

Seeing the Forest for the Trees

Drivers & Barriers for REDD

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- Greater coordination amongst donor countries is required in order to secure environmental and social standards and to monitor the readiness of host countries to move from the preparatory phase of REDD to generating actual reductions in emissions.
- Clear and binding environmental and social safeguards must be implemented to ensure equal credible standards for all REDD actors.
- Alternatives to public financing of REDD are necessary to secure long-term effectiveness of the mechanism.
- Demand for REDD is dependent on internationally agreed compliance obligations to reduce greenhouse gas emissions; demands from individual national emissions trading systems may impair the environmental quality of emission reduction units.

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Introduction: What is REDD all about?

Reducing Emissions from Deforestation and forest Degradation (REDD)¹ in developing countries is a complex, multi-faceted mechanism based on a rather simple core idea: To reward developing countries for reducing greenhouse gas (GHG) emissions by protecting their tropical forests. The carbon stored in forests is thus recognized with an economic value for non-tangible benefits such as climate regulation services, in turn creating financial incentives to protect forests. Under the REDD mechanism, developed countries act as donors, bilaterally or multilaterally channeling funds to developing countries to establish and implement forest preservation projects. This investment has the potential to reduce GHG emissions significantly: according to the 4th IPCC Assessment Report (2007)², emissions from deforestation and forest degradation account for 17.4 per cent of the world's total CO₂ emissions. If early action is taken, REDD might prove to be a relatively low-cost option for effectively mitigating climate change (see *Stern Review* 2006). The costs estimated for halving deforestation by 2030 could total between USD 17 and 33 billion per year (*Eliasch Review* 2008), so long-term financing is necessary for REDD to become effective.

REDD entered the UNFCCC negotiation agenda at COP-11 in Montreal in 2005. It was proposed by Papua New Guinea and Costa Rica, and adopted for inclusion in a post-2012 climate agreement in 2007 at COP-13 in Bali. REDD then further grew into 'REDD plus' – referring to the added 'role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries'³. Recognition of the potential of REDD as a mechanism for mitigating climate change, with co-benefits for poverty reduction and

biodiversity preservation, has led to considerable progress in establishing an international REDD mechanism and implementing REDD projects in developing countries.

The 2010 Cancun Agreement adopted the three-phased approach outlined in the *Meridian Report* (2009), to establish a REDD mechanism on the fast track. The *First Phase (Preparation and Readiness)* focuses on capacity building, preparation for governance reforms in developing countries, stakeholder engagement and building a national strategy to address drivers of deforestation, prior to actual implementation of REDD policies. The *Second Phase (Policies and Measures)* builds a national policy framework for the implementation of REDD and links it to other sectors, e.g. agriculture and energy. The *Third Phase (performance-based payments)* links implementation of REDD activities to performance-based payments (emissions reduction targets). This approach combines fund-based and market-based elements, but leaves open the question of how to move from one stage to another.

Despite clear progress in the general set-up of the REDD mechanism, after COP-17 in Durban (2011) uncertainties and contested issues have remained. These include uncertainties as to the governance structures in REDD countries, financing modalities and the structure of the funding mechanism, reference levels for measuring emissions reductions and monitoring, verification and reporting (MRV) as well as environmental and social safeguards and the distribution of benefits. These areas must be clarified to enable progress towards long-term effectiveness of REDD, which could ensure forest protection, biodiversity conservation and effective reductions of GHG emissions.

This paper focuses on the drivers of REDD donating as well as on the barriers to successful implementation and long-term effectiveness of the mechanism. Cooperation amongst donor countries and financial provisions stand out as crucial and still-problematic issues. Adopting a donor-country perspective, the case of Norway is used for analysing what drives REDD donating – which, we argue, is a major prerequisite for the survival of the

¹ REDD Reducing Emissions from Deforestation and forest Degradation. The term 'REDD' is used throughout this brief, although with application also to the full scope of 'REDD+', which includes the role of Conservation, Sustainable Management of Forests and Enhancement of Forest Carbon Stocks.

² International Panel for Climate Change (IPCC) 2007

³ See paragraph 1(b)(iii) of the Bali Action Plan, available at <http://unfccc.int/resource/docs/2007/cop13/eng/06a01.pdf#page=3>.

mechanism. What lessons have been learnt from previous actions, and what is the linkage to the barriers we are now facing? The brief develops three future scenarios for REDD, based on financial provisions and international commitment.

Case Study Norway: REDD from a donor perspective

Here we take Norway, the largest REDD donor country, as an example and analyse three main drivers for REDD donoring, followed by an assessment of some problems involved. The potential of REDD was first recognized and endorsed by Norway in 2007, when Prime Minister Jens Stoltenberg launched Norway's *International Climate and Forest Initiative* during the UNFCCC COP-13 negotiations in Bali. He pledged up to USD 500 million per year for REDD-related projects – a significant sum, which has not quite been met yet. Norway became the first developed country to endorse REDD in its climate policy and work towards establishing an international REDD mechanism, backed by unprecedented national political will and widespread support from all political parties.

Since Norway quickly confirmed financial donations for REDD in 2007 it has become the largest donor. Particularly outstanding are its monetary contributions to the UN-REDD Programme, totalling USD 131 million (2008–2012).⁴ In addition comes the financial support to five explicitly bilateral REDD agreements,⁵ of which USD 170 million has been given to the partnership with Brazil alone, making the country the largest bilateral recipient.⁶ At the UNFCCC level, the Norwegian government has continuously emphasized the importance of climate change financing, in particular the establishment of the Green Climate Fund. The government has led negotiations, facilitated conferences and workshops as well as providing start-up investment capital. Already in 2008 it commissioned the Meridian Review on options for REDD; the three-phased approach proposed therein has significantly shaped REDD. In addition, Nor-

way, with France, facilitated and funded the REDD+ Partnership launched in Oslo in 2010 and aimed, *inter alia*, at better coordination of REDD donor activities.

Norway's REDD commitment is part of the country's *International Climate and Forest Initiative*. This did not appear out of the blue: some early drivers stand out. The way was paved in 2006/2007 by in-country discussions about more serious commitments to GHG emissions reduction and Norway's aim of becoming carbon-neutral by 2030. All the same, Norwegian climate policy has been falling short of achieving its ambitious domestic emission reduction targets. In fact, emissions have actually been rising, due mainly to oil and gas production activities. Norway is thus dependent on international cooperation to achieve its emission reduction targets. Here REDD is a viable tool that enjoys widespread political support and cooperative efforts by non-governmental organizations. Hence the carbon-neutrality goal is identified as the first driver in Norway's REDD engagement.

Early investment in REDD helped Norway to prove its GHG emission reduction commitments and ambitions on the international scene – and divert attention from the lack of national environmental commitments. Mobilizing funds for REDD proved relatively easy, as there was broad support for the inherently socio-economic rationale behind REDD with emphasis on cost efficiency; moreover, it did not require challenging climate policy goals to be implemented at home – which would have had a noticeable effect on Norwegian society at large. It is deemed easier to finance action abroad than at home, hence the economic rationale in relation with benefits for the domestic situation by investment abroad is seen here as the second driver for Norway to engage in REDD.

The third driver is that the REDD concept can be framed as a development tool as well as a climate change mitigation mechanism, because the initial funding goes mainly towards capacity building in developing countries. All Norwegian funds to date have come via the official development assistance (ODA) budget, which enjoys considerable political and public support. However, ODA financing runs the risk of mixing climate finance and development aid, most likely compromising the latter – an important debate familiar in the climate change discourse. REDD financing as ODA has an impact on the selection of recipients, as development aid usually distinguishes between country contexts, focusing on the poor-

⁴According to the REDD plus database Norway disbursed approximately USD 58 million to the UN REDD Programme in 2008 and 2009, and USD 33 million in 2010. For 2011 and 2012, Norway has pledged at least USD 40 million. <http://reddplusdatabase.org/arrangements/500>.

⁵ Brazil, Guyana, Indonesia, Mexico, Tanzania. In addition, donations are made to the Congo Basin Fund.

⁶ As regards Brazil as the recipient country it should be noted that the money is channelled to the Amazon Fund www.regjeringen.no/en/dep/md/Selected-topics/climate/the-government-of-norways-international-/norway-amazon-fund.html?id=593978.

est or most fragile states; by contrast, in REDD, all countries committing to reduce deforestation on its grounds are seen as equally eligible. Brazil is a crucial example, where ODA eligibility is decreasing, yet large donations are still channelled into the Amazon Fund by developing countries. Furthermore, aid is often strongly shaped by donor country preferences, whereas REDD is intended to be driven by REDD country priorities, with the UNFCCC as the forum for debate on its form and impact.

REDD funding in Norway is said to be purely 'additional'. It has certainly had a positive impact on the overall development aid situation in Norway, which now contributes more than one per cent of GNI to official development assistance.⁷ However, the possibility of long-term financing of REDD projects via development assistance is contested, as it is prone to fluctuations in the fiscal situation in each donor country. Still, in terms of providing fast-start financing for REDD, framing it as a development aid tool certainly helped to sell it well to a broad range of national and international audiences.

Norway's financial contributions were a main trigger for the establishment of a REDD mechanism. However, analysis of the Norwegian REDD initiative reveals the lack of any long-term policy strategy framework to maintain the mechanism. It is doubtful whether Norway will be able to maintain its large-scale financial contributions to keep the REDD mechanism running. Current commitments are limited to 2013, more has been pledged until 2015, but so far most funding has been committed from 2008 to 2010. In addition, there have been only limited financial contributions from other donors. Norway's efforts have not motivated others to mobilize similarly large financial resources (see Table 1). Although this is of course not the sole responsibility of one country, Norway should be interested in greater financial 'burden sharing' and long-term effectiveness of REDD. Here one might speculate whether Norway's large-scale financing of REDD has removed some incentives for other (potential) donor countries to intensify their financial engagement. However, that should not be the case, given the large sums needed for successful implementation of REDD. All the same, we would say that Norway's actions can be seen as both a driver and a barrier for REDD.

⁷ This makes Norway one of the few countries in the world to achieve an ODA rate above 0.7 per cent of GNI.

	USD million
Australia	102
Canada	41
Denmark	44
EU COM	11.9
Finland	51.2
France	87
Germany	58.64
Italy	5
Japan	223
Netherlands	20.3
Norway	377.09
Spain	22.94
Sweden	8.4
Switzerland	69
UK	238.5
USA	65

Table 1. Donor country contribution.

Another key problem for donor countries, and for Norway in particular, is the slow progress at the international level in establishing a post-2012 climate agreement. A binding international climate agreement is one of the prerequisites for successful REDD policy, as made clear in Norway's *International Climate and Forest Initiative*. Although REDD has been established and is up and running, its survival and effectiveness hinge on further international progress. This is a point to which we return, after analysing other problematic issues of coordination and financing provisions, linked to the necessity and possibility of creating demand, to background some future scenarios for REDD.

Problematic issues

Lack of Coordination

Currently only sixteen donors are channelling funds into multilateral financing institutions (see Table 1), and some donors also support bilateral REDD agreements. But the number of countries receiving or expecting support under the REDD mechanism is growing. Since 2010 more has been spend on bilateral agreements than has been channelled into multilateral REDD institutions. This seems to be more attractive for donors, so an increasing number of small bilateral agreements are signed, often with multiple donors within one country. In addition, projects are administered not only on the national but also on the sub-national level, with poor coordination among the various levels. Even more problematic is the apparent lack of coordination between donors who invest in the same country without co-operating sufficiently, whether in knowledge

Fund	Mandate, approach & focus	Donors & budget
UN-REDD Programme	<ul style="list-style-type: none"> ▪ launched 2008, when Norway gave initial funding ▪ 3 participating UN agencies: FAO, UNDP, UNEP ▪ Assistance in preparation & implementation of national REDD strategies ▪ Support for normative solutions and standardized approaches for a UNFCCC REDD mechanism. ▪ Focus on Africa, Asia Pacific & Latin America and the Caribbean (42 partner countries) ▪ 14 countries support national programmes 	<ul style="list-style-type: none"> ▪ 4 donor countries: Norway, Denmark, Spain, Japan, plus pledges of EU Commission ▪ Total budget: USD 150.84 mn (pledged) USD \$ 97.28 mn (deposited)
Forest Carbon Partnership Facility (FCPF)	<ul style="list-style-type: none"> ▪ launched 2007, part of World Bank ▪ <i>Readiness Mechanism</i> (prepares for REDD) ▪ <i>Carbon Finance Mechanism</i> (for performance-based payments for REDD) ▪ Total of 37 countries (readiness mechanism) 	<ul style="list-style-type: none"> ▪ 15 donor countries (AFD France, Australia, Canada, EU COM, Finland, France, Germany, Japan, Netherlands, Norway, Spain, Switzerland, UK, USA) ▪ Total pledges UDS 229.5mn (readiness fund) and USD 204.3 (carbon fund)
Forest Investment Programme (FIP)	<ul style="list-style-type: none"> ▪ launched 2008 by World Bank ▪ part of Strategic Climate Fund ▪ Total of 8 pilot countries 	<ul style="list-style-type: none"> ▪ 7 donor countries (Australia, Denmark, Japan, Norway, Spain, UK, USA) ▪ Total budget: USD 599 mn¹ (+ some further outstanding pledged without exact figures)

Table 2. Multilateral Funds for REDD.

transfer and sharing of expertise or comparable targets. Indonesia is one of the REDD countries to receive support from several donors – Norway, Germany and Australia – each on a bilateral basis.

One problem here is the lack of binding international rules that donors must abide by. Bilateral agreements and their objectives are selected on bilateral grounds. At times there may be inadequate publicly transparent selection criteria, and countries can apply their own standards and targets. The proceedings for project enforcement differ according to the conceptual frameworks provided by each donor country. This is particularly central as regards determining the criteria for the three phases and how/when to move from one to the other. But also enforcement of unified social and environmental standards is limited. The lack of unified standards may impair the environmental integrity of REDD overall and hinder coherence in strategy within and between countries. This applies to bilateral agreements; cooperation in multilateral REDD financing initiatives and mechanisms is a different issue.

The voluntary REDD+ Database is an attempt to provide oversight of REDD activities, aimed at improving effectiveness, efficiency, transparency and coordination of REDD+ initiatives. But there is no obligation to report and no enforcement mechanism to back up any standards – a crucial point in connection with safeguards. Whilst working towards effectively establishing international rules, voluntary donor coordination should aim at effectively channelling funding so as to deal with the real drivers of deforestation. As a starting point,

multiple smaller projects in one country could be linked, with funding and expertise pooled.⁸ Similarly, the multilateral funds for REDD (see Table 2) have recognized the importance of cooperation to boost the outreach and success of the mechanism.

Financial Provisions: Public money vs markets?

As outlined above, REDD activities are financed through public money, with the ODA as the major source and driving force donors channel public funds via multilateral financing institutions or bilateral agreements to developing countries. These financial provisions refer mainly to the 1st and 2nd phases as outlined in the Meridian Report. The three phases contain fund-based (1st & 2nd phase) and market-based elements (option for 3rd phase), essentially proposing a hybrid/market-linked approach – but it remains unclear to what extent REDD should be funds- or market-based, hence also whether private and/or public funding can provide the necessary resources. This debate is centred on the recognition that estimates of financial provisions for REDD, such as the Eliasch Review, did not have empirical material to work with; dealing with the complexity of REDD shows current financial contributions are neither sufficient nor guaranteed for the longer term. Today REDD countries are mostly involved in preparation activities, with financial provisions generally limited to a few years only. At this point, public funds mainly generate capacity building, not actual emissions reduction. All

⁸ Research on Germany's REDD investment for 2011 has revealed multiple benefits of larger REDD projects.

preliminary evaluations indicate that a longer timeframe for financial assistance is needed if emissions are to be reduced. Effectively addressing the drivers of deforestation and reducing emissions must be the main deliverable of REDD.

As only a few donor countries invest large sums, either more donors will have to contribute significantly higher financial resources, or private money will be necessary to upscale activities. Linking REDD to carbon markets remains part of the debate. In the following, we explore the fund-based and market-based options, followed by some future scenarios for REDD.

Public funds-based mechanism

Many donor countries fund multilateral institutions that establish partnerships with REDD countries. The three major such multilateral funds to support a global REDD mechanism are UN-REDD Programme, Forest Carbon Partnership Facility (FCPF) and Forest Investment Program (FIP). These multilateral REDD financing initiatives are currently working to enhance their cooperation efforts.

By the end of 2011, nearly USD 1 billion had been approved for REDD funding, financing a total of 139 projects, mainly 1st and 2nd phase.⁹ This is equivalent to approximately 15.5 per cent of total climate financing. On the one hand, maintaining high rates of public funding proves serious commitment on the part of the donors. On the other hand, taxpayers are becoming more aware of REDD, and will start to question REDD funding if no real reductions are achieved soon. However, currently public funding is likely to generate capacity building and not actual emission reductions – which need to be the main deliverable. This is the 3rd phase of the REDD mechanism: the phase for which market options are discussed most keenly, as at COP-17 in Durban 2011.

Market mechanism

While estimates show 70 – 80 per cent of finance for REDD to be bilateral with additional multilateral input, the market plays a lesser role. Despite a slight increase in the voluntary market share of REDD credits in 2011, it is still only worth approx. USD 0.6 billion, accounting for just 0.02 per cent in volume and 0.01 per cent in value of the global carbon market. Today REDD credits are traded on

voluntary markets and REDD offsets deals hence represent one aspect of private investment as an alternative to public funding. As with the insecurities to guarantee long-term public financing for REDD, serious consideration must be given to private financing and market options. The market can create incentive structures, which would most likely lead to the most effective results in emissions reduction. However, international rules are needed for the market: without such rules, environmental integrity is at serious risk.

For example, the voluntary market enforces no transparency guidelines, nor does it guarantee environmental or social safeguards – putting environmental integrity at serious risk. Project developers and private investors have even been called ‘Carbon Cowboys’ that might be involved in designing dubious carbon offset projects in developing countries. It is mainly developed countries that are interested in linking REDD to carbon, as this can offer the potential for offsetting their emissions at home by investing in forest projects abroad. But linking credited REDD activities to carbon markets has given rise to environmental concerns, as the environmental impacts remain contested. Forests are complex ecosystems, and measuring the carbon stored, which would be traded as credits, is not a simple matter. Even more difficult is measuring ‘soft values’ like biodiversity conservation. Exact baselines are needed but are challenging to accomplish.

Currently no carbon market accepts REDD credits for compliance purposes. Japan and Australia announced in 2011 that domestic emitters might be allowed to use REDD credits for compliance, and California has been keen to include REDD credits from certain rain-forest states and provinces abroad in their carbon market from 2015. Despite some delays in California, the launch of regional compliance markets is expected by 2013, but the inclusion of REDD credits remains uncertain. New impetus was brought to the debate at the recent round of climate negotiations when the EU countries announced they wished to allow REDD offsets in their emissions trading system (ETS). In the EU ETS, which is the largest compliance market, allowing the use of REDD offsets would create new incentives for the mechanism – however, unlikely before 2020. In addition, at COP-17 in Durban 2011, Australia, backed by Norway, pressed for a proposal for the use of carbon credits for compliance, but withdrew when the opposition proved too strong.

⁹ www.climatefundsupdate.org/projects; accessed 21.02.2012

To survive, REDD needs greater demands for reducing GHG emissions. A binding international agreement with reduction targets and compliance obligations could create such demand. Otherwise, REDD might become even more fragmented. Until a post-2012 climate agreement enters into force, REDD finance will most likely remain public, with some additional funding from the voluntary carbon market. Further, strong environmental rules and standards can be generated and monitored only on the international level, for instance under the UN framework.

Scenarios

Based on the drivers and barriers for REDD identified above, three future scenarios emerge:

Scenario 1: REDD under the international climate regime

The Durban platform for enhanced action finalizes its work by 2015 as planned. It produces obligatory GHG emissions reduction targets from 2020 – for developed and developing countries alike. A global compliance market is established, and financing for the REDD mechanism is upscaled. Environmental standards and safeguards for linking REDD credits to the global carbon market are developed and implemented. REDD becomes a credible and significant mechanism.

Scenario 2: REDD on hold

The Durban platform is still being negotiated but agreements are constantly delayed. Negotiations take longer than expected and the outcome becomes less and less ambitious. There is still hope for a climate agreement but expectations are downgraded. REDD is put on hold, kept alive mainly by some donor-country funding, and some vague market links are established. Domestic emissions trading systems provide some demand, but, lacking international rules, they apply ETS specific rules for entering REDD credits – and the environmental integrity of REDD suffers.

Scenario 3: Slow death of REDD

It becomes evident that no binding international climate agreement can be reached. Donor countries find it difficult to justify upscaling public financing for REDD domestically because the mechanism lacks incentive structures for generating real reductions in emis-

sions. The REDD mechanism itself is not discontinued immediately, as the system is up and running. Some ODA projects continue to focus on forest projects as grounds for investment – mainly Norway, which cannot afford to abandon REDD politically due to its previous large-scale investment. Under this scenario, REDD will be unlikely to achieve any serious GHG emission reduction results.

Conclusion

REDD is a very complex mechanism, involving considerable potential but also numerous uncertainties. As financing for REDD is an essential prerequisite for the mechanism to survive, donor countries play an important role. Norway in particular has become a prominent actor as regards REDD. The survival of REDD and its long-term effectiveness will depend on upscaled financing. Also alternative sources of financing, such as fossil fuel subsidies, have been suggested. Such options could be further explored by Norway, to boost incentive structures for financial commitments. The scenarios presently briefly here have envisaged various future paths for REDD. An international agreement with binding GHG emission reduction targets is needed to create demand for REDD. Ultimately, REDD cannot become credible unless it proves capable of delivering GHG emission reductions – which in turn is a challenge as such reductions occur only at the end of the long process.

The current REDD Readiness Phase is delivering mainly capacity-building activities. Coordinated and coordinated efforts, amongst the donor countries in particular, are needed to start delivering emission reductions. Clear rules, environmental and social standards as well as an authority to monitor their implementation are essential to this endeavour.

About the author

Inken Reimer is a PhD Candidate at the Environmental Policy Research Center, Freie Universität Berlin. She was a guest researcher at the Fridtjof Nansen Institute for five months. Her PhD focuses on the framing of REDD in industrialized countries, comparing Norway, Germany and Canada.