. Current status & challenges



What we find is that, until now, the total amount of international funding mobilized for REDD is somewhat less than $10 billion, which in absolute terms is a large amount of money. There is no denying that. However, when you measure that up against the annual opportunity costs, it raises some unanswered questions ones about how much more money needs to be mobilized in order for REDD to function as originally intended.

It is also the case that, until now, 90% of that international funding is in the public sector coming from governments either through bilateral or multilateral arrangements and only 10% through the private sector through, for example, the sale of forest carbon credits. As documented in a wonderful paper produced last year by Norman and Nakhooda on REDD and finances, they described how these contributions initially increased and then decreased beginning with 2010, and only recently has there been the beginnings of an upturn once again.

In the midst of this, the market for forest carbon credits is relatively weak. As described yesterday, it has grown very rapidly and attained the level of almost $1 billion, but it is still in various ways weak and does not yet answer or fulfill the task that was originally set for it.

I mentioned that 90% of the funding is from the public sector. This is important in what is being called the 'aidification' of REDD. The original idea was for public sector funding to last relatively briefly, for a few years, to get the readiness process underway and then the private sector would leap into action and occupy a dominant role in funding. However, as we know, that has not happened. The public sector dependence continues. We are almost at the decade long level of REDD's lifetime, and it is clear that public sector dependence will continue for some time to come unless things change.

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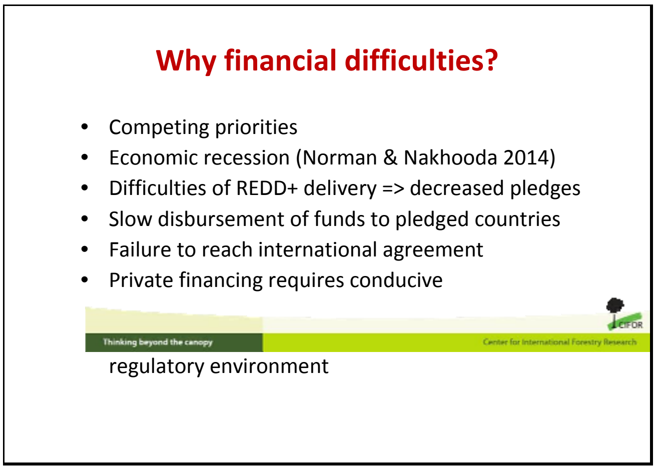
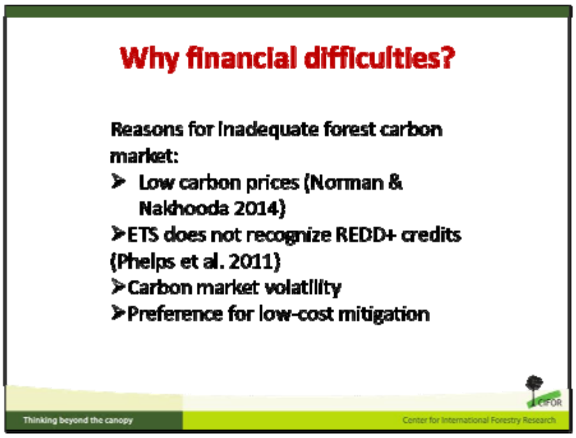


Why are we having financial difficulties in REDD? I do not pretend that my answers are going to be comprehensive or necessarily well-grounded. I simply want to put forward some ideas from my perspective, and some of them at a very high level of abstraction. If we were living in a perfect world where policymakers were answering the call of science and recognizing the high dangers presented by climate change, then climate change mitigation would, in all countries, be ranked substantially higher in national priorities than they are now. For understandable reasons, it is the number one priority in small island states, but tends to rank lower in other countries.

One perspective on this is that climate change mitigation simply is not yet high enough in the aggregation of national priorities. Therefore, REDD competes with other priorities. As we have come to recognize at CIFOR, the conversion of forest to non-forest uses still has a large advantage over forest protection.

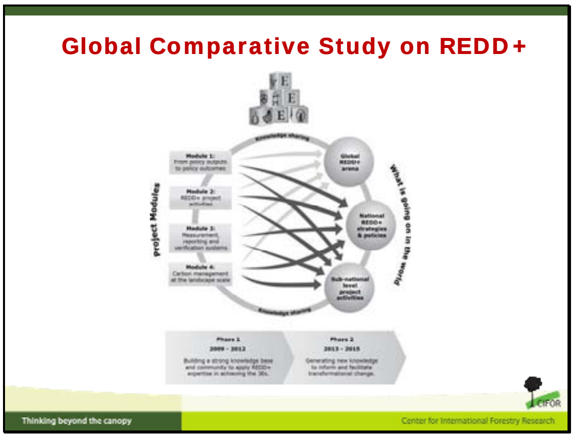
Norman and Nakhooda point to the issue of economic recession. Shortly after REDD got underway, the global recession happened, and this is one of the reasons why national contributions went down. However, these contributions, according to them also, went down because of the difficulties in having REDD gain traction, get underway and set in motion at the national level. Some countries decided to decrease their pledges accordingly. As mentioned yesterday in a couple of presentations, there has been a large amount of commitments in absolute terms, but actual disbursement is a small fraction of that, about 11% last year, to be precise.

Added to this is the failure year-by-year of the UN process to reach an international agreement. Why is this important? It is important because, in the realm of the economics of REDD, it has been supposed that private financing, in order to be robust and durable, requires a conducive regulatory environment; in other words the situation such as one where a cap-and-trade system requires polluters and emitters of greenhouse gas to find a way to defray or reduce their impact on the environment.



Among the reasons for the inadequacy up until now of forest carbon markets are the following: as mentioned yesterday, it is low carbon prices and how this impacts entities, implementers, and proponents of REDD and their efforts to try to get underway. It has to do, as pointed out by Phelps and his co-authors in 2011, with the European trading service not recognizing REDD credits. It has to do with the volatility of the carbon market and the way the price goes up and down leading to unpredictability. Interestingly, carbon brokers are potentially quite interested in REDD, but they tend to be heavily focused on the idea of funding mitigation, but not all of the rest of the things that REDD is beginning to do. One of the ways that REDD has begun to change over time (parallel to aidification) is the wide diversity of things that it is trying to do beyond simply climate change mitigation with strong attention, in most cases, to livelihood support, protection of rights and biodiversity protection. I raise this as a point that we might want to keep in mind. This is possibly a diverging path that we need to pay attention to between the potential funders and what is actually happening on the ground.

3. CIFOR's GCS REDD+

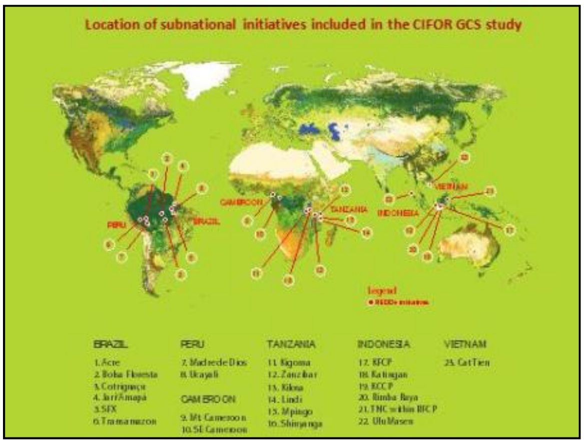


I will now turn my attention to CIFOR's research being done under the heading of our Global Comparative Study on REDD+. This study has been underway for six years now, funded largely by NORAD[1], but also by five other donor organizations. Ultimately, what we are aiming to do is evaluate the performance of REDD in terms of the so-called 'Three E's', those being carbon effectiveness; cost efficiency, is it cost effective for

[1] Norwegian Agency for Development Cooperation: http://www.norad.no/en/front-page

REDD to do what it is trying to do; is it equitable, is there equity among the stakeholders involved in REDD; and is it doing a good job of producing the co-benefits that it is trying to achieve.

The Global Comparative Study (GCS) is divided into four research modules; module one on national policies and processes; module two on REDD projects, or as we call them at CIFOR, subnational initiatives; module three on MRV; and module four on carbon management at the landscape scale. The research that I will be reporting has to do with module two, which I am leading.



On this map, you see the locations and the abbreviated names of the 23 subnational initiatives that we are tracking over time. They are in six countries, those being Peru, Brazil, Cameroon, Tanzania, Indonesia, and Vietnam. They span a wide range of types of REDD initiatives. Importantly, we are doing this through an approach called BACI[2]. These 23 sites include 190 villages where we are doing research and 4600 households. Half of those villages and half of those households are inside the boundaries of a REDD initiative and half of them are outside. Therefore, we are comparing REDD and non-REDD side-by-side through statistical matching. The before and after dimension is as follows: we collected data from 2010 until 2013, our so-called baseline data, involving household surveys, remote sensing, gender surveys, etcetera. We collected the so-called impact data mostly last year (2014). This year we intend to do the full scale analysis to measure the impact of REDD. What I am reporting on today is largely drawn from our baseline or phase one results.

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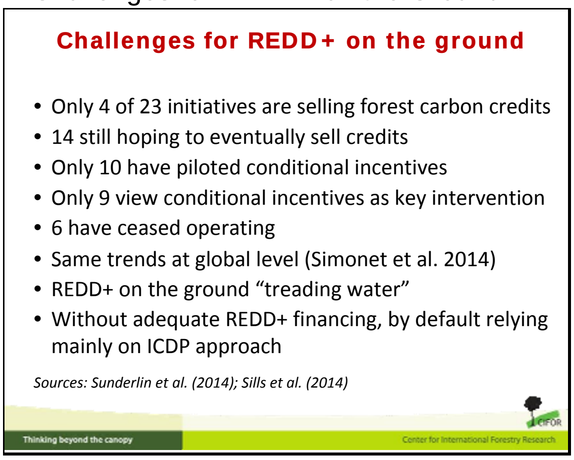
2 Before, After, Control, and Intervention

These results that I am reporting on this slide have to do with a survey of proponents that we conducted from December of 2012 until June of 2013. We focused squarely on posing questions to proponent organizations about the challenges they are facing in getting REDD underway. What we did is, ahead of time, we composed a list of 62 factors that we imagined conceivably could pose difficulties for REDD proponents. We defined them and explained them to the respondents before the interview began. We asked them to rank each of these factors in terms of the level of difficulty posed on what we call a Likert scale with zero being no difficulty at all, and at the other end of the scale the number five represented an overwhelming difficulty. This chart clusters the answers into groups.

What we found fascinated us. The number one problem was tenure. Number two, close behind, is what we call the "disadvantageous economics of REDD." That clustered the answers having to do with REDD not being able to compete with the alternatives: that is, a weak market for REDD, economic policies not being conducive to making REDD able to move forward, etcetera.

I want to point out right here that, although they may appear to be entirely different, there is a close relationship between tenure, the economics of REDD, and the financial situation. Secure tenure for local stakeholders and adequate compensation for foregone deforestation are really two sides of the same coin inasmuch as they are both forms of motivation for protecting forest and also for having the ability to exclude claimants on local forests. Tenure tends to operate in the political sphere and the sphere of governance, whereas finances operate in the sphere of economics. They are certainly not identical, but they are closely related.

4. Challenges for REDD+ on the Ground



Here I want to turn to the results of our phase one research that pertain to the topic of today's seminar. Incidentally, these are reported in great detail in our newest book on REDD called *REDD+ on the Ground*[3], published last December. It is a book of case studies of the 23 sites. We found that only four of the 23 initiatives up until now are selling forest carbon credits. Fourteen are still hoping to eventually sell credits, but they are kind of stuck with a mix of optimism and pessimism about their prospects. So far, only 10 have piloted conditional or results-based incentives. When asked which of a range of interventions are the most

[3] http://www.cifor.org/redd-case-book/

important type for achieving the objectives of REDD, only nine of the 23 said the conditional or results-based incentives are the key intervention. Six of the 23, for various reasons, have ceased to operate.

These findings that we have are roughly similar to those that were found in a study of all REDD initiatives(the 320 plus that currently exist) by Simonet and her colleagues last year.

What we are finding is that REDD on the ground, REDD at the level of projects, is treading water. Imagine that you are in a swimming pool and you are in motion, there is a sign of a pulse, but you are not moving forwards or backwards. There is a distinct sense on the ground that REDD is waiting for something to happen in order for it to be able to move forward.

Importantly, what we are noticing is that, for lack of REDD conditional results-based financing, by default these organizations really strongly resemble integrated conservation and development projects. Why is this important? This is important because the ICDP[4] approach is the main approach to slowing tropical deforestation that precedesREDD. The literature says that largely it has failed to reach its mark. Therefore, we need to ask some big questions about what it is that REDD can and cannot achieve if it is currently REDD in name, but not operating in the way that was intended. Of course, there is room for change and development, but, as I mentioned, treading water is part of the problem.

I just want to take a side route and provide an answer to the question raised by Gabriel yesterday. He posed a question of why it is that the private sector is finding it so difficult to gain traction in subnational initiatives. The reasons are quite complex, but I will state simply that the common thread in the experiences that we found is that proponents of REDD organizations have found it tremendously important to only act when they feel confident and when they believe that the enabling conditions for REDD are stable and predictable enough to step forward and engage with the private market. The low price of carbon and the instability of its price are currently an important inhibitor of that. Of course, there are other problems that they experience including difficulties in clarifying tenure, in getting third party certification, in dealing with the government and the bureaucracy, etcetera, that have been tall obstacles. However, this appears to be the essence of what is going on and the difficulty of moving towards the sale of forest carbon credits.

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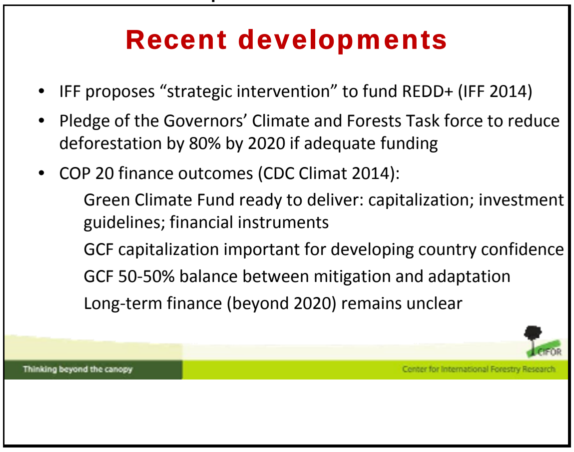
[4] Integrated Conservation and Development Programme:
http://wwf.panda.org/who_we_are/wwf_offices/bhutan/projects/index.cfm?uProjectID=BT0874

5. Recent Developments



Recent developments: last year the Interim Forest Finance[5] project, which is an association of various international NGOs and UNEP, produced an interesting publication marking a moment in time when the realization that the absence of financing for REDD is a very tall obstacle and barrier. Their publication places a big focus on the fact that there is a gap between supply and demand. The supply of potential credits is there in terms of what REDD is prepared to achieve, but the demand in the form of financing to actually make it work is anywhere from three to 39 times lower, according to their numbers.

The Governors' Climate and Forests Task Force[6] has become a very important organization in REDD. Essentially, it is an association of about 24 jurisdictions in more than 16 countries that are implementing REDD. If you look at the map of tropical forests that they occupy, it is really quite impressive. In their Rio Branco Declaration[7] last year, they said that they intend to reduce deforestation in their areas by 80% by 2020 if there is adequate funding.

I also mentioned that, with the failure of the COP in Copenhagen to produce an agreement, this gave stimulus and impetus for the Governors' Climate and Forests Task Force to form and to mobilize and to set themselves in motion. Essentially, they said, "Well, if there cannot be decisive action at the international level, then at least there can be decisive action at the level of jurisdiction and subnational governments, and we will take charge of the situation." This is what has been described by Elinor Ostrom as an example of polycentric governance, in other words governance happening in many centers. She proposed that this is possibly the answer to the failure to achieve an agreement at the international level.

Other recent developments have to do with what happened at COP20 in Lima. The Green Climate Fund has been capitalized at the level of more than $10.2 billion. It is producing investment guidelines and financial instruments. The fact that it is capitalized is a very important signal to developing countries that there is now an entity that can deliver a stream of funding that has been hoped for for a long time. There is 50-50 balance

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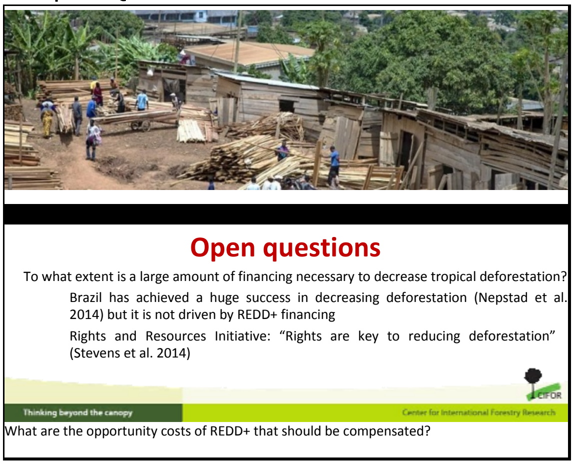
[5] http://globalcanopy.org/projects/interim-forest-finance
[6] http://www.gcftaskforce.org/
[7] http://www.gcftaskforce.org/documents/2014_annual_meeting/GCF_RioBrancoDeclaration_August_5_2014_EN.pdf

between the use of the fund for mitigation and adaptation. Crucially, so far, a long-term finance agreement beyond 2020 remains unclear.

6. Open Questions



Now I will turn to the open questions. My overarching question is to what extent is a large amount of financing necessary to decrease tropical deforestation? I do not question that there is a need for substantial funding, but exactly what is it that it should be paying for? Is financing the key answer? Is it the key instrument through which we are going to reduce tropical deforestation? I would say that these are important questions that are unanswered. There are several components to why I pose these questions.

One is that Brazil has achieved a remarkable decrease in tropical deforestation between 2005 until recently. At one point it reached almost an 80% decrease from the annual rate in 2005. As such Brazil has made the largest national contribution to greenhouse gas reduction of any country inside the forest sector or out. There is recently an upswing in the rate of deforestation, but the point I am making here is that a lot of the success got underway before REDD got underway. I would make a case that lot of this had very little to do with REDD in spite of the fact that the Amazon Fund, which is essentially a REDD fund, did have a role in this, but I would not say a dominant role. The issue I am putting forward is that this raises a question about the centrality of REDD financing in Brazil's success. We need to know why that is.

Last year, the Rights and Resources Initiative[8] together with the World Resources Institute[9] produced a very interesting publication where essentially they are saying rights are key to reducing deforestation. They do not claim that this is true everywhere, but in a significant enough number of places that we need to ask where are those places, and is it possible that, in a wider number of places than we know, that the key to reducing deforestation involves a provision of secure tenure at the local level rather than mainly or exclusively focusing on compensated opportunity cost.

Third, I do not believe that there has been enough discussion of this crucial question: what are the opportunity costs of REDD that should be compensated? Undoubtedly, it should be compensating the opportunity costs of local stakeholders, villagers who simply have no option but to deforest. This has become very evident in our

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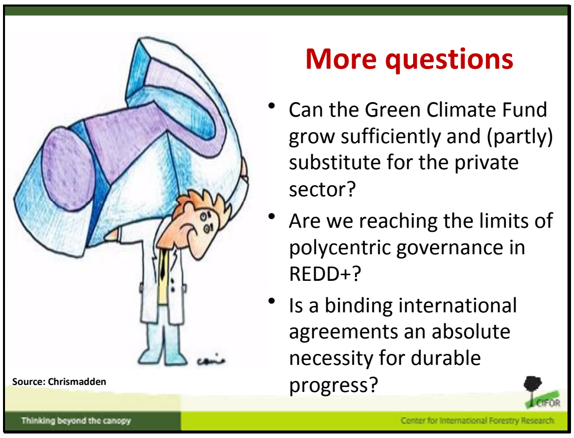
[8] http://www.rightsandresources.org/
[9] http://www.wri.org/

study at our 23 sites. But what about the well-off players, the corporate players? This has been very vague and I think we need to give additional attention to this. Why? It is because, in part, that some of these calculations of opportunity costs assume all of the foregone opportunities of all players across all scales. That number could be considerably lower if we take out of the picture those who simply should be obeying the law rather than being compensated.



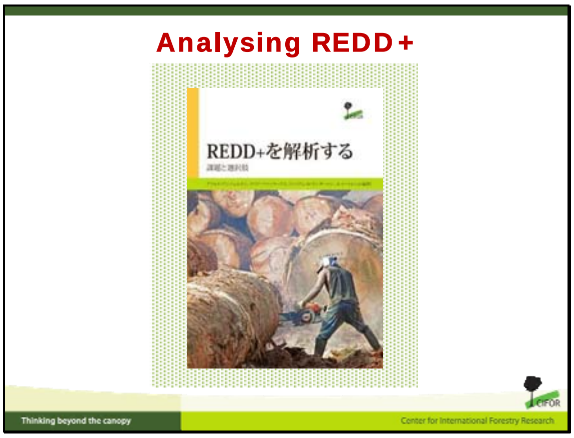
A couple more questions: can the Green Climate Fund grow sufficiently and partly substitute for the private sector? We see some impressive numbers of how much funding has been mobilized in the course of the last year. The aim ultimately is to reach $100 billion a year. Can it reach there? Does it need to? I think we need to give some attention to them. To what extent can it substitute for the rather weak performance of the private sector? A linked question: will the private sector kick in in a conceivable arrangement of circumstances?

Are we reaching the limits of polycentric governance in REDD? My own perspective is that I believe we are. The Governors' Task Force and its constituent organizations have innovated and adapted themselves impressively under limiting circumstances. However, as they themselves are pointing out, without sufficient funding they are stuck.

Lastly, is it possible that a binding international agreement is a necessity for durable progress? I say this because some economists point out that, in order for the compliance market in forest credits to emerge and for it to be durable, there needs to be a regulatory environment that could conceivably be produced very soon after a binding international agreement is reached.

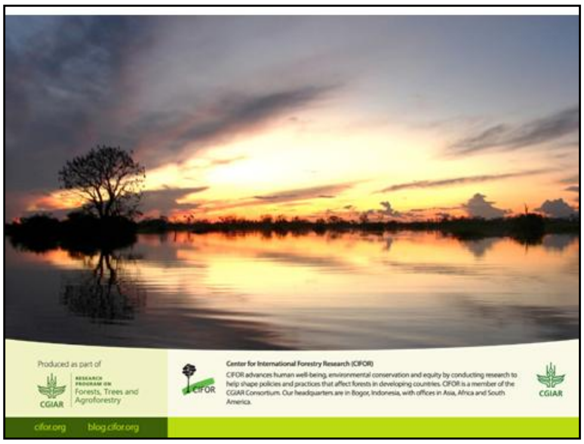
7. Further reading

This presentation will be available on the internet, so here is a list of some of the readings I suggest you give attention to.



Analyzing REDD+[10], the book on REDD the CIFOR produced in 2012, is translated into Japanese and is available on the internet.

Our newest book on REDD called *REDD on the Ground* is available on the internet. It is not translated into Japanese, unfortunately.



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[10] http://www.cifor.org/library/3805/analysing-redd-challenges-and-choices/

With that I will close my presentation. Thanks to the donors who have supported this research.

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