

REDD+ Finance

FINANCE

This brief provides information on the REDD+ finance available to Papua New Guinea and provides a number of recommendations.

Papua New Guinea (PNG) is entering the implementation phase of its national REDD+ process. To ensure all planned activities can be fully implemented a clear financing plan is needed.

Key recommendations for PNG

Assess the costs and benefits of implementing REDD+ policies and measures that address the key drivers of deforestation and forest degradation.

Use finance from a combination of sources: government, donors and private sector to support the implementation of PNG's REDD+ Strategy.

Target the Green Climate Fund to provide finance for REDD+ implementation.

Avoid targeting the voluntary carbon market (VCM) for finance as the future of the VCM remains uncertain.

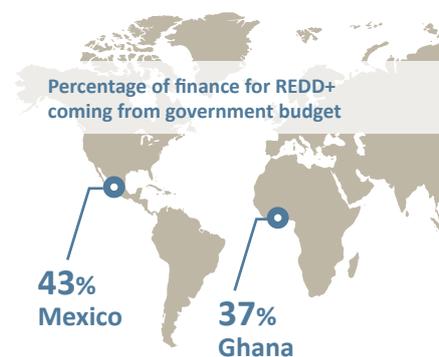
Maintain close engagement with ongoing international negotiations under the UNFCCC and other multilateral agreements to ensure the country is able to access new financing options if and when they are agreed.

FAST FACTS

Financing REDD+ implementation requires multiple sources of finance. Below provides some points on key sources of finance¹:

National government finance

The government's contribution is critical to implementing REDD+. Existing finance from departments will be essential to implementing REDD+ policies and measures in line with existing mandates and priorities e.g. monitoring of forest and agriculture operations.



Private sector finance

This will come from changes in investment and extra spending from the private sector on implementing sustainable practices e.g. forestry companies spending more to achieve FSC or palm oil companies investing more for RSPO certification.

Development partners and the Green Climate Fund

Increasing availability of international finance to support REDD+ development and implementation under the UNFCCC.

\$5 billion

Amount pledged from three countries to support REDD+ countries between 2014-2020. This equates to \$800m per year²

\$40 million

First Green Climate Fund REDD+ support programme awarded to Ecuador for 2017-2022

\$5

Average price per tonne CO_{2e} in development partner initiatives³

1. All figures from Forest Trends (2016) View from the Understory – State of Forest Carbon Finance 2016

2. Pledge made by Norway, UK and Germany at COP21 to be delivered through mixture of systems including World Bank Forest Carbon Fund, Germany's Early Movers fund and funds for Brazil's Amazon fund from Norway.

3. Price used by the Amazon fund, FCPF Carbon Fund, and REDD+ Early movers program.

Financing through the REDD+ phases

REDD+ under the UNFCCC is implemented in phases (see Figure 1). Different types of finance are needed for the implementation of each phase (see Figure 2).

PNG is moving from Phase 1, which has been financed by a combination of donors (UN-REDD, FCPF, JICA, GIZ, EU) and government funds (budgets of PNGFA, CCDA, in particular) to Phase 2. The National REDD+ Strategy will provide a the basis for actions in this phase and further work is needed to ensure that PNG has finance in place to support different activities including:

1. Planning and coordinating REDD+ implementation (through a National REDD+ Strategy or Action Plan),
2. Implementing Policies and Measures (PAMs) to reduce emissions,
3. Developing capacities to monitor and report on changes in emissions (through the national forest monitoring system and forest reference emission level), and
4. Safeguarding REDD+ actions so they do not cause social or environmental harm.

By developing a single National REDD+ Strategy that incorporates all actions across PNG, the government can coordinate and prioritise areas for finance. A subsequent Finance and Investment Plan based on the strategy can also provide more detailed information on financing needs that can be used to request additional domestic and international finance.

What is the voluntary carbon market (VCM) for REDD+ and how does it compare to REDD+ under the UNFCCC.

The VCM is a small system for carbon trading that exists outside of the UNFCCC. Under the VCM, private companies and NGOs develop small projects to reduce GHG emissions, including from deforestation – these are known as “VCM REDD+ projects”. The emissions reductions from these projects – known as “carbon credits” – are generated using different standards that do not comply with the UNFCCC national approach, and they are traded and sold through banks, businesses and individuals, often in unregulated ways and on a voluntary basis. Such REDD+ projects can have positive local impacts, but they are small-scale, expensive to establish and monitor, and are not designed to contribute to a country’s development objectives. In PNG April Salumei is one of these projects.

With the adoption of the Paris Agreement under the UNFCCC covering emissions relating to forests, the future of these type of projects is unclear.

FAST FACTS

VCM carbon credits for REDD+ are not eligible for results based payments under the UNFCCC.

The VCM is very small compared to potential direct REDD+ finance under the UNFCCC with total VCM REDD+ credit sales in 2015 valued at only \$34million globally in 2015¹.

The average price of a tonne CO₂e in the VCM is \$3.4, compared to \$5 for agreements by donors linked to efforts under the UNFCCC¹.

Figure 1: Three Phases of REDD+

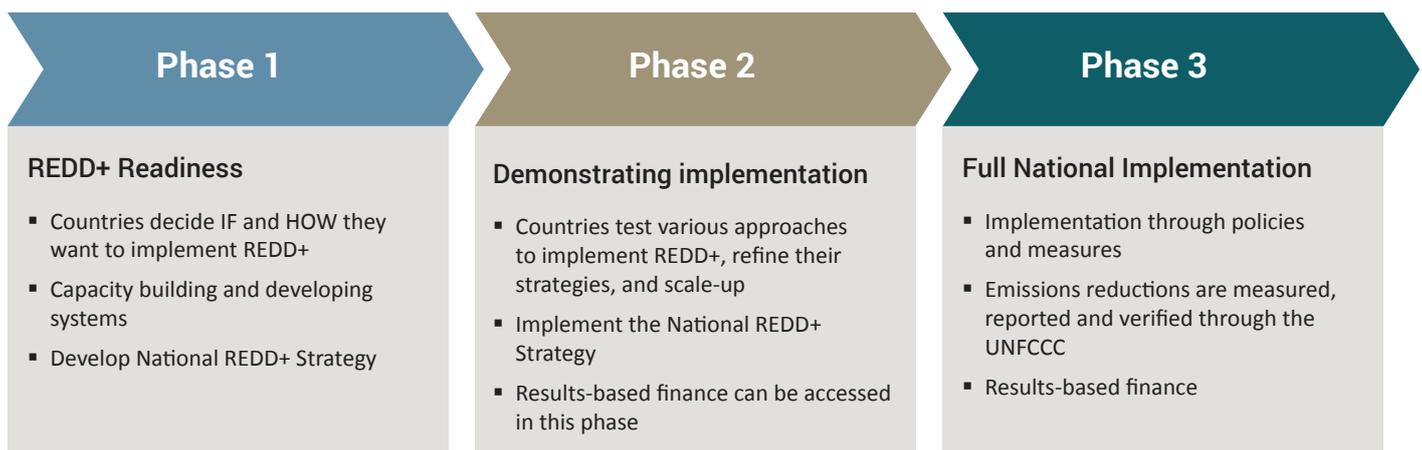


Figure 2: Financing the Phases of REDD+ in PNG

Phase 1		
REDD+ Readiness		
Objective	Sources and examples	PNG context
Design and development of REDD+ elements (NRS, SIS, NFMS, FRL)	<p>Domestic Budget: E.g. Government funding of agencies responsible for climate change, environmental protection and forestry.</p> <p>Bilateral Donors: E.g. Norway, Germany Early Movers</p> <p>Multilateral funds: E.g. UN-REDD, FCPF Readiness Fund</p>	<p>Government funding of CCDA and PNGFA to develop a National REDD+ strategy, National Forest Monitoring System and Forest Reference Level.</p> <p>PNG has also received support for REDD+ Readiness through GIZ, the UN-REDD Programme, and the FCPF Readiness Fund. PNG has requested an additional \$5million from the FCPF readiness fund to continue REDD+ Readiness activities.</p>
Phase 2		
REDD+ Piloting and Demonstrating Implementation		
Objective	Sources and examples	PNG context
Implementation of National REDD+ Strategies to achieve emissions reductions	<p>Domestic Budget: E.g. To support REDD+ coordination by climate change and planning agencies with implementation of target activities in the different sectors like forestry or agriculture.</p> <p>Bilateral Donors: E.g. Norway, Germany Early Movers</p> <p>Multilateral funds: E.g. FCPF Carbon Fund (based on emissions purchase agreements)</p> <p>Climate Funds: E.g. Green Climate Fund (this is the biggest global source of climate finance)</p> <p>Private sector: E.g. Investment by logging companies in FSC standards or palm oil companies in RSPO certification.</p>	<p>REDD+ Implementation brings together many different sources of finance. At the centre of this will be core government finance that will support staff salaries, facilities and 'REDD+ systems' e.g NFMS. These REDD+ investments should be aligned with PNG achieving its long term government targets, such as those in Vision 2050 and StaRS.</p> <p>International climate finance can also be used to supplement government funds to address gaps in government funding. PNG is eligible to apply for between \$20-30 million of finance from the GCF specifically to support implementation, while other donors are already supporting projects that can help to deliver REDD+ results including support to forestry (JICA) and agriculture (World Bank).</p> <p>Private sector investment will help to support PNG's goals through investment in more sustainable commercial practices in the forestry and agriculture sectors, with companies investing in improvements in their own operations and training of staff and helping to provide employment in rural areas.</p>
Phase 3		
Full Implementation and Results based payments		
Objective	Sources and examples	PNG context
Payment for results	<p>Climate Funds: E.g. UNFCCC through the Green Climate Fund (this is the biggest global source of climate finance and has been identified as the primary source of results based payments)</p>	<p>The GCF is the only source of RBP that has been formally identified by the UNFCCC – though the rules for REDD+ RBPs are yet to be developed. Other initiatives have developed results based payment systems linked to specific fund management agreements, these include the FCPF Carbon Fund, and Norway bilateral REDD+ deals.</p> <p>Other results based systems may emerge from international agreements related to sectors outside of the UNFCCC e.g. aviation.</p>

REDD+ Finance in PNG: Next Steps

Identification of costs and investment needs

PNG is developing its National REDD+ Strategy. This will provide the guiding framework for what Policies and Measures (PAMs) will be implemented to reduce emissions from deforestation and forest degradation will need to conduct an assessment of the cost of implementing the PAMs, many of which will be existing government priorities, and develop a Finance and Investment Plan to identify how these costs can be met from different sources.

Target key financial sources to address financing gaps

PNG government funding will be central to implementing the National REDD+ Strategy but the Finance and Investment Plan will identify specific gaps where government funds will not be sufficient. The government should then work across sectors and in line with the Finance and Investment Plan to target key REDD+ financing sources as well as donors with specific technical interests to address these gaps. Demonstrated commitment from the government will be instrumental in engaging external sources of additional finance.

The Green Climate Fund has the potential (with a potential grant of \$20-30 million over five years) to provide core funding to support REDD+ implementation in PNG. Support in key sectors can also be sought from donors with specific interests or experience in those sectors for example JICA within the forestry sector.

Development of financial management systems and structures

PNG will need to develop effective systems to manage the different sources of finance linked to REDD+. Some may flow directly to line agencies or other stakeholders, while others may not pass through government accounts (e.g. private sector finance). Central donor or REDD+ specific finance, however, will need to be managed in a transparent, equitable and efficient way to ensure that PNG is seen as a good location for REDD+ investment.

The FCPF project, through CCDA, is supporting, in 2017, an assessment of the potential financial management structures for REDD+ in PNG, which will help to guide further discussion on this issue.

The future of REDD+ finance

REDD+ finance is continuing to evolve through the UNFCCC and there may be changes in the way that countries are able to support each other and exchange emissions reductions, for example through linkages to countries' national emission reduction targets set out in their Nationally Determined Contributions (NDCs)¹. Other agreements outside of the UNFCCC (e.g. linked to aviation) may also become a source of REDD+ finance.

Such developments however remain unclear and incomplete.

It is important to identify what sources of finance are secure and low risk to PNG. This will help ensure that early investments are not made in areas for which the future market disappears. This is particularly crucial when working with communities and landowners who will be asked to make long term decisions about their land.

The Green Climate Fund a key source of REDD+ finance

The GCF was established under the UNFCCC to provide a mechanism to help finance action on climate change by channelling funds from developed countries to developing countries. One area of its work is REDD+ and the fund will deliver adequate and predictable results-based finance for REDD+ while working with a view to increasing the number of countries that are in a position to obtain and receive payments for results-based actions. Based on this the GCF has agreed to provide grants and other forms of support to help countries in every phase of REDD+.

Countries wanting to access finance through the GCF must express an interest in doing so through their National Designated Authority (NDA) – in PNG this is CCDA – with proposals able to be submitted by accredited entities (government bodies or other agencies that have demonstrated appropriate levels of financial management – there are currently no national accredited entities in PNG).



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