



Programa Regional
de Cambio Climático



UN-REDD
PROGRAMME

DEFINING COMPONENTS OF NATIONAL REDD+ FINANCIAL PLANNING

WORKSHOP ON BUILDING MULTI-SOURCE REDD+ FINANCING STRATEGIES

Antigua, Guatemala

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Objectives of REDD+ Financial Planning

Financial Implications for Implementing REDD+ Strategy

Financial Planning critical to REDD+ Program implementation

- Provides valuable feedback on **evaluating the different strategic options** as a way to improve to the overall REDD+ National Strategy

The Financial Planning Process will identify and quantify:

- Additional **budgetary expenditures** that the REDD+ National Strategy will need to incur from an **administrative, policy, and program level**
- **Financial projections for each component** of the REDD+ Program implementation
- **Expenditures** that a country and its land managers must incur **to effectively implementation land use change**
- **Profitable and sustainable land use change activities** that produce emission reductions/removals and generate agricultural and forest related revenue
- **Additional funding required and suitability of multiple sources** to create long-term financial sustainability

The financial planning process represents an opportunity to perform a competitive analysis of the land use sector, as well as, a practical and realistic financial evaluation of strategic options to be promoted by the REDD+ National Program

Speaking a Common Language

Disaggregation Key to Managing Financial Planning

Terms used in for financial planning

- **“National REDD+ Program”** refers to the implementation of the policies, programs and activities that deliver on the National REDD+ Strategy.
- **“Strategic options”** is a common term used, we use this term to refer to those polices, programs and activities that have been prioritized within the National REDD+ Strategy.
- These **strategic options could change** over time as the financial and operational feasibility of different options is accessed

A four level framework was developed to disaggregate REDD+ Programs into units that can be properly modeled

- Groups common types of activities and implementers
- Support component based modeling with ability to aggregate projections at the National Program level
- Model stress testing and scenarios can be performed on components
- Viable funding sources identified, attracted and effectively negotiated

Programs Need to be “Unbundled”

The Complexity of REDD+ Programs Requires Applying a Financial Planning Framework

Level 1 – REDD+ Administration

- Incremental/marginal expenditures that the REDD+ National Strategy leading institutions will need to incur to administrator the REDD+ Program

Level 2 – REDD+ National Policies

- Expenditures that the country must incurred to design, develop, communicate and implement policies that effectively support implementation of REDD+ Program

Level 3 – REDD+ Subprograms

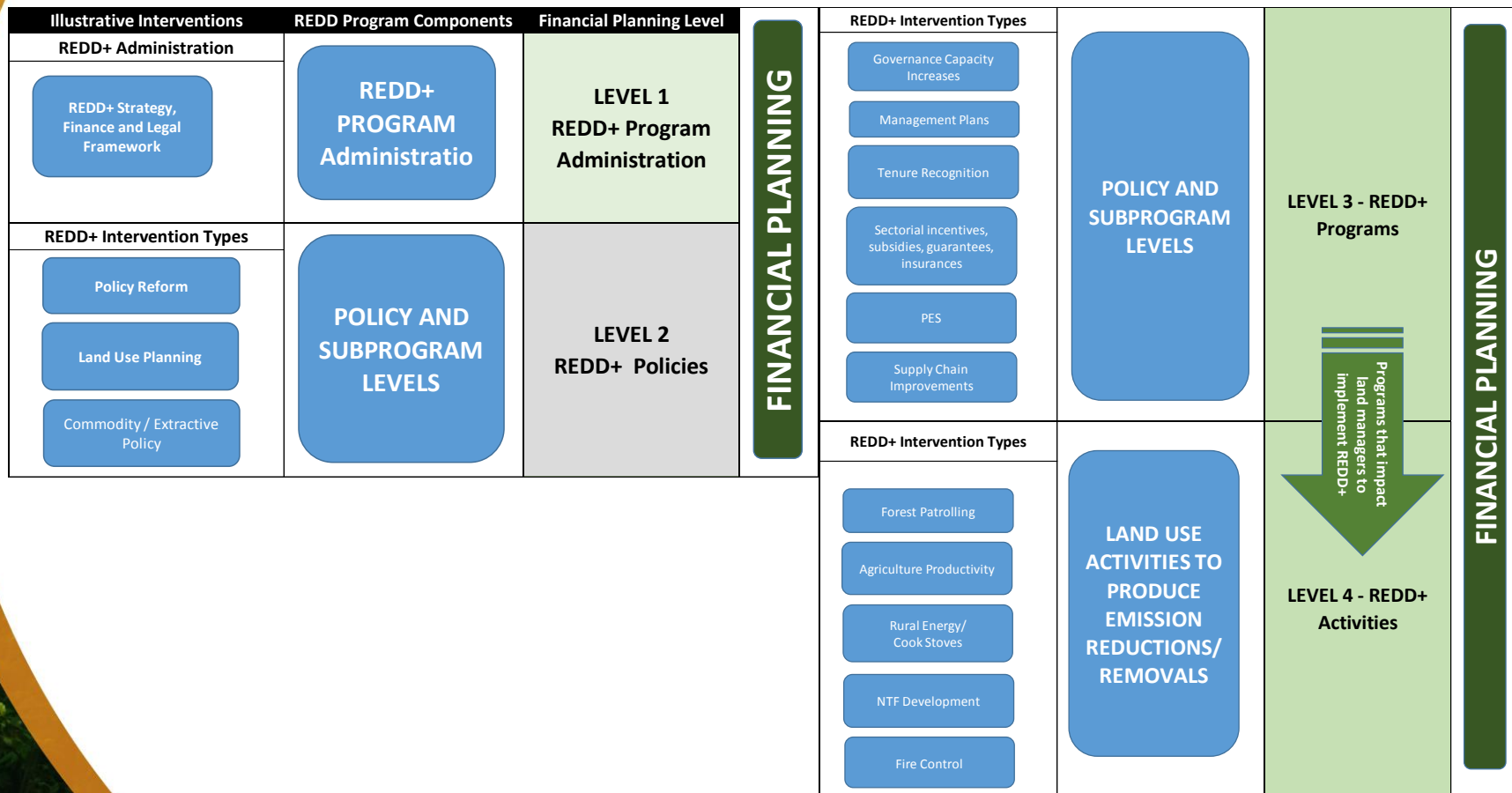
- Expected costs of implementation of the programmatic framework of actions that Governments provide directly to promote field level implementation of land use change
- “*Subprogram*” is used to avoid the confusion with the use of National REDD+ Program which includes all levels

Level 4 – REDD+ Activities

- REDD+ land use actions, which are the strategically identified to promote emission reductions and whose the technical and financial feasible can be assessed

Mapping REDD+ Components to Levels

Financial is Planning Performed at Each Level for Each Scale, Scope and Type of Intervention and then Aggregated by Implementer and for the National REDD+ Program



Level 1 – REDD+ Administration

Examples of Costs

Startup	On-going
<ul style="list-style-type: none"> • Readiness preparation process design • Administration and management of the preparation process • Staffing REDD+ focal point office and personnel at key government institutions functioning as implementing partners • National REDD+ Strategy development • Fundraising management for readiness and startup process • Reference level study and development (national, subnational, multiple jurisdictions) • MRV system and protocol design and implementation • Safeguards REDD+ national framework development • Stakeholder communication and engagement • Framework law and/or norms that support REDD+ Program administrative functions • Design, communication and engagement to institutional and benefit sharing arrangements for technical, administrative and financial management of REDD+ national program • Development of ER-PIN and ER-PD • Activity registration and ER registry system setup • Creating new institutions, programs or departments within government agencies 	<ul style="list-style-type: none"> • Institutional arrangements advisory and legal management • Benefit sharing arrangements • Transactional and Fundraising management • Communications of REDD+ Program at the national and international level with key stakeholders of the REDD+ national program • National Strategy monitoring and reporting <ul style="list-style-type: none"> • Establishment of emission accounting processes, data collection and technology platform • Safeguards accomplishment, guidance, advisory and monitoring, • On-going stakeholder consultation, guidance, advisory and monitoring, • National emission reductions reporting and verification • Registration and issuance of emission reductions • Coordination with national registry and REDD+ projects nested on issuances

Level 2 – REDD+ National Policies

REDD+ Policy Budgets Created by Scale/Scope

Policies are:

- New or improved and related to land use sectors and reducing emissions and/or removals
- Created in concordance with national/subnational conditions and basic conditions for economic development
- Identified through REDD+ National Strategy development
- Are promoted through REDD+ Subprogram and Activities

Policies may have:

- Direct link to producing emission reductions
- Opportunity costs
- Relate to specific Subprograms that promote land use change Activities

Financial Planning includes

- Costs for implementation and enforcement for leading national implementation government agency at the central national office, their regional offices and local agencies
- Modeling performed at national and subnational scales
- Modeling for different sectoral scopes

Level 3 – REDD+ Subprograms

Government Programs to Drive Land Use Change

REDD+ Subprograms are the main components of the REDD+ strategy

- Consistent to the REDD+ Policies considered in the REDD+ National Strategy
- Not policies, nor administrative processes, rather all government support provided directly to promote field based REDD+ Activities
- Support priority productive sectors to create locally appropriate productive/market conditions and facilitating finance

Financial Planning, main cost components

- Technical assistance to improve capacity of government field staff to promote REDD+ Activities
- Inputs, technical assistance, finance provided to land managers for REDD+ Activities
- Resources for enforcement of forest management laws and conservation
- REDD+ specific field support (e.g. technology transfer services, communications, stakeholder consultation, safeguard monitoring, and implementation support)

Level 4 – REDD+ Activities

The Cornerstone of Delivering Emission Reductions

Prioritized REDD+ Activities identified through defined process

- The country should focus its National Strategy on land use Activities that are financially feasible to ensure adoption
- Financial results of REDD+ Activities should have a positive impact in terms of sustainable economic development to the country
- Analysis of financial feasibility provides the strategic opportunity to improve design of REDD+ National Strategy

Financial Planning – Feasibility Assessment of REDD+ Activities

- Evaluated in accordance to national and global metrics, since countries depend on local, regional and international capital to invest in REDD+ Activities
- Key metrics
 - Annual net cash flow of the land use activity/NPV of cash flow
 - Land use activity rate of return (IRR)
 - Breakeven for land manager
 - Investors rate of return
 - Payback period for investors

Making Activities Financially Feasible

Government Support May be Necessary

Government may need to increase financial results of land use Activities, so they are investable and/or equal cost of opportunity of land managers:

- Financial conditions and cash flow shows need of access to structured finance, using for example special funds for equity, debt finance, upfront payments,
- Additional Policies that allow for improved financial performance of REDD+ Activities
 - Incentives, tax exemptions, etc.
 - Change in emission reduction benefit sharing
- New Subprograms to establish collateral funds and/or specific propose facilities as, guarantee collaterals, insurances, technical assistance, specific technology transfer, etc.
- Improvements in value chain conditions such as transport (roads or other transport system), licensing, or other investment needed that can be done

Governments should create strategic alliances with specialized private enterprises, private investors, local financial institutions, NDBs, and multilateral/bilateral banks to create investable entities and new transaction structures that maximize the available funding for REDD+

Information Required for Financial Planning

Estimates will Improve Overtime

- ✓ Clear definition of REDD+ National Strategy
- ✓ Operational plan for the strategic options
- ✓ Incremental costs for government of building and administering REDD+ Program
- ✓ The list of policy reforms, national plans and new institutions (if any)
- ✓ Incremental interagency costs for government institutions providing support to REDD+ Program Administration and Policies
- ✓ The list of prioritized REDD+ Activities (and any associated Subprograms) that make up the strategic options identified in the REDD+ National Strategy
- ✓ Identification of costs and revenue of REDD+ Subprograms
- ✓ Identification of costs and revenue of REDD+ Activities
- ✓ Bundles of REDD+ land use Activities with estimation of scale of adoption

Cost of Emission Reductions

Do You Know Your Abatement Costs Curve?

Estimating Emission Reductions

- Most effectively be estimated for the specific REDD+ Subprograms (level 3) and REDD+ Activities (level 4) given granularity and geographic definition
- Follow best practices in accordance to accepted international methodologies, methodological framework principles and IPCC guidelines
- Largest variables are scale of adoption and implementation effectiveness
- Identify any other related agricultural, forest and NTFP income

Abatement Cost Calculations

- Cost to produce an emission reduction (total cost/emission reductions)
- By Activity, with and without Subprogram costs
- With and without incremental revenue

Carbon Finance the Filler or the Glue?

- The Filler! If robust set of options under UNFCCC are promoted and agreed and domestic programs are developed

In addition to Activities, carbon revenue can be used to fund

- Funding national REDD+ administration budget
- Funding national policy implementation
- Funding budgets for REDD+ Subprogram implementation

Handling Emission Reductions Benefit Sharing in Financial Modeling

Monetization Mechanics	Financial Attribution Options
<p><i>Government sells/receives results payments on all emission reductions generated in the country</i></p>	<ul style="list-style-type: none"> • % of ER revenue allocated to administration of the REDD+ Program • \$ from emission reduction revenue used to cover short-fall in government income from taxes and permit fees due to opportunity costs • \$ from emission reduction revenue used fund REDD+ prioritized Subprograms • No payments are made to land managers • Government “PES types payments” made to land managers with direct or indirect link to producing emission reductions and/or • Government payments linked directly to the production of a verified emission reduction and the monetization price is paid to land managers
<p><i>Government sells/receives results payments on a portion of the reductions generated in the country and land managers may monetize emission reductions independently</i></p>	<ul style="list-style-type: none"> • % of ER revenue from both government sales and independent land owners sales • \$ from emission reduction revenue used to cover short-fall in government income from taxes and permit fees due to opportunity costs • \$ from emission reduction revenue used fund REDD+ prioritized Subprograms • No payments are made to land managers <p><u>Land owners WITHOUT emission reduction tenure</u></p> <ul style="list-style-type: none"> • Government “PES types payments” made to land managers with direct or indirect link to producing emission reductions and/or • Government payments linked directly to the production of a verified emission reduction and the monetization price is paid to land managers (level 4) <p><u>Land owners WITH emission reduction tenure</u></p> <ul style="list-style-type: none"> • REDD+ activity land managers can elect to sell emission reductions to government • REDD+ activity land managers can elect to sell emission reductions to markets independent of the government programs

Putting it all Together and Stress Testing

Apply Stress Tests on Main Financial Drivers to “Base Case Model” to Assess Impact on Financial Metrics

Financial Modeling level Component	Main Financial Drivers	Modeling Risks
Level 1 – REDD+ Administration	<ul style="list-style-type: none"> • Staffing Costs • Technical provider costs • 3rd Party verification costs 	<ul style="list-style-type: none"> • Level of effort (LOE) for government agencies to administer the REDD+ program under estimated • Stakeholder engagement more time intensive
Level 2 – Policies	<ul style="list-style-type: none"> • Opportunity costs to government of adopted policies • Enforcement costs • Revenue sources from taxes, mitigation fees and others 	<ul style="list-style-type: none"> • Opportunity costs under/over estimated • Resources required for enforcement • Variable cost to communication and consultation activities
Level 3 – Subprograms	<ul style="list-style-type: none"> • Costs for subprogram implementation • Emission reduction revenue 	<ul style="list-style-type: none"> • Scale of adoption • Tons of emission reductions produced • Quantity and prices of emission reductions that can be sold/delivered into results-based programs
Level 4 – REDD+ Activities	<ul style="list-style-type: none"> • Revenue from ag, timber and NTPFs • Emission reduction revenue • Implementation costs budgets 	<ul style="list-style-type: none"> • Quantity and market price of agricultural commodities, crops, timber or NTFP prices • Tons / price of emission reductions produced • Market price of inputs and labor

Benefits of Comprehensive REDD+ Financial Planning

- The four level approach **allows for granular and iterative** REDD+ Program Financial Planning
- **Competitive analysis is performed** on different land use sectors
- Policy **efficiency is determined for each scale/scope** as well as bundled at the national level
- **Financial feasible is validated** for REDD+ Activities, Subprograms and Policies
- **Funding needs for the Program are profiled** in accordance with main financial drivers that are uniquely relevant
- **Effective negotiation can be achieved** for carbon finance related transactions
- **Viable funding sources identified/attracted** through creating metrics from perspective of government, land manager and financiers

Contact Us

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