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Green Climate Fund and REDD+:

Funding the Paradigm Shift or Another Lost Decade for Forests and the Climate?

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Deforestation, Brazil
An aerial shot shows the contrast between forest and agricultural landscapes near Rio Branco, Acre, Brazil. Photo by Kate Evans/CIFOR Taken on February 24, 2013

TABLE OF CONTENTS

Executive Summary 1
1. Basics on Green Climate Fund Financing 2
1.1 Project Funding only through Accredited Entities 2
1.2 Funding to Support Preparation of Proposals 2
1.3 Green Climate Fund Funding Windows and Programs for Project Funding 3
1.4 GCF Policy Commitment to Free Prior Informed Consent 3
2 Green Climate Fund Financing for REDD+ 3
2.1 Regular Project Cycle Funding for REDD+ 3
2.2 Request for Proposals for a Pilot Programme on Results-based REDD+ Payments4
2.3 Request for Proposals for Mobilizing Funds at Scale 5
2.4 Request for Proposals for Enhancing Direct Access to GCF Funding 6
2.5 Request for Proposals for Micro-, Small- and Medium-Sized Enterprises 6
2.6 Simplified Approvals Process 6
3. Basics on REDD+ 7
4. What makes results-based payments for REDD+ so controversial? 7
5. What's behind the shift to jurisdictional REDD+ programs? 10
Box: Results-based REDD+ payments even if results are not achieved? 11
6. REDD+ activities already in the Green Climate Fund portfolio 12
7. REDD+ activities in the Green Climate Fund pipeline 15
Notes and Bibliography 17

EXECUTIVE SUMMARY

The Green Climate Fund (GCF) is an important vehicle for disbursement of governments' long-term climate finance commitments under the UN Framework Convention on Climate Change (UNFCCC)[1] and the Paris Agreement. They committed to providing USD 100 billion annually by 2020 to address climate change in the global South. The volume of funds flowing through the GCF, and a looming paucity of funding opportunities elsewhere set the scene for the GCF to become a key source of financing for REDD+. REDD stands for Reducing Emissions from Deforestation and Forest Degradation, the controversial mechanism dominating the international forest policy discourse since 2005.

This briefing describes the GCF's different funding windows and programs that might provide funding for REDD+, discusses the risks associated with the GCF's approach to so-called *results-based payments for REDD+*, and presents an overview of the GCF portfolio and pipeline of REDD+ projects.

The briefing shows that while recognition is growing that REDD+ may actually be the wrong instrument for tackling drivers of large-scale deforestation,[2] the Fund is announcing to scale up support for the most controversial aspect of REDD+, *results-based payments*. An analysis of the proposed REDD+ payment structure and first funding requests for *results-based REDD+ payment* suggest the GCF may be entering this controversial terrain seemingly unaware of major pitfalls of *results-based REDD+ payment* approaches. Information on REDD+ presented in this briefing therefore focuses on the controversies surrounding *results-based REDD+ payments*.[3]

As currently designed, *results-based REDD+ payments* are awarded in comparison to reference levels which are determined either as average deforestation over a period of years in the past, or as projection of anticipated future deforestation. Therein lies a big risk as it makes ***results-based REDD+ payment schemes prone to paying for paper reductions manufactured through careful choice of the reference level:*** For exactly the same volume of emissions reduced through cutting deforestation and at the exact same cost, wildly different payments can be requested, based on the "result" manufactured through the choice of the reference level. If the chosen reference level provides no incentive to actually reduce and eventually halt deforestation, the *results-based REDD+ payment* scheme risks wasting scarce climate finance and will fail to contribute to limiting global temperature rise to 1.5°C or well below 2°C.[4]

The GCF is about to fall prey to this risk. The first proposal approved by the GCF Board in February 2019 involves payment for reduced emissions from deforestation in the Brazilian Amazon during 2014 and 2015. The reference level is so inflated that ***actual deforestation in the Brazilian Amazon today could more than double yet the project proponents would still be able to claim results-based payment for emission reductions from deforestation!*** Curiously, the proposal does not quantify the volume of emissions reduced as a result of the activities that will be funded with the results-based payment.

Concept notes for REDD+ projects submitted under a second GCF program and the *Replenishment Strategy* [5] suggest the problem with the GCF's approach to funding for forest and land use activities goes beyond poor design of a pilot program. Several concept notes involve projects which would generate and sell tradable REDD+ credits while the 'Forest and Land Use' pathways outlined in the *Replenishment Strategy* rely almost exclusively on REDD+, at the expense of more robust, resilient, and synergistic approaches to forest and land use. This bias towards the highly controversial REDD+ approach exposes the GCF to a repeat of the donor agency experience with the dominant international forestry policy approach of the late 1980s / early 1990s, the USD 8 billion Tropical Forestry Action Plan (TFAP).[6] TFAP generated controversy comparable to REDD+ today, was eventually branded as "fatally flawed" and abandoned with substantial funding left unspent. Yet, communities promoting progressive forest and land use solutions to the deforestation crisis at the time faced a decade-long financial drought due to the near exclusive focus by donor and development agencies on TFAP, and subsequent hesitation to commit significant funds to forest projects.

1. BASICS ON GREEN CLIMATE FUND FINANCING

The Green Climate Fund (GCF) is an important vehicle for disbursement of governments' long-term climate finance commitment under the UN Framework Convention on Climate Change (UNFCCC)[7] and the Paris Agreement. For the period 2015 to 2018, a total of USD 10.2 billion was pledged to the GCF, of which the Fund had received USD 7.7 billion by October 2018. By 31 December 2018, the GCF Board had allocated a total of USD 4.6 billion from this initial GCF capitalization to 93 funding proposals, providing finance in 96 countries.[8] With that, more than 60 percent of the funds from the initial GCF capitalisation have been allocated, triggering a call for replenishment. This process is currently underway. Until it is concluded, the Board's ability to commit additional funding is limited. Of the funds that remain for allocation in 2019, USD 600 million are earmarked for proposals that are being submitted in response to targeted Requests for Proposals (RfPs) issued in previous years. Two of these RfPs expose the GCF to particularly controversial terrain: the results-based financing of REDD+.[1]

1.1 Project Funding only through Accredited Entities

To start with, a few words on how the Green Climate Fund (GCF) operates.[9]

The Fund does not implement projects itself, but allocates funding to project proposals submitted by so-called *accredited entities* – multilateral institutions like UNDP, the World Bank or its private sector arm, the International Finance Corporation (IFC), as well as national or regional agencies, including development banks or private banks and NGOs such as WWF or Conservation International. By the end of 2018, 75 national, regional and international entities from the public and private sector had been approved as GCF *accredited entities.*[10]

To implement a project, the accredited entity usually partners with so called *executing entities.* These *executing entities* can be government agencies, NGOs or companies. A national ministry or government might also approach an *accredited entity* to submit a proposal on its behalf. All project funding proposals, however, have to be submitted through an *accredited entity.* They also all have to secure a letter of 'no objection' from the National Designated Authority (NDA) of the country in which the proposed project activities will take place. The NDA is a government's liaison to the GCF.

1.2 Funding to Support Preparation of Proposals

Accredited entities can request up to USD 1.5 million in financial support from the GCF's ***Project Preparation Facility.*** This facility is meant to support applications from smaller national or regional *accredited entities*, including so-called direct access *accredited entities.* It was set up to "help developing countries exercise ownership of climate change funding and better integrate it with their national climate action plans."[11] This facility is thus meant to help ensure that large multilateral agencies and international banks will not crowd out funding access for smaller national and regional *accredited entities.*

To help ensure governments have in place the national climate action plans, safeguard and monitoring systems needed for *accredited entities* to comply with the GCF rules, the Fund also provides support in the form of grants and technical support through a ***Readiness and Preparatory Support Programme.*** The grants can be accesses directly by a country's NDA, or through an *accredited entity.*[12] Implementation can be through national agencies, companies or NGOs as well as through *accredited entities.* The grants have been used, for example, for the formulation of national adaptation plans, national or jurisdictional REDD+ strategy or action plans, for analysis of drivers of deforestation and land tenure, for the elaboration of forest reference emissions levels or "to help national and regional entities with in-depth assessments of their institutional capacity, fiduciary, Environmental and Social Safeguards and gender standards to meet the GCF accreditation standards."[13]

One of the *accredited entities* that is actively engaged in these readiness activities is the FAO. It is involved in a total of ten GCF-funded readiness projects, "including four with direct focus on REDD+ and other forestry-related activities." The countries involved in these four projects with REDD+ focus are the Republic of Equatorial Guinea[14] (two projects), the Republic of Congo[15] and the People's Republic of Lao.[16] FAO writes that through these *Readiness and Preparatory Support Programmes*, "the countries will complete key elements of their REDD+ readiness process and open up new GCF financing opportunities for REDD+ investments."[17]

[1] REDD stands for Reducing Emissions from Deforestation and Forest Degradation. The "plus" in REDD+ indicates that forest conservation, sustainable forest management and afforestation also qualify as REDD+ activities.

1.3 Green Climate Fund Funding Windows and Programs for Project Funding

GCF funding for ***project proposals*** is either through its *regular project funding cycle* allowing for spontaneous submission without deadlines or through targeted time-bound *Requests for Proposals* (RfPs) which can be specifically directed at either public or private sector accredited entities. For example, of the two RfPs most directly related to REDD+, the RfP for a *pilot programme on results-based REDD+ payments* targets public sector entities while the RfP for *mobilizing funds at scale* is addressed at *accredited entities* from the private sector. The different funding windows and programs provide either grants, repayable grants or loans; GCF can also provide funds for equity investments or guarantee (a portion of) the loans a project has secured elsewhere.

Project proposals are benchmarked against one of eight *result areas* identified by the GCF as part of its *Results Management Framework.*[18] Four of these *result areas* relate to mitigation and four relate to adaptation. REDD+ and forest and land-use related activities have to show how they contribute to the mitigation result area "sustainable land use and forest management" and the adaptation result area "resilient ecosystems" in particular. Project proponents seeking GCF funding must also outline how their project will meet the *six investment criteria* adopted by the GCF Board to guide its investment decisions.[19]

For project proposals submitted through the regular *project funding cycle*, there are no additional requirements. Project proposals submitted in response to a *Request for Proposals* are also assessed against requirements set out in the Terms of Reference for the specific RfP. The *pilot programme on results-based REDD+ payments* will pay for the results of ***past action*** taken to reduce emissions from deforestation. The Terms of Reference contain a scorecard which is used by the GCF Secretariat and the independent Technical Advisory Panel (iTAP) to determine whether those measures taken in the past complied with the GCF policies, for example on Indigenous Peoples and environmental and social safeguards. The scorecard also helps the GCF assess whether the activities that will be funded with the payment received for these past results will be in compliance with the GCF policies. The scorecard assessment also provides the basis for calculation of the amount of supposed past emission reductions for which the GCF will pay. Interestingly, the scorecard does not include a requirement to quantify the volume of future emission reductions the applicant expects to achieve with the money paid out by the GCF.

The GCF Secretariat prepares a recommendation for decision which is submitted to the Board together with the project proposal and Secretariat and independent Technical Advisory Panel assessments.

1.4 GCF Policy Commitment to Free Prior Informed Consent

At its 19th Board meeting, the GCF adopted its Indigenous Peoples policy which commits the GCF to the principle of Free, Prior and Informed Consent (FPIC).[20] Adoption of the policy suggests that the GCF will apply a more coherent interpretation of FPIC not only to projects funded under specific RfPs or pilot programs but to all activities receiving GCF funding. The GCF Environmental and Social Policy[21] further confirms the Fund's commitment to FPIC, not only for the GCF and its *accredited entities* but also for those executing GCF-funded activities.

The strength of this commitment to FPIC as expressed in the GCF's Indigenous Peoples and Environmental and Social policies will be revealed in policy implementation. ***The GCF policies clearly demand consent, and not just consultation, for compliance with FPIC.*** This, then, would imply that, for example, reference in funding proposals to the project complying with safeguards under the Cancun Safeguards on REDD+ are not sufficient to demonstrate compliance with the GCF's Indigenous Peoples policy.

2. GREEN CLIMATE FUND FINANCING FOR REDD+

In addition to funding for REDD+ and forest-related projects through its *regular project funding window*, the GCF has issued four specific RfPs that are open to REDD+ project applications. The *RfP for mobilizing funds at scale* for private sector initiatives and the *RfP for a pilot programme on results-based REDD+ payments* are each endowed with USD 500 million. Two further RfPs, the RfP to *Enhance Direct Access* and the RfP for Micro-, *Small- and Medium-Sized Enterprises (MSMEs)* are also open to forest(ry)-related activities.

The different funding windows and programs are briefly described below.

2.1 Regular Project Cycle Funding for REDD+

Like all project proposals, funding requests submitted through the GCF's *regular project cycle funding window* have to demonstrate "how the proposed projects or programmes will perform against the investment criteria and achieve part or all of the strategic impact results." REDD+ projects seeking *results-based payments* are benchmarked particularly against their contribution to the "fund-level impact area of reduced emissions from land use, deforestation, forest degradation, and sustainable forest management and conservation and enhancement of forest carbon stocks." The Board specified that to demonstrate a project's contribution to this impact result area, project proponents must show how they are: "amongst other things, addressing drivers of deforestation such as agricultural expansion. Funding proposals will need to articulate a clear theory of change that demonstrates the linkages between the impact areas and the proposed investments. Ideally, they should delineate how progress toward achieving enabling conditions could catalyse private investments from different actors that could support the financial sustainability of such investments."[22]

For proposals from public sector *accredited entities* (and the public sector *executing entities* that will often partner with them in REDD+ and forest-related projects), the GCF emphasises proposals that focus on "the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results-based demonstration activities."[23] Activities, in other words, which are either not suitable for *results-based REDD+ payments* because they will not generate results quantifiable in tons of carbon dioxide not released into the atmosphere, or for which capacity or funding to measure, report and verify in ways required for results-based REDD+ payments is lacking. The document also emphasises that benchmarking of public sector *accredited entity* proposals on REDD+ submitted through the *regular project cycle funding window* will reflect whether project proponents have adequately considered access to governmental budget funding for the activities proposed.

By contrast, the GCF ***explicitly encourages accredited entities from the private sector to submit project proposals that include the generation of tradable REDD+ credits:*** "Private sector actors also include those involved in the generation and trading of emissions reductions from REDD- plus activities at the project level."[24] The GCF document outlining the Fund's support for these 'early phase' REDD+ includes examples of activities that GCF may support: "GCF can assist private sector actors involved in the value-chains of agricultural and forest commodities that generate large sources of emissions from deforestation and forest degradation to shift to deforestation-free supply chains. This support may include increasing capacities at the producer level through technical assistance with grant and non-grant instruments, as well as participating directly or indirectly in the investments through equity or guarantees for reducing certain risks. For example, the GCF can promote climate smart agriculture, agroforestry and reforestation by closing the finance gap that renders business-as-usual to be more profitable than improved practices (in the short term), and at the same time it can promote actions that reduce pressure on forests."

The GCF Board has already approved one project, *Sustainable Landscapes in Eastern Madagascar (FP026)*,[26] which ***will support activities that are part of a project generating tradable REDD+ credits.*** The project was submitted jointly by the *accredited entities* European Investment Bank and Conservation International, with the company Althelia listed as one of the *executing entities.* Conservation International is involved in the CAZ REDD+ project[27] in Madagascar which will be supported through the GCF-funded project *FP026*. The project documentation states that "to avoid double counting, any tradable emissions reductions generated during the project period through the improved management of forests at CAZ and COFAV will be retired in the project and national registries (and so not available for sale)."[28] However, GCF funding will provide substantial subsidies to Conservation International's CAZ REDD+ project which will enable the generation of tradable REDD+ credits beyond the GCF funding period, leading to the GCF grant indirectly supporting the trade in REDD+ carbon credits.

The first proposal from a public sector *accredited entity* specifically for REDD+ implementation, P*riming Financial and Land-Use Planning Instruments to Reduce Emissions from Deforestation (FP019)*[29] ***explicitly excludes*** the generation of tradable REDD+ credits. It was submitted by UNDP, with the Ministry of Environment of Ecuador as *executing entity.*

2.2 Request for Proposals for a Pilot Programme on Results-based REDD+ Payments

The RfP for a *pilot programme on results-based REDD+ payments* is targeted at accredited entities from the public sector and has a budget of USD 500 million. It runs from October 2017 (launch of the RfP by the GCF) until the last GCF Board meeting in 2022.[30] Controversially, project proponents can claim payment for calculated emission reductions as far back as 31 December 2013, and up to 31 December 2018; they are also not required to ensure that the carbon will remain locked up in the trees after the payment has been made.

The eligibility criteria for the pilot program require a country to have in place a national REDD+ strategy or action plan, a forest reference level, a National Forest Monitoring System and a 'safeguards information system'. The country must also have included the REDD+ results for which payment is requested in its Biennial Update Reports to the UNFCCC. And "the payment scale is at national or subnational level (on an interim basis)." The Terms of Reference further note that "if a country submits a results-based REDD+ payment proposal that is not national in scope, the proposal for REDD+ at the sub-national level must "demonstrate ambition to scale up to national level and should demonstrate a contribution to national ambition for emissions reductions." This requirement is intended to prevent that deforestation just 'leaks' out from the area included in the payment request into neighboring regions.

The level of GCF payment is determined based on a scoring system: The payment requested by the project proponent (tons of CO_{2e} offered to the GCF x USD 5 per ton of CO_{2e}) is multiplied by the percentage scored during GCF Secretariat assessment of the proposal. A country can submit more than one project proposal under this RfP, provided that the total *results-based payment* requested will not exceed 30 percent of the USD 500 million available for the pilot program.

Although the quantification and assessment resemble that used for tradable REDD+ credits, the Terms of Reference explicitly rule out the use of GCF funding from this RfP for the generation of tradable REDD+ credits.

The document also underlines that no transfer of emission reduction units to the GCF is foreseen. In other words, the government requesting payment, through an *accredited entity,* will still be able to count the emission reductions towards its own emission reduction target or nationally determined contribution (NDC) under the Paris Agreement, at least for proposals submitted to this pilot program. It must commit to not include the emission reductions into any other *results-based REDD+ payment* request under the GCF and that no claims for payments for these REDD+ emission reductions will be or have been made under any other arrangement or scheme. The funding received must be reinvested in activities that are in line with the country's NDC, its national REDD+ strategy, or with national low-carbon development plans. The proposal must also contain an outline of the activities to be funded with the payment for REDD+ results. Interestingly, the applicant does not seem to have to quantify the future emission reductions expected as a result of implementing the measures that will be funded with the GCF money. The GCF will thus not have any indication of the volume of future emission reductions that ***will be*** achieved with the GCF funds; the project proposals only include the past volumes of claimed emission reductions for which payment from the GCF is requested.

Like previous pilot programs testing *results-based REDD+ payments,* GCF will pay USD 5 per ton of carbon dioxide. At this price, the pilot program budget will pay for REDD+ measures that kept a maximum of 100 million tons of carbon dioxide equivalent (temporarily) out of the atmosphere. As noted above, controversially, claims can be made for supposed reductions as far back as 31 December 2013, four years prior to the launch of the pilot program. This sets a precedent with possibly far-reaching consequences for the allocation of future climate finance.

The decision is contrary to the practice employed in most other existing *results-based REDD+ payment* programs. They allow very limited retroactive crediting or provide results-based finance only for claimed mitigation outcomes achieved after the launch of the program. The REDD Early Movers (REM) program of the German government pays for results up to two years prior to the signing of an agreement, but calculates emission reductions eligible for payment in comparison to reference levels much lower than those about to be accepted by the GCF. REM also requires that for each ton for which payment is received, the recipient retires one ton as own contribution.

The GCF pilot program will certainly face a challenge to ensure responsible spending of public funds under the pilot program as it is currently designed. Inflation of reference levels is common and determination of the volume of payment in comparison to such reference levels poses a dilemma for results-based REDD+ payment schemes as they are currently conceived: ***For exactly the same volume of emissions not released into the atmosphere through REDD+ measures, at exactly the same cost, wildly different payments for "results" can be manufactured, solely through the choice of the reference level*** (see Figure 1).

Furthermore, the GCF *pilot programme for results-based REDD+ payment* does not require any guarantee that the carbon paid for will remain locked up in the forest after the payment has been received. As a consequence, the GCF may be paying for a mere delay of emissions from deforestation being released into the atmosphere by a few years, if for example deforestation rose in the years after the time period for which results-based payments are claimed.

Another issue not addressed in the Terms of Reference for the pilot program is the risk of double funding. In some countries, significant volumes of (international public) funding will have been used to generate the emission reductions for which *results-based payment* can be requested. It is unclear whether this will then result in a double-financing of REDD+ results, or whether previous international financial contributions to achieving emission reductions through reduced deforestation will have to be deducted.

The Terms of Reference for this RfP note that "the secretariat will conduct an analysis of the experience with, and the progress made towards achieving the objectives of the pilot programme for REDD-plus RBP for consideration by the Board no later than its last meeting in 2019." At its 22nd meeting in February 2019, the GCF Board approved the first project requesting payment under this RfP. The request was submitted by the accredited entity UNDP, with the government of Brazil as *executing entity.*[31] According to GCF Secretariat documents, two more proposals are in preparation, and the government of Brazil has indicated that it will submit a second proposal under the same RfP, requesting payment for supposed past emission reductions between 2016 and 2018.[32]

2.3 Request for Proposals for Mobilizing Funds at Scale

The RfP for *mobilizing funds at scale* is targeted at the private sector. It has a budget of up to USD 500 million to support "innovative, high-impact projects and programmes that mobilize private sector investment in climate change activities."[33] Under this call, the GCF accepted concept notes not only from *accredited entities* but also from organizations and companies not (yet) accredited by the GCF. However, before they can present a full funding proposal, project proponents will either need to complete accreditation procedures or partner with an already *accredited entity.*

The RfP generated 350 concept notes from more than 70 countries, with an estimated total of USD 18 billion in financing requested from the GCF. 30 concept notes were shortlisted and the proponents are invited to prepare full funding proposals.[34] According to GCF, the 30 concept notes selected scored highest against the eight GCF results areas and six investment criteria as well as eight specific impact criteria for proposals submitted under this RfP. Those specific impact criteria include the ability to "crowd in the private sector" and "create a lasting impact on national / regional climate change and development objectives"; another criterion is whether the program can be replicated or continue beyond the investment period without GCF funding. Proponents also had to outline the proposal's "social impact", by describing whether the activities will result in "significant benefits to the bottom of the pyramid" and have "a positive social impact, including gender considerations".

Some shortlisted concept notes have already been elaborated into full funding proposals and submitted to the GCF Secretariat for due diligence check and finalization. Among these is a proposal from the International Finance Corporation (IFC) which involves the trade in REDD+ offset credits. The IFC concept note has already been elaborated into a full funding proposal and it is one of at least three, possibly four, shortlisted concept notes that involve trading in REDD+ offset credits (see chapter 5).

By February 2019, no funding proposal related to this RfP had been submitted for discussion by the Board. The GCF Secretariat explains this in part with the fact that 18 of the 30 shortlisted concept notes were submitted by entities without GCF accreditation. It notes that it expects "around one to three of the concept notes that are currently being developed into funding proposals to be presented to the Board at its 23rd meeting, subject to further review and identification of suitable *[accredited entities]*", and that the Secretariat "is working closely with the proponents of the 18 concept notes from non-accredited entities to either help them to find suitable *[accredited entities]* who may be interested in partnership or seek accreditation themselves. However, the Secretariat is experiencing difficulties and delays as some existing entities are developing their own projects with similar concepts or otherwise have shown little interest."[35]

2.4 Request for Proposals for Enhancing Direct Access to GCF Funding

This RfP for a pilot phase to enhance direct access to GCF funding (EDA) was launched in 2016, with an initial funding of USD 200 million and a target of supporting 10 projects.[36]

The aim of the RfP is to devolve the decision for more project funding to the national level, by making GCF funding available to (smaller) national and regional Direct Access *accredited entities* (DAEs). DAEs can use the GCF funding received through this RfP to fund projects at national level without the specific project having to be submitted to the GCF Board for approval. While such DAEs outnumber multilateral and international *accredited entities,* they have received far lower volumes of funding than multilateral and international *accredited entities.* Because DAEs receiving funding through this EDA RfP are essentially acting as financial intermediaries, they require an additional level of accreditation, for special fiduciary standards, which then allows the DAE to on-grant or on-lend to national recipients the GCF project funding they have received in the form of grants and loans.

By the end of 2018, only two projects had been approved.[37] Neither of them provides funding to REDD+ or forest-related projects. However, an unknown number of EDA proposals is at various stages of development. The information on the GCF website does not indicate whether the EDA project pipeline contains proposals involving REDD+ or forest-related activities.

2.5 Request for Proposals for Micro-, Small- and Medium-Sized Enterprises

The current first USD 100 million tranche of this RfP focuses on providing "green" credit lines to micro-, small- and medium-sized enterprises, and the GCF Board has to date approved funding for two proposals. The Mongolia-based XacBank received USD 20 million for a Business *loan programme for GHG emissions reduction (FP028)*[38] and the Inter-American Development Bank received USD 20 million for a *Low-emission climate resilient agriculture risk sharing facility for MSMEs (FP048)*[39] in Guatemala and Mexico. Neither of these indicate a link to REDD+ or forest-related activities though the agriculture risk-sharing facility may have impacts on deforestation, depending on the kind of agriculture activity that will be incentivized though the risk-sharing facility. A proposal to launch a second tranche of this RfP is under consideration for 2019.[40]

2.6 Simplified Approvals Process

At its 18th meeting, in October 2017, the GCF introduced a Simplified Approvals Process (SAP) for small-scale projects expected to pose low to no environmental and social risks. These are projects the GCF classifies as 'Category C' projects, the Fund's lowest risk category related to environmental and social risks. Both direct access and international access *accredited entities* can submit funding proposals through the SAP.

The first project approved under the SAP has been submitted by the Namibian *Direct Access Entity* Environmental Investment Fund. It aims to "Improve the ecosystem management practices of farmers" (SAP001).[41] There is no indication in the funding proposal that the project will generate tradable REDD+ credits or engage in results-based REDD+ payments; its focus is on adaptation.

Another project proposal presented under the SAP to the GCF Board at its 22nd meeting in February 2019 also does not mention the use of *results-based REDD+ payments* or the generation of tradable REDD+ credits in the project documentation. The proposal *Enhanced climate resilience in rural communities in central and north Benin through the implementation of ecosystem-based adaptation (EbA) in forest and agricultural landscapes (SAP005)*[42] is submitted by UNEP and aims at restoring up to 3,600 hectares of land, mainly through the use of native tree species.

The Terms of Reference for the SAP explicitly exclude the use of the simplified process for "projects and/or programmes that include known "risk factors" that would require additional information and more detailed due diligence and consultations by the relevant entities".[43] Among the risk factors listed are "activities with potential resettlement and dispossession, land acquisition, and economic displacement issues; activities that may affect indigenous peoples; activities within protected areas and areas of ecological significance including critical habitats, key biodiversity areas and internationally recognized conservation sites, among others.

It seems unlikely that a project involving the generation of tradable carbon credits or *results-based REDD+* or ecosystem service payments would be considered eligible for the Simplified Approval Process. In addition to their documented risk for causing conflict as they affect land use over large areas of often contested land, such projects require environmental and social impact assessments and the more stringent consideration of safeguards associated with *results-based REDD+ payment* approaches. However, the Terms of Reference currently do not explicitly exclude such project proposals from using the SAP for project approval.

3. BASICS ON REDD+

REDD stands for **R**educing **E**missions from **D**eforestation and Forest **D**egradation; the "plus" in REDD+ indicates that forest conservation, sustainable forest management and afforestation also qualify as REDD+ activities. REDD+ has been the dominant international forest policy mechanism since 2005. The objective of REDD+ is to reduce emissions resulting from forest destruction. It aims to achieve this by offering financial incentives to those who can provide evidence of having kept emissions from deforestation below a certain level. Recipients of REDD+ incentives must also demonstrate that these reductions in (emissions from) deforestation would not have happened without their REDD+ activity and that the carbon will remain stored in the trees after the payment has been received.[44]

Initial euphoria was widespread among climate policy makers and international conservation NGOs for REDD+ to become the mechanism that would provide access to the 'low-hanging' climate mitigation fruits - emission reductions that are cheap, easy and quick to deliver. Studies such as the 2006 Stern Review in particular touted REDD+ as a bargain that could quickly and cheaply reduce emissions.[45]

Thirteen years into the REDD+ experiment, however, many early REDD+ supporters recognize that reducing (emissions from) deforestation is everything but quick, easy or cheap[46] and that REDD+ may be the wrong instrument for tackling (drivers of) deforestation at scale.[47] Experience with REDD+ in Brazil, Viet Nam and Indonesia in particular shows that money alone does not end deforestation.[48]

In Brazil, the government achieved globally acclaimed successes and a rapid reduction in deforestation in the early 2000s. Central factors were the strengthening of the environmental agencies responsible for controlling illegal deforestation, the collapse of world market prices for the key agricultural products meat and soy, and the extensive recognition and demarcation of indigenous territories. In the last few years, by contrast, deforestation in the Brazilian Amazon has been rising again, after environmental legislation and the remit and budget of law enforcement agencies were weakened and the demarcation of indigenous peoples' territories all but ground to a halt while illegal incursions into indigenous peoples' territories are on the rise.[49] *Results-based REDD+ payment programs* such as the Amazon Fund[50] and the REDD Early Movers program[51] of the German government have been unable to prevent this reversal towards increased deforestation in the Brazilian Amazon.

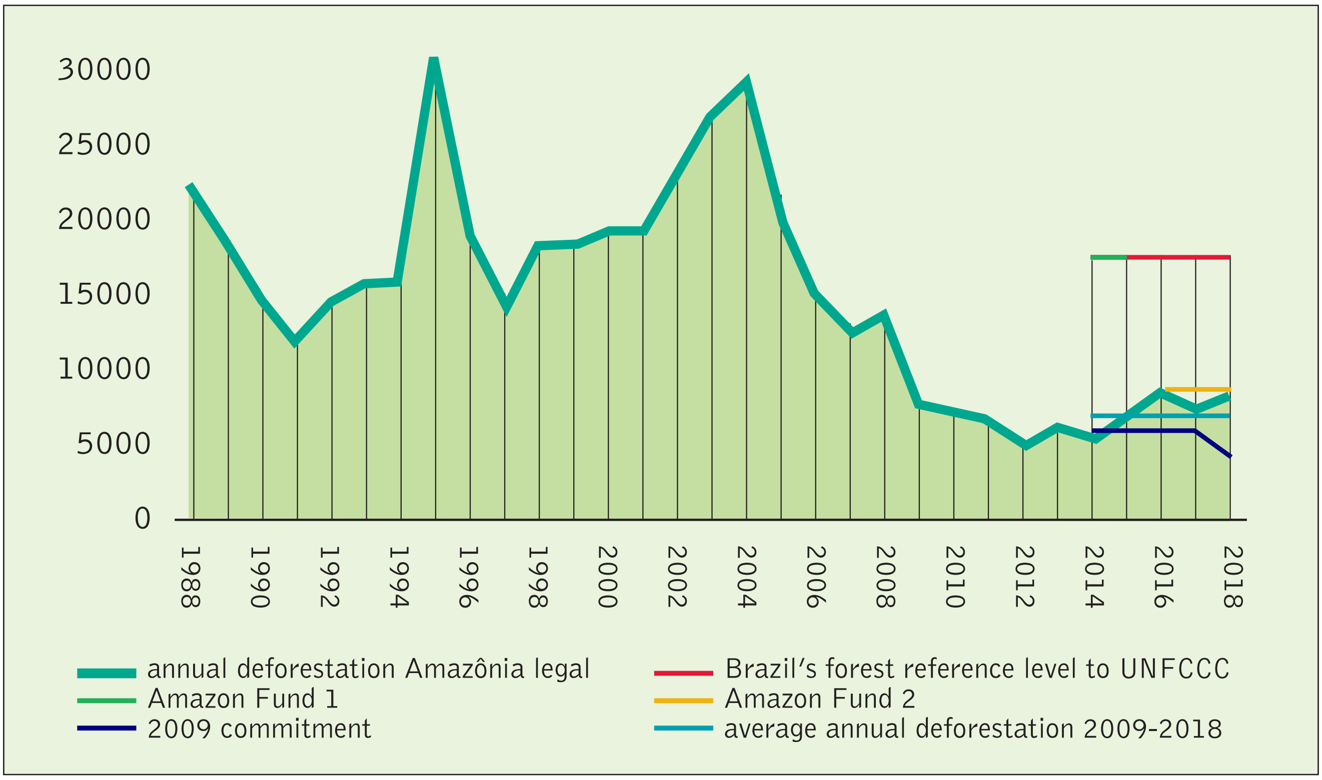
Against this backdrop, GCF is announcing to scale up funding for the most controversial part of REDD+, *results-based payments*. In a 2017 press release announcing the first dedicated REDD+ proposal in the regular GCF project funding cycle, for example, GCF expressed its goal to "incorporate results-based REDD+ payments as a cornerstone of its climate finance."[52]

The first GCF Board project approvals on *results-based REDD+ payments* will likely influence the emerging architecture for *results-based REDD+ payments* beyond the GCF, and the signal of the GCF decisions will be disproportionately larger than the actual funding committed under the REDD pilot program of the GCF: Other *results-based REDD+ payment scheme*s will likely be modelled on the first projects to receive GCF Board approval.

The announcement of the GCF Board in 2017 to scale up funding for REDD+ through a targeted *Request for Proposals* (RfP) to pilot *results-based REDD+ payments* came at an unusual moment for another reason: UNFCCC negotiations on financing of REDD+ under the Paris Agreement are ongoing. GCF Board approval of project proposals which involve results-based payments for REDD+, and particular those that involve the generation of tradable REDD+ credits, risks pre-empting the outcome of UNFCCC negotiations on Article 6 of the Paris Agreement. There is also a risk that the Board gives the green light to approaches that will not be in line with eventual decisions resulting from these ongoing UNFCCC negotiations.

4. WHAT MAKES RESULTS-BASED PAYMENTS FOR REDD+ SO CONTROVERSIAL?

It is not possible to provide a comprehensive overview here of the characteristics that make *results-based payments for REDD+* controversial, both from the perspective of their potential to cause land use conflicts and trigger land grabs and their highly uncertain contribution to climate mitigation or halting deforestation.[53] However, given that proposals



Brazilian Amazon deforestation could double under UNDP proposal FP100 reference level choice and still generate 'results-based REDD+ payments.

(a) *FREL* Brazilian Forest Reference Level UNFCCC. ***Basis for conversion to tons CO2 claimed as mitigation outcome in UNDP proposal to GCF RfP pilot program results-based REDD+ payment):*** Average 1996-2010: **16.640km²**

(b) Reference level Brazilian *Amazon Fund 1* for payments 2011-2015: Average 2001-2010: **16.540km²**

(c) Reference level Brazilian *Amazon Fund 2* for payments 2016-2020: Average 2006-2015: **8.150km²**

(d) *2009* Brazilian government *commitment* to reduce deforestation in the Amazon by 80 percent by 2020, compared to 1996-2005 average: **3.925km²**

Figure 1. Deforestation in the Brazilian Amazon. Impact of the reference level choice on emission reduction volume eligible for results-based REDD+ payment.

Source: Own calculations based on PRODES program of the Brazilian Instituto Nacional de Pesquisas Espaciais (INPE). http://www.inpe.br/noticias/noticia.php?Cod_Noticia=4957

requesting *results-based REDD+ payments* from the GCF contain some of these controversial features, three aspects most relevant to the RfP for a *pilot programme on results-based REDD+ payments* will be briefly discussed here.

Results-based REDD+ payment schemes prone to paying for paper reductions manufactured through careful choice of reference level

Results-based REDD+ payments are calculated by comparing the volume of emissions during the year for which payment is requested to a reference level. This reference level is determined either as average of (emissions from) deforestation over a period of years in the past, or as projection of anticipated future deforestation. Sadly, most forest reference levels agreed under the UNFCCC aim at maximizing paper reductions rather than reflecting actual volumes of emissions released into the atmosphere as a result of forest loss. Consequently, most forest reference levels submitted to the UNFCCC are unsuitable as basis for payment schemes hoping to incentivise action to end deforestation and contribute to keeping global temperature rise to 1.5°C or well below 2°C. The inflated nature of most forest reference levels accepted by the UNFCCC also has ramifications for how scarce climate finance will be spent, if the GCF accepts these inflated UNFCCC forest reference levels as basis for comparison in its results-based REDD+ payment program. The question that arises: ***Will the limited GCF funding be used to trigger paradigm shifts or pay for paper reductions manufactured through the use of inflated reference levels in its results-based REDD+ payment scheme? Undoubtedly, the latter will lead to another lost decade for international efforts aimed at halting deforestation.***

The government of Brazil, through the *accredited entity* UNDP, is among those seeking payment under the GCF pilot program under funding proposal FP100 REDD+ *results-based payments for results achieved by Brazil in the Amazon biome in 2014 and 2015.*[54] It is requesting payment for a portion of the emissions avoided through reduced deforestation in the Brazilian Amazon during

2014 and 2015. How large that portion is - and therefore how much money the government of Brazil claims to be entitled to - depends solely on the choice of the reference period. Actual deforestation trends or the actual volume of emissions released into the atmosphere through forest loss do not affect the calculation.

The UNDP proposal calculates the volume of emissions reduced in the Brazilian Amazon through REDD+ during those two years by comparing recorded emissions in 2014 (5.012km^2) and 2015 (6.207 km^2) to the average of emissions from deforestation between 1996 and 2010 (16.64 km^2). This is the forest reference level the government of Brazil submitted to the UNFCCC. As explained below, the comparison in the proposal involves a conversion of hectares deforested to tons of carbon dioxide equivalent released. It is also important to note that while Brazilian agencies monitor fire in the Amazon, emissions from drought-induced forest fires are not included in the data the government reports to the UNFCCC.[55]

Figure 1 (previous page) shows that the reference level chosen in the UNDP proposal includes the peak years of deforestation in the Brazilian Amazon which significantly inflates the reference level. ***Actual deforestation in the Brazilian Amazon could more than double under this inflated reference level yet the UNDP project to the GCF could still claim payment for 'emission reductions from deforestation'.***

How wide a range of emission "reductions" eligible for results-based payments can be manufactured through the careful choice of the reference level becomes clear when the Brazilian government's voluntary commitment from 2009 is considered as reference instead of the forest reference level submitted to the UNFCCC (option *d* in Figure 1). In 2009, the government committed to limiting deforestation in the Brazilian Amazon to a maximum of 5.586 km^2 per year between 2014 and 2017, and reduce deforestation by 80 percent by 2020 (compared to the average deforestation from 1996-2005 - 19.625 km^2). By ***this*** comparison, emissions from deforestation in the Brazilian Amazon were above the reference level in 2015 and the following years and just barely below in 2014 (see graph). **Had the UNDP proposal opted to use this 2009 commitment as a reference level, calculation of emission reductions eligible for results-based REDD+ payment would have been zero / negative for 2015 and very small for 2014!**

A third reference level for *results-based REDD+ payments* is in operation in Brazil. The main funding mechanism for *results-based payments for REDD+* currently operational in Brazil, the Amazon Fund, uses the average of emissions from deforestation between 2001 and 2010 as reference for its payments for supposedly reduced emissions from deforestation for the years 2011-2015 (option b in the graph above); for payments for claimed reductions from 2016-2020, the reference level is the average of deforestation emissions between 2006 and 2015 (option c in the graph above). This updated reference level, too, would yield far lower volumes of supposed reductions for which payment could be claimed than the UNDP proposal to the GCF.

What is clear from this comparison is that the UNDP proposal requesting payment under the *GCF pilot programme for results-based REDD+ payment* uses a reference level significantly higher than other *results-based REDD+ payment* schemes already in operation in Brazil. The comparison also shows that the scenarios outlined above lead to significantly different *results-based REDD+ payment* decisions for the same volume of emissions actually released into the atmosphere. ***While the volume of claimed reductions eligible for payments under a results-based REDD+ approach will vary widely based on the choice of reference level, the release of actual emissions from deforestation into the atmosphere and the costs for measures undertaken to tackle deforestation are exactly the same in the different scenarios!*** This is one of the key dilemmas of *results-based payments for REDD+* as they are currently conceived. As a consequence, GCF will face a challenge, some would say, it will need to square the circle, to reconcile the obligation to demonstrate effective use of public funds with the political pressure to approve projects requesting *results-based REDD+ payment* based on massively inflated reference levels – which in turn leads to payment for emission reductions that exist on paper only.

It is worth noting that in addition to readying to implement a pilot program which will pay millions for emission reductions that at least in part exist on paper only, the GCF Board in approving FP100 at its 22nd Board meeting end of February 2019 set another precedent with far-reaching consequences for futures climate finance: Most existing schemes for *results-based REDD+ payments* limit the time period for which payment for mitigation outcomes can be claimed to reductions achieved from the moment the payment program was launched. The REDD Early Movers (REM) program of the German government pays for results achieved up to two years prior to the signing of an agreement, but calculates emission reductions eligible for payment in reference to ***much more ambitious reference levels*** than those submitted to the UNFCCC and about to be accepted as reference by the GCF. REM also requires that for each ton for which payment is received, the recipient retires one ton as own contribution.[56] By contrast, the *pilot programme on results-based REDD+ payments* operates with December 2013 as cut-off date for claims - the date of adoption of the UNFCCC's Warsaw Framework for REDD+. This allows retroactive crediting for emission reductions generated ***years before*** the pilot program was launched. Furthermore, the Terms of Reference set a fixed date, 31 December 2013, rather than a rolling period as cut-off date for retroactive crediting. The time gap between actual deforestation trends and the emission reductions for which GCF payment is claimed, will therefore grow over time.

No guarantee that carbon will remain stored after payment has been made?

The RfP for a *pilot programme on results-based REDD+ payment* appears to require ***no guarantee that the forest carbon*** for which payment is made, ***will continue to be stored in the forest*** after the GCF payment has been received. In other words, the proposed pilot program may be paying out large sums of money only to delay deforestation by a few years. This risk will be particularly large if the measures financed with the GCF payment do not trigger the anticipated paradigm shift and deforestation rises again in the years following the GCF payment. This, for example is the situation in Brazil where deforestation has been rising rapidly in the past years, despite *results-based payments for REDD+* through programs like the Amazon Fund, REDD Early Movers in the Brazilian state of Acre or private sector REDD+ projects. A recent article underlines how little REDD+ contributed to the past success in driving down deforestation in the Brazilian Amazon, and that the most effective measure to reducing deforestation is under threat under the Bolsonaro administration. A drop in the price of export commodities such as soy and beef explains most of the decline in deforestation between 2005 and 2007. "Government repression measures explain the continued decline from 2008 to 2012, but an important part of the effect of the repression program hinges on a fragile base: a 2008 decision [by the Central Bank] that makes the absence of pending fines a prerequisite for credit for agriculture and ranching. This could be reversed at the stroke of a pen, and this is a priority for the powerful "ruralist" voting block in the National Congress. Massive plans for highways, dams and other infrastructure in Amazonia, if carried out, will add to forces in the direction of increased deforestation."[57]

Does the GCF really intend to pilot a program that requires no assurance from the recipient of the payment that carbon will remain locked up in the trees once GCF funding stops? How could such a pilot program be considered to have potential to trigger a paradigm shift?

In fact, this very approach was discarded early on in REDD+ discussions. It was considered to be neither financially viable nor morally defensible as it would invite environmental blackmailing: 'if you do not continue to pay me, I will cut down the trees and release the carbon'. To address this perverse incentive, REDD+ projects selling carbon credits on the voluntary carbon market are obliged to demonstrate how they will address the issue of non-permanence of the carbon storage in the forest within their project area. This essential requirement does not appear to be considered at all in the GCF's RfP for a *pilot programme on results-based REDD+ payments*. In fact, ***with deforestation in the Brazilian Amazon rising again at alarming rates, the GCF may be paying for results whose climate benefit will be wiped out again in the coming years.***

Uncertainty margins for forest carbon estimates very large

Results-based REDD+ payment schemes currently calculate the volume of payment solely on the basis of tons of carbon dioxide equivalent mitigated.[58] This requires datasets of reliable deforestation statistics (assessments of satellite images for large areas) over regular time intervals and conversion of hectares of land (not) deforested to tons of carbon dioxide equivalent temporarily (not) released into the atmosphere. The conversion relies on calculations based on forest carbon estimates that are accompanied by uncertainty margins upwards of 50 percent.

Furthermore, due to peculiarities of the UNFCCC negotiations on reporting for emissions from land use, forests and REDD+, a country's forest reference level and regular reports on REDD+ and land use emissions do not necessarily present a true account of emissions actually released into the atmosphere as a result of forest loss, e.g. through fires, storms etc. as the UNFCCC accounting rules allow countries to exclude these emissions from their reports to the UNFCCC.

5. WHAT'S BEHIND THE SHIFT TO JURISDICTIONAL REDD+ PROGRAMS?

The concept of REDD+ has been altered substantially as a consequence of the fundamental change in the UNFCCC's climate mitigation architecture from the Kyoto Protocol to the Paris Agreement. Understanding what's behind this shift from stand-alone *REDD+ projects to jurisdictional REDD+ programs* is key to avoiding precedents from GCF funding for REDD+ that aggravate rather than alleviate the climate crisis. It is also important if the GCF Board is to avoid pre-empting the outcome of UNFCCC negotiations on Article 6 of the Paris Agreement. Approval of *results-based REDD+ payment* proposals now may set in motion the setting up of a results-based REDD+ architecture that runs counter to the eventual decisions resulting from these ongoing UNFCCC negotiations. This risk will be particularly large if concept notes involving the generation and sale of tradable REDD+ credits *(CN070, CN112, CN041)* are approved by the GCF Board before the UNFCCC negotiations have been concluded.

The conceptual changes to the initial idea of REDD have been accompanied by name changes. Stand-alone *REDD+ projects* at the heart of the initial REDD idea were modelled on the project-based carbon trading instrument of the Kyoto Protocol, the Clean Development Mechanism. With the Paris Agreement's architecture taking shape, this concept of stand-alone REDD+ projects was essentially abandoned. Conservation NGOs involved in REDD+ began championing *landscape REDD+* projects, where (private sector) REDD+ projects in a region are consolidated under one umbrella. The currently favoured approach under the Paris Agreement is that of *jurisdictional REDD+ programs:* Public sector entities develop REDD+ plans which cover whole 'jurisdictions' – provinces, states and eventually, the forested areas of the entire country.

The focus on jurisdictions such as provinces or a whole country has inevitably shifted the emphasis of REDD+ from private to public actors: Implementation of *jurisdictional REDD+ programs* is difficult to imagine without the involvement of public entities. What has also changed fundamentally with the adoption of the Paris Agreement in 2015 is the requirement for each tradable carbon credit generated through private sector REDD+ projects to be registered in ***(and deducted from)*** a country's national (forest) carbon balance sheet: From 2020, all countries, and not just industrialized countries as under the Kyoto Protocol, will need to present national carbon accounts to the UNFCCC. Most countries engaged in REDD+ have included the forest and agriculture sector in their *Nationally Determined Contribution (NDC)* submitted to the UNFCCC. They will thus have to include these sectors into their national carbon accounts.

This is a c change to the situation under the Kyoto Protocol where no such national carbon accounts were required from countries in the global South. As a consequence, the REDD+ concept which started out as a mechanism modelled on the Kyoto Protocol's Clean Development Mechanism has to be adapted to a context where the host country of a private sector REDD+ project has to delete a ton of carbon dioxide from its national (forest) carbon account for each carbon credit sold by the (private sector) REDD+ project. If such a cancellation does not take place, the same supposed emission reduction is double-counted, in the national carbon account ***and*** by the buyer of the REDD+ carbon credit.[59]

This changed accounting situation is reflected in the term "*nested" REDD+*: Private sector REDD+ projects, where they exist, are to be 'nested' into the accounting framework associated with the *jurisdictional REDD+ programs* administered by or under the auspices of the public sector entity. The more private sector REDD+ projects exist in a given area prior to the development of jurisdictional REDD+ programs, the trickier this 'nesting'. Why? Among others because carbon offset projects, including private sector REDD+ projects, appear to have systematically used inflated project baselines and thus claimed more than their fair contribution to greenhouse gas mitigation.[60] In relation to REDD+ offset projects, this practice has been coming to light for example in Acre, Brazil, and Mai N'dombe, DR Congo, where *jurisdictional REDD+ programs* have faced the task of attempting to "nest" existing private sector REDD+ projects into their *jurisdictional REDD+* carbon accounts. In the case of Mai N'dombe, "an existing legacy project – the Wildlife Works Carbon (WWC) Mai Ndombe conservation concession – was validated with a project baseline methodology prior to the jurisdiction determining its own baseline under the fully-fledged ER Program. To be integrated and rewarded for performance over the [REDD+ carbon contract] period (2018-2024) the WWC project was ***required to reduce its baseline by 33%.***"[61] [emphasis added]

Beyond these conceptual inconsistencies and contradictions with regards to carbon accounting, it is worth noting that REDD+ projects which depend on the sale of offset credits as a means of financing have proven particularly controversial and prone to causing conflict between REDD+ project developers and communities affected by the REDD+ project activities.[62]

Box: Results-based REDD+ payments even if results are not achieved?

REDD+ is based on the assumption that after a preparatory period reliant on grant funding – the so called *readiness phase* during which the institutional set-up and monitoring and reporting infrastructure are to be put in place - REDD+ activities will become largely self-funding, through results-based payments. At this third payment stage of REDD+, payments are to be made only after evidence has been provided that emissions from deforestation were kept below a contractually agreed reference level.

After more than a decade of experience with REDD+, it is becoming clear that this initial assumption is untenable, particular where REDD+ is implemented through *jurisdictional REDD+ programs.* First, large sums of funding continue to be necessary for REDD+ readiness activities. This grant funding for 'REDD+ readiness' was initially said to only be necessary for a short period of time while countries were setting up REDD+ monitoring and reporting systems, carrying out research to identify the drivers of deforestation and based on this, elaborating their REDD+ action plans. Yet, the reality is that obtaining 'readiness' for a REDD+ approach where payment hinges on providing evidence that a verifiably quantified volume carbon dioxide (in tons of CO2 equivalent) has been prevented from release into the atmosphere through REDD+ measures requires data that many countries initially interested in REDD+ did not – and still do not - possess. This includes information about the carbon density of forests, time series of past deforestation or projections of projected deforestation levels and the capacity to continue to monitor and analyse this information.

Furthermore, as requirements for *results-based REDD+ payments* were eventually costed in the process of getting countries 'ready for REDD+', it also became increasingly apparent that many countries would require up-front (grant) funding to implement the measures needed to reduce (emissions from) deforestation for which they could then claim results-based REDD+ payments. It became also clear that a unit price of USD 5 per ton of CO2 equivalent will not be sufficient to cover the costs of achieving emission reductions through REDD+, let alone provide an attractive financial incentive to those responsible for large-scale deforestation for conversion to agriculture cash crops such as soy or oil palm. As a result, REDD+ activities on the ground have almost exclusively focused on restricting farming practises of peasant farmers and indigenous peoples rather than large-scale deforestation for agriculture commodity production or industrial logging.

As the first contracts for *jurisdictional results-based payments* are signed, it becomes apparent that a significant portion of the payment might be required to cover 'fixed costs' for monitoring, reporting and administration

continued on page 12

of the *results-based REDD+ program.* At USD 5 per ton of CO_2 equivalent, covering these fixed costs from the results-based payments will leave even less funding available to generate future emission reductions from reduced deforestation for which payment can then again be claimed: The assumption that results-based payments will turn REDD+ into a self-funding program to halt deforestation is increasingly becoming untenable.

A recent contract between the World Bank and the government of the Democratic Republic of Congo (DRC) is a case in point. It has been marketed as *results-based REDD+ payment* and involves the transfer of carbon credits to the Carbon Fund of the World Bank's Forest Carbon Partnership Facility, in return for payment for the supposed emission reductions that these carbon credits represent. The Project Appraisal Document prepared in the process of contract preparation reveals that a significant proportion of the allegedly *results-based payment* will be made irrespective of whether the contractually agreed results are achieved: "fixed costs" amounting to USD 7.5 million of the total contract value of USD 55 million will be paid out to the DRC government, in part up-front, and even if the contractually agreed emission reductions are eventually not achieved.

Even if reductions are eventually achieved, the substantial "fixed costs" for implementing *jurisdictional REDD+ programs* are unlikely to be covered by results-based REDD+ payments at current rates of USD 5 per ton of CO_2 equivalent. Yet, the GCF's RfP for a *pilot programme for results-based REDD+ payment* seems premised on this assumption and has set the price it will pay at USD 5 per ton of CO2 equivalent. It is not obvious how funding ***yet another*** pilot program for *results-based REDD+ payment* based on these outdated assumptions will contribute to the paradigm shift the GCF seeks to trigger with its financing.

The conceptual changes that REDD+ has undergone, combined with the experience from thirteen years of REDD+ experiments call into question the validity of a key assumption which shaped its initial design: That providing financial incentives to would-be destroyers of forests can halt deforestation and that REDD+ could be designed in such a way that it attracts large sums of private sector financing ***and*** contributes to climate mitigation.[64]

Dubious accounting facilitated by large uncertainty margins that are common in forest carbon estimates, the reality of conflicts between REDD+ project developers and communities affected by REDD+ at disturbingly large number of REDD+ project sites and above all, the failure of REDD+ to make a significant contribution to ending large-scale deforestation have led to the suitability of REDD+ as an effective instrument for forest and climate protection being increasingly questioned. [65]

6. REDD+ ACTIVITIES ALREADY IN THE GREEN CLIMATE FUND PORTFOLIO

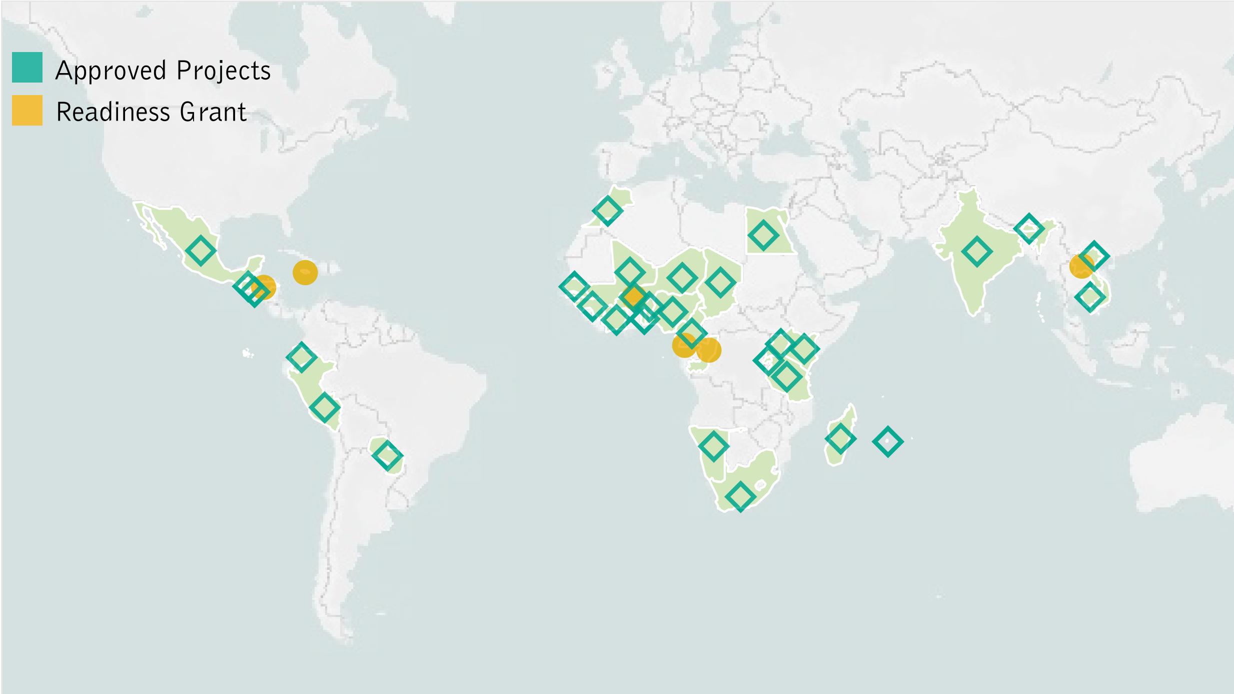
As of February 2019, the GCF website lists 37 approved projects classified as "forest and land use projects". However, from the information provided, it is unclear how many and which of these are REDD+ projects or projects that include a REDD+ component. The Project and Country Profiles available at the GCF website also do not indicate at first glance whether projects intend to generate tradable carbon credits or apply *results-based REDD+ payments.*

Elsewhere, the GCF notes that it is already providing a total of USD 314 million to "10 forest-related projects, of which two are REDD+ projects". Both REDD+ projects were approved through the *regular project funding cycle* and both state in their project documentation that they will not sell carbon credits to the voluntary or compliance carbon markets. However, one of the two, the *Sustainable Landscapes in Eastern Madagascar (FP026)*,[66] ***will support activities that are part of a project generating tradable REDD+ credits.*** The project was submitted jointly by the accredited entities EIB and Conservation International, with Althelia Climate Fund GP Sarl listed among the *executing entities*). The second project does not generate tradable REDD+ credits. But emission reductions generated through this project could be included in a forthcoming project proposal by the same accredited entity under the RfP for a *pilot programme on results-based REDD+ payments (FP019 - Priming Financial and Land-Use Planning Instruments to Reduce Emissions from Deforestation*, submitted by the accredited entity UNDP, with the Ministry of Environment of Ecuador as executing entity). The project aims to support the government of Ecuador in achieving its REDD+ Action Plan which includes the aim of achieving "net zero" deforestation by 2020.

FP026 – Sustainable Landscapes in Eastern Madagascar

In 2016, the GCF Board approved a USD 53.5 million funding request from the *accredited entities* European Investment Bank and Conservation International for a *Sustainable Landscapes in Eastern Madagascar*[67] program. The programme has a strong emphasis on REDD+ related activities. The project was submitted through the *regular project funding cycle* and mentions the company

Approved GCF Forest and Land Use Projects and Readiness Grants



Source: Green Climate Fund. REDD+ in GCF.
https://www.greenclimate.fund/how-we-work/redd

Althelia Climate Fund GP Sarl among the *executing entities.* The GCF funding is made up of three components, two grants from the GCF's Public Sector windows and a USD 35 million equity contribution from GCF's Private Sector window. The GCF equity investment will be used to contribute to an Investment Fund to be set up for financing activities in Madagascar. The project proponent EIB plans to raise an additional USD 10 million as contribution to the Investment Fund through the issuance of a USD 300 million "Green/Climate Bond". Similar to the IFC *Forest Bonds* (see below), the EIB Bond primarily targets "more traditional uses (energy efficiency and renewable energy) mainly in Europe", with only a roughly 3.5 percent share of the funds raised through the bond issuance invested in the Madagascar Investment Fund. The project proposal describes this as "a first-of-its kind" which "allows large institutional investors that are usually only looking at large bond issuances in investment-grade countries, to start deploying capital into climate-related investments in least developed countries."

One of the accredited entities submitting the proposal, Conservation International, is involved in the CAZ REDD+ project[68] which overlaps with the project area. Activities included in the GCF-funded project FP026 will support the REDD+ project, for example by paying for updated REDD+ project documents required for issuance of tradable carbon credits. In fact, Project Outcome 5 ("Improved management of land and forest or improved management contributing to emissions reduction") is focused entirely on supporting the Conservation International REDD+ project through the GCF grant contribution: "This outcome will be achieved entirely through the public sector activities and aims to reduce emissions from deforestation in two natural forest corridors, CAZ and COFAV, that contain some of the highest carbon stocks in the country. Both corridors have been established as landscape-scale REDD+ pilot initiatives with the strategy to reduce deforestation by creating and managing new protected areas that were formally established in 2015." The project proposal further notes that "Community groups are co-managers of the protected areas along with Conservation International [...] and they play an essential role in local enforcement and monitoring of threats to the forests. It is intended that a combination of upfront investment (during this project) and performance-based payments (after the project) for reducing GHG emissions will cover the improved forest management costs in the long-term, [...]."[69] On page 41, the project document further explains that "in the case of CAZ and COFAV the Project proponents propose that the REDD+ pilot activities leading to emissions reductions are funded directly from a grant from GCF."

Thus, while the project documentation states that the Investment Fund set up as part of the project "will not invest directly in REDD+ projects or programs for the purpose of achieving tradeable emission reductions," the GCF grant funding is used to support a REDD+ project which generates tradable REDD+ credits and sells them. The project proposal does not explain how the project will separate out the carbon credits generated with the GCF funding support. It notes that "to avoid double counting, any tradable emissions reductions generated during the project period through the improved management of forests at CAZ and COFAV will be retired in the project and national registries (and so not available for sale)."[70] How this will be achieved, however, and how it will separate emission reductions generated "during the project period" from emission reductions generated through the GCF contribution and which will materialize after the GCF funding ends, remains to be seen.

FP019 - Priming Financial and Land-Use Planning Instruments to Reduce Emissions from Deforestation

In 2017, Ecuador became the first country to be awarded a USD 41.2 million grant through *regular project cycle funding* for implementation of the country's NDC, with emphasis on implementation of the NDC's REDD+ component. It was the first GCF disbursement supporting a public sector proposal for implementation of REDD+ at the national level. The GCF contribution aims to support the government of Ecuador to halt "net" deforestation by 2020 by co-financing Ecuador's national REDD+ action plan. According to the project proposal, "targeted investment will control agricultural expansion into forest areas, while agricultural and livestock production practices will be implemented to reduce deforestation. The climate finance will also encourage loans that encourage sustainable farming practices, promote tax incentives for activities supporting REDD+, and ease the flow of deforestation-free commodities in the global market."[71]

As noted above, the funding approved for FP019 will support the so-called *implementation phase* of REDD+. However, in November 2018 the *accredited entity* UNDP published a draft project proposal the accredited entity intends to submit under the RfP for a *pilot programme for results-based REDD+ payment.* The proposed project requests payment for reduced emissions through REDD+ achieved during 2014.[72] GCF procedures appear ambiguous on whether it would be possible for UNDP and the government of Ecuador to request funding for the emission reductions achieved with financial support from FP019, the REDD+ proposal approved by the GCF in 2017, which was submitted by UNDP through the *regular project funding cycle*. If this is possible, a payment through a future GCF *results-based REDD+* program would risk double-funding the same emission reduction effort already paid for through the earlier GCF grant received as part of *FP019*.

FP100 – First Approved Proposal under the RfP for a Pilot Programme on Results-based REDD+ Payments

In February 2019, at its 22nd meeting, the GCF Board approved the first request for *results-based REDD+ payments*. The project was submitted on behalf of the government of Brazil by the accredited entity UNDP and seeks payment for *results achieved through REDD+ in the Brazilian Amazon biome in 2014 and 2015.* The GCF Board approved payment of USD 96 million for 18.82 Mt of carbon dioxide emissions supposedly not released into the atmosphere as a result of avoided deforestation in the Brazilian Amazon during those two years.[73] The project proponents requested payment for 25.09 Mt of CO2e, and note that a second request for payment will be submitted "in future" for payment of results achieved during 2016 and 2017.

The proposal further notes that between 2014 and 2018, "the expected volume of REDD-plus results to be achieved by Brazil in the Amazon biome" is 2.39 billion tons of CO2 equivalent. This claim, however, is true only if the volume of emission reductions achieved is calculated in comparison to an inflated reference level which includes the deforestation peaks in the Brazilian Amazon during 1996 and 2002-2005 (see Figure 2, chapter 4). In fact, the reference level used in the proposal is so inflated that ***actual deforestation in the Brazilian Amazon today could more than double yet the government of Brazil would still be able to claim results-based payment for emission reductions from deforestation!*** As shown in Figure 2 (chapter 4), use of different reference levels already in use for results-based REDD+ payments in Brazil, would yield significantly lower volumes of supposed emission reductions from REDD+ for which results-based payments can be claimed. It is worth noting that the Terms of Reference for the results-based REDD+ payment pilot program do not seem to require a commitment from the recipient of the results-based payment to maintain the carbon locked up in the forest after payment has been received. If deforestation in the Brazilian Amazon will further rise, past achievements in reducing emissions from deforestation may soon be wiped out, and the USD 96 million GCF pilot program payment may merely delay the release of emissions from deforestation in the Brazilian Amazon by a few years.

Section C.2 of the proposal explains how the GCF payment will be used. Two Outputs are described:

"1. Development of a pilot of an Environmental Services Incentive Program for Conservation and Recovery of Native Vegetation (Floresta+); and
2. Strengthen the implementation of Brazil's ENREDD+ through improvements in its governance structure and systems."

Implementation of the activities linked to these two Outputs are to "contribute to the implementation of the forest sector actions of Brazil's NDC." Interestingly, however, the proposal does not quantify the volume of future emissions the project proponents expect to reduce as a result of the activities that will be funded with the results-based GCF payment.

The GCF Board approval of this project has set an extremely low bar for the quality of projects the Board will accept into this *pilot program for results-based REDD+ payments.* The Board approved USD 96 million for a payment request based on an inflated baseline, without commitment to maintaining the carbon locked up after GCF payment has been received nor information about the volume of future emission reductions the project activities that will be implemented with the GCF funding are expected to generate.

GCF forest portfolio as of January 2019

None of the remaining eight projects listed in the January 2019 GCF "forest portfolio" appears to be generating tradable carbon credits or implement results-based REDD+ payments. They provide funding for:

(1) Promoting forest planting and reforestation to sequester carbon in Paraguay *(FP062 - Poverty, Reforestation, Energy and Climate Change Project, submitted by FAO);*[74] CSO comments questioned, among others, the planting of eucalyptus monocultures as part of the reforestation. The negative environmental and climate impacts of such monocultures over forest restoration with native tree species are well documented.[75]

(2) Improving ecosystem services in Uganda wetlands *(FP034 - Building Resilient Communities, Wetlands Ecosystems and Associated Catchments in Uganda,* submitted by UNDP);[76] the CSO comment on this project notes that "It is evident that the project, especially through the boundary demarcation and gazettement of wetlands, will affect indigenous peoples and local communities, i.e. the Banyabutumbi and the Batwa. The livelihoods of these communities in the area are predominantly dependent on wetlands and other natural resources. It is crucial that these communities are recognized and specific interventions such as compensation or alternative livelihoods, are designed to address key challenges to them arising from the project."

(3) Restoring dryland areas in Morocco by protecting Argan orchards *(FP022 - Development of Argan orchards in Degraded Environment,* submitted by Agency for Agricultural Development of Morocco);[77] CSO comments enquire about the impact of the project activities on water availability and note that the project "appears to be very top down, without ensuring the stakeholder engagement at the community level necessary for successful project implementation."

(4) Restoring degraded forests and landscapes in Gambia *(FP011 - Large-scale Ecosystem-based Adaptation in the Gambia River Basin: developing a climate resilient, natural resource based economy;* submitted by UNEP);[78] CSO comments welcome the project proposal and note that as the project claims to be "paradigm shifting by implementing ecosystem-based adaptation to the large scale, provides a key testing ground for participatory monitoring approaches."

(5) Improving agricultural value chains in Cambodia; *(FP076- Climate-Friendly Agribusiness Value Chains Sector Project;* submitted by Asian Development Bank);[79] CSO comments questioned the support for "climate-smart agriculture" and the project promoting the use of synthetic (inorganic) fertilizers to increase crop productivity. They also "called for the involvement of an independent third-party institution to monitor the infrastructure construction work carried out." The Board meeting notes further notes the comment from a Board member that "they wished to see MDBs assume a greater portion of the financial risk in future GCF-funded projects."

(6) Helping Bhutan adopt a transformational approach to forest preservation by protecting up to 51 percent of the country (FP050 - Bhutan for Life; submitted by WWF US);[80] CSO comments welcome the proposal but note that "The proposal mentions that addressing Park-People-Conflict through adaption of new policies, technologies and systems is one of the goals of the proposed activities. In this regard, compliance of prospective policies and system with the relevant safeguards is very crucial to avoid potential negative impact of the project intervention."

(7,8) Adopting a two-country approach in Mexico and Guatemala to work with agricultural and agroforestry enterprises to transition to low-emission climate resilient agriculture *(FP048 - Low-Emission Climate Resilient Agriculture Risk Sharing Facility for MSMEs;* submitted by the Inter-American Development Bank).[81] This project receives funding through the RfP for Micro-, Small- and Medium-Sized Enterprises for the implementation of an agriculture risk sharing facility for micro-, small and medium-sized farming enterprises (see chapter 2.5).[82] CSO comments requested the reference to "climate smart agriculture" be removed from the title and noted concern that "most of the GCF concessionality could be captured by lending institutions and not passed through in the form of reduced interest rates to small scale agricultural producers, due to the focus on de-risking long-term debt of second-tier lenders [..]. This shortchanges the micro and small segment of agricultural producers, again, mostly women, for which the issue is not just access to finance, but also access to AFFORDABLE credit."

7. REDD+ ACTIVITIES IN THE GREEN CLIMATE FUND PIPELINE

The first REDD+ proposal under the RfP for a *pilot programme for results-based REDD+ payments* was approved at the 22nd Board meeting of the GCF in February 2019.[83] Additional concept notes presenting projects for *results-based REDD+ payments* or the generation of tradable REDD+ credits are at various stages of proposal development in the GCF project pipeline. These include another two proposals under the RfP for *a pilot programme on results-based REDD+ payments* and three, possibly four concept notes submitted under the RfP *mobilizing funds at scale* which involve the generation and sale of tradable REDD+ carbon credits. These concept notes in particular may prove difficult to reconcile with ongoing UNFCCC negotiations because the Terms of Reference for the RfP for mobilizing funds at scale do not exclude the use of GCF funding for the generation of tradable REDD+ credits.

RfP for a Pilot Programme on Results-based REDD+ Payments

As mentioned in the section on *FP019 - Priming Financial and Land-Use Planning Instruments to Reduce Emissions from Deforestation,* UNDP is preparing a project proposal it intends to submit jointly with the government of Ecuador under the RfP for a *pilot programme for results-based REDD+ payment.* The proposed project requests payment for reduced emissions through REDD+ achieved during 2014 and the GCF Secretariat expects to present the proposal for Board approval during 2019.

Request for Proposals for Mobilizing Funding at Scale

Concept notes submitted to the RfP for *mobilizing funding at scale* by the International Finance Corporation (IFC), Conservation International together with Climate and Forest Finance and Environmental Defense Fund as well as the company Althelia were shortlisted among the 30 proposals invited to submit full funding proposals to the GCF. All three proposals involve the generation of tradable REDD+ credits or the trade in such offset credits. A fourth concept note submitted by Komaza Group Ltd. potentially includes generation of tradable carbon credits. *CN 112, Financing Innovation to Scale Smallholder Farmer Forestry*, refers to "carbon sequestration and income-generation, using eucalyptus and melia trees in Kenya".

The IFC presented a proposal for a *Multi-Country Forest Bonds Programme (CN070).* The project aim is described as mobilizing climate finance "to avoid deforestation in multiple forest basins by leveraging the investment potential from capital markets. Funding REDD+ activities and providing price support for carbon credits will demonstrate a results-based financing model." The proposal is modelled on the already existing "Forest Bonds" initiative set up by the IFC. A report by the NGO ReCommon notes that the title is a misnomer because the existing IFC "Forest Bonds" are issued for investments that have no direct relation to forests (they may even cause deforestation). The only funding going to REDD+ is a percentage of the annual coupon because the bond holder can choose to receive coupon payments in the form of REDD+ credits instead of as cash payment. The ReCommon report highlights two main problems with the IFC's existing Forest Bonds initiative. It sources from exactly the kind of private sector REDD+ projects that have shown to be particularly controversial,[84] and it supports the kind of private sector REDD+ projects that are likely to cause considerable difficulties in terms of their integration into the national carbon accounts all countries will have to submit under the Paris Agreement (see chapter 5). The more such private sector REDD+ projects exist, and particularly exist before UNFCCC negotiations on how to avoid double-counting of emissions and on Article 6 of the Paris Agreement have concluded, the more likely this will cause complications and increase the risk of double-counting of (alleged) emission reductions from REDD+ in future.

The concept note submitted by Conservation International as the *accredited entity,* together with Climate and Forest Capital and Environmental Defense Fund, proposes to set up a *REDD+ Acceleration Fund (CN041).* According to the short description available, the Fund "will use a blended finance structure to mobilise private investment" for existing REDD+ programs and "purchase verified emissions reductions to reduce forestry emissions." The funding would initially support REDD+ projects in Ghana and Chile and seek to sell REDD+ credits to airlines covered by the aviation industry's controversial CORSIA program.[85] CORSIA foresees airlines buying carbon offsets to supposedly compensate their emissions from additional growth of international aviation from 2020. The aviation growth scenario pursued by the international aviation industry is widely considered incompatible with keeping global temperature rise to 1.5°C.

The concept note for a *Climate Leveraged Equity Pool (CLEP) and Results-Based Payments (RBP) Facility for Sustainable Landscape and Marine Management (CN087)*, has been submitted by Althelia Ecosphere which is not a GCF *accredited entity*.[86] The company would thus have to either obtain status as *accredited entity* by the GCF or partner with an already *accredited entity* to develop the concept note into a full funding proposal. Like the two previously mentioned concept notes, this one also foresees the generation and sale of tradable REDD+ credits. Althelia Ecosphere is involved in several REDD+ projects, some of which with documented controversies related to land use and tenure rights and the restrictions imposed by the REDD+ project on peasant farming on land with competing claims by the REDD+ project and peasant communities.[87] In 2018, Althelia Ecosphere merged with the private investment fund Mirova, part of Naxitis. Mirova-Althelia manages the Land Degradation Neutrality Fund which has recently announced its first investment, in a project in Peru. Though presented as a 'land degradation neutrality' project, the project developer also intends to sell carbon credits from restoration of supposedly degraded land.

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[78] GCF Country Profile Gamiba: https://www.greenclimate.fund/countries/gambia ; CSO comments on this project are available at: https://us.boell.org/sites/default/files/fp011_csocomments.pdf

[79] GCF Country Profile Cambodia: https://www.greenclimate.fund/countries/cambodia ; The Report of the nineteenth meeting of the Board, 26 February – 1 March 2018 contains a summary of CSO comments on this project on pg 75/76 (GCF/B.19/44)

[80] GCF Country Profile Bhutan: https://www.greenclimate.fund/countries/bhutan ; CSO comments on this project are available at: https://us.boell.org/sites/default/files/fp050_csocomments.pdf

[81] GCF Project Profile: https://www.greenclimate.fund/projects/fp048 ; CSO comments on this project are available at: https://us.boell.org/sites/default/files/fp048_csocomments.pdf

[82] http://news.trust.org//item/20180906072417-s0kjf/

[83] Consideration of funding proposals - Addendum II Funding proposal package for FP100 (GCF/B.22/10/Add.02).

[84] ReCommon (2016): Mad Carbon Laundering. How the IFC subsidizes mining companies and failing REDD projects. https://www.recommon.org/eng/mad-carbon-laundering/

[85] For a critique of the CORSIA program, see Heuwieser, M. (2018): The Illusion of Green Flying. https://www.boell.de/en/2018/09/21/illusion-green-flying

[86] Currently, only implementing partners undergoing formal GCF accreditation and becoming Accredited Entities, can propose projects for GCF funding. However, the RfP for Mobilizing funds at Scale includes a number of short-listed concept notes by entities which are not *accredited entities.* Partially in order to facilitate their ability to implement project proposals solicited through targeted RfPs, the GCF Secretariat has suggested that the Board allow a *project-specific assessment approach.* See Point 6.3 in: Further development of the accreditation framework (GCF/B.19/28).

[87] Kill, J. (2016): The Kasigau Corridor REDD+ Project in Kenya: A crash dive for Althelia Climate Fund. ReCommon & Counter Balance. http://www.counter-balance.org/wp-content/uploads/2017/02/The-Kasigau-Corridor-REDD_Kenya.pdf

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