

Tropical Forest Carbon Grantmaking Strategy:

A Strategy for Collaborative Philanthropic Support for Reducing Emissions from Deforestation and Degradation (REDD)

Note

This document has been prepared on behalf of a set of philanthropic donors that are working to establish a network to direct philanthropic resources at the highest priority opportunities to achieve greenhouse gas emission reductions. On behalf of this emerging network, the David and Lucile Packard Foundation facilitated the development of a grantmaking strategy designed to orient the investments of these foundations (and other interested donors) to support governmental and non-governmental efforts to slow deforestation.

This strategy is a living document and will be updated as conditions change and as additional input is received from other institutions and experts. A preliminary draft was prepared with input from a working group involving David Kaimowitz (Ford Foundation), Larry Linden (Linden Conservation Trust), Paulo Moutinho (Instituto de Pesquisa Ambiental da Amazônia – IPAM), Annie Petsonk (Environmental Defense), Walt Reid (David and Lucile Packard Foundation), Joe Ryan (Hewlett Foundation), Frances Seymour (Center for International Forestry Research) and Dan Zarin (University of Florida). That draft was sent to fifty experts in twelve countries for review. The working group revised the draft to reflect the input from the thirty reviews that were received and that draft was subsequently approved by the Steering Committee of the ClimateWorks Network and by the Board of Trustees of the David and Lucile Packard Foundation.

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Introduction

Greenhouse gas emissions associated with deforestation and forest degradation, primarily in tropical forests, account for approximately 17 percent of global emissions,^{1,2} greater than all transportation emissions combined. Recent rates of emissions of greenhouse gasses associated with deforestation represent historically peak levels. Because of the scale of emissions associated with tropical deforestation and the fact that deforestation “locks in” substantial climate forcing that would be slow to reverse, *Design to Win*³ concluded that reducing emissions associated with tropical deforestation and forest degradation should be a priority for philanthropic investments to address climate change.

The design of a new philanthropic strategy to reduce deforestation must be informed by the experience of decades of efforts by governments and non-governmental organizations (NGOs) to achieve that objective, with widely mixed results. Deforestation rates have slowed in some countries, such as Costa Rica, and some success has been achieved through strategies such as establishing protected areas and compensating landowners for improved forest management. Overall, however, previous efforts have fallen far short of what is needed to significantly slow tropical forest loss globally.

There are many reasons why deforestation has continued to advance, and even accelerate, in the face of well-intentioned efforts to curb that advance.⁴ A substantial part of the explanation is due to pervasive financial incentives that make keeping land under intact forest cover relatively unattractive when compared to alternative land-uses. In addition, many of the drivers that produce those incentives are macro-economic in scope, and lie outside the forest sector (e.g. commodity prices, agricultural policies), making them relatively insensitive to sectoral efforts to promote forest conservation. Finally, conservation policy implementation is further constrained by national governments with limited regulatory, institutional, and financial capacity, and by problems associated with forest tenure and governance.

However the opportunity now exists to create economic incentives for landowners and countries to leave their forest standing by capturing the economic value of the carbon in standing forests (or more accurately the value of the foregone emissions of greenhouse gases.) The financial calculus that has historically led to the substitution of cattle and agricultural production for intact tropical forests may be transformed by the emergence of tropical forest carbon as a new, global commodity. Avoided deforestation was not included as an emissions reduction mechanism within

¹ Estimate for 2004 from: IPCC. 2007. *Climate Change 2007 Synthesis Report: Summary for Policy Makers*. IPCC, Switzerland. Figure SPM.3. However, there is substantial uncertainty surrounding these estimates (see Table 9.2 in: Nabuurs, G.J., et al. 2007: Forestry. In: *Climate Change 2007: Mitigation*. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change [B. Metz et al. (eds)], Cambridge University Press).

² Houghton, R. A. 2005. Tropical deforestation as a source of greenhouse gas emissions. In: *Tropical Deforestation and Climate Change*. P. Moutinho and S. Schwartzman (eds.), Amazon Institute for Environmental Research, Belém, Pará, Brazil.

³ California Environmental Associates. 2007. *Design to Win: Philanthropy's Role in the Fight Against Global Warming*. (http://www.ceaconulting.com/pdf/DesignToWin_FinalReport.pdf)

⁴ Nabuurs, G.J., et al. 2007: Forestry. In: *Climate Change 2007: Mitigation*. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change [B. Metz et al. (eds)], Cambridge University Press.

the first implementation period of the Kyoto Protocol (2008-2012), but the Bali Action Plan agreed to at the Framework Convention on Climate Change Conference of Parties in Bali in 2007 (COP 13) places consideration of a global carbon finance mechanism to compensate for avoided deforestation (now generally referred to as Reducing Emissions from Deforestation and Degradation or REDD) squarely on the agenda for negotiation of the post-2012 climate change agreement.

This document presents a draft five-year philanthropic strategy to support efforts of governments and NGOs to significantly slow the rate of tropical deforestation in order to reduce greenhouse gas emissions, support national development, conserve biodiversity, and improve livelihoods of indigenous and forest dependent peoples. This strategy focuses in particular on steps that could help to create the technical and political enabling conditions for an effective international REDD mechanism. Although the creation of a REDD mechanism could be a transformative step for achieving goals related to climate, development, and biodiversity, it is by no means the only important strategy for tropical forest conservation (see Box 1.). However, given the urgency of the opportunity presented by the ongoing REDD negotiations under the Framework Convention on Climate Change (FCCC) and the support that governments and NGOs are seeking to help create the enabling conditions for a REDD mechanism, this five-year strategy focuses on the implementation of a coordinated grantmaking strategy responsive to these needs.

Box 1. Philanthropic Strategies to Improve Forest Management and Slow Deforestation

Although this strategy focuses on supporting the work of governments and NGOs to create a global carbon finance mechanism to compensate for avoided deforestation this is by no means the only solution to the challenge of deforestation. Indeed a wide range of other philanthropic strategies are complementary to this focus on REDD (indeed many of these strategies will be central to national plans to implement an international REDD mechanism) and some can better achieve short-term reductions in deforestation. Examples of important needs for philanthropic support include:

Reform forest tenure and governance to increase incentives for sustainable forest management

- Recognize the rights and tenure of forest dependent peoples.
- Support the engagement of forest dependent people and indigenous people in decision-making processes.
- Reform forest governance to place responsibility and accountability at appropriate scales and to ensure transparency of decision-making.
- Reduce corruption associated with forest management.

Eliminate perverse incentives that promote overexploitation of forest resources.

- Reform agriculture and timber subsidies that encourage economically wasteful deforestation or mismanagement of forests.

Promote markets and incentives for ecosystem services.

- Develop markets for forest ecosystem services such as water, ecotourism, and non-timber forest products to support sustainable land management.
- Establish programs providing Payments for Ecosystem Services (PES) either through government programs or arrangements where individuals and companies benefiting from services pay for the conservation of those services.

Reduce demand for commodities produced through unsustainable practices in forested regions and increase demand for products produced through environmentally sound practices.

- Promote certification for sustainable forest management
- Establish standards for sustainable bioenergy production and ensure that governments and major buyers adhere to those standards.
- Establish standards for sustainable crop and livestock production and ensure that buyers adhere to those standards.
- Establish and enforce environmental regulations and best practice standards for extractive industries.

Ensure that sustainability criteria are considered in private and public sector financing.

- Ensure that infrastructure financing (roads, dams, etc.) decisions take into account the full range of economic, environmental and social costs and benefits.
- Ensure that commercial investors involved in forest-related industries take into account economic risks and risks to corporate image or reputation associated with unsustainable forest management practices or human rights abuses.

Goal and Theory of Change

Goal

The goal of the Forest Carbon Grantmaking Strategy is to reduce emissions from deforestation and forest degradation by 2 GtCO₂e per year by 2030 (that is, to a level of approximately 3.8 GtCO₂e per year).⁵

We seek to achieve this goal by supporting the efforts of governments and NGOs to create the technical and political enabling conditions for an effective international REDD mechanism through actions that also help to achieve near-term reductions in deforestation.

Current emissions of greenhouse gases associated with land use change – primarily tropical deforestation – total approximately 5.8 GtCO₂e per year.⁶ According to the IPCC, forestry mitigation options have the economic potential to contribute emission reductions of an average of 2.7 GtCO₂e per year in 2030 at costs up to \$100 per tCO₂e. About 50% of those reductions can be achieved at a cost under \$20 per tCO₂e (around 1.6 GtCO₂/yr) with large differences between regions. Global top-down models predict far higher mitigation potentials of 13.8 GtCO₂e per year in 2030 at carbon prices less than or equal to \$100 per tCO₂e. The *Design to Win* analysis estimated that reducing deforestation and forest degradation has the potential to reduce expected emissions of greenhouse gases in 2030 by approximately 2 GtCO₂e emissions. The basis for this estimate is not stated in the *Design to Win* report but it is consistent with the estimated reductions that could be achieved at costs of less than roughly \$20 to \$30 per tCO₂e based on the IPCC estimates.⁷

Although the prospect of using international carbon financing to create economic value for living forests at a scale commensurate with large scale deforestation justifies investments in pursuit of this goal, the obstacles that must be overcome to create an effective international REDD mechanism are significant. While on the surface the potential economic benefits that could be generated through a REDD mechanism are significant and could logically provide incentives for conservation, the scale of potential benefits is not dissimilar from existing potential economic benefits that have not altered forest management. The World Bank estimates, for example, that illegal logging alone accounts for losses to governments of US\$10 to \$15 billion per year from public lands (due to the failure to collect fees and taxes from timber extraction) yet these substantial costs have not resulted in significant enforcement actions by most governments.⁸

Indeed, for both political and technical reasons the ultimate establishment of an effective REDD mechanism is by no means certain. Our theory of change does not assume that agreement will be

⁵ Estimated rates of deforestation in the 1990s range from 6 to 16 million ha per year (Houghton, 2005). Estimated annual emissions during this time period range from 0.9 to 2.2 GtC or 3.3 to 8.0 GtCO₂. Achieving this goal would thus be roughly equivalent to slowing deforestation to roughly one half of the current rate of deforestation, or in other words preventing forest loss of an area somewhat larger than the size of Costa Rica each year.

⁶ IPCC. 2007. Nabuurs, J. and M. Masera, et al. *Forestry*. In: *Climate Change 2007: Mitigation*. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press, Cambridge, U.K.

⁷ The IPCC estimates include all forests, but most emissions are from tropical forests.

⁸ World Bank. 2004. *Doing business in 2005. Removing obstacles to growth*. Washington, DC, USA, Oxford University Press & World Bank.

reached in 2009 and instead takes a longer-term view that supporting the creation of enabling conditions and efforts to gain practical experience with REDD will ultimately create the conditions for a global agreement. In that sense, our theory of change is based on a “no regrets” approach, whereby the investments made in 2008 and 2009 will help to slow deforestation and set the stage for an ultimate political agreement on an international REDD mechanism, whether or not such an agreement is reached in 2009.

The creation of a successful REDD mechanism will require significant progress on methodological, political, and implementation issues:

Methodological Issues

- There is as yet no commonly shared understanding of how REDD will operate either to address the fundamental *technical and methodological* issues associated with monitoring and measuring emissions, setting baselines, and addressing leakage, additionality, and permanence, or the *financial and institutional design* issues associated with how REDD credits will be handled either within an international carbon market, or within a non-market global fund mechanism.

Political and International Equity Issues

- Inclusion of REDD within the FCCC continues to be controversial within the U.S. and Europe because of concern over the quality of emission reductions associated with REDD stemming from questions about measurement error, leakage, additionality, and permanence.
- Some stakeholders are concerned that REDD would flood the carbon market with inexpensive carbon and significantly reduce the steps that Annex 1 countries take to reduce their own emissions.
- REDD design must take into account not only the interests of countries with high rates of deforestation, but also those of: a) tropical countries such as Costa Rica that have stabilized forest loss; b) tropical countries such as India, China and Vietnam where tropical forest area is currently increasing; and c) countries that may have relatively low current rates of deforestation but that are at risk of increased deforestation in the future (particularly if reductions in deforestation in other countries result in an increase in demand for timber or commodities). As a result, countries are not yet close to agreement on the design of a REDD mechanism. A variety of different mechanisms have been proposed for the design of a global REDD finance mechanism, ranging from market-based systems (supported by the Coalition for Rainforest Nations) to the creation of a fund (proposed by the Government of Brazil). Ultimately, different mechanisms may be required to address the differing national situations and interests.

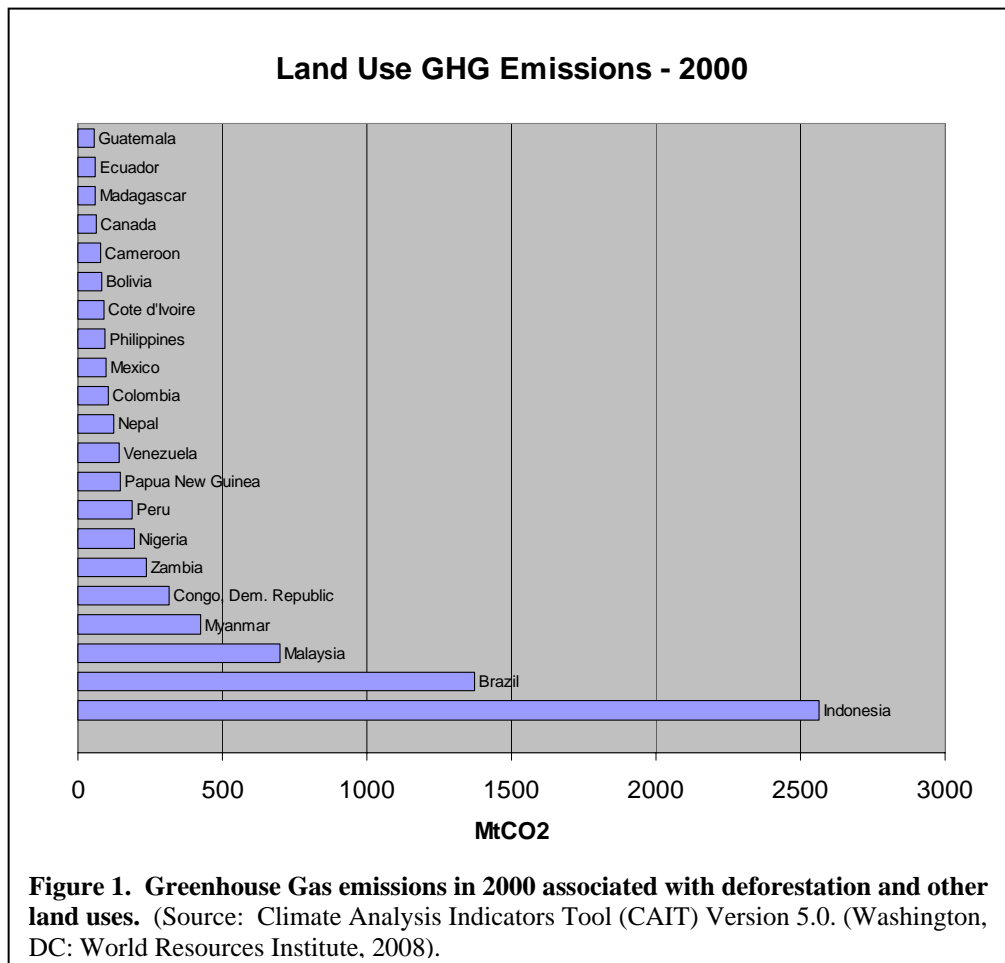
Implementation Issues

- It is not yet clear how the funds that might be available through a REDD mechanism would actually be spent to slow deforestation. Examples abound of well-funded projects to slow deforestation that have not been successful. Issues related to governance, lack of appropriate land tenure or clarity of rights of forest dwellers, and corruption have often undermined well-intentioned programs. And, many of the forces driving deforestation such as commodity prices are well outside the control of individual governments.
- The design of a REDD mechanism and in particular the national implementation of such a mechanism has profound implications for the rights and livelihoods of forest dwellers and indigenous people. Depending on how an international mechanism and

the national implementation of that mechanism was structured, REDD could either greatly increase the threat to forest dweller and indigenous people or could strengthen the recognition of their rights and help conserve and protect their lands (if, for example, a country recognized tenure rights as a means of reducing rates of deforestation). However, the voices of the peoples that actually live in the world's tropical forest regions have been largely absent from REDD policy discussions. Knowledge of REDD initiatives is limited among representatives of indigenous and traditional forest peoples, and knowledge of what these stakeholders might expect from REDD is limited as well. Among the issues that need to be addressed are concerns that REDD could: a) further entrench government control over forests and marginalize the role of forest peoples in governance; b) increase violations of customary land-use rights; c) lead to increased land speculation around degraded forests; and d) exacerbate, or create, community conflicts.⁹

- Countries do not yet have in place the monitoring systems, governmental institutions, technical capacity, stakeholder forums, and strategies and plans that would be required to implement a REDD program.

Governments and NGOs are working actively to address each of these issues and there are clear opportunities for philanthropic support to provide assistance. Although significant new resources are being made available by governments to address these issues (see below), there are unique



⁹ Peter Riggs, personal communication, 2008.

opportunities for philanthropy to complement those national, bilateral, and multilateral resources. Important opportunities where philanthropic support could complement government funding include support for NGOs, stakeholder engagement, technical or other assistance needed by tropical forest country government negotiators, research and advocacy, monitoring and evaluation, and the creation of enabling conditions.

Our strategy aims to achieve the most cost effective emission reductions associated with deforestation by 2030. However, even though only a small number of tropical forest countries currently account for the bulk of forest-related emissions (see Figure 1) for several reasons this does not mean that our strategy will focus only on these countries. First, because of the long time-horizon and risks of leakage, countries with significant forest area that may not currently have high rates of emissions are still of importance as potential sources of emissions. Second, we recognize that many other countries and constituencies (notably indigenous communities and forest dependent people) will be instrumental in establishing the political support for the creation of a REDD mechanism.

Donor Landscape

Donor interest in REDD mechanisms has grown exponentially within the past year. The launch and implementation of this REDD grantmaking strategy must be well coordinated with these other flows of financing and resources. Some of the existing initiatives include the following:

World Bank Climate Investment Funds

The World Bank is managing a growing number of investment funds that could contribute to the design, country readiness and implementation of an international REDD mechanism. These include:

1. World Bank Forest Carbon Partnership Facility (FCPF)

The FCPF was launched in December 2007 with a target of \$300 million, of which \$165 million has been pledged. The FCPF includes:

- A \$100 million Readiness Mechanism (to be spent over ~5 years, beginning in 2008) to provide grants to 20 countries that would fund projects including: a) designing and implementing accurate measurement, monitoring and verification systems to enable countries to report on emissions; b) adopting a national REDD strategy that reflects each country's priorities; and, c) developing a national reference scenario for REDD.
- A \$200 million Carbon Finance Mechanism (to be spent over ~5 years, beginning in 2010) to allow some of these countries to run pilot programs earning credits for deforestation.

FCPF is currently in a start-up mode, with the first significant release of funding likely to occur in mid-2008. At that time FCPF will review Readiness Plan Idea Notes (R-PINs) submitted by interested countries and provide funding to support the development of country Readiness Action Plans. The FCPF will then provide support for activities proposed in the Readiness Action Plans (e.g., developing monitoring systems, developing REDD strategies, and developing reference scenarios). Given the time involved in preparing the Readiness Action Plan, significant work on the implementation of these plans is unlikely to begin until 2009. Currently nine countries, plus the Nature

Conservancy, have contributed funding to the FCPF. Donor participation in FCPF governance requires a minimum contribution of \$5 million.

2. World Bank BioCarbon Fund

The World Bank established the BioCarbon fund in 2004 to demonstrate projects that sequester or conserve carbon in forest and agro-ecosystems.¹⁰ The Fund, a public/private initiative administered by the World Bank, aims to deliver cost-effective emission reductions while promoting biodiversity conservation and poverty alleviation. The Fund is composed of two tranches. Tranche One started operations in May 2004, has a total capital of \$53.8 million and is closed to further participation; Tranche Two began operations in March 2007 and is open to contributions. The BioCarbon Fund has been used for purchasing carbon from a variety of land use and forestry projects including afforestation, reforestation, and REDD.

3. World Bank Forest Investment Fund

This World Bank has proposed to establish this \$300 - 500 million fund if donor support warrants. The proposed fund would provide investment financing for governments' efforts to reform the forestry sector and private sector action as needed to protect remaining major stands of forest and reduce deforestation through support to sustainable forest management, with a strong emphasis on achieving co-benefits for environmental ecosystem services, adaptation and mitigation. The Fund will seek to provide complementary investment support to countries participating in the FCPF or with strong potential to participate in other forest carbon mechanisms.

Government of Australia

The Government of Australia has made a commitment of Aus\$200m (~US\$185m) over the next five years to reduce emissions from deforestation. Most of the Australian funding will focus on Southeast Asia and specifically on Indonesia and Papua New Guinea. The primary focus of Australian support will be to fund REDD demonstration programs. To date, Aus\$50m has been committed for the following activities: FCPF readiness fund (US\$10m); Indonesia enabling activities including support for developing national REDD policies (Aus\$10m); and, support for a yet-to-be-defined pilot in central Kalimantan (Aus\$30 m) focused on restoration and avoided deforestation.

Australia does not plan to use its funding for incremental contributions to slowing deforestation through continued support of forest management or governance reform. Instead, it will focus on REDD enabling activities and in particular on geographically-specific pilot projects. These will be large in scale, selected in regions where leakage can be minimized (partly through scale and partly through geography), the bulk of the financial resources will be used as incentive payments (essentially very large payment for ecosystem service programs), and the projects will yield precisely quantified emission reductions (thus, they will have an adequately defined baseline and an effective monitoring system). The pilots need not generate tradable credits. Australia also hopes to expand the scope of its existing remote sensing system (currently providing only domestic information) to make data available more broadly within Southeast Asia.

Rainforests Project/Prince Charles

¹⁰ <http://carbonfinance.org/Router.cfm?Page=BioCF>

The Rainforests Project was launched by Prince Charles in October 2007. The project aims to bring together scientists and leaders from the developing world to stop deforestation. Funds have been raised from twelve private sector companies, including Sky, Sun Media, Rio Tinto, KPMG, Deutsche, Morgan Stanley and Barclays, and Goldman Sachs is involved in the planning. The project will look at and propose practical mechanisms, legislative and market solutions that acknowledge the value of carbon and the ecosystem services provided by the world's remaining tropical forests.

Government of Norway

The Government of Norway recently announced plans to invest \$550 million per year over the next 5 years to reduce emissions from deforestation. Administration and direction of this large commitment had not been announced at the time of completion of this draft strategy (March 31, 2008).

Philanthropy

A number of foundations have had longstanding programs supporting work to slow deforestation and many of these are now supporting some aspects of REDD-related activities. For example, the Gordon and Betty Moore Foundation has supported work to slow deforestation in the Amazon. The David and Lucile Packard Foundation has supported work in the state of Mato Grosso, Brazil to slow deforestation. The Linden Conservation Trust has led a consortium of donors supporting work to establish an international framework for REDD. The William and Flora Hewlett Foundation has supported research to identify options for emission mitigations in the forest sector. The Robertson Foundation has supported market based approaches to address climate change, including support related to forest conservation. Several donors including the C.S. Mott Foundation have supported work to address governance issues associated with forest management. The David and Lucile Packard Foundation is launching a new grantmaking strategy to support the development of biofuels sustainability standards. The Rockefeller Foundation is providing support for the work of the Clinton Climate Initiative to develop forest or agroforestry projects in tropical countries suitable for partial financing through the voluntary carbon market. Within the United Kingdom, the Forests Philanthropy Action Network has recently been established to help coordinate and inform U.K. philanthropic support for work to slow deforestation.

Voluntary Carbon Market

Between 2005 and 2006, the voluntary carbon offset market grew by an estimated 200%, with transactions of an estimated 23.7 MtCO₂e in 2006.¹¹ Forestry projects account for 36% of the voluntary market offsets, however most of these involved afforestation and reforestation projects. Only 3% of voluntary market transactions (0.33 MtCO₂e) involved avoided deforestation.

Strategy

Our strategy will support government and NGO efforts to achieve three outcomes: development of robust REDD methodologies; incorporation of REDD in the post-2012 framework, and

¹¹ K. Hamilton, R. Bayon, G. Turner and D. Higgins. 2007. *Voluntary Carbon Market State and Trends 2007*. Ecosystem Marketplace. http://ecosystemmarketplace.com/documents/acrobat/ExecSumm_Final.pdf

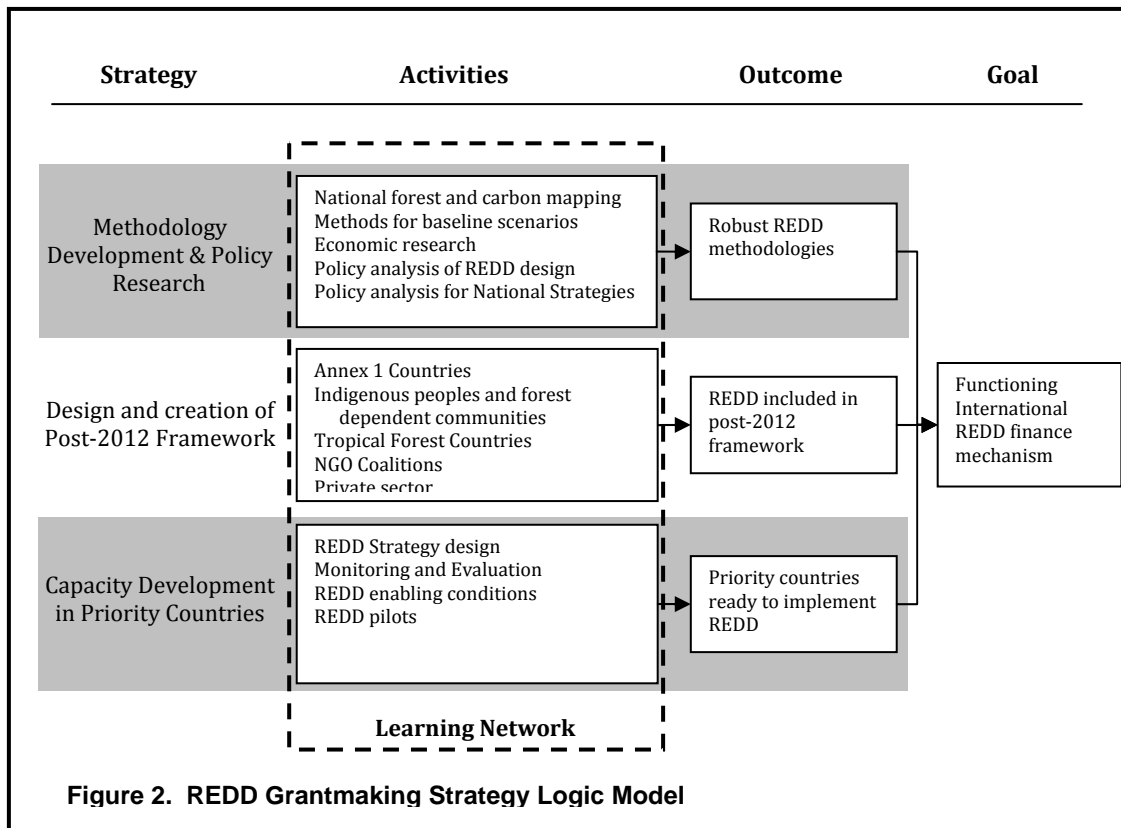
capacity building in priority countries. (See Figure 2.) Our strategy also places significant emphasis on the support of “Learning Networks” that are needed to advance the technical design of REDD mechanisms and to build capacity and political support for their implementation. Here we provide more detail on the types of activities that we propose to support related to each of the three core outcomes and the learning networks.

Methodology Development and Policy Research

The principle of compensating reductions in emissions from deforestation is relatively straightforward, but the practice requires resolution of a number of methodological issues. Although governments and bilateral and multilateral donors are also supporting work related to methodology development, these issues are so important for REDD success and the current research base is so limited that a significant opportunity exists for philanthropic support to help accelerate this work. A priority set of linked questions and issues that need to be addressed that could be supported by philanthropy include:

1. National forest cover and forest carbon mapping.

With a few notable exceptions, most tropical forest countries lack adequate current forest cover maps, not to mention the absence of historical maps from which reasonably accurate deforestation trends could be determined. Forest cover maps could be produced relatively quickly and efficiently with rather small investments of resources. Around the globe, the carbon density of tropical forests varies hugely, but robust spatial analyses of carbon density are few and far between. In combination with targeted ground assessments, new radar sensor data can be used to develop forest carbon density maps for priority countries (although these sensors saturate at higher levels of tropical forest biomass).



In collaboration with other donors already supporting aspects of this work, we propose to support the following types of activities:

- Workshops or meetings to help resolve differences in approach and results of different forest and carbon mapping methodologies (sampling versus synoptic approaches).
- Preparation of wall-to-wall forest carbon maps for at least 15 of the major tropical forest nations.

Ultimately, accurate time series of forest carbon stocks will be required for decisions regarding national or subnational baselines. We believe that readiness funding through bilateral donors and the FCPF is likely to be the primary source of funding for such analyses although we may provide limited support for such work in particular circumstances.

2. Methodologies for reference or “baseline scenarios.”

Establishment of reference or “baseline” scenarios from which reductions in emissions from deforestation would be calculated requires both within-country assessment and some level of international standards development. The issue may be complicated because both sellers and buyers may seek “high” baselines and because countries with historically high deforestation levels that have recently trended downward (e.g. Brazil) are likely to prefer a baseline calculation method that differs from the preference of countries with historically low deforestation levels that may be trending upward (DRC), or from those countries that have already acted to slow deforestation and restore forest cover (e.g. Costa Rica). We propose to support the following types of activities:

- Research to develop methodologies for calculating baseline scenarios.
- Workshops to harmonize methodologies or to engage stakeholders in the development of baseline methodologies.

3. Methodologies for accounting for changes in emissions associated with forest degradation. There is at least a ten-fold variation in carbon density on forest lands under current tropical forest definitions (40 – 400 t C/ha). As a result, forest degradation can be as significant a source of emissions as deforestation. Although strategies to slow deforestation have dominated discussion of REDD mechanisms, in practice opportunities to reduce emissions through changes in rates of forest degradation may be equally important but have been subjected to far less analysis.

4. Analysis of REDD costs, impacts of REDD programs on national and local economies, and the impact of REDD mechanisms on carbon markets.

A wide range of economic and policy analyses are needed to guide design and implementation of a global carbon finance mechanism to maximize its positive impact on national and global emission reductions, enhance co-benefits, and mitigate negative outcomes. We propose to support the following types of activities:

- *Development of forest carbon supply curves and related opportunity cost maps for countries that may be early users of a REDD finance mechanism.* Research is needed to advance methodologies for these cost calculations (bottom-up analyses of costs can differ from top-down analyses by an order of magnitude or more) and the methods need to be applied in countries that are poised to use carbon financing under a REDD mechanism. In addition, some actors and agents do not conform to expected behavior based on opportunity costs and the institutional and other factors

that shape actual behavior need to be analyzed and modeled (such as which countries decide to enter the system, the constraints on institutional and governance capacity, etc.). Research and workshops are needed to quickly move to a broadly agreed-upon framework for estimating the cost of REDD programs.

- *Modeling of the economic effects of REDD credits on international carbon markets (as well as the effects on state or national markets).* There is a common belief that allowing forest carbon crediting into the carbon markets will drive carbon prices down, eliminate incentives for renewable energy technology and not result in net reductions in emissions. This belief may be the biggest impediment to the acceptance of an international post-2012 REDD mechanism in the European Union and the U.S. This modeling is dependent upon improvements in the supply curve for forest carbon credits, better forest carbon mapping, and state-of-the-art economic modeling based on the costs of reducing deforestation using spatially explicit, data driven, bottom-up analyses.
- *Research examining the costs and benefits of REDD for tropical countries. Better understanding of potential economic benefits that could be derived from a carbon finance mechanism is needed to build support for an agreement on a REDD mechanism and the adoption and implementation of national deforestation reduction plans.* In Brazil, for example, the governors of both highly deforested Mato Grosso and lightly deforested Amazonas are interested in carbon finance—although the former is most concerned with compensation for reduced deforestation, while the latter seeks support for conservation areas. In the absence of policy alternatives that address these differences, and evaluation how they might be resolved within a national deforestation reduction program, it is unlikely all sides will reach an agreement. And without such an agreement, there is a risk that voluntary market investors will support conservation projects in low-deforestation regions while deforestation continues elsewhere. Such a scenario could ultimately impugn the environmental integrity of forest carbon.
- *Research examining the demand side for REDD credits.* A “demand curve” for REDD credits needs to be developed to fully understand the extent to which market flooding may be a risk. More generally, an integrated model of the supply and demand dynamics of various asset classes for a post-2012 framework is needed (addressing emission reduction units (ERUs), certified emission reductions (CERs), assigned amount units (AAUs) and removal units (RMUs), and Certified Reductions in Emissions from Deforestation (CREDS).)
- *Research examining the characteristics of demand associated with drivers of deforestation such as commodities, timber, and biofuel.* For key countries, it will be important to understand where current demand for fiber or expansion of commodity production comes from (industry pressure, housing growth, biofuel demand, etc.), what economic returns would be needed from REDD to “beat out” the alternative demand, and how changes in demand and price of these drivers may affect rates of deforestation and success of REDD strategies.
- *Other research needs:*
 - Examination of the effect that in-county REDD policies have on local, regional and country-wide economic activity.

- Development of accounting tool-kits to address the complexity of national accounting frameworks linked to project and programmatic implementation.
- Analysis of the impacts of a staggered implementation of national REDD arrangements (some countries will be able to implement strategies years or decades before others) on prices of timber and other commodities and the impacts of those price changes on opportunity costs of land, international leakage, and potential deforestation rates.

4. Analysis of international REDD design options.

The variety of different proposals that countries and NGOs have made for the design of an international REDD mechanism reflect, in part, the different interests of the countries but they also reflect the need for more rigorous analysis of different policy proposals and the development of creative new proposals for addressing design challenges.

Examples of research that could help in the design of an international REDD mechanism include:

- Analysis of options for handling the lack of permanence, leakages, additionality, and uncertainty associated with REDD including the use of temporary credits, discounting approaches, and insurance mechanisms.
- Analysis of the legal and institutional preconditions for trading. Particularly assuming that the private sector is expected to contribute to this emerging market, the conditions for trading need to support private sector investments and robust carbon contracts.
- Analysis of options for the fungibility of REDD credits in relation to other carbon credits, including proposals for a “Dual Markets” arrangement.
- Analysis of options for linking national REDD arrangements with project-level offsets through a “Nested Approach.”
- Analysis of alternative REDD models, including compensated reduction, fund-based mechanisms, the carbon stock approach or forest cap-and-trade arrangements.
- Analysis of integrated finance mechanisms that could address not just reduced emissions from deforestation and degradation in tropical countries but also some or all of the following: afforestation; reforestation; temperate forests; boreal forests; and other land-use emissions such as those associated with agriculture.

5. Policy analysis to inform national REDD strategy development.

As challenging as the design and implementation of an international REDD mechanism for financing compensated reduction may be, it will be far more challenging to design and implement national strategies for reducing deforestation and degradation. While “core” funding for the development and implementation of such strategies on a country-by-country basis is likely to be available from bilateral donors and the FCPF, philanthropy can usefully support research that: a) helps to make “lessons learned” available to governments as they develop strategies; b) advances understanding of policy options for addressing issues that will be common challenges for many countries (e.g., how to address co-benefits, etc.); and c) selectively supporting national strategy development processes in order to either accelerate the launch of REDD activities or to help in developing plans that could provide models for other countries (this is addressed under capacity building below).

We propose to support the following types of activities:

- *Comparative research effort focused on the lessons learned from the "first generation" of REDD pilot projects.* This research is needed to examine their effectiveness in relation to forest management, and their implications for social justice as well as co-benefits such as biodiversity conservation. While many of these pilots were designed without REDD in mind, large scale efforts to slow deforestation through incentive payments or institutional changes still could provide valuable insights into the design of REDD mechanisms. And, analysis of smaller scale projects being carried out under voluntary carbon markets could also provide valuable lessons. Where possible, such analyses should include "natural experiments" in order to be able to draw robust conclusions about what works and why, with emphasis placed on livelihood and governance questions.
- *Analyses of institutional arrangements for implementing national REDD strategies.* A national REDD mechanism will require new institutional structures within governments to deal with the financial arrangements, the implementation of REDD strategies, and the monitoring and evaluation of REDD strategies. A focused effort to support national efforts to analyze the strengths and weaknesses of alternative institutional arrangements to achieve these goals within a set of priority country examples could significantly shorten the start up time and costs associated with the creation of national REDD programs. As part of this work, a strong emphasis should be placed on the analysis of existing regulatory and enforcement arrangements within countries and the needs for reform or added capacity within these systems. Already many tropical countries forego substantial revenues associated with illegal forest uses. If national REDD strategies are established under conditions of weak governance, weak regulation and poor enforcement, then they are likely to lead to illegal appropriation of land and could exacerbate threats to forest dependent peoples.
- *Modeling of policy options for forest nations with low historical deforestation rates.* It is important to evaluate alternatives to REDD in countries like the Democratic Republic of the Congo and Peru that have large, relatively intact forests with low deforestation rates. These countries would be unlikely to benefit from a REDD mechanism that compensated countries for reductions in deforestation but they are at considerable risk of increased deforestation if commodity production shifts to those countries as REDD reduces deforestation elsewhere. Research is needed to identify policy alternatives that address this issue and to evaluate how those options might affect carbon markets, the atmosphere, and the political viability of REDD.
- *Analysis of policy options to ensure that forest dependent people benefit from REDD strategies.* Unless the poor benefit from the forest carbon market, the unusual and fragile alliance that now exists on REDD between the development community and the environmental community will collapse, and the politics of forest carbon in developed and developing nations will change dramatically.
- *Analysis of policy options to capture co-benefits of REDD associated with biodiversity conservation, climate change adaptation, local community development, and social justice or to "bundle" REDD credits with other market values.* In many instances, REDD may not provide sufficient compensation for the opportunity costs of conservation. Even where it does, other incentives may be available that can be bundled to provide sufficient, sustainable incentive for conservation – e.g. payments for water services, regulatory mechanisms requiring forest set asides, property tax breaks for easements, premiums for "green" commodities and production systems,

direct payments for biodiversity conservation, etc. REDD compensation should be most efficiently targeted to be complementary, bundling these other sources.

- *Other research needs:*
 - Analysis of whether REDD policies could be scalable, or whether discrete policies are required for specific scales of action.

Country focus for methodology development and policy research: Most of the activities that we will support related to methodology development and policy research will involve work applicable to many or all countries. Exceptions will involve: a) targeted research addressing issues or concerns of specific groups of countries (e.g., the concern of some stakeholders in Annex 1 countries of REDD credits flooding the carbon market or the examination of policy options for tropical countries with low current rates of deforestation); and, b) analyses focused on individual countries that might provide models or results applicable to a wider range of nations.

Design and Creation of post-2012 framework

Although considerable momentum is building in support of the inclusion of REDD within the post-2012 framework, there are a number of political obstacles that will need to be overcome. While some of the actions needed to overcome those obstacles involve other components of this strategy (e.g., methodology development), philanthropy can more directly support efforts of stakeholders to reach political agreements through support for research, technical assistance stakeholder engagement, and advocacy. Given the very short time frame before 2009 decisions on REDD design and the potential that REDD would be delayed by as much as five years if resolution is not achieved in 2009, our strategy will place particular emphasis on work to build political support during 2008 and 2009. Our strategy will focus on the needs and concerns of different political stakeholders as follows:

1. Annex 1 Countries

Several elements of the methodology development and policy research described above should directly help to strengthen support of Annex 1 countries for REDD.

In addition, we propose to support the following types of activities:

- *Research, education and advocacy in the U.S. and Europe supporting efforts to include international forest offsets in national policy and supporting efforts to establish an international REDD mechanism.* For example, inclusion of allowances for international forest offsets within federal policies that may be adopted within the next two to three years would help to set the stage for U.S. acceptance of a global agreement (just as inclusion of allowances within state or regional policies could help set the stage for their inclusion in federal policies).

Research needs within the U.S. and EU include analysis of: a) effects of REDD on carbon price and mitigation cost; b) effects on domestic agriculture and forest offset credits; c) magnitude of international wealth transfers.

In both the United States and Europe, the constituency supporting efforts to include forest offsets in national policy and supporting efforts to establish an international REDD mechanism is quite weak. We propose to support non-lobbying activities of environmental NGOs and other stakeholders that are seeking to promote national policies and international negotiating positions supportive of REDD mechanisms.

2. Indigenous peoples and forest dependent communities.

Forest peoples organizations differ in their engagement in the REDD debate and in their positions towards REDD based on where they are from, and in particular on vastly different national land tenure and indigenous rights regimes. Forest dependent communities have every reason to be concerned about the implications of a REDD mechanism for their interests. Many previous efforts to slow deforestation have harmed the interests of these communities, often because their rights have not been recognized by national governments. On the other hand, just as REDD has the potential to achieve significant environmental co-benefits associated with biodiversity and watershed protection, so too a well-designed mechanism has the potential to support the rights and interests of forest dependent communities.

We propose to support the following types of activities to help ensure that REDD design adequately responds to the needs and interests of these communities:

- Support for indigenous coalition efforts to fully engage as participants in national and international REDD planning, negotiation, and design processes.
- Support for technical assistance requested by indigenous communities and forest dependent people.
- Support for REDD pilot activities promoted by indigenous communities and forest dependent people that would serve to increase their standing in national planning processes and increase their technical capacity to benefit from REDD.
- Support for efforts to include indigenous and forest peoples' lands and land uses in national participatory forest and carbon mapping exercises.

3. Tropical forest countries

Tropical forest countries have been leaders in promoting the potential inclusion of REDD mechanisms in the post-2012 framework.

We propose to support tropical forest governments through the following types of activities:

- Building capacity of tropical forest country negotiating delegations. This could involve support for policy development workshops and potentially support to increase the number of negotiators.
- Technical and analytical assistance needed to strengthen understanding of REDD design and implementation options. This could involve the methodological and policy research described above as well as support for efforts to develop training programs and tool kits.
- Support for capacity building and pilot projects within priority countries to help them ensure that they can obtain the expected benefits from a REDD mechanism (*this strategy is described in greater detail below.*)

4. NGO coalitions

We propose to support the following types of activities:

- National, regional and international NGO advocacy (including coalitions) in support of the design and implementation of an effective REDD mechanism.
- Conduct, outreach and advocacy of scientific and policy research

5. Private sector

We propose to support the following types of activities:

- Analysis, meetings or workshops designed to engage individuals with expertise in commercial carbon finance in the development of REDD mechanisms. Banks, investment funds and insurance companies have tremendous expertise that can be brought to bear on REDD design with respect to addressing issues of risk, returns, and global investment flows.
- Analysis, meetings or workshops to engage other private sector stakeholders in REDD design, including the forest products industry and companies providing insurance for carbon trades and political risks.

Country focus for design and creation of post-2012 framework: The activities that we support associated with the design and successful negotiation of a post-2012 framework will involve a wide range of countries. Within the Annex 1 countries, the positions of the United States and the E.U. are particularly important. Among tropical forest countries existing coalitions such as the Coalition of Rainforest Nations and the F11 group are particularly important, as are the concerns of countries that currently have low rates of deforestation (or net forest expansion). In addition opportunities may exist to strengthen capacity of other country blocks of tropical nations such as the Central Africa Forests Commission (COMIFAC) or the Amazon countries (loosely-organized through the Amazon Cooperation Treaty)

National Capacity Development

A major emphasis of the World Bank’s Forest Carbon Partnership Facility as well as direct investments from bilateral donors will be to support the development of national monitoring systems, to support countries in their work to develop baselines, and to support the development of the preparation of REDD strategies. In addition, a significant emphasis is appropriately being placed by bilateral and multilateral donors on the establishment of REDD pilot projects in tropical forest countries. The rationale for these pilots is that there has never been the prospect of nearly the amount of resources for slowing deforestation as now appears to be available through REDD. As a result, there is little on-the-ground experience with well-funded programs to slow deforestation and consequently questions abound regarding how such programs should be designed to maximize the likelihood of success.

The focus of bilateral and multilateral investment on capacity building and pilot project implementation is logical given the high costs of these activities. Even so, well-targeted philanthropic support can provide significant added value and help to accelerate the ultimate implementation of REDD strategies. Work to design pilot projects and to build national capacity to design and implement REDD strategies also falls into a “no regrets” category – this will aid in slowing deforestation and improving forest management whether or not an international REDD financing mechanism is established. Priority opportunities for philanthropic support include:

1. Technical assistance for REDD strategy design.

One of the greatest barriers to the creation of a functioning REDD mechanism is the lack of clarity and certainty about how it will actually work within a country (e.g., who exactly will receive payments? To do what? How will it be monitored and verified?) More specifically, a high priority should be placed on the development of sound REDD strategies that identify what steps governments would take, and at what cost, to achieve reductions in deforestation. Building on existing experience within countries and the results of research into ‘first generation REDD’ project described above, there is a significant need to develop National REDD strategies. (See Box 2 for a description of the characteristics of these strategies as defined by the FCPF.) In some circumstances, the national or sub-national REDD strategies might involve relatively straightforward large-

scale payments for ecosystem service programs, but more generally these strategies are likely to need to address fundamental and controversial issues involving rights of indigenous peoples, forest governance, land tenure, enforcement, corruption and so forth. The process of developing these strategies could usefully be undertaken at either a national scale or, for large countries like Brazil and Indonesia, at a state or provincial scale. Such work will be most effective as a formal part of the governmental policy process with the active engagement of relevant institutions.

Financial support for REDD strategy development will be available to countries through the FCPF beginning in 2009 after the FCPF has approved country R-PINs and Readiness Action Plans. Philanthropic support could accelerate the development of these strategies, complement the FCPF support, help to involve other experts, support stakeholder engagement in the REDD strategy development process, support economic and policy analyses to inform the design of REDD strategies, and potentially support design efforts at sub-national scales that may not be national priorities.

Box 2. National REDD Strategies

The Forest Carbon Partnership Facility defines a national REDD strategy to be “an economically effective, efficient and socially equitable national REDD strategy formulated and vetted through a meaningful policy/stakeholder consultation process,” and should include:

- Identification of drivers of deforestation/degradation and sector assessments
- Opportunity cost analysis & setting of priorities
- Assessment of political, social and institutional feasibility of proposed actions and programs
 - Identification of affected social groups
 - Risk analysis
 - Discussion of safeguards
- Proposals for policy and regulatory changes, development programs and implementation arrangements

2. Technical assistance for monitoring system design and baseline calculations.

Bilateral and multilateral donors and national governments themselves will be the primary source of funding for the development of monitoring systems and will also provide support for the development of national baselines. However, philanthropy can complement those resources by accelerating technical work on the design of monitoring systems and the development of baselines and by supporting stakeholder engagement in those processes.

3. Independent monitoring and evaluation.

The long-term prospects for the creation of a REDD mechanism will be strongly linked to the transparency and quantitative rigor associated with implementation. To the extent that there is transparency related to information on forest-related emissions, REDD strategy implementation, governance of REDD mechanisms, and REDD financial flows, the credibility of a national REDD mechanism will be enhanced and opportunities will exist to learn from experience and adapt to changing circumstances. Philanthropy is in a unique position to support the push for transparency because of its ability to support the creation of independent monitoring and evaluation systems.

We propose to support the following types of activities:

- Establishment of independent deforestation monitoring systems, relying on publicly available satellite imagery. Experience in Brazil, with the presence of both governmental (INPE) and independent (Imazon) forest monitoring systems in the state of Mato Grosso, has shown that the presence of more than one system can help to improve the performance of both systems and provide important validation of the findings.

- Independent evaluation of REDD pilot projects. Despite the proliferation of activities designed to reduce deforestation in tropical countries, there is a dearth of monitoring and evaluation of conditions and of the outcome of project and policy interventions. Long term contracts for monitoring and evaluation, together with demand-side support for those who want to use the results, would help to meet this need. In addition, philanthropy could usefully support the further development and testing of systems for “performance measurement” from REDD projects so that investors (governments or private sector) could better compare the returns associated with different projects.

4. **REDD pilots**

Given the bilateral and multilateral financing that is available for national and sub-national pilots, we do not anticipate providing core support to REDD pilot projects except in exceptional circumstances. However, strategic opportunities do exist for philanthropic support associated with REDD pilots to advance efforts to establish a global REDD mechanism.

We propose to support the following types of activities:

- *Support for engagement of civil society organizations, NGOs, and indigenous peoples and forest dependent communities in REDD pilot projects.*
- *Support for initial REDD pilot project design activities.* Although governments may be the primary funders of the actual implementation of pilots, philanthropy can provide value-added by supporting NGOs, governments (or in some cases the private sector) to turn innovative ideas for REDD pilots into fundable projects that could qualify for government funding.
- *Support for testing or demonstration of innovative strategies to slow deforestation that could be scaled up as part of a national REDD strategy.* For example, several foundations are currently supporting work in Mato Grosso to establish a best practices registry of landholdings where landowners have made commitments to protect remaining forest lands on their holdings. This type of registry could form one element of a state or national REDD strategy and philanthropic support for the early development of the system could then facilitate its eventual expansion. A range of different fiscal policies, incentives and financial mechanisms could usefully be tested as possible REDD strategies, including payments for ecosystem services, bundled compensation, community trusts, and microcredit. And, opportunities exist to engage the private sector in developing and implementing innovative strategies.
- *In rare instances, core support for REDD pilot projects.* Such support is only likely in circumstances where a promising REDD pilot would not otherwise qualify for government financing and it would either significantly help to advance the development of REDD mechanisms or to build capacity and confidence among key stakeholders such as indigenous peoples.

In all of the above cases, we will apply strict criteria in determining whether a project qualifies as a “REDD pilot project.” In particular, we will not generally support activities associated with voluntary carbon market projects (unless those projects meet the criteria below.) Philanthropic investments associated with pilot projects are only appropriate if the pilot clearly contributes either politically or methodologically to REDD design,

adoption and implementation. More specifically, a project would be considered a REDD pilot if it:

- Includes an accounting framework that ties the project emission reductions into a state or national accounting system;
- Includes protocols to precisely quantify leakage;
- Establishes an emissions baseline for the larger accounting unit (state or nation);
- Includes a sound monitoring system for deforestation;
- Includes protocols for precisely quantifying emission reductions;
- Is consistent with existing legal and regulatory constraints;
- Conforms with indicative guidance from COP13 REDD Annex.

Projects meeting these criteria have the characteristics needed to allow them to be ultimately aggregated into the national accounting system that is at the heart of REDD proposals. In contrast, 'traditional' forest management projects, CDM projects, and voluntary carbon market projects could not be tied to a national accounting framework because leakage is difficult to quantify and the projects often lack an adequate regional baseline and monitoring system.

Country focus for national capacity development: We will not restrict the above capacity building activities to any subset of tropical forest countries, but we will give highest priority to projects and activities that:

- a. Would build capacity for REDD implementation (or accelerate REDD implementation) in countries that currently account for high levels of forest emissions or are likely to account for high levels of emissions in the next decade.
- b. Would build capacity for REDD implementation in countries that are poised for rapid adoption and implementation of such a mechanism. Certain countries, while not experiencing high rates of forest emissions, may be particularly well-suited to quickly reducing deforestation rates under a REDD mechanism by virtue of such factors as strong institutional capacity, clear forest ownership rights, and low opportunity costs of forest land. Quick and successful implementation of a REDD mechanism in these countries could then facilitate the global adoption of the approach.
- c. Would build strategic support for the adoption of an international REDD mechanism.
- d. Test innovative approaches to REDD design.
- e. Could serve as effective models or demonstrations of success.

Learning Networks

A substantial amount of work is now underway to design, evaluate, and potentially establish an international REDD mechanism. Whether or not political agreement is reached to create such a mechanism in 2009, the broad field of work is certain to expand significantly in the next five years. The creation of an effective REDD mechanism could be facilitated and accelerated by work to strengthen and establish efficient and targeted learning networks. Such learning networks are valuable in part because the basic methodological and design issues are still in flux. By strengthening networks for sharing research results or field experiences, the technical design will move forward more rapidly and it will be more likely that a consensus can be reached on basic element of REDD design. If decision-makers are involved in those learning networks, they are able to help identify the most important issues that must be resolved to reach agreement on a REDD mechanism. Institutions such as the FCPF currently plan to provide basic 'infrastructure' for such learning networks through, for example, the creation of a website that would contain

research findings, data, and information on national activities. Philanthropic support can strengthen the existing informal and formal learning networks in a number of ways:

1. **Targeted learning networks to accelerate the development of solutions to specific challenges associated with REDD design and implementation.** Any such network should include both technical experts and relevant government decision-makers and experts. We propose to support the following types of activities:
 - Workshops or networks of researchers and institutions working on core methodological issues such as:
 - development of baselines;
 - development of national accounting frameworks;
 - development of carbon supply curves;
 - financial mechanisms; and,
 - trading systems and platforms.
 - Workshops or networks of researchers and institutions focused on the design of national REDD strategies such as:
 - learning from ‘first generation’ REDD pilots;
 - national legislation and national institutional arrangements; and,
 - enforcement.
2. **“Linking institutions” that could serve as nodes of capacity building and learning within priority tropical forest countries.** Experiences in Bolivia and Costa Rica suggest that an effective means of promoting rapid learning and, more importantly, growth of national capacity and local innovation, is through support for "linking institutions" – developing country scientific organizations with strong reciprocal links to developed country centers of excellence.¹² These relationships have helped to nurture the development of political entrepreneurs who can frame global issues in compelling local terms. Many such linking institutions exist and are already working on issues related to REDD, particularly in Brazil. Philanthropy could help to strengthen those institutions and potentially support the establishment of such relationships among institutions in other countries.
3. **REDD capacity-building for decision-makers.** As work during 2008 and 2009 helps to advance the conceptual development of REDD and clarify methodological issues, philanthropy can play a role in supporting outreach, education, and training for national and sub-national decision-makers. REDD is a new concept and some of the resistance to acceptance of an international REDD mechanism will stem simply from a lack of familiarity and understanding of the approach. The experts involved in the various learning networks are the logical candidates to help with this outreach and communications. We propose to support the following types of activities:
 - workshops and learning networks for national decision-makers;
 - capacity building for national delegations;
 - workshops and learning networks to enable national decision-makers and international negotiators to better understand the needs and concerns of local stakeholders

¹² P. F. Steinberg. 2001. *Environmental Leadership in Developing Countries: Transnational Relations and Biodiversity Policy in Costa Rica and Bolivia*. MIT Press, Cambridge, MA.

4. **Donor coordination.** Given the number of donors that have recently committed resources to help support the development of a REDD mechanism, effective coordination of this funding could yield significant benefits. At the same time, the donors too face the same need to rapidly access the ‘state of the art’ knowledge on issues related to REDD design and implementation. Networks and workshops designed for experts and decision-makers can thus also help to strengthen understanding and coordination among donors.

Monitoring and Evaluation of Grantmaking

As part of the REDD grantmaking strategy we will establish a mechanism for monitoring and evaluation of grants and evaluation of progress toward the strategy objectives. We will seek to ensure that the results of this monitoring and evaluation feed information into the broader ‘learning network’ described above. The monitoring and evaluations system will be developed as an integral part of the larger network of donors addressing climate mitigation options in other sectors as well as forests. “Real time” monitoring could be carried out by a third party institution such as a University or international consulting firm to provide a regular flow of information and data to the foundations. (At periodic intervals, this institution could also carry out a formal evaluation). Given the international nature of this strategy and its complexity, the institution responsible for this work would need to have considerable global reach. Advantages of this arrangement would be the relatively straightforward administration. Disadvantages would be that the evaluation work would not serve to build capacity of the key institutions involved in REDD design and could potentially be relatively costly.

Institutional Structure

The different elements of this grantmaking strategy have different implications for the type of staff expertise and institutional arrangement that would result in the most effective grantmaking as follows:

- *Methodology Development and Policy Research.* This component of the strategy could involve grants to organizations in many different countries. The technical expertise for this work is distributed across both Annex 1 countries and tropical forest developing countries. Because of the emphasis of this strategy on the creation of a learning network, the potential ‘reach’ of grants could include institutions in dozens of countries. Individuals overseeing this grantmaking would ideally have technical expertise in disciplines including: a) resource economics, b) forest policy and management, and c) policy analysis; d) finance. The individuals would need to have experience in key tropical countries, in particular Brazil and Indonesia.
- *Design and Creation of a post-2012 Framework.* This component of the strategy could involve grants to institutions in a variety of different countries. Individuals overseeing this grantmaking would ideally have: a) familiarity with the technical aspects of REDD design (both economic and forest policy and management); b) familiarity with international finance; and, c) deep experience and knowledge with the FCCC political process, international forest policy processes, and indigenous people’s issues. The individuals would ideally have relatively high level contacts.
- *National capacity development.* This component of the strategy would involve a mix of global grantmaking and focused in-country grantmaking for more intensive support to

REDD strategy development and implementation, and support for pilot activities. The individuals would ideally have deep knowledge and experience of forest policy and management within priority countries but also be extremely knowledgeable regarding international market-based financial mechanisms.

While all of these needs could be met through a “donor consortium” arrangement we see potential value related to grantmaking efficiency and focus in establishing a “stand alone” foundation that would receive philanthropic support from multiple donors and then regrant funds to carry out this strategy. That foundation would be part of the emerging network of regional foundations focused on slowing climate change (such as the Energy Foundation in the United States and the European Climate Foundation in the Netherlands) being developed by several philanthropies. While the establishment of a stand-alone foundation requires further vetting, we currently plan to use the following institutional arrangements to carry out this strategy:

2008-2009: Foundation consortium. This strategy has identified a number of urgent needs and opportunities for philanthropic support in 2008 and 2009, particularly given the timeline for conclusion of the post-2012 negotiations. To meet these urgent needs, at the outset we propose to operate as an informal consortium involving foundations or other donors supporting forest-related activities consistent with this strategy. The foundations involved in this work would have their own program staff responsible for the grantmaking but regular meetings would ensure the coordination of grantmaking across the donors. Grantmaking in key countries could be coordinated by a consultant or program staff person hired by one of the Foundations and based in that country. Advantages of this arrangement would include the minimal start-up time, low overhead, and avoidance of the risk of “monopolization” of forest grantmaking. Disadvantages include the difficulty in ensuring effective coordination of grantmaking and possibly less expertise among foundation program officers than would eventually exist with dedicated staff.

Long-term: Forest Foundation. During 2008-2009 we would further vet the idea of a Forest Foundation and, if appropriate, design and help to establish the Foundation. Once established, foundations interested in pooling their funding would provide funds to the Forest Foundation which would then regrant those funds under this strategy. The Forest Foundation would recruit a team of program staff to handle the global grantmaking and either establish offices in key countries or hire consultants in those countries to handle grantmaking directly in the countries. The Forest Foundation would have an international Board comprised of members with considerable international stature and leading experts in the field. The mission of the Foundation would not be restricted to REDD but rather would be to design and implement grantmaking strategies to obtain the most cost-effective reductions in greenhouse gas emissions associated with forests. (Currently, the focus on REDD appears to provide the most cost effective opportunity, but this may change in the future.) The Forest Foundation could also provide philanthropic services to help other donors invest their funds as wisely as possible even if not on the priority regions or activities identified in this strategy. Advantages of this arrangement would include better coordination of grantmaking, greater expertise of program staff, and added influence and credibility associated with the international stature of the board. Disadvantages would include the added overhead associated with passing funds through a separate organization and the fact that the greater centralization of funding will reduce the likelihood that any given innovative idea will be able to find a source of funding.

Budget

We anticipate that this strategy will be funded at a level of US\$15-20 million in the first year and US\$20-35 million in subsequent years. Slightly more than half of the funding will go to national capacity development.