

# Strategic Choices for United States Fast Start Financing for REDD+

October 28, 2010

## EXECUTIVE SUMMARY

To help countries that put forward “ambitious REDD+<sup>1</sup> plans,” the United States announced it would dedicate \$1 billion<sup>2</sup> over the 2010-2012 timeframe as part of the U.S. contribution towards the “fast start financing” reflected in the Copenhagen Accord<sup>3</sup>. The United States supports REDD+ activities because they offer cost-effective opportunities to reduce global greenhouse gas emissions while providing other sustainable development benefits.

Use of U.S. REDD+ fast start financing will be guided by the Copenhagen Accord, which recognizes the crucial role of reducing emissions from deforestation and forest degradation and the need to enhance removals of greenhouse gas emissions by forests. Other landscapes with high mitigation potential, such as peatlands and wetlands, may also be addressed under this strategy. The United States has the following long-term objectives to guide U.S. agencies as they contribute to this REDD+ fast start financing effort:

### **Objective 1: REDD+ Architecture: Creating and supporting an efficient, effective, and coordinated international system to help countries deliver REDD+ outcomes.**

*Focus of architecture investments:* The United States will support the creation of a framework that drives policies and programs with evidence of impact by generating, evaluating, and analyzing outcomes and providing coordinated, transparent, and effective financing and technical support to developing countries.

**Objective 2: REDD+ Readiness: Helping countries become ready to participate in pay-for-performance programs and take complementary domestic actions.** Investments will help countries become ready at the national level to undertake actions at a scale that can significantly reduce emissions or increase sequestration, enable access to pay-for-performance financing, including future carbon markets, and meet ambitious domestic mitigation commitments.

*Focus of readiness investments:* The United States will provide national REDD+ readiness support to a balanced portfolio of types of countries and regions. We will focus bilateral efforts on those countries and regions where we have a comparative advantage and will coordinate selection with other donors and multilateral efforts so as to ensure that, collectively, we are able to achieve scale and impact. U.S. support will focus on countries a) with near-term market potential and significant mitigation potential, b) with high mitigation potential but that require more assistance to become market ready, and c) that are international leaders in REDD+ commitment and innovation.

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<sup>1</sup> Reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries.

<sup>2</sup> Funding subject to appropriation by Congress

<sup>3</sup> Negotiated at the UN Framework Convention on Climate Change conference in December 2009.

**Objective 3: REDD+ Demonstration: Achieving cost effective and sustainable net emissions reductions.** Investments will support programs that achieve, or that demonstrate scalable approaches to achieving, significant, cost-effective net emissions reductions.

*Focus of demonstration investments:* In order to test and build on the approaches identified through REDD+ readiness efforts, the United States will seek to focus REDD+ demonstration investments in countries where governments have the political will and are also undertaking such efforts.

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## I. GOALS

As part of the U.S. contribution towards the “fast start financing” reflected in the Copenhagen Accord, the United States announced it would dedicate \$1 billion<sup>4</sup> over the 2010-2012 timeframe to help countries that put forward “ambitious REDD+ plans.” REDD+ activities offer cost-effective opportunities to reduce global greenhouse gas emissions while providing other sustainable development benefits.

U.S. REDD+ fast start financing is guided by the Copenhagen Accord, which recognizes the crucial role of reducing emissions from deforestation and forest degradation and the need to enhance removals of greenhouse gas emissions by forests. Accordingly, our portfolio will include the full range of programming including, for example, improving estimation, monitoring, and quantifying emissions and sequestration; assisting countries in applying social and environmental safeguards for REDD+; addressing the drivers of deforestation and degradation; and restoring degraded lands through the use of trees.

We also recognize that there are other landscapes with high mitigation potential, such as peatlands and wetlands, that are very important for climate change because of the potential to manage these landscapes to avoid emissions or increase sequestration, and that may need to be addressed as part of this strategy. As the international REDD+ framework continues to evolve, the United States will respond to emerging priorities while maintaining its focus on supporting cost-effective greenhouse gas (GHG) abatement opportunities in key developing nations in ways that support local livelihoods and protect nature.

The Copenhagen Accord states “that deep cuts in global emissions are required according to science, and as documented by the IPCC Fourth Assessment Report with a view to reduce global emissions so as to hold the increase in global temperature below 2 degrees Celsius.” Actions to address deforestation and land use change are a critical part of reducing global emissions because emissions from land use, in particular deforestation, constitute approximately 17%<sup>5</sup> of global greenhouse gas emissions. Forests also have potential for sequestration through forest restoration and preservation of threatened forests.

The United States recognizes, as does the UNFCCC, that all nations have the “right to, and should, promote sustainable development,” and the realities of climate change require a sustainable, low emissions development path. This path offers opportunities for countries to improve the living standards of their people and achieve economic growth. As such, we will coordinate REDD+ with other development programs that seek to achieve these same goals.

REDD+ aims to reduce the long-term global trajectory of forest-related emissions through a complementary set of REDD+ country commitments and external financing for emissions reductions.

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<sup>4</sup> Funding subject to appropriation by Congress

<sup>5</sup> IPCC 4<sup>th</sup> Assessment, Working Group III report.

Given the scale of the challenges, the United States seeks to mobilize financing from all sources, including the private sector, and to leverage the respective strengths of multilateral and bilateral assistance mechanisms. Initial external financing focuses on building country capacity and demonstrating how to achieve results. Scaled-up financing will necessarily engage the private sector, including payments provided upon delivery of the emissions reductions.

The United States is committed to helping set up an international REDD+ framework and helping countries participate and gain access to financing and technical assistance. At the same time, domestic commitments by REDD+ countries are central to success. Managing the carbon stored in forests may require domestic policy reform and incentive structures that provide long-term sustainability. Furthermore, efficient use of limited global resources means that external payments should take into account countries' varying capacities to self-finance actions and their own emissions reductions commitments.

## **II. INVESTMENT SOURCES**

U.S. support for REDD+ is primarily funded from the sustainable landscapes budget pillar in the Administration's Budget for International Climate Change Financing (primarily funded through the State Department, USAID, and the Treasury Department), and is augmented by funding from other sources such as related biodiversity programs and relevant activities conducted by other U.S. Government agencies. Biodiversity funds may be considered part of this strategy if they have an objective of contributing to current or future reduced emissions or increased sequestration of forest carbon, and monitor appropriate indicators.

The \$1 billion includes resources committed to various multilateral and bilateral programs. The United States will be strategic in investing and leveraging existing and future resources in order to ensure that our \$1 billion contribution will maximize future net emission reductions. To that end, this paper sets out objectives that delineate a strategic portfolio of multilateral investments, country level assistance and centralized investments that maximize the impact on reducing net forest-related emissions, leverage other donor and private sector resources, and prepare key countries to participate in pay-for-performance programs, including carbon markets.

## **III. STRATEGIC OBJECTIVES**

This strategy lays out the following long-term objectives for REDD+ investments. By working together with the international community, the United States expects to make significant progress through its contribution in this initial three year period.

### **Objective 1: REDD+ Architecture: Creating and supporting an efficient, effective, and coordinated international system to help countries deliver REDD+ outcomes.**

The United States will make targeted investments to support a coherent global approach to REDD+. This REDD+ "architecture" includes well-functioning multilateral funds, enhanced donor coordination, effective methodologies and technologies, shared best practices, and cost-efficient access to data. The architecture should also deliver transparency of mitigation actions and forest carbon data, effective application of safeguards, and provision and effective use of financing. The United States will support the following types of activities under this objective:

- Participation in selected multilateral REDD+ funds, and other international REDD+ related processes, to advance the coherence and coordination of REDD+ efforts, while seeking to ensure that multilateral efforts are consistent with U.S. policies and approaches.
- Assessment of modalities for measuring REDD+ GHG mitigation, dissemination of best practices, sharing of data, and access to tools for decision making, including through applied research, training, publications, and regional and global platforms.
- Regional and global approaches to capacity building for national GHG land use inventories, consistent with the Intergovernmental Panel on Climate Change (IPCC) methodologies and guidance.
- Strategic coordination with other donors and multilateral efforts, aimed at forging a deliberate “division of labor,” harmonizing our approaches, increasing efficiencies and ensuring that our efforts are transparent, focused squarely on sustainable outcomes, and informed by data and evidence.
- Responding to the ongoing UNFCCC negotiations on environmental and social safeguards and on approaches to making REDD+ emissions reductions and removals measurable, reportable, and verifiable (MRV), by helping to implement those global framework decisions as they are agreed.

### *Focus of REDD+ architecture investments*

Investments in REDD+ architecture will support institutions, platforms, methodologies, tools, and processes that inform and advance an eventual global REDD+ architecture.

### **Objective 2: REDD+ Readiness: Helping countries become ready to participate in pay-for-performance programs and take complementary domestic actions.**

Sustained progress requires that developing countries build the capacity to design, manage and implement their own REDD+ plans and incorporate low emissions strategies into their broader economic growth and development plans. This objective therefore supports country readiness for both domestic actions and pay-for-performance opportunities, in the context of ambitious national REDD+ plans. Actions under this REDD+ readiness objective will help build the capacity of our partners in the developing world and support the creation and implementation of national policies for REDD+. This includes creating incentives for local forest mitigation results and facilitating access to a wide range of public and private-sector financing, from both domestic and international sources. U.S. investments will include the following types of activities:

- Support for host countries’ development of REDD+ strategies, in particular those being developed as part of an economy-wide low emissions development strategy (LEDS) .
- Support for REDD+ readiness activities at the local government level. This includes assistance with sub-national REDD+ strategies, benefit sharing and safeguard systems, emissions inventories, and land use planning and monitoring.
- Support for development of robust national greenhouse gas inventories.
- Support for the development of national forest carbon inventories, and the piloting of reference scenarios<sup>6</sup>, within the framework of national greenhouse gas inventories.

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<sup>6</sup> There is currently no internationally agreed methodology for developing a “reference scenario” or “baseline”.

- Promotion of national standards and systems for effective environmental and social safeguards for REDD+ activities.
- Provision of technical assistance on national legal, regulatory, and financial structures necessary for enabling private sector finance for low emissions development and participation in any future carbon market; for example, to manage benefit-sharing from results-based payments.
- Implementation of readiness elements within a country's national REDD+ strategy, if a strategy exists. This might include strengthening the aspects of national forest governance, national technical management capacity, and national land and tree tenure policies that are directly necessary to achieve emissions reductions and sequestration at scale.
- Support to help countries design and carry-out national level policy reforms that are part of low emissions development strategies and change economic incentives toward reduced net emissions. Examples include policies for payments for ecosystem services, changes to subsidies and tariffs to facilitate decreased net emissions from land use, national land use and land planning especially related to reducing agricultural pressures on forests, and forest management reforms, including improved forest governance.

### *Geographic focus of readiness investments*

Geographic locations of U.S. investments in readiness will be guided by six criteria (five criteria are listed in this objective and one – demonstration potential – is listed in Objective 3.):

- **Market potential:** The extent to which the country or sub-national location has near- or medium-term potential to participate in REDD+ carbon markets.
- **Mitigation potential:** The extent to which the country has high forest-related emissions, could potentially have high emissions in the future, or has a large potential for increased carbon storage in forests and degraded lands.
- **Political will:** The extent to which the country is demonstrating political will to address climate change challenges.
- **Selectivity:** The United States will focus bilateral efforts on a subset of countries where: we have comparative advantage; can best leverage additional sources of domestic and international financing; and can achieve the greatest impact.
- **Coordination with other donors and multilateral efforts:** U.S. bilateral decisions will also be informed by an assessment of where other donors and multilateral efforts are focusing their investments.

The United States will provide national REDD+ readiness support to a balanced portfolio of countries and regions, informed by the criteria above. We will seek to leverage the complementary strengths of U.S. multilateral and bilateral support to help our strategic portfolio of countries become ready for REDD+.

### **Objective 3: REDD+ Demonstration: Achieving cost-effective and sustainable net emissions reductions.**

Investments under this objective seek to achieve, or identify and demonstrate best practices for achieving, decreases in net forest emissions that are cost-effective and at significant geographic scale. The focus will be on sub-national programs designed to move a country toward national actions and

results, including demonstrating how local activities can feed into national systems. Demonstration activities should have explicit linkages with ongoing national REDD+ readiness efforts, and may also include local level REDD+ readiness activities that are needed to achieve results. Financed activities may include:

- Support for large-scale pilot activities that promote sustainable economic growth, transparently monitor and report credible emissions reductions or sequestration, and catalyze private-sector investment. These activities should lead to real, sustainable, and cost-effective emission reductions, have the ability to be scaled up, and contribute to sub-national or national REDD+ strategies.
- Support for emissions reduction demonstrations at smaller scales to test approaches that are designed to be scalable to achieve significant emissions reductions, thereby building political will for larger programs or reforms.
- Pay-for-performance pilot projects and funds, for example ex-post payments for reduction of emissions.

### *Geographic focus of demonstration investments*

The United States will seek to focus its bilateral and multilateral investments in REDD+ demonstrations in countries that are also undertaking REDD+ readiness efforts with domestic, bilateral or multilateral financing. This is because demonstrations need to test the approaches identified through the REDD+ readiness process of creating national REDD+ strategies and making enabling policy reforms. Demonstrations generate important lessons that can feed back into the REDD+ readiness process and should result in changes to strategies and policies to make them more ambitious and effective. Because leveraging U.S. or other bilateral and multilateral investments will be critical to helping our strategic portfolio of countries bend the curve of their long-term emissions trajectories, the U.S. will also place a premium on demonstration investments that can be undertaken in countries where other REDD+ resources are being invested. Additional choices of countries for funding of sub-national demonstrations will be informed by the additional criterion of:

- **Demonstration potential:** The extent to which successful pilot activities can be implemented in the country to generate best practices and test scalable models for achieving significant reductions in net emissions.

## **IV. INVESTMENTS – MAKING STRATEGIC CHOICES**

This strategy provides guidance for U.S. agencies contributing to our fast-start goals for REDD+, to coordinate a whole-of-government approach so that supported actions complement each other, multiply impacts, and reinforce our economic development goals. We also emphasize leveraging rather than duplicating the investments of other donors, partner countries, and the private sector. This strategy will focus U.S. investments to achieve maximum impact in helping countries achieve their REDD+ goals.

In terms of multilateral instruments, the U.S. portfolio includes contributions to the Forest Carbon Partnership Facility, the Forest Investment Program, and the Global Environment Facility. Bilateral investments come from the Sustainable Landscapes pillar of the Global Climate Change budget, and

from those biodiversity programs that also have climate change objectives. Other U.S. agencies contribute through both limited direct and other indirect budgeted support. Each of these investment streams is described below.

## **1. Forest Carbon Partnership Facility (FCPF)**

The World Bank is the trustee of the FCPF, a partnership among donors and REDD+ country participants that seeks to prepare countries for future carbon market participation. The U.S. State Department has contributed to the Readiness Fund, and plans to contribute to the Carbon Fund starting in FY10.

### ***a) FCPF Readiness Fund***

The Readiness Fund is designed to help countries meet the basic conditions to be ready to participate in pay-for-performance programs, in particular future carbon markets, by investing in REDD+ strategy development, public consultation processes, greenhouse gas measurement and monitoring systems, and development of reference emissions levels (i.e. baselines against which to determine performance). U.S. support for this Fund contributes to the REDD+ readiness objective of this strategy.

Thirty-seven countries have been accepted into the FCPF on the basis of submitting a Readiness Program Idea Note (R-PIN). Some countries have advanced to the point of completing, and having approved, their Readiness Preparation Proposal (R-PP) that entitles them to a \$3.6 million grant. These processes are based on a set of objective criteria that must be met by participants. Successful participation in the FCPF indicates that a country is taking actions, such as public consultations and the preparation of a REDD+ strategy, that prepare them to participate in future REDD+ opportunities. Bilateral U.S. assistance can, and should, build capacity in countries so they are able to meet FCPF criteria.

### ***b) FCPF Carbon Fund***

The Carbon Fund is a pilot pay-for-performance mechanism that is still under design. Countries that have made significant progress in the Readiness Fund may be able to sell emissions reductions to the Carbon Fund. Only a limited number of countries will likely meet the standards in the short-term and be able to access these funds. The United States can support countries in our strategic portfolio achieve this goal by targeting our bilateral funds to help them increase their capacity for market participation.

## **2. Forest Investment Program (FIP)**

The FIP, a program under the Climate Investment Funds, channeled through regional development banks and the World Bank Group, will pilot support for REDD+ efforts in a limited number of developing countries. The FIP aims to address the key underlying causes of deforestation in beneficiary countries. Projects and programs will be developed as part of an overall investment strategy for each country that should build on existing REDD+ country readiness efforts, such as plans developed for the FCPF Readiness Fund.

While the nature of projects and programs will depend on country circumstances, we expect that the FIP will contribute to the REDD+ readiness objective of this strategy through institutional and capacity building such as support for implementation of systems of forest monitoring and inventory, land tenure reform, and legal and institutional development. The FIP will contribute to the REDD+ demonstration objective of this strategy through investments in forest emissions mitigation measures such as improved land management practices and restoration of degraded forests and landscapes. It may also support sustainable and necessary investments outside the forest sector, such as agricultural intensification and agroforestry.

FIP investments to capitalize on and implement REDD+ strategies will help to catalyze significant net emissions reductions and increase country capacity to access pay-for-performance or carbon market finance.

### **3. Global Environment Facility (GEF)**

Forest management and conservation are central components of the GEF mandate. As part of the Fifth GEF Replenishment package (FY11-14), GEF donors approved a major program on SFM/REDD+, which draws on a successful pilot initiative in GEF-4. The GEF sustainable forest management (SFM) program will provide incentives to develop REDD+ projects and programs, focusing on capacity building in communities, including investments in planning and preparation, policy development, business planning and training.

### **4. Bilateral funds**

U.S. bilateral aid that contributes to the implementation of this strategy comes from the Sustainable Landscapes pillar of the global climate change budget and from other sources of funds, like biodiversity programs, and the Tropical Forest Conservation Act (TFCA).

When implementing their programs, USAID and State Department are committed to bringing the full technical capacities of the Federal government to support bilateral programming. Partnerships with the U.S. Forest Service, the U.S. EPA, the DOE Labs, NASA, DOI, and other agencies are already in place or planned to support this initiative. These agencies have been engaged and will continue to participate in technical assessments and program implementation where government-to-government technical relationships are critical or where U.S. agencies bring unique expertise.

The United States recognizes that bilateral and multilateral programs can be complementary. We will seek out opportunities to coordinate our bilateral funding with multilateral programs so as to fill gaps; enhance access to, and effective use of, multilateral funds; and maximize impact.

Similarly, the United States recognizes that public funding is insufficient to meet the world's needs. We are committed to public-private partnerships that harness innovative technologies and practices, deliver commitments to corporate social responsibility, and explore private-sector investment opportunities that generate climate change benefits while also supporting sustainable development and other positive environmental outcomes.

a) *Sustainable landscapes bilateral funding*

Sustainable landscapes bilateral funding will support high priority climate change activities within all three objectives of this strategy. Sustainable landscapes funding will address programming needs that may be difficult to reconcile with biodiversity priorities. Sustainable landscapes bilateral funding will focus on:

- a) *International REDD+ architecture*: Priority actions include support for platforms that provide access to forest carbon data and analysis tools so as to increase coherence, efficiency, and transparency around forest carbon monitoring, reporting and verifying processes. Actions will also support broad capacity for greenhouse gas inventories in the land-use sector and use of standard IPCC emissions estimation methodologies. Finally, the United States intends to be a leader on social and environmental safeguards as they relate to REDD+.
- b) *National frameworks to enable net emissions reductions as part of REDD+ readiness*: Priority actions include national REDD+ strategies; greenhouse gas emissions inventories, monitoring, and reporting; and carbon market investment and revenue distribution frameworks; and social safeguards. REDD+ focuses on national policy frameworks and on land-use planning that crosses all types of land covers and uses, and involves multiple sectors of the economy that impact land use decision-making. We recognize that in many countries sub-national frameworks and approaches will need to be supported and linked into emerging national systems.
- c) *Site selection and field activities for REDD+ demonstration to optimize net emissions reductions*: Priority field actions are large-scale demonstration of forest-related emissions reductions and increased sequestration. Geographic areas with the greatest mitigation potential may be the deforestation frontiers and degraded lands that might be excluded from, or at least not be the priority locations for, biodiversity conservation programs. Cost-effective interventions as part of integrated land management for REDD+ outcomes may include agroforestry, environmentally appropriate plantations that alleviate pressures on natural forests, and restoration of degraded lands through use of trees.
- d) *Consolidated country investments*: To achieve scale and impact on global emissions from deforestation, over time USAID and State need to invest larger amounts in fewer countries.

Because national REDD+ strategies are so central to REDD+ readiness, USAID and State Department are initiating a targeted program to support these strategies as part of economy-wide low emissions development strategies (LEDS). In addition to supporting developing countries in efforts to seek climate-friendly development opportunities across the entire economy, the strength of this approach is that it brings a macro-economic, cross-sectoral development lens to the drivers of land use change and forest emissions and sequestration. The LEDS approach is intended to ensure that REDD+ strategies seek a truly fundamental shift in the development path of the forest sector toward a low emissions future. This program will be coordinated with international REDD+ strategy development support occurring under FCPF and UN-REDD<sup>7</sup> programs, with other bilateral aid, and with domestic initiatives. The United States will use a cross-sectoral perspective in assistance on REDD+ even if a country is not formally part of the United States' LEDS program.

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<sup>7</sup> **United Nations** Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries

***b) Other bilateral funding such as biodiversity***

USAID's biodiversity programs consistently support innovative, effective biodiversity conservation, and the Agency is committed to continuing this tradition, while at the same time finding opportunities for synergies, or co-benefits, which contribute to our REDD+ sustainable landscapes programming.

Programs in forest governance, land tenure and indigenous rights, or payments for ecosystem services may contribute to a country's readiness at the national level to participate in REDD+ opportunities or to take emissions reductions actions. At the site level, forest conservation activities may result in reduced emissions from deforestation and forest degradation, and restoration of natural ecosystems results in greater carbon stored in biomass and soils. Some biodiversity programs are experimenting with small-scale pay-for-performance projects as a way to finance forest conservation. Biodiversity programs can contribute toward the REDD+ demonstration objective if they have been designed and implemented to achieve and document net emissions reductions.

In cases where a biodiversity activity contributes to this REDD+ strategy, the program will have an explicit sustainable landscapes objective and will monitor appropriate climate change indicators, in addition to meeting USAID's biodiversity programming criteria. Allocation of biodiversity funding follows different criteria than those used for climate change funds. However, in many cases the countries supported are the same. Biodiversity funding concentrates on countries, and locations within countries, that have globally or nationally significant biodiversity that is often under threat.

***c) Tropical Forest Conservation Act (TFCA)***

The TFCA is a debt-for-nature program under which certain debt owed by an eligible developing country to the U.S. Government is reduced and "redirected" to support tropical forest conservation in that country. Resulting TFCA programs provide grants to conserve, maintain, and restore tropical forests in beneficiary countries.

**5. Other U.S. Federal Agency support, including in-kind**

Current examples of assistance provided by other U.S. Federal agencies include:

**U.S. Environmental Protection Agency (USEPA)** contributes support for tools and staff involvement in partnership programs with USAID on building developing country capacity for national greenhouse gas inventories, particularly in the agriculture, land-use, and forest sector. These programs contribute to our REDD+ architecture objective because they build capacity and shared vision for robust emissions estimation, monitoring, and reporting.

The **U.S. Forest Service (USFS)** complements the USAID and State funding it receives with in-kind staff support from its large network of domestic-based experts. USFS also has a limited budget for international work with Mexico, Brazil, and a few other strategic partner countries that is used for forest inventory and forest management capacity building.

**The U.S. Geological Survey (USGS)** is contributing to the development of national forest carbon and GHG accounting systems through the provision of satellite images, geospatial analyses, and software tools. USGS also provides training and technical assistance on conducting national forest

inventories and building technical capacity for carbon sequestration assessments and monitoring. These resources are complemented by partial USAID budgetary support for staff involvement in development programs.

**The National Aeronautics and Space Administration (NASA)** provides space and airborne observations, research, and applied tools to support GHG/carbon monitoring for policy support. NASA will leverage Decadal Survey space missions, an established Carbon-Cycle and Ecology science program, and an Ag/Forestry applied science program to initiate a Carbon Monitoring System (CMS). CMS will help establish a mechanism for NASA observations, research, models, and systems engineering to be applied in support of entities responsible for carbon policies, such as REDD+.