GEF/C.38/Inf.4/Rev.2
July 1, 2010

GEF Council Meeting
June 29 – July 1, 2010
Washington, D.C.

Agenda Item 17

INVESTMENT GUIDELINES FOR GEF'S SUSTAINABLE FOREST MANAGEMENT AND REDD-PLUS PROGRAM

Investment Guidelines for
GEF'S Sustainable Forest Management and REDD-Plus Program
Rev.2

1. As part of the replenishment decisions, the GEF-5 strategy will expand a financial incentive mechanism pioneered under GEF-4 dedicated to forests, which will include the latest developments in new and innovative financing opportunities for Sustainable Forest Management (SFM) and REDD-plus.

2. Unlike in GEF-4, all types of forests will be eligible for funding under the SFM/REDD-plus program. The primary focus of this program will be implementation at the national and sub-national levels, including through programmatic approaches. The portfolio is expected to be made up of a wide spectrum of SFM management tools, such as protected area creation and management, integrated watershed management, certification of timber and non-timber forest products, payments for ecosystem services (PES) schemes, financial mechanisms related to carbon, development and testing of policy frameworks to slow the drivers of undesirable land-use changes, and work with local communities to develop alternative livelihood methods to reduce emissions and sequester carbon. In connection with these projects and programs, the GEF may also support activities that develop systems to measure and monitor carbon stocks and fluxes from forest and non-forest lands.

3. GEF-funded interventions will cover the spectrum of land-use categories consistent with the IPCC. Seeking to address potential trade-offs, the strategy does not support the substitution of native forests with plantations, regardless of whether benefits in carbon sequestration could be anticipated.

4. The renewed financial scheme for GEF-5 will be open to all forest countries and designed to provide incentives for the emergence of more impactful SFM/REDD-plus projects and programs. The incentives will only be provided if they leverage contributions and foster convergence of investments from GEF-5 STAR balances in the focal areas of biodiversity, climate change and land degradation directed towards forest activities, with the aim of achieving multiple benefits under more cost-effective strategies.

5. The program reflects the guidance coming from all three conventions dealing with forests, and for which the GEF is a financial mechanism (UNFCCC, CBD and UNCCD). It adopts the evolving consensus around the SFM concept[1], as embraced by the Collaborative Partnership on Forests (CPF) and stated in the non-legally binding instrument on all types of forests (NLBI) of the United Nations Forum on Forests (UNFF). The approach recognizes SFM as encompassing seven thematic elements: extent of forest resources, biological diversity, forest health and vitality, productive functions of forests, protective functions of forests, socioeconomic functions, and the legal, policy and institutional framework. This broadly defined approach can be applied from production forests, all the way to protected

[1] The Bali action plan of the UNFCCC employs the term Sustainable Management of Forests (SMF).

forests and to degraded forests in need of restoration.

6. The allocation of resources to projects and programs on SFM/REDD-plus will draw on a transparent and equitable investment algorithm that finances countries with a ratio of 3:1. In other words, for every three dollars of investment from STAR resources from two or more focal areas allocated to a particular country, one dollar will be released from the SFM/REDD-plus incentive mechanism (the challenge account) to the project being proposed (see Annex 1). For example, a country that decides to program $30 million from combinations of resources from the three eligible focal areas would be endowed with an additional $10 million originating from the SFM/REDD-plus challenge account. A country that decides to allocate $6 million from two or more focal area STAR allocations would leverage $2 million from the challenge account.

7. Individual countries will be allowed to invest a maximum of $30 million from their combined allocations. Large allocation countries may also choose to allocate additional resources for forest projects and programs beyond the ceiling used to trigger SFM/REDD plus challenge account investments, but these would not be eligible to be leveraged by the program beyond the $30 million ceiling.

8. To ensure that countries have access to sufficient funding to invest in SFM at an ecologically and operationally significant scale, each country will be required to invest a minimum of $2 million from their combined allocations in order to qualify for incentive investments from the challenge account.

9. In sum, the challenge account will be used as an incentive to coalesce and augment multi-sectoral and multi-focal area investments in transformative initiatives in forests, which in turn may be identified and proposed by countries through voluntary national portfolio formulation exercises (NPFE).

10. The GEF has a significant comparative advantage in directing the investments that support measures to control and prevent deforestation and forest degradation as essential and cost-effective means to deliver multiple global environmental benefits, including the protection of forest habitats, forest ecosystem services, mitigation of climate change and protection of international waters, reflecting the transversal nature of forests globally. The GEF-5 strategy will better reflect these key synergies, working with and supporting the calls for international cooperation and national action to reduce deforestation, prevent forest degradation, promote sustainable livelihoods and reduce poverty for all forest-dependent peoples. Finally, the GEF will continue to strengthen its long-standing processes of co-operation with other multilateral and bilateral initiatives on SFM/REDD-plus.

ANNEX 1
Rev.2

RATIONALE AND DETAILED INVESTMENT STRATEGY FOR THE GEF SUSTAINABLE FOREST MANAGEMENT AND REDD-PLUS PROGRAM

1. Forest ecosystems provide a variety of benefits which are realized at the global, sub-regional, national and local scales. Threats to forest ecosystems are also multiple – ranging from the impacts of climate change to all aspects of competing land uses that lead to forest degradation and deforestation. On a global scale, deforestation contributes to 15-17% of greenhouse gas (GHG) emissions, which is more than the entire transport sector.

2. The importance of forests in the global carbon equation has prompted significant policy discussions on the now-called REDD-plus framework (which expands from the Framework of Reducing Emissions from Deforestation and Degradation to include forest restoration, rehabilitation, sustainable forest management, afforestation and reforestation). These principles were essentially agreed upon during UNFCCC COP-15, drawing from the original Bali Roadmap. As stated in Copenhagen, the crucial role of reducing emissions from deforestation and forest degradation calls for the provision of positive incentives for such actions through the immediate establishment of a mechanism including REDD-plus and the mobilization of financial resources from developed countries. Furthermore, calls were made for substantial finance to be directed through international institutions to reduce emissions from deforestation and forest degradation for the enhanced implementation of the Convention..

3. Beyond their key role in climate change mitigation of land-based emissions, forests harbor a significant fraction of the world's biodiversity wealth and are responsible for the provision of key ecosystem services, including functioning as carbon sinks and storehouses, as buffers against soil degradation and desertification, as well as sustaining the livelihoods of hundreds of millions of rural people everywhere. These linkages imply that forests can be conserved and managed for multiple benefits if the different objectives can be pursued synergistically.

4. Acting on these inter-linkages proactively and under GEF Council guidance, GEF-4 introduced a more strategic approach to Sustainable Forest Management (SFM), which included the role of forests in climate change mitigation under the LULUCF (Land Use, Land Use Change and Forestry) framework. The successful GEF-4 strategy was operationalized through a SFM program which rapidly emerged as a diverse portfolio of investments that address individual GEF focal area aspects of forests or emphasized the multiple benefits character of forest ecosystems through major programmatic approaches. Over the past 3 years, the GEF SFM program approved close to $350 million in GEF resources.

5. Also in GEF-4, the conversion and degradation of *tropical* forests, which account for approximately 90% of the total GHG emissions from deforestation and for nearly 80% of the threats to biodiversity globally, were made the focus of an innovative experiment conducted in the ambit of the SFM program. Through this initiative and using a portion of global and regional exclusion resources (GRE) from biodiversity and climate change, countries were incentivized to invest portions of their allocations from different focal areas in more impactful sets of SFM and LULUCF activities.

6. This mechanism became known as the Tropical Forest Account (TFA). Three regions of large, intact, tropical forest (Amazonia, Congo Basin, and New Guinea/Borneo) were defined as the targets for the TFA. Although the countries spanning these regions also contain 68% of tropical forest carbon, they received only 18% of climate change RAF funding in GEF-4. The TFA incentive mechanism was resourced by reserving portions of the GRE set-aside windows of biodiversity and climate change, complemented by land degradation resources, and directed to SFM activities.

7. In Copenhagen, provisions of positive incentives for REDD-plus were called for. Furthermore, drawing on guidance from the CBD and UNCCD, the investment strategy in SFM and REDD-plus for GEF-5 will build on the very promising experience with the SFM portfolio development gained in GEF-4, particularly by expanding the TFA incentive mechanism experiment as a more robust challenge account.

8. The GEF-5 strategy will expand geographically and financially the incentive mechanism pioneered under GEF-4, also making use of the latest developments in new and innovative financing opportunities for REDD-plus. For GEF-5, all types of forests will be made eligible for funding under the SFM program, ranging from tropical and sub-tropical forests to woodlands. The portfolio is expected to be made up of a wide spectrum of SFM management tools, such as protected area creation and management, integrated watershed management, certification of timber and non-timber forest products, payments for ecosystem services (PES) schemes and financial mechanisms related to carbon, development and the testing of policy frameworks to slow the drivers of undesirable land-use changes, as well as work with local communities to develop alternative livelihood methods to reduce emissions and sequester carbon. The GEF will support activities that will develop systems to measure and monitor carbon stocks and fluxes from forest and non-forest lands.

9. GEF interventions will cover the spectrum of land-uses consistent with the IPCC. However, seeking to address potential trade-offs, the strategy does not support the substitution of native forests with plantations, regardless of whether benefits in carbon sequestration could be anticipated.

10. The renewed investment scheme for GEF-5 will be open to all forest countries and designed to provide incentives for the emergence of more impactful SFM/REDD-plus projects and programs. These incentives are intended to leverage contributions and foster convergence of investments from GEF-5 STAR balances in biodiversity, climate change and land degradation directed towards forest activities, with the aim of achieving multiple benefits under more cost-effective strategies.

11. The GEF-5 SFM/REDD-plus program reflects the guidance coming from all three conventions dealing with forests, and for which the GEF is a financial mechanism (UNFCCC, CBD and UNCCD). It adopts the evolving consensus around the SFM concept[2], as embraced by the Collaborative Partnership on Forests (CPF) and stated in the non-legally binding instrument on all types of forests (NLBI) of the United Nations Forum on Forests (UNFF). The approach recognizes SFM as encompassing seven thematic elements: extent of forest resources, biological diversity, forest health and vitality, productive functions of forests, protective functions of forests, socioeconomic functions, and the legal, policy and institutional framework. This broadly defined approach can be applied from production

[2] The Bali action plan of the UNFCCC employs the term Sustainable Management of Forests (SMF).

forests, including planted forests, all the way to protected forests and to degraded forests in need of restoration.

12. The SFM/REDD-plus program will reinforce GEF Council guidance to foster a convergence of investments in more efficient and cost-effective projects and programmatic approaches. According to GEF projections, a funding envelope of $250 million, set aside from the allocations of biodiversity, climate change and land degradation, and operating as a challenge account, would be able to mobilize $750 million in country allocations, not considering the leveraging opportunities from other sources triggered by GEF direct investments. The allocation of resources to projects and programs on SFM/REDD-plus will draw on an investment algorithm that is being proposed to enable the leveraging of significant funding from forest countries' specific GEF-5 account balances. The proposed incentive mechanism has been designed to satisfy the following objectives:

a. Forest countries with smaller combined STAR allocations should be given the opportunity to access sufficient funding to invest in an SFM/REDD-plus related project at a scale sufficient to allow for larger impact results.
b. Countries with large STAR allocations should be provided with a substantial incentive to invest in SFM/REDD-plus related projects. This implies that the challenge account would leverage meaningful contributions from the countries' existing allocations, while taking into consideration their respective absorptive capacities over the course of GEF-5.
c. Countries with large STAR allocations should not be allowed to appropriate disproportionate portions of the challenge account.
d. In addition, the SFM/REDD-plus program should ideally start considering batches of proposals when sufficient resources become available for a competitively-based distribution of investments, and across many countries.
e. Finally, the investment algorithm that will orient the distribution of resources is being proposed to adhere to the following principles:

i. Algorithm should be **transparent.**
ii. Algorithm should be applied in an **equitable** and non-discriminatory manner across eligible countries.
iii. Algorithm should be **simple and easy to calculate**.
iv. Algorithm should ideally be **transferable** to subsequent funding cycles.

13. Several simulations and different algorithms were explored, so as to satisfy the above mentioned criteria. But given the uncertainties in resource programming across a multitude of countries, it was concluded that a simple and straightforward algorithm would yield the best distribution of investments. It is also proposed that individual countries be allowed to invest a maximum of $30 million from their combined allocations. To ensure that countries have access to sufficient funding to invest in SFM at an ecologically and operationally significant scale, each country will be required to invest a minimum of $2 million from their combined allocations in order to qualify for incentive investments from the challenge account.

14. The proposed investment algorithm would work as follows:

$$I = C \times 0.333 \qquad \textit{(C and I in million USD)}$$

C represents a portion of a country's combined contribution drawing from its allocation in biodiversity, and/or climate change, and/or land degradation, in million USD; I represents the challenge account investment, in million USD. For example, a country that decides to program $30 million from combinations of resources from two or more focal areas would be endowed with an additional $10 million originating from the challenge account. Large allocation countries may also choose to allocate additional resources for forest projects and programs beyond the ceiling used to trigger challenge account investments, but these would not be eligible to be leveraged by the program beyond the $30 million ceiling. A country that decides to allocate $6 million from its allocations would leverage $2 million from the challenge account.

15. In sum, the challenge account will be used as an incentive to coalesce and augment multi-sectoral and multi-focal area investments in transformative initiatives in forests; these, in turn, may be identified and proposed by countries through the voluntary national portfolio formulation exercises (NPFE). The GEF has a significant comparative advantage in directing the investments that support measures to control and prevent deforestation and forest degradation as essential and cost-effective means to deliver multiple global environmental benefits, including the protection of forest habitats, forest ecosystem services, mitigation of climate change and protection of international waters, reflecting the transversal nature of forests globally. The GEF-5 strategy will better reflect these key synergies, working with and supporting the calls for international cooperation and national action to reduce deforestation, prevent forest degradation, promote sustainable livelihoods and reduce poverty for all forest-dependent peoples.