Climate Investment Funds

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FIP COMPLEMENTARITY WITH FCPF AND UN-REDD

I. BACKGROUND

1. The proposed design document for the Forest Investment Program prepared by the working group (doc. CIF/DMFIP.2/2) provides under the FIP Principles that "FIP should complement, be coordinated with and cooperate closely with other REDD demonstrations initiatives and ongoing efforts, such as the Forest Carbon Partnership Facility (FCPF) and UN-REDD, and where applicable build directly on the efforts of the latter two initiatives."

2. Recent analysis of the external financial sources allocated to REDD[1] has shown that there are major gaps in the existing funding flows which are largely concentrated on developing the methodological and planning framework for reducing emissions form deforestation and degradation, capacity building and other catalytic interventions. The main gap is inadequate upfront investment to achieve carbon emission reduction outcomes which would form the basis for carbon payments. Many countries have to undertake major efforts before they would be in a position to generate such payments. Investments are needed for policy reforms, restructuring and strengthening of institutions and implementing capacities, land use planning, establishing of forest tenure rights, establishment of new forest resources and restoration of degraded lands, and infrastructure. The Forest Carbon Partnership Facility (FCPF) and UN-REDD are not designed to fill these gaps as they are targeted at building capacity for REDD (Readiness) in developing countries. The FCPF is also designed to test, on a relatively small scale, a program of performance-based incentive payments in certain pilot countries.

3. This information note provides some preliminary ideas as to how the Forest Investment Program (FIP) could complement the FCPF and UN-REDD. The information note builds upon the working group's recommendation that the FIP should focus, among others things, on "providing up-front bridge financing for readiness reforms and investments identified through national REDD readiness strategy building efforts, while taking into account opportunities to help them adapt to the impacts of climate change on forests and to contribute to multiple benefits such as biodiversity conservation and rural livelihoods enhancement." It also takes into account the proposal of the working group that governments interested in accessing the FIP should develop investment strategy proposals building on earlier multi-stakeholder priority setting processes and existing planning frameworks.

II. FCPF AND UN-REDD

4. The FCPF is designed to develop and pilot financial incentive mechanisms to reduce emissions from deforestation and forest degradation (REDD). It comprises a partnership of donors, developing countries, the private sector, international organizations, NGOs, and forest-dependent communities, including indigenous peoples. It has the dual objectives of building capacity for REDD in developing countries and

[1] For the remainder of this document, REDD should be taken to mean activities consistent with paragraphs 1 (b) (iii) of the Bali Action Plan.

testing – on a relatively small scale – a program of performance-based incentive payments in certain pilot countries. The FCPF has been operational since June 2008.

5. The FCPF's initial activities relate to technical assistance and capacity building for REDD in World Bank member countries in the tropics across Africa, East Asia and Pacific, Latin America and the Caribbean and South Asia. Specifically, the FCPF assists countries to develop national reference scenarios for emissions from deforestation and forest degradation, adopt and complement national strategies for stemming deforestation and forest degradation, and design national monitoring, reporting and verification systems for REDD. These activities are referred to as 'REDD readiness' and supported by the Readiness Fund of the FCPF. It is expected that approximately five countries that have made significant progress towards REDD readiness will also participate in the Carbon Finance Mechanism and receive financing from the Carbon Fund. Specifically, these countries may benefit from performance-based payments for having verifiably reduced emissions from deforestation and/or forest degradation.

6. The UN-REDD Programme was launched in September 2008 and has two main approaches: (i) assisting developing countries to prepare and implement national REDD strategies and mechanisms, and (ii) supporting the development of normative solutions and standardized approaches based on sound science for a REDD instrument linked with UNFCCC. In the initial "Quick Start Phase", aiming at demonstrating that early results are possible in key tropical forest countries, the UN-REDD programme will provide support to countries to manage their REDD processes and facilitate access to tailored financial and technical assistance. Examples of areas of technical assistance include: identification of relevant national development planning processes; capacity support for procedures for national reporting to UNFCCC and development of a REDD monitoring strategy.

7. Whilst the Quick Start programme has been designed to address the immediate need for accelerated and coherent progress towards Copenhagen and immediately after, the UN-REDD Programme foresees future scope for it to play a useful role beyond this initial readiness phase. FIP would seek to ensure consultation and complementarity with the programme as it evolves so as to enhance synergies and strengthen on-the-ground impact.

III FIP: "THE MISSING MIDDLE"

8. For effective implementation of actions for REDD it is recognized that developing countries would need support through both (i) technical assistance and (ii) on-the-ground investment programs that build the capacity of countries to undertake reforms for achieving the potential of forests to address climate change. Before countries can obtain REDD performance-based payments, they are likely to need to invest in policies and programs that generate the emission reductions. While these countries may utilize traditional sources of finance, including bilateral sources of official development assistance, the resources necessary may far exceed the resources currently available. The FIP would seek to pilot and demonstrate how countries may utilize scaled-up resources to

achieve the transformation change necessary to allow a country to effectively contribute to a REDD regime, and should be fully complementary to FCPF and UN-REDD activities. The FIP would build on the readiness work funded by the FCPF, UN-REDD and other initiatives and help countries achieve the emission reductions necessary to earn carbon payment under the FCPF Carbon Fund or other sources of carbon finance.

9. FIP investments, while leveraging private sector investment programs, could finance the following types of investments: (i) institutional capacity, forest governance and information (e.g., investments in land use zoning, cadastre and forest management planning, monitoring and control); (ii) investments in conservation and sustainable management of forests (e.g., protection against fires, pests and diseases afforestation, reforestations, restoration of forests, improved forest management practices, such as support for certification and innovative silvicultural treatments); and (iii) investments outside the forest sector to release the pressure on forests (e.g., shifts by agribusiness companies and landowners away from clearing of rain forests towards planting on non-forest lands, or improvements of agricultural productivity). (See the annex to this note for a schematic overview of the potential compatibility of FCPF, UNREDD and FIP).

10. The need to scale-up resources to assist countries to undertake investments necessary to create an enabling environment and national measures for an effective and sustainable REDD regime and the wide spectrum of potential areas for such investments (see also Information Note CIF/DMFIP.2/Inf.5) highlights the importance of a programmatic approach to addressing the underlying causes of deforestation and degradation so as to optimize the multiple benefits of forests.

Annex 1: Illustrative Examples of Compatibility of Activities that may be Financed under FIP and FCPF and UN-REDD

Readiness **(FCPF Readiness Fund, UNREDD Programme "Quick-Start)**	**Potential FIP Investments**	**Potential Payments for Emission Reductions**
▪ Emissions reference scenario ▪ Forest carbon inventory ▪ Stakeholder consultations ▪ Identification of the drivers of deforestation/degradation ▪ Elements of a national strategy to reduce emissions from deforestation and degradation ▪ Development of monitoring and verification system ▪ Capacity building for REDD and initiating reforms	▪ Protection of forests against fires, pests and diseases ▪ SFM-based production of timber and non-timber forest products that will create sustainable livelihood opportunities ▪ Restructuring and improvement of forest-based industries for efficient production and procurement of sustainably produced raw materials ▪ Improve forest management practices, including support for certification of forests and chain of custody. ▪ Restoration of degraded forest ecosystems, including watershed protection, enrichment planting for carbon sequestration, wood production and conservation ▪ Creation of plantations and woodlots on non-forested and previously forested land ▪ Improving forest governance and forest sector transparency and control ▪ Land use zoning, cadastre and planning ▪ Building capacities of governments and private and communal forest stakeholders ▪ Shifting agribusiness companies and landowners away from clearing of rain forests towards planting on non-forest lands including improvement of agricultural productivity. ▪ Financing of rural development, social services, as well as administration and management skills of forest communities ▪ Financing of non-forest sector programs (agriculture, infrastructure, mining, energy, etc.) to ensure inclusion of specific provisions for forest protection and stabilizing of forest margins	▪ Performance-based payments (against measured reductions in emissions from deforestation or degradation)