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U.S. Government Funding for Forests in Developing Countries and the New REDD+ Landscape

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EXECUTIVE SUMMARY

The U.S. has long been involved in tropical forest conservation, through both bilateral and multilateral initiatives. The U.S. Congress is currently considering climate legislation that would establish programs to reduce emissions from deforestation and forest degradation and conserve and restore forests in developing countries (aka ‘REDD’ or ‘REDD+’). If adopted, these programs would dramatically increase U.S. government assistance for tropical forest conservation and sustainable development. Climate legislation currently under debate would increase U.S. bilateral funding for forests in developing countries by an estimated \$18–\$25 billion per year, raising it to unprecedented levels. This memo provides an overview of current U.S. funding levels for forests in developing countries and potential increases in these levels due to new climate policies. These numbers are put in the context of overall global finance for forests in developing countries and other emerging REDD+ initiatives. The roles of the various U.S. agencies that would be involved in administering the proposed U.S. REDD+ program—as outlined in current draft legislation—are also discussed.

U.S. funding for forests in developing countries: Bilateral contributions

The U.S. government is actively involved in tropical forest conservation through overseas development assistance (ODA). Numerous agencies work on international forestry and conservation issues, with USAID playing the leading role (in terms of funding). USAID has formally supported conservation and sustainable forest management in the tropics since 1986, when Congress amended the Foreign Assistance Act to include Section 118 on tropical forests. USAID currently works throughout the developing world to build the capacity of governments and communities to sustainably manage and conserve their forests. The second and third most important U.S. government bilateral ODA programs (in terms of funding) for tropical forests are, respectively, the Tropical Forest Conservation Act and the U.S. Forest Service Office of International Programs.

Table 1. U.S. bilateral funding for forests in developing countries (FY 2007).*

U.S. government agency/program	International forest funding (tropical + other regions)	International forest funding dedicated to tropical forests
USAID	\$96.9 million	\$89.9 million
Tropical Forest Conservation Act (managed by Treasury, in partnership with USAID and State)	\$20 million	\$20 million
U.S. Forest Service International Programs	\$6.88 million	Not reported, but likely majority of \$6.88 million
TOTAL	\$123.78 million	~ \$116.78 million

* As reported in "USAID's Biodiversity Conservation and Forestry Programs, FY 2007" (USAID 2008)

In fiscal year (FY) 2007, the U.S. dedicated approximately \$116.78 million of bilateral ODA to tropical forests and approximately \$7 million to forests in other regions. The U.S. Fish and Wildlife Service, the U.S. Park Service, and the U.S. State Department also finance international biodiversity conservation activities, dedicating a combined \$27.54 million for these purposes in FY 2007. Many of these activities may contribute to forest conservation. A detailed breakdown of funding by agency/program is provided in Tables 1 and 2.

Table 2. Additional U.S. bilateral funding for international conservation (FY 2007).*

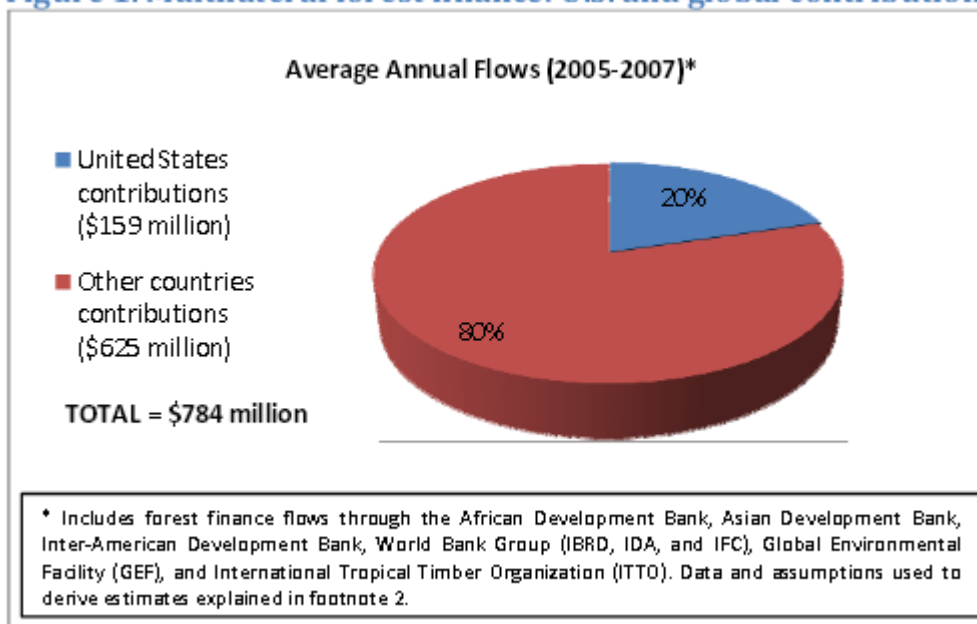
U.S. government agency	Program	International biodiversity conservation funding
U.S. Fish and Wildlife Service	International Affairs Division	\$10 million
U.S. Fish and Wildlife Service	Multinational Species Conservation Funds	\$6.4 million
U.S. Fish and Wildlife Service	Neotropical Migratory Bird Conservation Act	\$3.94 million
U.S. National Park Service	International Program	\$0.85 million
U.S. State Department	International Conservation Funds	\$6.35 million
TOTAL		\$27.54 million

* As reported in "USAID's Biodiversity Conservation and Forestry Programs, FY 2007" (USAID 2008)

U.S. international forest finance in the global context

In addition to this bilateral assistance, the U.S. also funds international forest conservation and management through its contributions to the multilateral development banks (African Development Bank, Asian Development Bank, Inter-American Development Bank, and the World Bank Group), the Global Environmental Facility (GEF), and the International Tropical Timber Organization (ITTO). Given the way such international financial flows are tracked, it is difficult to say precisely how much of the U.S. contribution to these multilateral organizations is directed towards forest conservation and management, but a rough estimate indicates that the U.S. contributes about \$159 million per year to forests through multilateral organizations. See Figure 1.

Figure 1. Multilateral forest finance: U.S. and global contributions.



Many other countries finance forest conservation and management activities in the developing world through contributions to the multilaterals as well as their own bilateral funds. When U.S. funding is viewed in the context of contributions made by these other countries, the U.S. is shown to account for about 20% of multilateral forest finance (Figure 1), about 11% of bilateral forest finance (Figure 2), and about 14.7% of overall forest finance (Figure 3). Japan alone accounts for about 47% of bilateral forest finance. Teasing out how much of all this multilateral and bilateral forest funding is for conservation activities is difficult, but the World Bank reports that of the \$1.9 billion in total international ODA directed per year (2005–2007) to the forest sector, about \$700 million is for forest conservation.²

¹ Estimates are derived using data reported in World Bank (2008), Congressional Research Service (2008), GEF (2008), and GEF (2005) (see References). Totals for the Multilateral Development Banks (MDBs) and global ITTO are based on numbers reported for 2005–2007 in Table 3.2 in World Bank (2008). U.S. contributions for the MDBs' forest finance are derived using the United States' percentage of overall financing for each MDB, as reported in Congressional Research Service (2008). GEF global and U.S. estimates derived from numbers reported in GEF (2008) and GEF (2005). As of October 2008, the U.S. was in arrears to the GEF, owing \$28.1 million (GEF 2008). U.S. ITTO contributions based on assumption that U.S. accounts for 20% of global ITTO, as ITTO reports that Japan, Switzerland, and the U.S. are its major donors.

² World Bank, "Climate Investment Funds: Mapping of Existing and Emerging Sources of Forest Financing," First Design Meeting on the Forest Investment Program, Washington, D.C., October 16–17, 2008.

Figure 2. Bilateral forest finance: U.S. and global contributions.

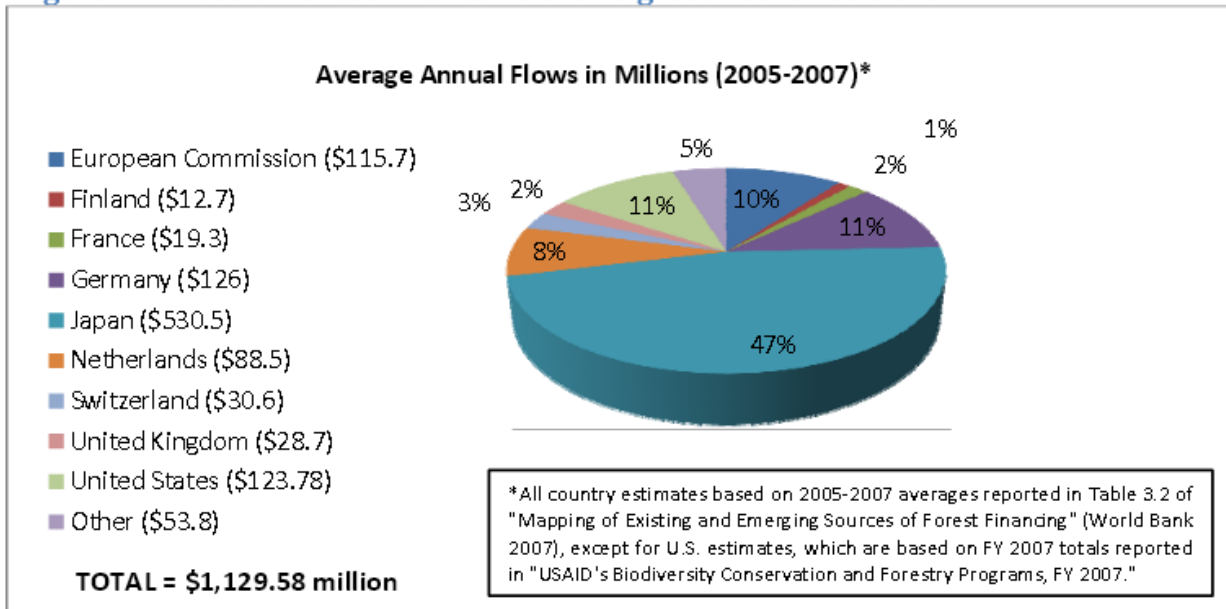
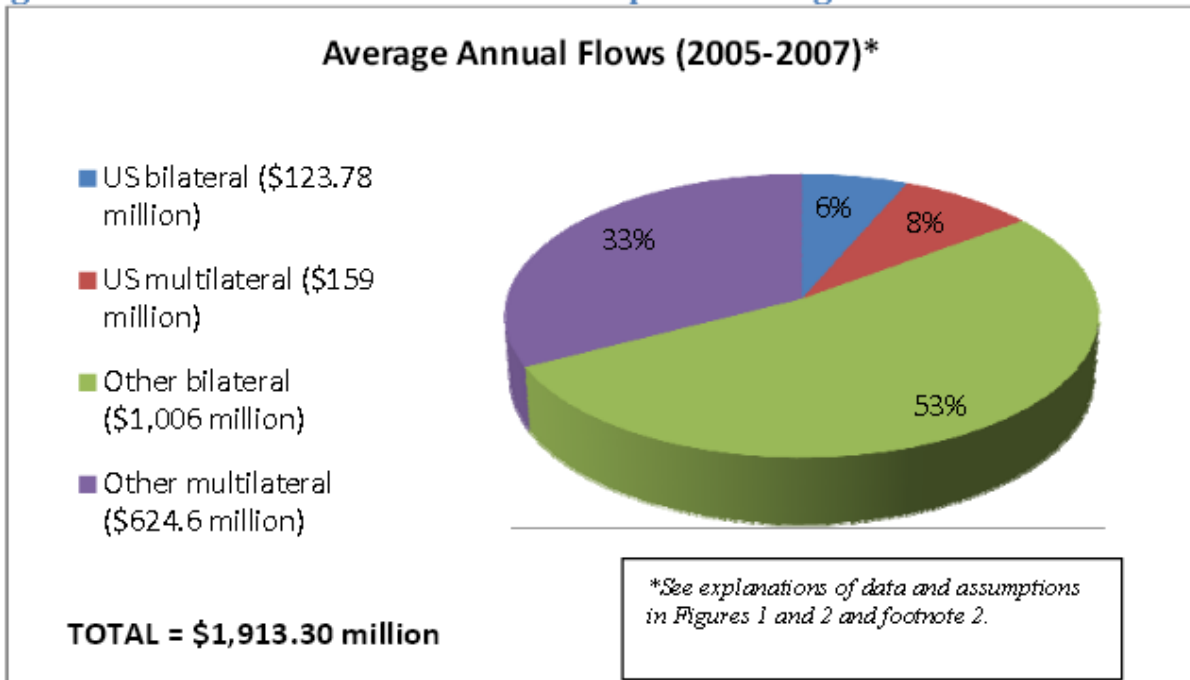


Figure 3. Total U.S. contributions as a percent of global forest finance.



Potential increases in U.S. bilateral forest finance from a U.S. cap-and-trade program

In recent years, the battle against tropical deforestation has been re-energized by the prospect of linking such efforts to climate change mitigation policies and carbon finance. In 2007, nations agreed at a meeting of the United Nations Framework Convention on Climate Change (UNFCCC) to work towards establishing a mechanism for reducing emissions from deforestation and forest degradation (commonly referred to as REDD) and conserving and enhancing forest carbon stocks in developing countries (referred to as REDD+). The general idea behind REDD is to provide countries with positive financial incentives for reducing emissions from (and increasing carbon removals through) their forest sector.

In early 2009, the United States Climate Action Partnership (USCAP), a coalition of major business and environmental organizations, developed a blueprint for U.S. climate legislation that included a substantial program for offsets from reduced deforestation in developing countries.³ Leading conservation organizations, some of which previously opposed including reduced deforestation offsets in climate policy, along with major corporations, have also come to an agreement around REDD policy.⁴ Given the importance of these coalitions, which reflect agreement among many key stakeholders, most of their key recommendations made their way into the climate bill that passed the U.S. House of Representatives and are quite likely to be represented in any final bill that passes.

The climate bill passed by the U.S. House of Representatives, The American Clean Energy and Security Act of 2009 (H.R. 2454),⁵ includes a cap-and-trade program that allows capped entities to offset part of their emissions with credits from reduced deforestation projects, subnational (state- or province-level) programs, and national programs in developing countries. The bill permits up to 2 billion tons of offsets to be used each year, with domestic and international offsets each permitted to account for up to 1 billion tons. If the supply of domestic offsets is insufficient, the limit on international offsets (including but not limited to reduced deforestation credits) may increase to 1.5 billion tons. Analysis by the U.S. Environmental Protection Agency (EPA) suggests that the full 1 billion tons of international offsets will be used starting in the first years of the program.⁶ If this assumption holds and allowances sell for \$15–\$20/ton in the early years of the program, then such a cap-and-trade program could generate as much as \$15–\$20 billion per year for forests in developing countries.⁷

The bill also establishes a Supplemental Emissions Reductions from Reduced Deforestation (aka “set-aside”) program, which would be financed by a certain percentage of allowance value. The program would seek to generate reductions beyond the cap,⁸ build government capacity to reduce deforestation and participate in carbon markets, and finance “leakage prevention activities” to preserve carbon stocks in forests in countries with historically low deforestation rates and in forested wetlands and peatlands. The set-aside program could very well build on existing bilateral ODA programs for conservation and sustainable forest management, but would likely have a much stronger emphasis on linking interventions to results, as the explicit purpose would be to reduce deforestation/degradation and conserve or restore forests in ways that are measurable, reportable, and verifiable. The bill initially sets aside 5% of allowances per year to finance the set-aside program. This amount declines over the life of the program (as the amount for international adaptation increases). Assuming that allowances sell for \$15–\$20/ton in the first 10 years of the program (2012–2025), an additional \$3.5–\$5 billion would be generated for reduced deforestation in developing countries each year between 2012 and 2025. The bill marks 3% of allowances per year for the set-aside in years 2026–2030, and 2% per year in years 2031–2050.

³ <http://www.us-cap.org/>.

⁴ http://adpartners.org/new_unity.html.

⁵ H.R. 2454 Subtitle A; Part D “Offsets” and Part E “Supplemental Emissions Reductions from Reduced Deforestation.”

http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h2454pcs.txt.pdf.

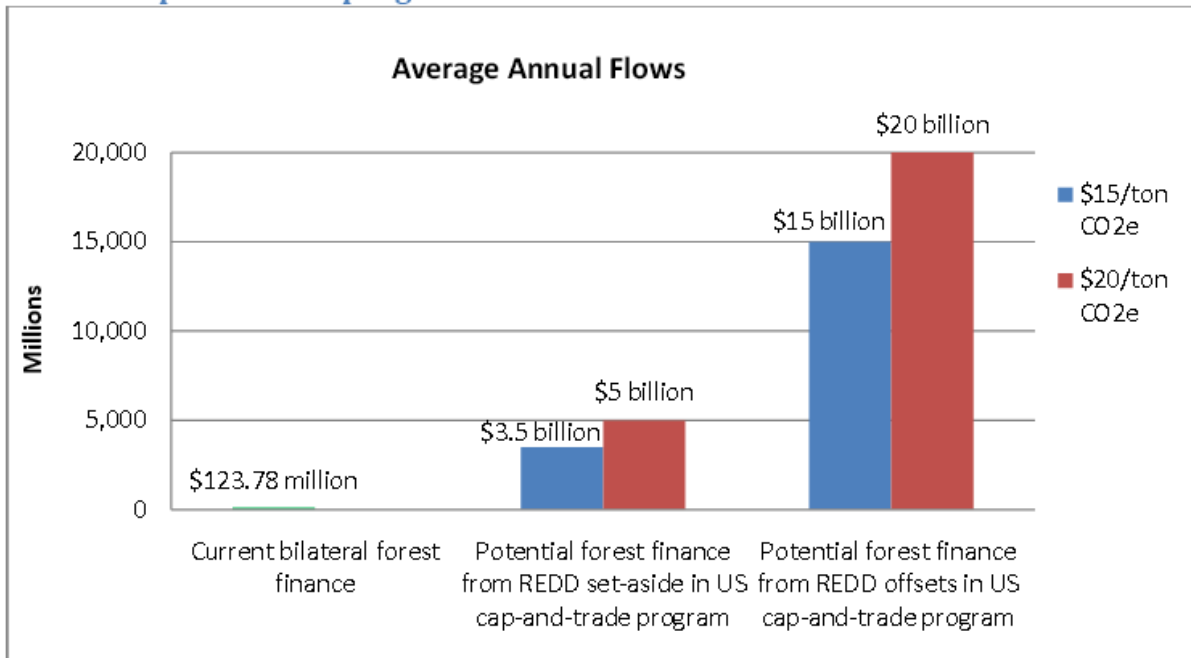
⁶ U.S. Environmental Protection Agency (EPA), “EPA Analysis of the American Clean Energy and Security Act of 2009 H.R. 2454 in the 111th Congress,” June 23, 2009.

<http://www.epa.gov/climatechange/economics/economicanalyses.html>.

⁷ EPA assumptions may possibly lead to overestimates of reduced deforestation offset supply in the early years of the program. International offset supply may come from reduced deforestation and possibly other forestry activities (afforestation and reforestation) as well as from non-forestry sectors, such as energy efficiency.

⁸ The program seeks to reduce deforestation emissions by 720 million tons of CO₂ by 2020, for a cumulative total of 6 billion tons of CO₂ reduced by 2025.

Figure 4. Current U.S. bilateral forest finance and potential increases from a U.S cap-and-trade program.



If legislation similar to H.R. 2454 is passed into law, U.S. government financial flows to forest conservation and sustainable management activities in developing countries would increase tremendously. Rough approximations indicate an increase of \$18.4–\$24.9 billion/year.

[NOTE: The discussion draft of a similar bill currently working its way through the U.S. Senate, “The Clean Energy Jobs and American Power Act of 2009,” introduced on September 30 by Senators Kerry and Boxer, also includes a REDD set-aside and offsets program. In its current form, this bill maintains the over all 2 billion-ton annual limit on offsets but further limits the use of international offsets by reducing their maximum amount from 1 billion to 500 million tons (though this may increase if less than 0.9 billion domestic offsets materialize in a given year). The amount of allowances that would be set aside for the supplemental reduced deforestation program remains unclear. Changes to the limit on international offsets, the amount of allowances for the set-aside program, and the overall emissions cap, as well as revised assumptions about the availability REDD offsets in the early years of the program, will affect the estimates of new forest finance reported in this memo. This memo will be updated as more information becomes available.]

Roles of U.S. agencies in potential REDD offsets and set-aside programs

Both the House bill (H.R. 2454) and the current discussion draft of similar legislation in the Senate designate roles for the EPA, USAID, and the State Department in administration of the REDD offsets and set-aside programs. The Senate discussion draft differs from the House bill, however, in its treatment of agency roles and responsibilities for the set-aside program, by giving USAID more explicit control and discretion in administration of this program and noting a role for the Department of Agriculture. The Senate discussion draft also establishes an Offsets Advisory Board that appears to be housed in the Executive Branch. EPA is granted primary authority for administration of the offsets program in both the House and Senate versions. In general, agency responsibilities, as outlined in the Senate discussion draft, are as follows:

REDD offsets program:

- EPA, in consultation with State, USAID, “and any other appropriate Federal agency, and taking into consideration the recommendations of the Advisory Board” promulgates regulations for the program.
- EPA, in consultation with State, USAID, and in accordance with the bilateral/multilateral agreement/arrangement a country must have with the U.S. in order to participate in the program, determines the countries, provinces/states, and projects eligible to produce offset credits.
- EPA, in consultation with State and USAID, issues credits after determining that (1) emissions reductions, measured against an established baseline, have been achieved and that (2) the country has complied with various social and governance policies that require (a) public disclosure of a strategic plan for reducing deforestation, (b) stakeholder consultations through all program/project phases, (c) transparent and equitable profit sharing with forest communities, (d) public disclosure and third-party oversight of revenue flows, and (e) monitoring and reporting of social and environmental impacts.
- EPA, in consultation with State and USAID, must also “undertake due diligence to ensure” that offset-producing countries establish and enforce “legal regimes, processes, standards, and safeguards” that “give due regard to the rights and interests, ... promote consultations with, and full participation of, ... and encourage transparent and equitable sharing of profits ... with local communities, indigenous peoples, and forest-dependent communities.”

REDD set-aside program:

- USAID, in consultation with EPA, Agriculture, “and any other appropriate agency, establishes the program.
- The Senate discussion draft does not include the many provisions regarding program implementation that were part of the House bill, including the provisions to protect the rights and interests of forest communities included in the offsets section. As currently written, USAID appears to be granted considerable discretion in implementation of this program.

New REDD forest finance: Other bilateral, multilateral, nongovernmental, and private sector sources

The prospect of linking forest conservation to climate policy and instituting new results-based systems that pay for reduced deforestation emissions has led to much excitement in the international community and a proliferation of REDD funds and programs. Table 3, from a report on REDD for the government of Norway, provides a detailed overview of the current funding landscape. Notable new REDD funds include the multilateral World Bank Forest Carbon Partnership Facility (\$300 million program focused on building countries’ capacity to participate in REDD offset markets) and the bilateral Norwegian Climate and Forest Initiative (up to \$600million per year for a total of \$2.5 billion, focused on REDD capacity building, research, and supporting developing countries’ REDD programs as well as multilateral initiatives). Table 3 also includes forest conservation funds and programs that have existed prior to the advent of REDD and that are therefore not explicitly REDD-focused (e.g., International Tropical Timber Organization) as well as funds that are not focused on forests but that might include funds to protect forests (e.g., the Adaptation Fund).

**Table 3. Purposes and Levels of REDD funding: A global overview
(from the REDD OAR report)**

Source	Amount	Funding
<i>Multilateral</i>		
World Bank BioCarbon Fund	\$53.8 million tranche 1 \$38.1 million tranche 2 Funds will be disbursed over the life of the fund (maybe up to 2022)	Focus on A/R with some pilot REDD projects. Managed by World Bank.
Forest Carbon Partnership Facility (FCPF)	[\$300 million] over the life of the fund.	\$100m Readiness Fund to support readiness in 20 countries. \$200m Carbon Fund to buy REDD carbon credits. Managed by World Bank.
Congo Basin Forest Partnership	\$230 million over several years	Sustainable management of the Congo Basins' forests and wildlife. Partnership started September 2002 and is open ended.
Congo Basin Forest Fund	£100 million	REDD capacity building. Managed by Congo Basin Forest Fund Secretariat.
The Forest Investment Program (part of the Strategic Climate Fund)	[\$1 billion]	Focus on forest conservation and sustainable forest management. Details under discussion and may include REDD, AR, SFM, agriculture, governance. The Strategic Climate Fund is one of two funds established under G-8 Climate Investment Funds with USD 6.1 billion in pledged funding.
FAO National Forest Programme Facility	\$48 million per year	Support country's national forest program process. Focus on capacity building and information sharing. In operation since 2002.
FAO National Forest Monitoring and Assessment Programme	Support per country	National forest and land-use monitoring, assessment, and reporting. Reports completed in 15 countries with 20 additional expected.
International Tropical Timber Organization (ITTO)	\$16 million per year	Capacity building for SFM from sustainably managed forests.
MIA Project (Cooperative project on mitigation of and adaptation to climate change in sustainable forest management in Ibero America)	Up to €40,000 per project. Project proponents or their partners must pay 40% of the cost of the project	Mitigation and adaptation. Project proposals located in the Ibero-American region: Central America, Amazon, Andes, and the Southern Cone. CIFOR administers the fund to support eligible projects. INIA and CIFOR jointly coordinate MIA projects. CATIE oversees technical implementation of MIA projects in the Iberian-American region.
Regional development banks	\$94 million per year	Forestry for sustainable economic development, environmental conservation.
GEF	\$109 million	Agreed incremental global benefits from biodiversity, land degradation, and climate change.

⁹ Angelsen, A., S. Brown, C. Loisel, L. Peskett, C. Streck, and D. Zarin, "Reducing Emissions from Deforestation and Forest Degradation (REDD): An Options Assessment Report," prepared for the Government of Norway (Washington, D.C.: Meridian Institute, 2009). <http://www.REDD-OAR.org>.

Adaptation Fund	Several hundreds of millions \$ per year	Adaptation measures in countries that are particularly vulnerable to the adverse effects of climate. May include some forest-related adaptation. Managed by the GEF and World Bank.
UN REDD Program	\$35 million	REDD readiness. Collaboration between FAO, UNDP, and UNEP
<i>Bilateral</i>		
Norwegian Climate and Forest Initiative	Up to \$600 million per year (total \$2.5 billion)	REDD readiness, research, and government programs. Includes funding to FCPF, Congo Basin Forest Fund, UN-REDD, and other initiatives.
Australia's International Forest Carbon Initiative	AU \$200 million committed	Focus on monitoring and accounting, supporting demonstration activities and market-based mechanisms. Funds distributed to multiple sources including the governments of Indonesia and PNG, the FCPF, and the Asia Pacific Forestry Skills and Capacity Building Program. Managed by Department of Climate Change, Government of Australia.
Germany	Pledged 500 million (\$788 million) for the 2009-2012 period and an additional 500 million every year after that. (2008)	Global forest protection. Funding managed by German aid and other agencies.
<i>NGO and Private Sector</i>		
Voluntary Carbon Market	Approx. \$38.8 million in 2007	In 2007, REDD made up 5% and AR 10% of the total OTC voluntary carbon market, which was valued at \$258.4 million.
World Wildlife Fund (nonprofit)	Uncertain	Capacity building, project design, standard development, initiating agriculture and sustainable land management project development fund
The Nature Conservancy (nonprofit)	\$5 million to FCPF \$38 million in project finance (total) \$400,000-\$10.8 million/project	Capacity building, REDD project development.
Katoomba Ecosystem Service Incubator (Forest Trends – nonprofit)	Currently \$10,000-\$50,000/project Planning \$75,000-\$150,000/project	Technical, financial, and methodological support to payment for ecosystem services projects (including some REDD). 4 projects funded to date with plans to expand.
Climate Change Capital (private investment bank)	Uncertain	Investments in the emissions trading market. Planning a "Land Fund" to invest in agriculture land and forestry worldwide. No dedicated REDD investments.
Macquarie Group Limited (investment banking and financial services)	Plan to invest in six REDD demonstration activities over the next three years	Invests in the emissions trading market. Recently partnered with Flora and Fauna International to develop REDD projects. Macquarie is an investment banking and financial services group.
Equator Environmental LLC	\$100 million Eco-Products Fund – private equity Fund	Invests in projects for generation and management of forest-based carbon credits and timber assets.
New Forests, Pty Ltd.	\$50 million in assets	Invests in carbon credit and other environmental services projects including timber. REDD investments possible.
Terra Global Capital LLC	Trying to raise \$150-250 million for a fund	Consulting and planning on raising a private equity fund to invest in AFOLU
Sustainable Forest Management (private capital)	REDD project in Peru under development, possibly other projects in identification stage.	Invests in forest carbon projects

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