

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. PNG will need to conduct an assessment of the cost of implementing the PAMs, many of which are linked to existing government priorities and programmes, 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 help 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 relevant 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 GCF has the potential (with grants 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 Japan International Cooperation Agency (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 thus important to identify sources of finance that are secure and low risk to PNG. This will help ensure that early investments by government and communities are not made in areas where the market may disappear in the future. This is crucial when working with communities and landowners who will be asked to make long term decisions about their land.

The GCF 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) Currently, there are no PNG government agencies that are accredited. However there are some development partners and international non government organizations that are accredited and can work with the PNG government, private sector and civil society. CCDA is also working with GCF and other government agencies to build capacity and increase government access to GCF finance.



Developing REDD+ in Papua New Guinea Briefing Series

This brief is part of a series of briefing documents to help inform key stakeholders and decision makers of the issues and options for REDD+ development in PNG and to facilitate the decision making processes that are required to develop a National REDD+ Strategy.



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 (GCF) to provide finance for REDD+ implementation.

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

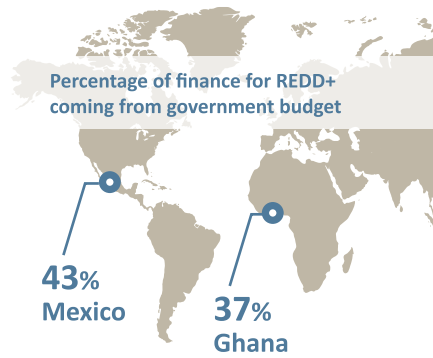
Maintain close engagement with ongoing international negotiations under the UNFCCC and other multilateral agreements to ensure the country is able to access new financing options if and when they are agreed.

FAST FACTS

Financing REDD+ implementation requires multiple sources of finance. Key points on different sources of finance are provided below¹:

National government finance

Government finance is critical to implementing REDD+. Existing finance from departments will be essential to implementing REDD+ policies and measures that are in line with the priorities and mandates of key agencies e.g. forest monitoring by PNG Forest Authority (PNGFA) or environmental impact assessments by Conservation and Environment Protection Authority (CEPA).



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 Forest Stewardship Council (FSC) or palm oil companies investing more for Round table on Sustainable Palm Oil (RSPO) certification.

Development partners and the Green Climate Fund

Increasing international finance to support REDD+ development and implementation under the UNFCCC is available but will need to create changes that are sustainable in the long term.

\$5 billion

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

\$40 million

First GCF REDD+ support programme awarded to Ecuador for 2017-2022

\$5

Average price per tonne CO₂e 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 government (budgets of PNGFA, CCDA, in particular) and donors funds (UN-REDD, FCPF, JICA, GIZ, EU) 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:

- Planning and coordinating REDD+ implementation (through a National REDD+ Strategy or Action Plan),
- Implementing Policies and Measures (PAMs) to reduce emissions,
- Developing capacities to monitor and report on changes in emissions through the national forest monitoring system (NFMS) and forest reference level (FRL), and
- 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 then be developed to provide more detailed information on financing needs for specific policies and measures. This can be used to request additional domestic and international finance.

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

The voluntary carbon market (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 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 VCM REDD+ 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 globally in 2015 valued at only \$34million¹ less than GCF support to Phase 2 REDD+ development in a single country (Ecuador \$43million).

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 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 (bilateral), the UN-REDD Programme, and the FCPF Readiness Fund (multilateral). 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 and 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 (Japan International Cooperation Agency) 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 (RBPs)</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 RBP 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 but these remain uncertain at present.</p>	

Figure 1: Three Phases of REDD+

