AFRICAN DEVELOPMENT BANK GROUP

Potential sources of international funding for forestry projects

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Funds – Green Climate Fund – Private Sector Facility

- GCF's PSF core activities include energy… products and services for vulnerable communities, agriculture, forestry, food, water security, and ecosystems preservation.
- **GCF uses flexible financial instruments (including debt, equity, and guarantees)**
- GCF can combine these instruments with concessional funding to promote private sector investing in our core activities by:
  - **De-risking investments**, including foreign exchange and investors' default;
  - **Bundling small projects** into portfolios, providing scale and making them attractive to institutional investors;
  - **Supporting capacity building** amongst different groups and local institutions;
  - Helping **develop public-private partnerships** for infrastructure resilience projects;
  - **Encouraging innovation**, for example by overcoming scale problems and fragmentation within the supply chain;
  - Being active in the clean energy, climate resilience and sustainability communities.
- Apply though an Accredited Entity (e.g. AfDB) with host country DNA support

Global Environment Facility (GEF)

- Financial mechanism of the UNCCD and UNFCCC; hosts funds related to forestry and agroforestry under 3 windows and 1 dedicated program under GEF6:
- the biodiversity conservation focal area (BD) (mainly public)
- the Sustainable Forest Management (SFM) (mainly public)
- the non-Grant instrument (NGI) (non-commercial, public and private)
- GEF6 program "Taking Deforestation out of Commodity Supply Chains".
- Funding is "allocated" to countries who decide how to use it
- Non-Grant Instrument has financial terms for private sector:
  - Flexible concessional interest rate;
  - Minimum level of concessionality to avoid displacing other finance;
  - First-loss position if justified;
  - Maximum maturity of 20 years;
  - Flexible exit date for equity investments.

Financial terms for public sector (LDCs/SIDS and Other Recipient Countries):

- Grace period of 10 years;
- Interest rate of 0.25% or 0.75%;
- Maximum maturity of 40 or 20 years;
- Principal repaid in equal annual payments after grace period.

Funds

Climate Investment Funds

- (Pending news from Washington)
- Donors have not recapitalized the CIF
- As a result the program is winding down
- Investment plans are still being approval but the expectation is that the GCF will provide funds
- Unfortunately the FORM Ghana project is unlikely to be repeated

Donors

- Many donors are supportive of forestry especially Scandinavians; also UK, Germany, France…
- They support through Funds and also bilateral programs
- Landscape projects with wide social and environmental benefits, FPIC, certified sustainable etc. – can include commercial activities

Funds - MDBs

AfDB

- Investment in forests and landscape is consistent with Hi5s development agenda
- Funding from two major sources:
- ADF funds (concessional, grant and loans)
- ABD (commercial loans to stimulate private sector investment)
- Implement GEF, GEF, CIF etc

IBRD, IFC, EBRD

- IBRD (World Bank Group) have significant amounts of concessional funding
- Operate FCPF and BioCarbon Fund
- IFC is their commercial arm, active in large scale private sector investments
- EBRD increasingly present in Africa

Forest Carbon Partnership Facility

- 18 African countries are members
- Readiness Fund: Focus on getting ready for REDD+ such as adopting national REDD+ strategies; developing reference emission levels (RELs); designing measurement, reporting, and verification (MRV) systems; and setting up REDD+ national management arrangements
- Carbon Fund: pilot incentive payments for REDD+ policies and measures in approximately five developing countries
- **Results-based finance** has been provided in, for example CAR and DRC and there are on-going projects in sustainable Cocoa production

- Burkina Faso
- Cameroon
- CAR
- Congo DR
- Congo R
- Cote d'Ivoire
- Ethiopia
- Gabon
- Ghana
- Kenya
- Liberia
- Madagascar
- Mozambique
- Nigeria
- Sudan
- Tanzania
- Togo
- Uganda

BioCarbon Fund
Initiative for Sustainable Forest Landscapes

- The BioCarbon Fund Initiative for Sustainable Forest Landscapes
- Collaborates with forest countries around the world to reduce emissions from the land sector through smarter land use planning, policies, and practices.
- ISFL is pioneering work that enables countries and private sector actors to adopt changes in the way farmers work on the ground to the way policies are made at the international level.
- This work supports sustainable landscapes, climate-smart land use, and green supply chains.

REDD+

The overall development goal of the Programme is to reduce forest emissions and enhance carbon stocks in forests while contributing to national sustainable development.

- The UN-REDD Programme supports nationally led REDD+ processes

Support partner countries through:

- Design and implementation of National REDD+ Programmes;
- Complementary tailored support to national REDD+ actions; and
- Technical capacity building

Norway is the major donor; seven counties in Africa have REDD+ programs

Could ultimately lead to results based payments for REDD+ activities

International Markets – supply

CDM

- Very few A R projects were created and implemented under CDM; almost no demand for units. *IMO: Will phase out as PA takes over from KP*

Paris Agreement Article 6.2

- Creates Internationally Transferrable Mitigation Outcomes (ITMOs) via bilateral agreements between Parties – could be an important source of Govt finance in the future; could include forestry projects

Paris Agreement Article 6.4

- Proposes a mitigation market mechanism drawing on previous experience under Kyoto (i.e. CDM and JI); intense discussions; double counting provisions complicated; *IMO: unlikely to offer much to forestry projects*

VCS

- Voluntary projects generating VERs; future is threatened under Paris Agreement due to double counting provisions

International Markets demand - ICAO, IMO

CORSIA - Carbon Offsetting and Reduction Scheme for International Aviation

- No further increase in emissions from 2020 (i.e. a hard cap)
- Special circumstances and respective capabilities of states
- 2021- 23 (pilot phase) and 2024 – 26 (first phase) covering international flights between volunteers
- 2027 all countries whose emissions exceed 0.5% of total Revenue Tonne Kilometers (RTK) excluding LDCs, SIDS, LLDCs; but they can volunteer
- Offsets can be used until 2035. After that, biofuel…
- REDD+ / VCS are obvious sources of supply – but still to be agreed
- BUT exporting countries may need to declare exported (ie transferred / sold / utilized) emission reductions in the national inventory
- Also likely to be relevant to the International Maritime Organization….

International Markets - demand

Other compliance markets e.g. Emission Trading Systems

- *IMO: Unlikely*
- EU ETS excluded forestry based credits from the outset, only allowing temporary and long term emission reductions
- Issues of permanence and scale remain

- More likely that Governments will implement bi-lateral initiatives and transfer units as ITMOs in order to then auction more units into an ETS

International Markets - demand

Voluntary markets – CSR buyers and donors buying for cancellation

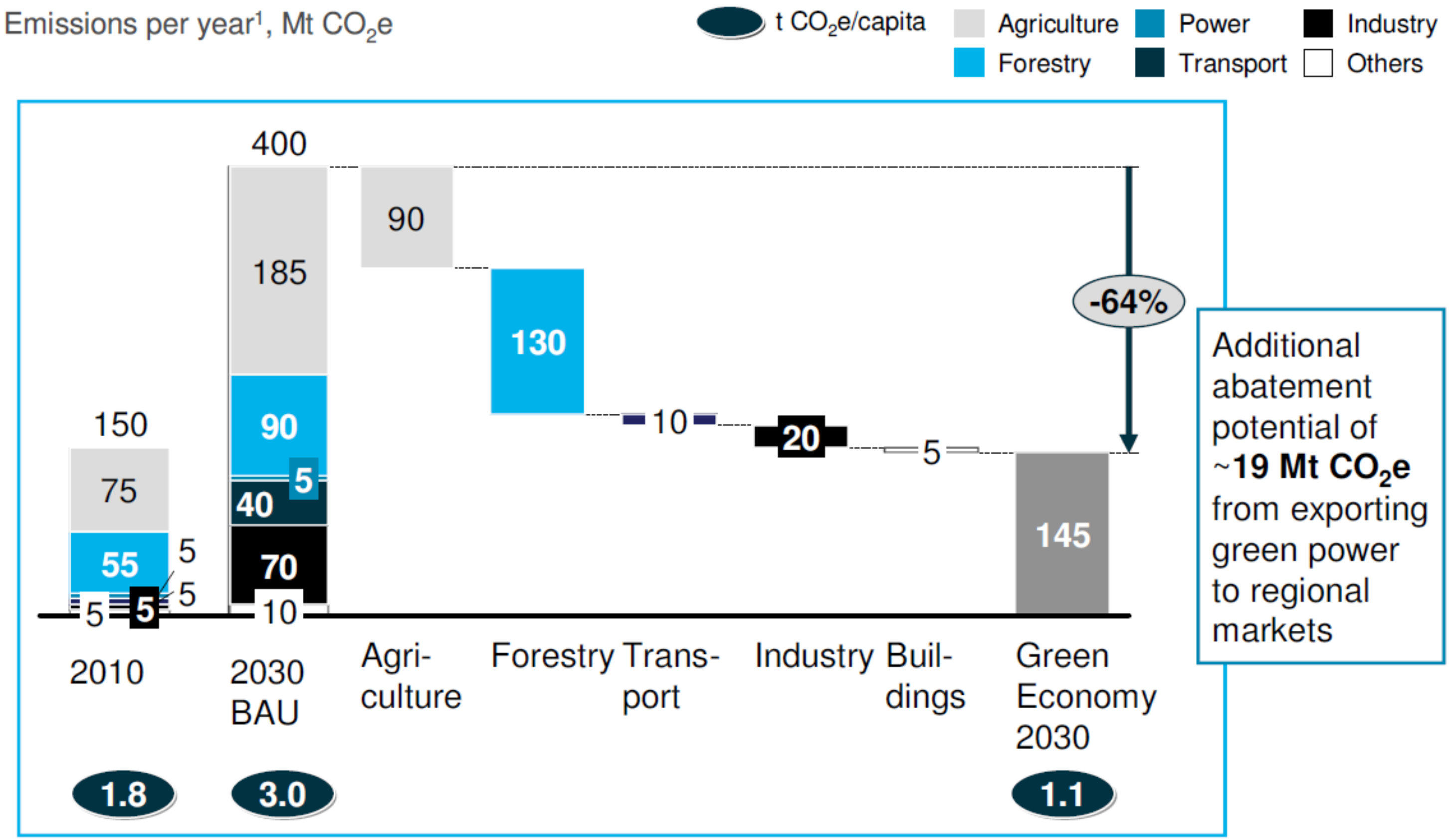
- Forestry has always been an attractive / easier to package product but demand has remained at boutique scale
- Some developers are pushing hard for further recognition of AR in the mitigation market mechanism
- However, there is growing interest in support for projects which contribute more broadly to the Sustainable Development Goals rather than just carbon – for example Gold Standards "Gold Standard for the Global Goals"
- And correspondingly less interest in delivery of carbon offsets
- Will continue to be complicated by double counting provisions in the Paris Agreement

Paris Commitments – NDCs (domestic demand)

- Many countries have identified the forest sector as a major source of GHG emissions in the NDCs
- And hence, the forest sector can a) reduce emissions and b) become a net sink
- E.g. Ethiopia: current emissions 55 MT per annum growing to 90 MT in 2030. Commitment is to turn forest into a net sink of 130 MT per annum by 2030 - reversing the depletion of the forest estate and also offsetting a further 40 MT per annum from other sources
- So Governments may come to realize the value of carbon storage in forests and respond accordingly

FIGURE 8

CRGE implementation could ensure a low-carbon economic development pathway, decreasing per capita emissions by 60%



1 Rounded numbers
2 Currently estimated emissions form buildings and waste

Domestic policies and measures

- South Africa has proposed a carbon tax on large point source emitters (power plants, fossil fuel importers, heavy industry)
- Tax liabilities can be "offset" by acquiring emission reductions from domestic projects
- Including projects in the landuse sector
- This effectively provides a new source of revenue for forestry and landuse projects
- This works because the accounting takes place within the national inventory, there is no international transfer
- Expect more of this in the future

Non-market mechanisms

The Adaptation Benefit Mechanism - developed by AfDB and proposed under Article 6.8 of the Paris Agreement by Uganda

ABM rewards project developers for the delivery of Adaptation Benefit Units (ABUs)

Instead of quantifying carbon storage, the ABM counts project specific ABUs and “sells” these to sponsors (donors, CSR buyers etc) on a **results based payment** basis.

Similar to FCPF and BioCF only simpler (no REDD+ background)

Forests bring **multiple adaptation benefits** to local communities increasing their chances of being able to withstand climate induced shocks

The ABM is being progressed via the climate negotiations….

Conclusions

- Complex array of potential funding sources

Prospects to monitor:

- GCF and bilateral loans from donors / MDBs
- CORSIA and IMO
- Host country plans to meet their own NDCs
- Bio-energy – particularly for aviation and shipping
- Adaptation / SDGs as a new route to donor funds and the voluntary market

Thankyou for your attention

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