

UN-REDD PROGRAMME



Food and Agriculture
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KEY MESSAGES

- Funding mechanisms for REDD+ are the governance structures that countries put in place to gain access to and channel funding towards the policies and measures on the ground that address the drivers of deforestation.
- Sources of private finance, including voluntary carbon markets, are playing an increasing role in leveraging public funds to support REDD+ implementation.
- Ensuring integrity, transparency and accountability in fund management is key to delivering effective results, and to both domestic and international confidence in fund management.

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INFO BRIEF

GLOBAL

NATIONAL FUNDING MECHANISMS FOR REDD+: LESSONS LEARNED AND SUCCESS FACTORS



INTRODUCTION

As countries progress through the phases of implementing REDD+, they must deal with the complex issue of financing their national REDD+ strategies or action plans. This requires coordination across sectors and government agencies as well as different sources and types of funding, including public and private, bilateral and multilateral, national and international.

While the Warsaw Framework for REDD-plus stresses results-based payments from market and non-market sources after the achievement of emissions reductions, financial support for REDD+ can also be provided up front to support activities ranging from providing technical assistance and facilitating the transfer of technology, to building capacity and implementing REDD+ activities on the ground. Just as REDD+ phases can often overlap, financing can be obtained for activities that span different phases and operate at different times or in parallel.

A national REDD+ funding mechanism is a fund coordination and distribution platform for like-minded partners that provides for substantially scaled-up international support for the implementation of national REDD+ strategies and action plans. National REDD+ funding mechanisms can provide an investment framework to ensure the coherence and efficiency of policies and measures to address the drivers of deforestation. REDD+ funding mechanisms also provide a coordination structure so that donors or contributors can commit resources to the fund or use their own resources, through bilateral or other channels, to provide financial support outside the fund (parallel financing).

This broad-based approach to consolidating REDD+ finance is required because:

- Successful investments require considerable political commitment and a willingness to reform in partner countries.
- Donor resources can be mobilized and leveraged far more effectively through a consolidated approach rather than a patchwork approach, which is even more critical in countries where domestic resources for REDD+ implementation are scarce.

- Sources of funds can be diversified, thus reducing the long-term sustainability risks.
- The comparative advantages of the different market and non-market sources of funding can be leveraged.
- Centralized decision-making, if inclusive, can foster a shared understanding of low-emission development across sectors at the national level, and increased coherence between donor and recipient country objectives on REDD+.
- Transaction costs for accessing and channelling international REDD+ resources can be greatly decreased.

APPROACH

UN-REDD technical assistance as it relates to national REDD+ funding mechanisms focuses on helping countries to create structures that meet the requirements of various sources of international funding while fitting into the overall national climate finance landscape so that countries can effectively coordinate the implementation of REDD+ through various funding streams.

Over the years, it has become increasingly important to find ways to leverage public funds to enhance access to private sector financing in order to advance REDD+ implementation. This trend is confirmed by the recent growth in carbon market investments in REDD+. The [Lowering Emissions by Accelerating Forest finance \(LEAF\) Coalition](#), an ambitious new public-private initiative designed to accelerate climate action by providing results-based finance to countries committed to protecting their tropical forests, is one example. This initiative aims to mobilize at least \$1 billion in financing to abate at least 100 metric tons of CO₂-equivalent emissions to help protect tropical forests.

Finally, ensuring integrity, transparency and accountability in fund management is key to delivering effective results and to both domestic and international confidence in the way funds are managed.



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IMPACT

UN-REDD has supported many countries to define and implement their national REDD+ funding mechanisms since 2008. Successes, challenges and lessons learned since the Programme began are set out below.

DEMOCRATIC REPUBLIC OF THE CONGO

Through a national joint programme, UN-REDD played a key role in creating the [REDD+ National Fund](#) of the Democratic Republic of the Congo in 2012, which is often referred to by its French acronym, FONAREDD, to serve as a financial vehicle for the implementation of the national REDD+ strategy. Under the chairship of the Ministry of Finance and the vice-chairship of the Ministry of the Environment, the national REDD+ fund is the entry point for funding the country's national REDD+ strategy.

- FONAREDD promotes a programmatic approach in order to minimize duplication of effort and the transaction costs associated with REDD+ investments and results-based payments. It serves as the financial arm of the

national REDD+ strategy and its [investment plans](#),

- Mobilize funding to achieve REDD+ national objectives and to strengthen the global leadership of the Democratic Republic of the Congo.
- Finance the implementation of REDD+ investment plans through major REDD+ programmes.
- Promote political dialogue in relation to the REDD+ process.
- Use a results-based management framework and support the development of national instruments to measure, report on and verify investment results, in an ongoing and transparent manner, in accordance with UN-REDD standards and the guidelines of the United Nations Framework Convention on Climate Change.
- Increase the Government's coordination capacity for rapid, consistent and effective implementation of the REDD+ national strategy and investment plans.

As the drivers of deforestation and degradation involve a number of sectors, the Democratic Republic of the Congo has deemed it critical to establish a multisectoral and multi-stakeholder governance structure that ensures that policies and measures are anchored at the highest level of decision-making and are coordinated efficiently.

A steering committee presided over by the Ministry of Finance fulfils the policy, decision-making and supervisory functions of the REDD+ National Fund. It includes the six ministers in charge of the main land-use sectors (agriculture, environment and forests, tenure, land-use planning, energy) and representatives from civil society, the private sector and international technical and financial partners. Its decisions are recorded on the [FONAREDD website](#). A [technical committee](#), led by the Ministry of the Environment, assesses all REDD+ proposals to the Fund and submits its recommendations to the steering committee, a multi-stakeholder body that comprises national and international experts. Finally, an executive secretariat manages the daily coordination of the activities of the Fund.

FONAREDD is a vertical fund managed by the Multi-Partner Trust Fund Office of the United Nations Development Programme, whose fiduciary rules and procedures apply to the entities that have access to the Fund. Donors to FONAREDD can allocate their contributions through one or more of the following: United Nations agencies; multilateral and regional development banks; technical bilateral agencies, such as the French Development Agency, the German Agency for International Cooperation (GIZ), Japan International Cooperation Agency, or others; international non-governmental organizations; and national entities. The [Democratic Republic of the Congo National REDD+ Fund page of the Multi-Partner Trust Fund gateway](#) provides key figures, funding status, contributions and projects. Its [website](#) contains information about programming, complaints and remedies, and much more.

PERU

UN-REDD provided targeted support to Peru in 2014 and 2015 to inform the development of its national funding arrangements for REDD+.

The funding architecture proposed was developed with the aim of channelling international results-based payments for REDD+ towards the policies and measures of the emerging national forest and climate change strategy. The development of the instrument was closely tied to the [Joint Declaration of Intent between the Government of Peru, the Government of Norway and the Government of Germany](#) on cooperation on reducing greenhouse gas emissions from deforestation and forest degradation (REDD+) and promoting sustainable development in Peru, which included a specific deliverable related to the design and implementation of a REDD+ funding mechanism. The Joint Declaration provided key insights into the characteristics of a funding instrument that would be agreeable to both donors and recipient countries. The funding instrument would:

- Be based on contributions for deliverables, adapting over time as deliverables evolved from the development of enabling policies to the delivery of verified emissions reductions at the national level.
- Be managed according to established international standards, including those related to fiduciary responsibilities, governance, and social and environmental safeguards.
- Ensure transparency in all aspects of disbursements and operations.
- Include a coordination committee with balanced representation from central Government, regional governments, civil society (including the private sector) and indigenous peoples in the governance structure of the funding instrument.
- Undergo independent annual audits of the technical and financial aspects of the fund and the projects and initiatives it supported.
- Be agreed by partners before it was established.

A technical committee was formed to support the development of a coherent fund management architecture. Numerous workshops were held nationally to collect and analyse ideas on the scope and design of the REDD+ financial architecture for Peru. Participants included officials from the Ministry of the Environment, the Ministry of Agriculture and the Ministry of Economy and Finance, representatives of civil society organizations such as Forest Trends, and international cooperation institutions such as KfW Development Bank (KfW), GIZ and the Inter-American Development Bank.

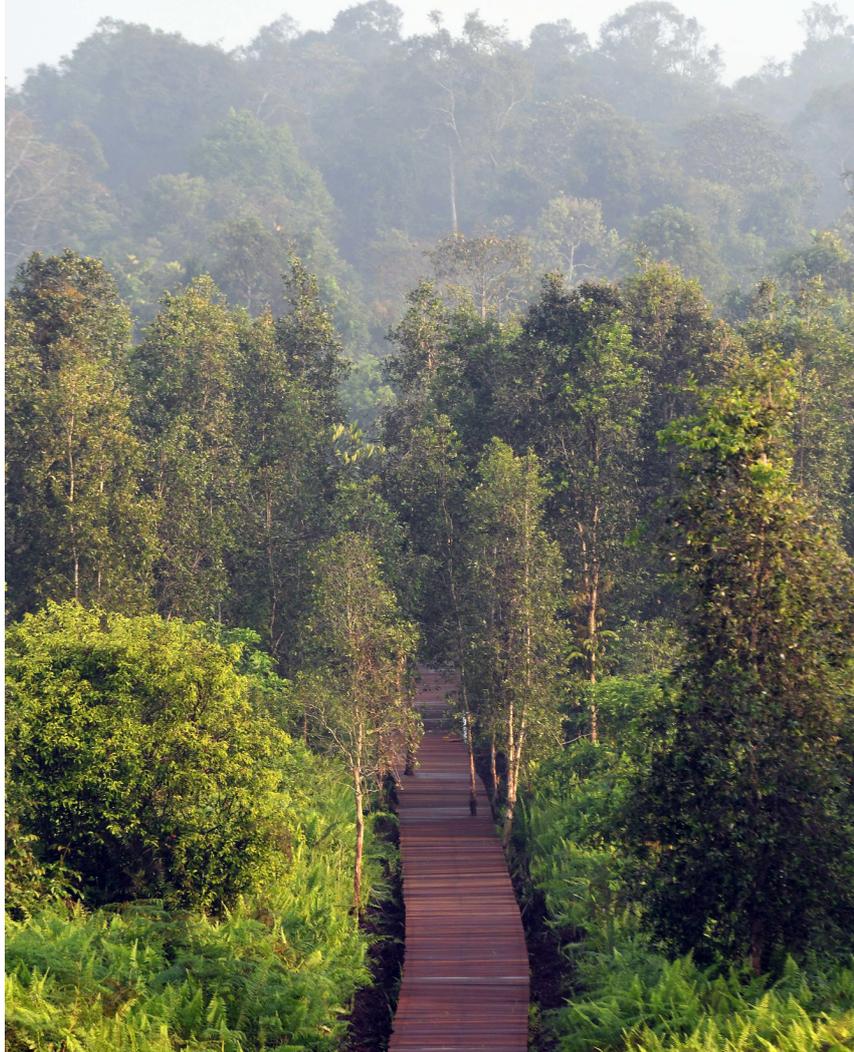
UN-REDD also supported the Ministry of the Environment of Peru in its efforts to reach out to other countries engaged in defining and establishing national financial arrangements for REDD+. A South-South exchange took place in July 2014 to share the lessons learned by leading countries (Colombia, Costa Rica, Democratic Republic of the Congo, Ecuador, Indonesia and Viet Nam) to inform the process under way in Peru.

Despite these efforts, a specific funding instrument for REDD+ has not yet been established in Peru. Divergent views within Government and with REDD+ partners and financiers have meant that deliberations continue. Successive changes in public administration have also made it more difficult to find a solution. The matter remains active and is critical as Peru advances with its REDD+ agenda and mobilizes REDD+ financing.

INDONESIA

The Indonesian Environment Fund (IEF) embodies the mandate of Indonesia's Constitution under which every citizen has the right to a healthy and functioning environment. IEF was officially formed in September 2019 through Ministry of Finance Regulation Number 137/2019 on Structure, Organization and Business Process of BPD LH.¹ This regulation is a further enactment of Presidential Regulation Number 77/2018 concerning Management of Environmental Funds, Government Regulation Number 46/2017 concerning Environmental Economic Instruments

¹ On 13 April 2021, the Ministry of Finance decided on the name "Indonesian Environment Fund (IEF)" for what, in Indonesian, is known as Badan Layanan Umum Badan Pengelola Dana Lingkungan Hidup (BPD LH).



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and Law Number 32/2009 on the Protection and Management of the Environment. It acts as a national trust fund dedicated to the environment and aims to mainstream climate change into overall national development needs through a fiscal support mechanism. The full mandate of IEF is broad, encompassing two kinds of funds: (1) conservation funds, and (2) pollution and restoration funds.²

IEF was established following a comprehensive preparatory process that unfolded over several years. It is a full public service agency (Badan Layanan Umum – BLU). In Indonesia, BLU status enables Government public service entities to autonomously manage their finances provided that their products or services are delivered on a non-profit basis. A BLU may also recruit staff from outside the public service. While a BLU is not dependent on the State budget, it retains the flexibility to draw from that budget as needed. The BLU structure allows IEF to receive grants and loans for disbursement alongside several other economic instruments. IEF is designed to manage multiple financing schemes to fund multiple programmes and recipients from multiple funding sources. REDD+ funds will be managed under the

² See Articles (29) and (30) of Government Regulation 46/2017 on Environmental Economic Instruments.



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conservation assistance window, with IEF aiming to serve as the central financing instrument for REDD+ and for issues related to the environment in Indonesia for both international and domestic finance. This will enable a more coordinated and synergetic implementation of environmental actions and ensure effective fund disbursements in order to reach the targets for reducing the emissions from land-use change and forestry, as well as other environmental objectives. At the same time, this funding structure will enable the Government of Indonesia to enhance its accountability to its constituencies and to contributing donors.

The key institutional bodies of IEF include (i) a steering committee supported by a secretariat; (ii) a custodian bank (a “trustee”); and (iii) line ministries responsible for technical and financial execution and supervision in respect of the recipients of funds and for reporting to IEF.

The IEF steering committee, chaired by the Coordinating Minister of Economic Affairs, includes the various ministries directly involved in the implementation of the funds secured by IEF, making it a key body for cross-sectoral coordination for REDD+. The ministries represented include the Ministry of Environment

and Forestry, the Ministry of Agriculture, the Ministry of Finance, the Ministry of Home Affairs, the Ministry of National Development Planning, the Ministry of Energy and Mineral Resources, the Ministry of Transportation, the Ministry of Industry and the Ministry of Marine Affairs and Fisheries.

IEF works with these ministries to develop investment plans that will result in improved management and protection of the environment, increase environmentally friendly economic activities and reduce greenhouse gas emissions. As such, IEF is a key instrument to ensure national leadership in the coordination of climate finance and climate action for the implementation of nationally determined contributions.

Alongside other important partners such as the World Bank, UN-REDD has supported and continues to support further capacity-building for IEF related to REDD+. This support includes a contribution to the process of the accreditation of IEF to the Green Climate Fund (GCF) for “direct access”. It is noteworthy that the proceeds from the GCF project entitled “[Indonesia REDD-plus RBP for results period 2014–2016](#)”, in the amount of \$104 million, will be channelled through IEF, which will strengthen the Fund’s track record in the management of REDD+

funding, a prerequisite for obtaining the relevant GCF accreditation. UN-REDD is also providing technical assistance to mobilize blended finance in order to accelerate the national REDD+ agenda.

SUCCESS FACTORS

One of the key success factors for the creation of a dedicated national REDD+ funding mechanism has been the full participation and commitment of key decision makers in the institutions involved. The critical factor for the success of the national REDD+ fund of the Democratic Republic of the Congo and IEF in Indonesia is the involvement of the ministries of finance of both countries.

Another important factor has been the international pressure exerted by international contributors to create such funding mechanisms. Indeed, international donors, such as Norway's International Climate and Forest Initiative and Germany's KfW have often made the creation of robust fund management structures a prerequisite for providing REDD+ up-front finance or REDD+ results-based payments.

More recently, public-private initiatives interested in jump-starting voluntary carbon markets have also implemented requirements that incentivize countries to adopt robust fund management arrangements. For example, to access funds via the recently formed LEAF Coalition, countries and jurisdictions will need to work with financial intermediaries, which will act as direct-access entities and which they can select from the list of entities accredited under GCF and the Global Environment Facility (GEF). The role of the financial intermediaries is to ensure the integrity of the use of proceeds distributed. Financial institutions will receive, evaluate, and administer funding requests and track and report on the use of proceeds.

The fact that GCF allows for the accreditation of national direct-access entities opens the door to the creation of national REDD+ funding mechanisms, organized within the national administration, using the existing capacities and competencies of the administration to fund activities selected by a decision-making body

(which can be more or less open to actors outside the public administration). If such requirements become the benchmark for countries to access REDD+ results-based payments, work on national REDD+ funding mechanisms will gain momentum as carbon markets emerge.

LESSONS LEARNED

Donor requirements do not always match REDD+ country priorities or needs. For example, some donors require the creation of sinking funds, whereby all the money that is contributed gets spent, while many developing countries prefer revolving funds, which provide more financial sustainability. The idea behind a revolving fund is that it provides the managing entity with a reserve of money that can be used to lend to one or more borrowers. Over a given period of time, the borrower is expected to repay the original sum, which restocks the fund. Usually, an additional sum is charged to the borrower (interest) that acts as a fee for providing the service (administrative costs) and helps to protect the fund from being depleted. Many developing countries prefer such revolving funds because they can provide a long-term source of finance to support REDD+ policies and measures, while sinking funds provide a temporary increase in investments that cannot be maintained over time, given the lack of domestic fiscal resources assigned to these policies.

Another important donor requirement is that appropriate social and environmental safeguards be in place before the donors can make contributions. This often requires aspiring fund management institutions to develop environmental and social standards that go above and beyond national laws and regulations, a process that requires significant investments of time and expertise. The need for such investments has been a major barrier to the development of national REDD+ funding mechanisms within national administrations and to the development of funding structures akin to conditional budget support, where funds are allocated directly to the State administration as part of the ordinary budget process.

Another significant challenge to the ability of a country to establish a single fund management structure for REDD+ is the lack of coordination between donors with respect to their requirements. Donors often have strict requirements, allowing little flexibility for countries to consolidate funding sources and instruments. The inability to direct funds from multiple donors through a single national funding mechanism significantly increases the transaction costs associated with administering REDD+ financing. More recently, the sources of REDD+ finance have been converging around the standards and requirements of the GCF accreditation process. This is a promising avenue to harmonize requirements and reduce the burden on countries. Furthermore, in the medium to long term, national direct-access entities can become accredited with GCF and access funds directly. This is an important new opportunity for the agencies managing the national REDD+ funding mechanism.

Finally, a key element that is often overlooked is the fact that decision-making power on REDD+ implementation tends to be concentrated in the financing structures for REDD+ and therefore deciding on a given fund management architecture can be challenging for countries as internal actors compete for political power. Ministries of the environment or forestry will typically be hesitant to relinquish control of the REDD+ agenda, while other ministries may see little benefit to be gained from participating in processes in which they have no say. Ministries of finance typically assert their prerogative over the way in which international resources are brought into the public treasury, and seldom favour the creation of trust funds or other instruments separate from or parallel to the State budgetary process.

SUSTAINABILITY

There are significant transaction costs entailed in creating and maintaining a national funding mechanism for REDD+. These include not only the salaries of the personnel required to ensure appropriate programmatic and fiduciary decision-making and oversight, but also the cost of the minimum functions that need to be in place for countries to continue reporting REDD+ results and accessing REDD+ result-based payments

from international sources. Such costs include those for national forest monitoring systems, the national safeguards system, the accounting system for national REDD+ results-based payments, and the cost of preparing proposals and negotiating agreements with the different funding sources. The long-term sustainability of national REDD+ governance structures is highly dependent on whether REDD+ consolidates as a credible international financing mechanism at scale.

Experience demonstrates that REDD+ has yet to translate into the provision of adequate and predictable financial support for developing countries. Indeed, at the time of writing of the present brief, the only countries that had received results-based payments had done so through bilateral agreements, for example through the Rewarding Early Movers Programme of KfW, a German State-owned investment and development bank, or through the GCF pilot programme on REDD+ results-based payments.

The table below presents an overview of existing REDD+ performance-based finance, the sources of results-based payments, recipient countries, and the respective funding mechanisms being applied to channel resources, based on the official data published on the Lima REDD+ Information Hub and other sources for which links are provided in the table. An analysis of the table shows the multiplicity of funding mechanisms used, with some countries making use of multiple funding mechanisms simultaneously. It is noteworthy that the vast majority of structures used do not allocate resources directly to a country's administration and therefore remain outside the ordinary national budget process. This is the result of the preferences of both donors or contributors and ministries of the environment or forestry for earmarking REDD+ resources for specific uses, and reflects the current reluctance to channel REDD+ resources through the ordinary budget process based on the fear that the resources will be diverted to other national priorities.

List of REDD+ funding mechanisms

Entity providing results-based payments or REDD+ finance	Country	REDD+ funding mechanism managing the funds
Government of Norway	Brazil	Amazon Fund national REDD+ fund managed by a national Government institution (BNDES)
	Guyana	Guyana REDD+ Investment Fund (GRIF) . The International Development Association of the World Bank is the trustee for GRIF and is responsible for receiving funds from contributors, managing them within a trust fund on behalf of Guyana, and making transfers of GRIF resources to partner entities in the amounts approved by the steering committee.
Government of Germany directly or through the KfW REDD+ Early Movers Programme	Brazil	Amazon Fund national REDD+ fund managed by a national government institution (BNDES) .
	Colombia	Fondo Patrimonio Natural (Natural Heritage Fund) is a non-profit foundation with mixed participation (both public and private sectors) .
	Ecuador	The National Investment Fund for a sustainable environment (FIAS) is a non-profit foundation with mixed participation (both public and private sectors) .
Green Climate Fund	Brazil	Project managed by the United Nations Development Programme (UNDP) outside national fund structures .
	Ecuador	Project managed by UNDP outside national fund structures .
	Paraguay	Hybrid approach: national climate change fund (to be created) and project managed by the United Nations Environment Programme outside national REDD+ fund structures .
	Chile	Project managed by the Food and Agriculture Organization of the United Nations (FAO) outside national REDD+ fund structures .
	Indonesia	Indonesia Environment Fund managed as a special-purpose facility by a national Government institution (Ministry of Finance/Ministry of Environment and Forestry) .
	Colombia	Project managed by FAO outside national REDD+ fund structures .
	Argentina	Project managed by FAO outside national REDD+ fund structures .
	Costa Rica	Hybrid approach: National Forestry Financing Fund of Costa Rica and project managed directly by UNDP.
Central Africa Forest Initiative (CAFI)	Democratic Republic of the Congo	National REDD+ Fund managed by the Multi-Partner Trust Fund Office of the United Nations Development Programme.
	Gabon	Managed by the CAFI Fund. Channelled through selected programmes or projects and implementing agencies based on an investment plan .



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CONCLUSION

A national REDD+ strategy or action plan is a multifaceted initiative to achieve results on a national scale. Developing countries rely on many public and private international and domestic sources of financing to support the delivery of policies and measures to reduce emissions from deforestation and forest degradation.

A consolidated approach, as opposed to a multiplicity of financing mechanisms for each separate bilateral or global initiative, appears to be a promising way forward, and this approach is indeed taking hold in key REDD+ countries such as Brazil, the Democratic Republic of the Congo and Indonesia. This approach is further reinforced by the convergence of donors and voluntary carbon market requirements around the standards and requirements of GCF, offering the opportunity for national entities managing REDD+ funding mechanisms to

receive accreditation with GCF and gain direct access to international resources. However, this approach faces significant hurdles in the light of the magnitude of the changes required in some countries to create a single national REDD+ fund and the current lack of significant and predictable international financing for REDD+.

RESOURCES

- [Lima REDD+ Information Hub](#)
- [Green Climate Fund – Pilot programme for REDD+ results-based payments](#)
- [REDD Early Movers \(REM\) Programme](#)
- [Central African Forest Initiative](#)
- [Democratic Republic of the Congo - FONAREDD](#)
- [National Forestry Financing Fund of Costa Rica](#)



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The United Nations Collaborative Programme
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