Watershed Management Division, Department of Forests and Park Services, Ministry of Agriculture and Forestry, Royal Government of Bhutan

# Fund Mobilization Strategy for the National REDD+ Strategy & Action Plan of Bhutan

**Report Edition**

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## ABBREVIATIONS

| | |
|---|---|
| AF | Adaptation Fund |
| ADB | Asian Development Bank |
| BFL | Bhutan for Life - WWF project |
| BFTEC | Bhutan Trust Fund for Environmental Conservation |
| BIOCF | BioCarbon Fund |
| BIOCF- ISFL ER | BioCarbon Fund Initiative for Sustainable Forest Landscapes Emission Reductions |
| BIOFIN | Biodiversity Finance Initiative |
| BSDS | Benefit Sharing and Distribution System |
| BSM | Benefit Sharing Mechanism |
| CBA | Cost Benefit Analysis |
| CIF | Climate Investment Funds |
| CPF | Country Programme Fund |
| CTF | Country Trust Fund |
| DFPS | Department of Forests and Park Services |
| DNB | Department of National Budget |
| FCPF | Forest Carbon Partnership Facility |
| FCPF–CF/RF | Forest Carbon Partnership Facility Carbon and Readiness Funds |
| FIP | Forest Investment Programme |
| FMS | Fund Mobilization Strategy |
| FPIC | Free, Prior and Informed Consent |
| FYP | Five Year Plan |
| GEF | Global Environment Facility |
| GFC | Green Climate Fund |
| GNHC | Gross National Happiness Commission |
| IFC | International Finance Corporation |
| (I)NDC | (Intended) National Determined Contribution |
| IP | REDD+ Investment Plan |
| MoAF | Ministry of Agriculture and Forestry |
| MDB | Multilateral Development Bank |
| MoF | Ministry of Finance |
| NAMA | National Appropriate Mitigation Action |

| | |
|---|---|
| NDA | National Designated Authority |
| NDC | National Determined Contribution |
| NGO | Non-Governmental Organisation |
| NRS | National REDD Strategy |
| ODA | Official Development Assistance |
| PA | Protected Area |
| PAMs | Policies and Measures |
| PES | Payment for Environmental Systems |
| PLR | Policies, Laws and Regulations |
| RBP | Results Based Payment |
| REDD+ | Reducing Emissions from Deforestation and forest Degradation and the role of sustainable management of forests, conservation and enhancement of forest carbon stocks in developing countries |
| RGoB | Royal Government of Bhutan |
| SAP | Simplified Approval Process |
| SCF | Strategic Climate Fund |
| SWOT | Strengths, Weaknesses, Opportunities and Threats |
| TWG | Technical Working Group |
| UNFCCC | United Nations Framework Convention on Climate Change |
| UNREDD | United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation |
| WB | World Bank |
| WMP | Watershed Management Division |
| WWF | Worldwide Fund for Nature |

**EXECUTIVE SUMMARY**

The Fund Mobilization Strategy (FMS) is a framework for successively mobilizing required funds to implement the activities that are prioritized under the National REDD+ Strategy and/or Action Plan (NS/AP). Analysis of funding opportunities and criteria of available international donors provided useful insight in the options for REDD+ finance in Bhutan.

Besides the obvious need for international financial support, it is understood that there are quite a few national financing resources and opportunities available in Bhutan. Eco-tourism is the current established resource, but new opportunities are found in Green Bonds, PPP models, and private funding. Furthermore, increasing synergy between existing and upcoming projects in the field of climate change mitigation and adaptation offer more available financial resources.

When effectively utilising these funds, or for receiving international funds, based on the existing robust and operational financial structure in the country a project-based financing with benefits with results (output deliverables) is the recommended option for Bhutan. Using the established finance coding system ensures effective tracking of allocated budgets and will pose no risk to lose oversight of REDD+ funds even after increased decentralization planned.

To enhance the success for international fund mobilization elements in several relevant categories need to be strengthened. Recommendations for this relate to *Governance, Institutional setting, Capacity building* and *Funding opportunities and barriers*.

Continuing practices of good governance**,** RGoB need to lead the process and provide a conducive environment for national activities aiming reduce emissions, including in land use, land use change and forestry (LULUCF) sector. By strongly supporting REDD+ activities, it builds national capacity and secures funding in the long run contributing to sustainable development. Additionally, to attract the private sector participation, the government should actively promote the benefits of investing in emission reductions in the environmental sector by means of providing calculated guarantees, minimizing liabilities and possibly even adjusting legislation. Decentralization and devolution of activities and responsibilities with further implementation in all sectors is critical in building transparency and developing trust among all stakeholders and funding organizations. Adequate institutional capacity building and developing the essential technical skills is a prerequisite.

Besides conducive governance and a robust financial setting, clear institutional conditions are required for effective fund mobilization. Good and effective synergy and cooperation is essential between Government interventions priorities, development partners and private sector and will be sternly looked upon by potential funding organizations. In particular, complementary REDD+ activities need to be identified and streamlining of programmes and projects promoted. This shall decrease inefficient overlap of environmental conservation activities, promote rural development and increase uplift of livelihoods, while consolidating options for co-financing. Additionally, various operating CSOs and NGOs have significant capacity, with adequately trained staff and a thorough network in the communities. This social capital needs to be

utilised efficiently by improving the platform for effective stakeholder involvement matters related to, sustainable management and development of natural resources. Such practices of regularly seeking consent needs to be firmly embedded in national policies.

Institutional and technical capacity, and particularly understanding of climate change and the role of REDD+ results and institutional cooperation and synergies between projects and programmes is important. In particular, it is important to increase the absorptive capacity and number of qualified staff at the agency levels and at implementation (project) levels which appears limited. Many of the ministries and departments appear under-staffed hence have inadequate capacity. For particular REDD+ activities and mobilizing required REDD+ funds, assistance may be sought with various stakeholders possessing adequate and relevant know-how related to REDD+ fund mobilization and fund distribution, donor mapping exercises, proposal development and programme implementation.

The changing international funding landscape for REDD+ offers opportunities for Bhutan. Several international donor organizations officially recognize funding needs beyond mere verified emission reductions and appear to focus efforts at least in part on scaling up results-based financing for land use change and forests, which has been identified as having potential for more effective climate change mitigation, alongside benefits for ecosystem services and livelihoods. Therefore, the landscape-approach Bhutan is adopting needs to be further strengthened, supporting a broad low-carbon development approach integrating sustainable forestry, agriculture, and infrastructure development. Bhutan's fund request should have a smart packaging of prioritized activities. Having in-country experience in successfully applying for financial support, the size of funds available and the eligibility criteria set, the Green Climate Fund (GCF) is presumably the most feasible international source for REDD+ funding for Bhutan. However, as all funding organizations emphasize, domestic funding is a sheer prerequisite for successful applications. With several running and upcoming government initiatives, opportunities to capitalize on synergy of overlapping projects, as well as effectively utilizing royalties paid by economic powerhouses (e.g. the hydropower sector), increasing domestic co-financing of REDD+ should be a straightforward process.

Besides funding opportunities, RGoB will need to address the barriers to fund mobilization. REDD+ finance can be difficult to access due to lengthy application processes therefore the application process should be started as soon as possible, initiated by developing the Fund Investment and Implementation Plan. Furthermore, access to external funds could take time and funds allocated may not cover the entire scope of actions proposed and may prove insufficient to address the broad range of drivers and underlying causes of deforestation and forest degradation. Therefore, in addition to domestic financial support by government, a differentiated approach needs to be developed in which potential REDD+ financing is combined with economically more powerful market players from the private sector, creating a so-called *layered finance incentive* system.

# 1. INTRODUCTION

## 1.1 Background

Bhutan is developing a REDD+ Strategy and/or Action Plan (NS/AP) as a roadmap for implementing the country's REDD+ program, guiding its decisions in addressing deforestation and forest degradation and improving the carbon sink capacity of the forest.

Developing a Fund Mobilization Strategy (FMS) is part of the readiness preparation towards implementing the REDD+ Strategy and contributing to meeting the (Intended) National Determined Contribution ((I)NDC) submitted to UNFCCC.

Developed in parallel with, and as part of, the National REDD+ Strategy (NRS) and Action Plan, the FMS is a framework for mobilizing required funds to implement the activities that are prioritized under the NRS. FMS will work closely together with the Benefit Sharing Mechanism (BSM) to equitably and transparently distribute or allocate the received funding for the selected activities.

The FMS for Bhutan reflects the national circumstances, capacity and existing domestic funding modalities and mechanisms, based on a desk study, an analysis of options presented by the various funding donors on their respective webpages and a mission to Bhutan made early November 2017. During this visit several meetings with representatives of several departments, organisations and projects were held, providing a good understanding of the national context, in-country capacity, and opportunities for funding, i.e. regarding strengths and barriers to such funding. A detailed report of these meetings and the people met is provided in a separate mission report.

Moreover, from the meetings with the project, it is understood that there are quite a few national financing resources and opportunities available in Bhutan. Eco-tourism is the current established resource, but new opportunities are found in Green Bonds, Public Private Partnerships (PPP) models, and private funding. A comprehensive list of international and domestic funding options is available with the BIOFIN project.

## 1.2 Logic of the Fund Mobilization Strategy

This FMS presents the possible way forward for funding of REDD+ interventions in Bhutan which ultimately should lead to developing a tailored fund Investment and implementation plan.

After this introductory chapter (Chapter 1), including the why and what of REDD+ financing for Bhutan, Chapter 2 presents the approach taken. Fund mobilization is explained in Chapter 3, in particular what the REDD+ finance is, the elements of the FMS, how to access finance, and the roles of the government and the private sector.

Chapter 4 gives an overview of the potential funding organisations for REDD+ implementation in Bhutan and describes what criteria have been applied in selecting them. In Chapter 5 the National context is presented in Bhutan, relevant to understand the opportunities for funding, but also disclosing the weaknesses herein, therefore the barriers to fund mobilization that need to be addressed.

Chapter 6 may possibly be considered the most relevant one as it describes the proposed fund mobilization strategy for Bhutan and for presentation in the NRS. Based on the information presented in the previous five chapters, the pathway for seeking funds for REDD+ is described. In this chapter the selected Policies and Measures (PAMs) prioritized in the National REDD+ Strategy and Action Plan are matched with the barriers to funding and the conditions for funding set out by the donor organisations lead to the actual funding potential for Bhutan. Section 6.10 presents the concrete recommended steps to the fund mobilization.

Chapter 7 presents the Key Messages related to governance, finance, institutional setting, capacity building and funding opportunities.

## 1.3 What is REDD+ Fund Mobilization

Determining what counts as REDD+ and forest related finance is not easy. Donor institutions often report funding against broad categories such as "environment" or "forests", instead of reporting against activities that are *country-driven, promote co-benefits and biodiversity, actions that are consistent with conservation of natural forests, involvement of indigenous peoples and local communities as well as transparent forest governance* (definition by UNFCCC).

Under UNFCCC countries agreed to a phased approach to REDD+ implementation where finance and activities would focus initially on REDD+ strategy development, capacity building activities, implementation of policies and measures, and move towards results-based demonstration activities and verified emission reductions. Financing for REDD+ could therefore move from public sector *ex-ante* grants and loans to *ex-post* payments based on actual results/emissions reduced ("results-based payments" - RBP), potentially funded through emerging carbon markets. Most of the financing institutions will look for such RBP and their financial monitoring mechanisms are built on this approach.

Strictly adhering to this definition, REDD+ Fund Mobilization would only accept verified carbon emission reductions and would neglect other interventions of sustainable forest management, e.g. those improving local livelihoods while effectively resulting to a yet unknown carbon emission reduction. Such would be the case of Bhutan. With its vast forest cover, results-based payment is difficult to achieve and another formulation of REDD+ financing is necessary. Thus, REDD+ Fund Mobilization for Bhutan would need to cater for more than merely verified carbon emission reduction, and instead would need to look at the additional benefits sustainable forest management would yield.

Initially merely relying on international financing, developing countries are increasingly prioritising REDD+ within their national budgets and allocating domestic funds or co-financing international REDD+ programs. Domestic contributions to REDD+ are progressively accepted as an important component of the global REDD+ financing landscape.

## 1.4 Purpose, Objective and Scope

**Purpose**

To finance the implementation of the National REDD+ Strategy of Bhutan addressing global warming by reducing greenhouse gases and promoting carbon-sequestration through sustainable forest management.

**Objective**

Overall objective is to develop a Fund Mobilization Strategy (FMS) for Bhutan that serves as a framework guiding the Royal Government of Bhutan in identifying and mobilizing funding of the implementation of the National REDD+ Strategy.

In particular, to develop a strategic framework promoting a programmatic approach that minimizes duplications and transaction costs associated with REDD+ investments and results-based payments. It serves as the financial arm of the National REDD+ Strategy and incorporated Investment Plans, with specific objectives to:

- mobilize funding to achieve REDD+ national objectives and to strengthen the global leadership of the Royal Government of Bhutan (RGoB)
- finance the implementation of REDD+ investment plans through REDD+ programs
- promote political dialogue associated with the REDD+ process
- use, where possible, a results-based management framework and utilize funds available for sustainable forest management improving livelihoods while reducing overall carbon emissions
- support the development of national instruments to measure, report and verify, in an ongoing and transparent manner, investment results, in accordance with UN-REDD standards and UNFCCC guidelines
- increase the Government's coordination capacity for rapid, consistent and effective implementation of the REDD+ National Strategy and Investment Plans.

**Scope**

To develop a funding framework making Bhutan eligible for funding and matching these with the international funding criteria set by funding donors. This includes outlining the required steps necessary to come up with a comprehensive Fund Investment and Implementation Plan setting out the implementation priorities of the NRS over the next period (post 2020).

## 2. DEVELOPING THE FUND MOBILIZATION STRATEGY

The following approach has been taken towards developing a FMS for Bhutan:

i. *Desk study*

To obtain an overview of the rapidly changing financial landscape and funding opportunities for REDD+ related activities, a review of the existing fund mobilization schemes was made. Good practices and examples from other countries in the same process of securing funds for climate change mitigation activities have been assessed. Following the Paris Accords, many countries are moving towards the next step in the REDD+ Readiness process, donors are adjusting their approach and stimulate funding for climate mitigation and adaptation activities. Information provided on the Internet and the respective websites was analyzed, while the latest developments in climate funding were recorded and potential donors identified.

Subsequently, and based on international best practices, document review and assessment of the specific conditions in Bhutan, the approach towards developing a fund mobilization strategy was prepared.

ii. *Fund need and REDD+ gain estimation*

Relying on the proposed interventions emerging from selected REDD+ activities (in particular promoting sustainable forest management activities) and condensed in the Policies and Measures (PAMs) for Bhutan, the required funding need was estimated. The Ecological Economist assessed all PAMs and through a discussion with team experts, RGoB, TWG members, REDD+ Task Force, and other stakeholders could develop a first Cost Benefit Analysis (CBA).

A future REDD+ gain estimation is only possible if all parameters for verified carbon sequestration (i.e. payments for verifiable carbon reduction) such as land use cover change projections and any reference levels supporting possible estimates are available. Information required for these specific parameters was not present during developing this FMS and therefore gain estimation has been postponed for the moment.

iii. *Stakeholder consultation*

A mission to Bhutan was undertaken to engage with all relevant stakeholders and to obtain feedback on the draft approach proposed. The mission aimed at obtaining a good understanding of current funding mechanisms, the stakeholders involved, available local expertise and experience, international presence in funding of environmental conservation projects, the local donor landscape, overall available capacity and an adequate overview of the funding opportunities in Bhutan.

iv. *SWOT analysis*

A Strength, Weaknesses, Opportunities and Threats (or Constraints and Risks; SWOT) analysis was made assessing the capacity of and opportunities within Bhutan to access (international) donor funding for climate change mitigation activities. The SWOT analysis was done through discussions with Indufor team members, staff of Watershed Management Division (WMD) under the Department of Forests and Park Services (DFPS) of Ministry of Agriculture and Forestry (MoAF), and on the discussions during the meetings with the relevant stakeholders.

v. *Fund strategy development & validation*

Reviewing domestic capacity, strengths and constraints for climate financing (assessed through the SWOT analysis and supported by (bi-)lateral meetings with stakeholders), available international donor organisations and their funding requirements, and listing all relevant PAMs under the proposed REDD+ Strategy, a matrix was developed indicating the funding opportunities for proposed REDD+ interventions in Bhutan which guides towards developing a realistic strategy in mobilizing (international) funds.

## 3. FUND MOBILIZATION

### 3.1 General

Subsequent to the REDD+ Readiness Phase, many countries enter the next phase of implementation, but this will depending on being able to mobilize funding through a Fund Mobilization Scheme or Strategy (FMS). Such FMS ultimately leads to a detailed Fund Investment and Implementation Plan.

Until now only a few countries have entered this phase of securing funds for REDD+. An exception is Brazil, having developed its own and internationally recognized Amazon Fund. As such it is leading the international REDD+ scene, while other countries are following suit, adapting the fund mobilization scheme to their own needs.

Therefore, as covering relatively new ground for REDD+, in developing a (REDD+) Fund Mobilization Strategy it is relevant to have a common understanding of climate finance, and in particular the REDD+ finance, and how to access these available funds. Equally useful is understanding the basic elements of an FMS, appreciating what other countries are doing regarding accessing international funds and how have they organized themselves.

### 3.2 REDD+ Finance

Climate finance can play a crucial role in assisting developing countries in making the transition to more environmentally sustainable systems of energy production and use, while also addressing developmental priorities of energy security and poverty. REDD+ finance is a special form of climate financing.

REDD+ finance can be difficult to access. Central in such finance is Results (or Performance) Based Payments (RBP) from emission reductions. For RBP, countries need to prove that they can and commit to reducing emissions through national interventions. They need adequate jurisdictional and institutional set-up, effective and efficient monitoring and reporting systems. Having these systems in place has proved more difficult and challenging for many developing countries – perhaps the bar is set too high. Many countries therefore find it easier to adopt a gradual and layered-approach in which REDD+ financing is integrated in national budgets. However, developing countries face significant challenges in financing REDD+ interventions and ultimately a combination between international financing and private sector investments is required , creating a so-called *layered finance incentive* system. But of course, domestic financial support by government (national or at the lower levels) need to contribute to REDD+ finance.

Over the last ten years more than USD 4 billion has been pledged to multilateral climate funds that support REDD+. Norway is the largest contributor of REDD+ finance, followed by the UK, Germany and the United States. There have been some significant changes in the REDD+ finance architecture and increasing efforts to support developing countries move beyond readiness and capacity building to demonstration programmes and emission reductions with payments based on verified results. Some countries effectively moved into the next phase, having developed targeted emission reductions programmes for deforestation and forest degradation. For instance, Nepal recently has developed a guiding document to prepare emission reductions programme for 12 districts in the south of the country (notably, in the Terai Arc Landscape), with an expected emission reduction in the first 10 years of 37.3 million tonnes of carbon dioxide equivalent (CO2e). Vietnam also moved into the next phase (Phase 2) of the UN-REDD Programme, and prepared the final draft of the Emission Reduction a Program Document of the North Central Coast, which is expected to generate 33.06 million tCO2e emission reduction and carbon removals over the entire program period 2018-2025, and in which the World Bank´s Carbon Fund has committed to buy 10.3 million tCO2e, equivalent to about US $50 million[1].

Although focus is still on verified carbon reduction, the REDD+ architecture is changing with some funding organisations looking to support, at least partially, the scaling up of results (or performance) based financing for land use change and forests, which has been identified as having potential for climate change mitigation, alongside benefits for ecosystem services and livelihoods. In this respect, additional to verified payments for carbon reduction, the GCF is increasingly supporting forest-based climate action though cross-cutting projects that include both mitigation and adaptation elements. For instance, in 2016 it approved a Sustainable Landscapes project in Eastern Madagascar and the development of orchards in a degraded environment in Morocco, both of which will likely result in emission reductions.

### 3.3 Elements of the Fund Mobilization Strategy

To gain better access to international funding, it is necessary to be familiar with multilateral and bilateral funds and have an understanding of the following:

*The mandate, programming and chronology of multilaterals*:

Different multilateral funds have different mandates and programming chronology for disbursing finance. Familiarity of the overall objectives, processes and steps at which to engage with the various funds will be a key first step towards accessing these funds. As in the Readiness Phase for Bhutan (i.e. where the FCPF Readiness Fund provided some US$4 million toward phase 1 activities and disbursed the current additional US$5 million after a mid-term progress review), a similar phasing can be adhered to for follow-up climate funding.

To adequately access such follow-up funding for emission reductions, the current eligible funding agencies need to be explored. Unfortunately, previously available funding through the FCPF Carbon Fund, particularly funding Phase 3 activities, are no longer available as it is no longer accepting additional countries to the current 19 in the pipeline. Similarly, the Forest Investment Programme (FIP) provides is currently only considering six pilot countries.

However, as other multilateral funds are emerging, it is noteworthy to assess what eligibility criteria need to be adhered to, as most of the funding agencies adopt the

[1] Source: REDD+ Vietnam - FCPF: national consultation workshop on the final draft of emission reductions program document of the north central coast of Vietnam, October 2017

same criteria. Such eligibility criteria for multilateral funding are further elaborated in Section 4.2.2.

*In-country status of multilateral and bilateral funds:*

It is also important to understand the opportunities multilateral and bilateral funds offer and potential participation of non-governmental organizations (NGOs) and Civil Society Organizations (CSOs) in running programs and projects. Increasingly more multilateral and bilateral donors demand that governments seeking international REDD+ funding engage domestic stakeholders in the development and review of the REDD+ funding proposals. Additionally, NGOs and CSOs can provide support in case the country is lacking adequate administrative and/or technical capacity to assemble the many elements required by bilateral and multilateral funds.

### 3.4 Accessing Finance

Finance for REDD+ can come from a variety of sources, including public and private, national and international. The mechanism to deliver these funds also may vary, including grants, loans, market-based mechanisms and innovative mechanisms such as payments for ecosystem services. Sources and delivery mechanisms for REDD+ finance may also vary as REDD+ moves through its three phases: readiness, implementation and verified emissions reductions. Phases 1 and 2 may be largely funded by bilateral and multilateral sources, whereas phase 3 may require additional types of financing, including innovative public and private sources.

Three different sources of finance are recognized:

1. *Domestic finance*

Whereas international financing is essential to achieve zero net emissions, it is equally important to explore in-country funding for REDD+. This is acknowledged as an important source of finance and often surpasses international contributions for REDD+. A variety of options for domestically financing REDD+ are recognized, depending on country-specific economic conditions, such as:

- Public budgets:

  Many countries are already delivering large-scale domestic finance for REDD+ from their public budgets. In some cases, finance has been directly targeted toward REDD+ activities, whereas in others finance is directed toward agricultural and forestry activities that can improve forest conservation. Brazil has several domestically financed forest conservation programs. The best known of these is the Ecological Value Added Tax which is a federal tax implemented by the Brazilian Treasury. Under the tax, the size and management of protected areas was included in the calculation of the allocation of national VAT to states. This gave states an incentive to gazette and properly manage protected areas.

- Payments for ecosystem services (PES):

  Many REDD+ countries have implemented PES programs that pay for forest conservation to deliver ecosystem services. Payments can be raised from direct users (e.g. industry, households, tourists) or through governments' taxation (e.g. a water fee, fuel tax).

- Nationally Appropriate Mitigation Actions (NAMAs):

Many developing countries have pledged to undertake voluntary, domestically supported mitigation targets that may also become a source of REDD+ finance.

2. *Bilateral finance*

After domestic sources, bilateral finance is the second largest source of finance for global REDD+ projects, accounting for two-thirds of all internationally supported REDD+ activities, such as Norway's International Climate and Forest Initiative (NICFI), Germany's International Climate Initiative or UK's International Climate Fund (see Table 3.1).

3. *Multilateral finance*

Currently there are more than 20 multilateral climate change funds and a growing number of regional funds (Table 3.1). Among the multilateral climate funds solely dedicated to REDD+ funding, the largest by funding capitalization are the Forest Carbon Partnership Facility (FCPF) REDD+ Readiness, the Carbon Fund, the Forest Investment Program (FIP) and UN-REDD+. Other funds include the Global Environment Facility (GEF) Sustainable Forest Management and REDD+ Investment Programme.

**Table 3.1 Overview of available Climate Funds**

| Fund | Type | Administered by | Area of focus | Date operational |
|---|---|---|---|---|
| **Adaptation Fund** | Multi | Adaptation Fund Board | Adaptation | 2009 |
| **Adaptation for Smallholder Agriculture Program** | Multi | The International Fund for Agricultural Development (IFAD) | Adaptation | 2012 |
| **Amazon Fund (Fundo Amazônia)*** | Multi-Donor National | Brazilian Development Bank (BNDES) | Mitigation - REDD | 2009 |
| **Clean Technology Fund** | Multi | The World Bank | Mitigation - general | 2008 |
| **Congo Basin Forest Fund *** | Multi-Donor Regional | African Development Bank | Mitigation - REDD | 2008 |
| **Forest Carbon Partnership Facility** | Multi | The World Bank | Mitigation - REDD | 2008 |
| **Forest Investment Program **** | Multi | The World Bank | Mitigation - REDD | 2009 |

| | | | | |
|---|---|---|---|---|
| **GEF Trust Fund - Climate Change focal area** | Multi | The Global Environment Facility (GEF) | Adaptation, Mitigation - general | 1991 (tracked since 2010) |
| **Global Climate Change Alliance** | Multi | The European Commission | Adaptation, Mitigation - general, Mitigation - REDD | 2008 |
| **Global Energy Efficiency and Renewable Energy Fund** | Multi | The European Commission | Mitigation - general | 2008 |
| **Green Climate Fund** | Multi | GCF | Adaptation, Mitigation - general, Mitigation - REDD | 2015 |
| **Indonesia Climate Change Trust Fund *** | Multi-Donor National | Indonesia's National Development Planning Agency | Adaptation, Mitigation - general, Mitigation - REDD | 2010 |
| **UK's International Climate Fund** | Bi | Government of the United Kingdom | Adaptation, Mitigation - general, Mitigation - REDD | 2011 |
| **Germany's International Climate Initiative** | Bi | Government of Germany | Adaptation, Mitigation - general, Mitigation - REDD | 2008 |
| **Australia's International Forest Carbon Initiative** | Bi | Government of Australia | Mitigation - REDD | 2007 |
| **Japan's Fast Start Finance - private sources** | Bi | Government of Japan | Adaptation, Mitigation - general, Mitigation - REDD | 2008 |
| **Least Developed Countries Fund ***** | Multi | The Global Environment Facility (GEF) | Adaptation | 2002 |

| | | | | |
|---|---|---|---|---|
| **MDG Achievement Fund –** Environment and Climate Change thematic window | Multi | UNDP | Adaptation, Mitigation - general | 2007 |
| **Norway's International Climate and Forest Initiative** | Bi | Government of Norway | Mitigation - REDD | 2008 |
| **Pilot Program for Climate Resilience** | Multi | The World Bank | Adaptation | 2008 |
| **Scaling-Up Renewable Energy Program for Low Income Countries** *** | Multi | The World Bank | Mitigation - general | 2009 |
| **Special Climate Change Fund** | Multi | The Global Environment Facility (GEF) | Adaptation | 2002 |
| **Strategic Climate Fund** | Multi | The World Bank | Adaptation, Mitigation - general, Mitigation - REDD | 2008 |
| **Strategic Priority on Adaptation** | Multi | The Global Environment Facility (GEF) | Adaptation | 2004 |
| **UN-REDD Programme** | Multi | UNDP | Mitigation - REDD | 2008 |

Source: Climate Funds Update - http://www.climatefundsupdate.org
* Not open to Bhutan
** Not applicable to Bhutan as not being included in the list of pipeline countries
*** Not applicable to Bhutan as the country is moving towards Middle-Income status

## 3.5 Role of the government

Governments, either at the national, sub-national or local (municipal) level, play an important role in moving REDD+ activities forward. Whereas international public and private funding entities are looking at the wider scale and often more at results-based activities (i.e. taking a return-on-investment approach), national governments will have a different role to play and will look at the overall sustainable development of the country.

Organizing, and therefore funding, non-critical REDD+ activities such as meetings, presentations, stakeholder engagement, etc. may not easily be funded by international donors, whereas these activities are most relevant to sustainable development of a country, building national capacity at the same time. In this case, governments need to lead the process and take ownership, shaping REDD+ and secure funding on the long run.

National governments also have a leading role, e.g. in the land use planning, policy making, and providing core financial support. Political support to climate initiatives is key, i.e. putting in capital for REDD+ developments.

### 3.6 Private sector

The private sector has an increasingly important role to play in climate funding. The UNFCCC and various international funding donor organizations[2] are heavily supporting the broader participation of the private sector. Private sector actors are crucial for REDD+ success, given the dominant role that market forces often play in driving land use change. Companies themselves are increasingly interested in the climate debate, because they recognize that their long-term operational sustainability is at risk due to climate change. For instance, in Ghana cocoa sector itself provided budget allocations to improve climate-smart production.

However, the private sector has been hesitant to participate because of various reasons including:

- Unclear set of the roles and expectations
- Transparency and traceability of actions, putting unwanted risks of liability to companies
- Voluntary nature of action and therefore a free-rider problem: if we invest in climate friendly production, but our competitors don't, we may lose competitiveness due to increasing cost structure compared with our competitors.

In better addressing the roles of the private sector, scaling-up from *farm-level targets* to (jurisdiction of) *landscape level approach* is critical to address deforestation. Such approaches reach beyond the supply-chain of companies and it is pertinent that the national government and other actors (e.g. NGOs) should step in.

To allow a better understanding of what is required under climate mitigation and adaptation and to decrease liabilities, a group of international NGOs developed the *Accountability Framework Initiative.* This initiative aims to clarify what companies should understand regarding climate related activities and impacts (standardization of language and assurance methodologies), what is expected of companies in this regard, and to assist them in making choices on climate-supportive initiatives (e.g. by taking part in multi-stakeholder initiatives, providing extension services to smallholders to enable them to be deforestation free, providing financing to uptake technologies that can increase the ability to do deforestation-free production, etc.).

Involving the private sector in climate mitigation activities needs to look at the benefit for all. This aspect is usually discussed in more detail under the Benefit Sharing Mechanism theme in the REDD+ readiness phase. Contributions can be financial or in kind. The latter is more often the case when companies will contribute to the problem solving by improving their methodology of work. Private investors will be equally

[2] According to an analysis of REDD+ finance commitments across 13 countries conducted by Forest Trends' REDDX Initiative and Ecosystem Marketplace, between 2009 and 2014 private sector corporations contributed US$36 million in REDD+ finance to support the development of national REDD+ strategies, and US$381 million in project-scale payments for carbon offsets through the voluntary carbon market.

interested, i.e. when financial returns are guaranteed or even improved. Investors could be interested to participate for larger scaled-up activities, e.g. developing a model intensifying production (e.g. beef+ or soy) that reduces land use but also secures economic returns. Reduced land use and therefore minimizing agricultural impacts may benefit forest restoration and reducing degradation.

Different activities require different financing sources. Private sector (e.g. private investors, companies, sustainable investor funds, hedge funds, etc.) may not be interested in funding e.g. meetings. They need a return on capital. Donors or government should support these critical activities.

### 3.7 International Best Practices

Only a few countries have advanced in developing a mechanism to access international funding for REDD+ activities beyond the readiness phase. Besides the Amazon Fund in Brazil, the Democratic Republic of Congo (DRC) and Zambia are amongst these few. Although all are in different situations and having a far more serious threat to their forests than Bhutan has, they could still serve as international best practice examples guiding the development of an Investment Plan for Bhutan.

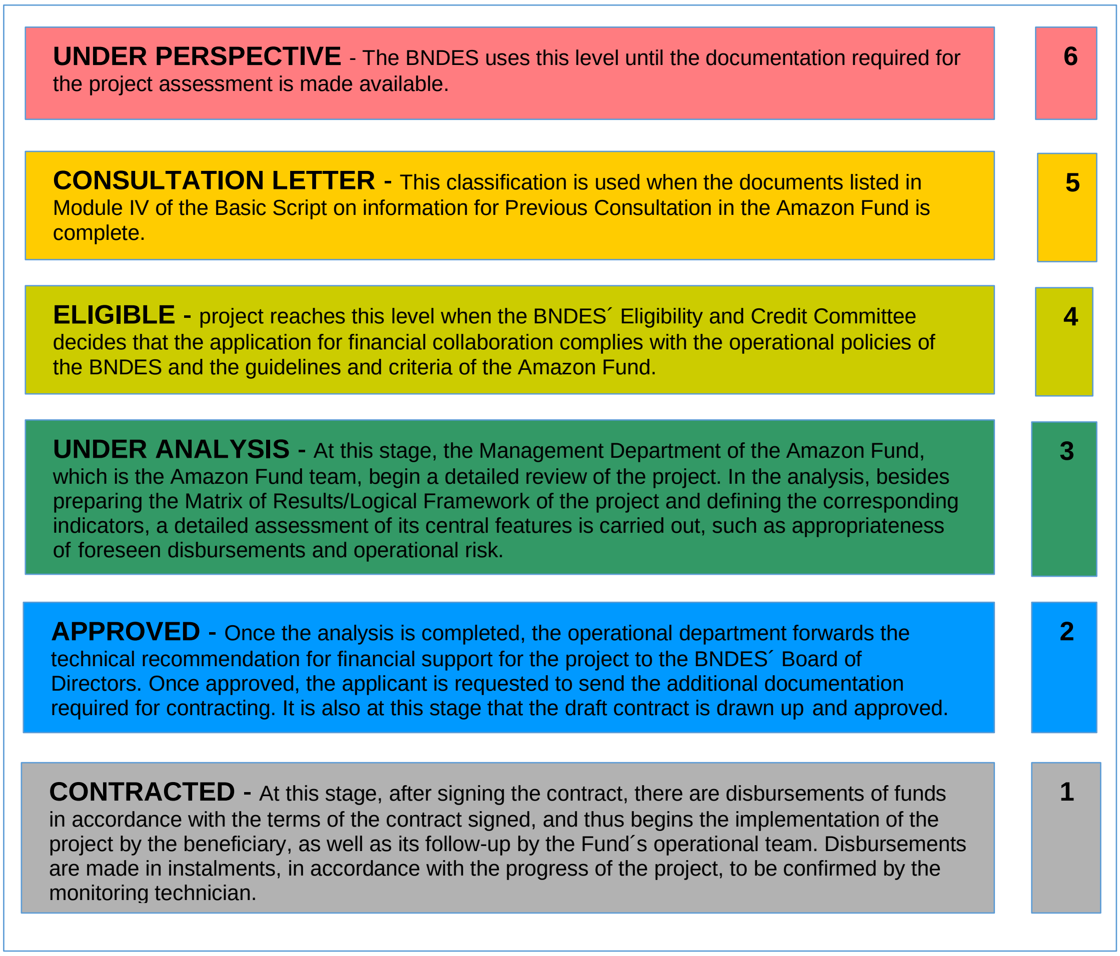
**Amazon Trust Fund – Brazil**

The Brazilian Amazon Fund is considered a successful example on how the UN climate finance model REDD+ can be implemented. International donors pay into the Fund on the basis of verifiable reductions achieved in deforestation. Brazil is committed to using the funds for its further efforts in combating deforestation in the Brazilian Amazon region. The Brazilian Development Bank (BNDES) manages the Fund, and Germany and Norway are the chief contributors.

The funds that make up the Amazon Fund’s assets will come from donations and net return from cash investments. Donators deposit funds in a bank account held by the BNDES in Brazil. The balance of the Amazon Fund not used by the end of each year will be transferred for use in the following year, as will the net returns from cash investments.

An applicant to the Fund must present a detailed project proposal, which is analysed by the staff of the Amazon Fund. This phase includes technical visits and due diligence assessment of the project. A project submitted to the Amazon Fund must go through the following steps below, described in a descending order (Figure 3.1).

**Figure 3.1 Operational Flow of the Projects – Amazon Fund**




The Amazon Fund is, like many other climate funds, a revolving fund.

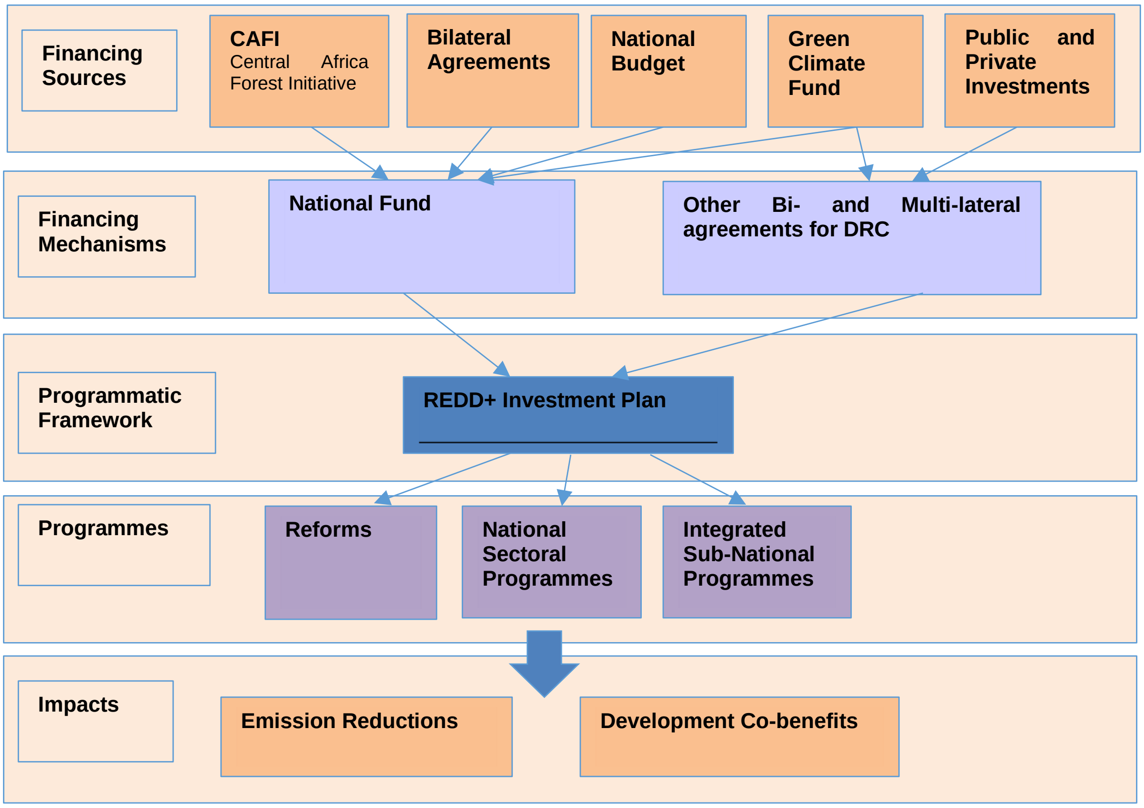
**REDD+ National Fund – DRC**

The country has set up a REDD+ National Fund, a financial vehicle designed to drive the implementation of the REDD+ National Strategy Framework through which the required international funding will be raised and financial allocations will be coordinated. The purpose of the Fund is to set up a basic underlying structure to coordinate the various sources of climate finance for the country, whilst ensuring a results-based and streamlined management of the programme that complies with social and environmental safeguards.

As such, the REDD+ National Fund promotes a programmatic approach minimizing duplications and transaction costs associated with REDD+ investments and results-based payments. It serves as the financial arm of the National REDD + Strategy and its Investment Plan. The Investment Plan sets out the implementation priorities of the REDD+ National Strategy Framework over six years (2015 to 2020). It combines ongoing national capacity building with activities specifically targeting (i) nationally coordinated sectoral reforms and programmes with (ii) integrated and innovative investments at the subnational level, in order to set the country on a sustainable development pathway.

The Investment Plan is a framework document guiding all REDD+ investments in the DRC, and it defines the programmatic priorities around REDD+ investments and the results framework (Figure 3.2).

**Figure 3.2 REDD+ National Strategy Framework in DRC**




As a reference document, the REDD+ Investment Plan is the result of extensive consultations over several years with seven sectoral ministries, civil society, indigenous peoples, private sector, technical and financial partners around a shared vision of what priorities are for sustainable land use and development.

## Zambia

The preparation of a REDD+ Investment Plan (IP) is moving the country towards the implementation of its REDD+ Strategy, which was adopted in early 2017. The IP is rooted in Zambia's policy environment and conceived to recognize and contribute to achieve the goal of the national REDD+ Strategy, “to contribute to national reductions in greenhouse gas emissions by improving forest and land management, and to ensure equitable sharing of both carbon and non-carbon benefits among stakeholders".

Improved agricultural practices, forest conservation and management, sustainable management and utilization of forest resources and capacity development are hallmarks of the investment plan. Responding to the drivers of deforestation in the mining and energy sectors are important cross cutting elements.

The Investment Plan identifies Core Investment Priorities (CIPs). Each of these core investment priorities will be supported by cross-cutting priority areas that will focus on strengthening governance and technical capacities of local communities for forest management and conservation through participatory land use planning and mapping, support for community governance and institutions, and technical assistance and training. The Government has adopted a landscape approach to address the challenges of deforestation and forest degradation at the watershed level. The approach aims to address the drivers of deforestation while supporting actions aimed at improving the livelihoods of local communities.

To develop the REDD+ Investment Plan, an outline of the document was made first with specific recommendations for the content and its approach. The document gave an explanation of the purposes of the Investment Plan (IP) differentiating between the various stakeholders' needs in line with the national agenda. The IP is an implementation/investment plan for Zambia's National REDD+ Strategy but also taking into account FIP IP needs, Zambia's NDC, NAMAs, etc. The timeframe of this IP is to cover the period to 2030 but it includes milestones/plans for intermediate periods.

The need for funding is specified in the IP, including ongoing projects and new investments not yet financed (these projects or investments are not necessarily structured around a Specific Objective but may be multi-programmatic or by watershed, etc.). Regarding the potential sources of financing, the IP lays out a few major existing or planned sources of financing that can reasonably be tapped into over the next 15 years and explains what each would do and when. Sections include background information as appropriate for each major actor, and rough estimations of the amounts of financing.

Potential funding sources, yet to be further identified and assessed, are Government financing, UN-REDD, World Bank, BioCF and ZIFL-P projects, African Development Bank , FIP (although assessed unlikely as follow-up financing), Green Climate Fund, bilateral organizations, IFC, the Private Sector, GEF and NGOs

# 4. POTENTIAL DONOR ORGANIZATIONS

## 4.1 Introduction

In REDD+ finance three different sources of finance are recognized: bilateral, multilateral and private funding. Bilateral funding is disregarded here, as most of these are tied to multilateral funding organisations, are focussed only on verified carbon reductions, are dependent on continuing countries' commitment to climate funding and therefore policy related, carry a large uncertainty for a longer funding period, or are strongly connected to one of the bigger REDD+ countries (e.g. Brazil, Indonesia, DRC). However, new opportunities may become available over time and their actual potential needs to be assessed at the time of requesting funds. Private funding is yet to be more involved and does not yet play any role in Bhutan.

Multilateral funding is provided by several different institutions. The FCPF, Carbon Fund, FIP, and the UN-REDD Programme are multilateral funds for REDD+ that together have approved USD 791 million for project activities. The now operational Green Climate Fund (GCF) focuses at least in part on scaling up results-based financing for land use change and forests, which has been identified as having potential for climate change mitigation, alongside benefits for ecosystem services and livelihoods, though it is not a dedicated REDD+ fund.

There have also been developments for REDD+ finance outside of climate funds, with the Indian government committing to allocate USD 6 billion of tax revenue to incentivise states to retain forests intact. Yet focusing on Kenya, but potentially a model to other countries, the International Finance Corporation (IFC) has announced a forestry bond that offers investors a choice of a cash coupon or a coupon in the form of REDD+ forest carbon credits generated from the Kisagau Corridor REDD+ Project in Kenya.

REDD+ finance is increasingly targeted at supporting developing countries to move beyond capacity building and readiness towards demonstration programmes and emission reductions with finance offered on a payment for performance basis. Funds supporting this transition such as the FCPF and FIP have sought to reorganise to provide more support to partner countries.

## 4.2 Eligible funding organizations/donors

### 4.2.1 Criteria considered by financial investors

Most financial investors consider six guiding principles that impact forest and that are factored into their due diligence process of investments[3]:

- *legality* –legal compliance with local and national laws and international regulations, conventions and agreements

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[3] after WWF Global - http://wwf.panda.org/about_our_earth/deforestation/forest_sector_transformation/forestfinance/financialinstitutions/investmentcriteria/

- *forest management* – zero conversion of High Conservation Value (HCV) areas
- *labour* – respect workers' rights and welfare
- *community* – recognize the rights of local and indigenous peoples
- *governance* – reporting for transparency and accountability
- *environmental, social and resource management* – addressing impacts. Based on Environmental and Social Impact Assessment (ESIA) with adequate stakeholder consultation factoring ecological, social and cultural concerns, adequate management and monitoring plans to address issues identified in the assessments that require improvements or corrective actions need to be in place

### 4.2.2 Selection criteria

As there is an increasing number of donors funding the development of low-emission and climate resilient country-driven development pathways, a crude selection has been made based on some criteria.

The following **donor eligibility criteria** have been used:

1. Continuing commitment to climate funding
2. Independent of national policies
3. Adequate (proven) availability of funds, also for the longer term
4. Focus on climate-resilient sustainable development, e.g.
    - funding more than only verified carbon enhancement (i.e. recognition of limited options for Results Based Payments – RBP through good forest management practices (resulting in a high forest cover));
    - appreciation of a landscape approach;
    - recognition of achieving REDD+ objectives through improved livelihood development;
5. Maintaining a straightforward selection process:
    - simplicity of application procedures and proposal preparation process
    - transparent and time-bound decision-making process

Additionally, the outcome of (i) cross-matching with PAMs and (ii) the Opportunities and Barriers carried forward from the SWOT analysis, have been taken into account. A more detailed description of these are presented in Section 6, below.

### 4.2.3 Potential funding donor organizations for REDD+ implementation in Bhutan

Based on above-mentioned criteria and cross-matching with national circumstances of the country, the most potential funding organizations for REDD+ activities in Bhutan are (in descending order):

1. The Green Climate Fund (GCF)
2. Global Environment Fund (GEF)
3. BioCarbon Fund Initiative (BioCF) **-** Sustainable Forest Landscapes Emissions Removal (ISFL ER)
4. Forest Investment Programme (FIP)

Table 4.1 gives an overview of these selected funding organizations. A more detailed description and the characteristics of these potential donor organizations, as well as the eligibility criteria set is presented in Annex 3; a more complete overview of all potential donors is provided in Annex 4. Table 4.2 provides an overview of the eligibility criteria for funding requests.

Matching these donors with the PAMs selected for the Bhutan NRS and Action Plan, the same donors will remain (see Section 6.4.2).

In general, the GCF and GEF funds are more widely accessible and cover all eligible countries, while the BioCarbon Fund and FIP already focus on a selection of countries, making it more difficult to access these funds. Also, because already successful application -and recently rewarded- to GCF have been made by BFL, the Green Climate Fund is presumably most feasible for REDD+ funding in Bhutan.

**Table 4.1 Potential funding organisations for REDD+**

| Donor | Area of Focus | Objectives | Activities supported |
|---|---|---|---|
| **Green Climate Fund (GCF)** | Adaptation, Mitigation - general, Mitigation - REDD | Maximize the impact of its funding for adaptation and mitigation, while ***promoting environmental, social, economic and development co-benefits*** and taking a gender-sensitive approach | • Finances activities to both enable and support adaptation, mitigation (including REDD+), technology development and transfer, capacity-building and the preparation of national reports.<br><br>• Aims to adopt a country-driven approach that encourages the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects. |
| **GEF Trust Fund**<br><br>Climate Change focal area | Adaptation, Mitigation - general | To help developing countries and economies in transition to contribute to the overall objective of UNFCCC to both mitigate and adapt to climate change, ***while enabling sustainable economic development*** | • *Climate Change Mitigation:* Reducing or avoiding GHG emissions in the areas of renewable energy; energy efficiency; sustainable transport; and ***management of land use, land-use change and forestry (LULUCF).*** |

| | | | |
|---|---|---|---|
| | | | • *Climate Change Adaptation:* Supporting developing countries to become climate-resilient. |
| **BioCarbon Fund Initiative (BioCF)**<br>▪ Sustainable Forest Landscapes Emissions Removal (ISFL ER)<br>▪ BioCF *plus* | Mitigation - general, Mitigation - REDD | To reduce emissions from the land sector through smarter land use planning, policies, and practices. To involve public and private sector supporting sustainable landscapes, climate-smart land use, and green supply chains, hence using a ***landscape approach***<br>BioCF *plus* supports ISFL ER in providing additional finance for collaboration on sustainable land use. | • Geographically diverse portfolio of large-scale programs that can have significant impact.<br>• Transform rural areas by protecting forests, restoring degraded lands, enhancing agricultural productivity, and by ***improving livelihoods and local environments.***<br>• To make improvements to enabling environment for sustainable land use. |
| **Forest Investment Program (FIP)**[4] | Mitigation - REDD | Support developing countries' REDD efforts and ***promote sustainable forest management*** through:<br>• transformational change in forest related policies and practices<br>• leveraging of additional and sustained financial resources for REDD<br>• piloting replicable models to generate understanding and learning providing valuable experience and feedback on REDD | • Investments that build institutional capacity, forest governance and information;<br>• Investments in forest mitigation efforts, ***including forest ecosystem services***;<br>• ***Investments outside the forest sector necessary to reduce the pressure on forests*** such as alternative livelihood and poverty reduction opportunities;<br>• Contribute to multiple co-benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local |

[4] Pipeline countries are restricted to six and currently filled. However, discussions are ongoing to extend funding to nine additional pilot countries that currently don't have secured FIP resources for implementation. The Dedicated Grant Mechanism (DGM) would also be expanded to these countries, as an integral part of their investment planning processes. In developing its Fund Investment and Implementation Plan Bhutan needs to assess its eligibility to this additional window.

| | | | |
|---|---|---|---|
| | | | communities, and poverty reduction through rural livelihoods enhancements. |

**Table 4.2 Donor eligibility criteria for programme/project funding**

| Donor | Eligibility criteria | Sub-criteria |
|---|---|---|
| **Green Climate Fund (GCF)** | 1. Impact / result potential<br>2. Paradigm shift potential<br>3. Needs of the recipient<br>4. Country ownership<br>5. Efficiency and effectiveness<br>6. Financial viability | 1. Climate-related impact<br>2. Sustainable development impact<br>3. Potential for scaling-up<br>4. Knowledge + learning potential<br>5. Creating an enabling environment<br>6. Demonstrate adaptation potential<br>7. Absence of alternative financing<br>8. Income levels affected population<br>9. National climate strategy<br>10. Coherence with existing policies<br>11. Capacity of implementing agencies<br>12. Cost-effectiveness<br>13. Amount of co-financing<br>14. Industry of best-practices<br>15. Financial return exceeds predefined benchmarks |
| **GEF Trust Fund**<br>Climate Change focal area | 1. Eligibility to borrow from the World Bank or if the country is an eligible recipient of UNDP technical assistance<br>2. Provision of grants in accordance with eligibility criteria decided by the convention COP | |
| **BioCarbon Fund Initiative (BioCF)** | 1. Scale and ambition: demonstrate that a jurisdictional and Integrated Landscape Management approach is undertaken<br>2. Analysis of drivers of AFOLU emissions and removals to inform program design | |

| | | |
|---|---|---|
| | 3. Provide non-carbon benefits, such as social and environmental benefits beyond reduced emissions or increased carbon sequestration and the mitigation of social and environmental risks, which may include, but are not limited to, improving local livelihoods, building transparent and effective governance structures, promoting improvements on clarifying land tenure, and enhancing or maintaining biodiversity and/or other ecosystem services<br>4. Identify an appropriate Feedback and Grievance Redress Mechanism (FGRM)<br>5. Undertake and make publicly available an assessment of the land and resource tenure regimes present in the Program Area, including land and resource tenure rights, the legal status of such rights, areas subject to significant conflicts or disputes, and any potential impacts of the ISFL ER Program on existing land and resource tenure in the Program Area<br>6. Develop a benefit sharing mechanism<br>7. Develop appropriate arrangement to avoid double counting, including double issuance, selling/use, or claiming | |
| **Forest Investment Program (FIP)** | 1. Climate change mitigation potential<br>2. Demonstration potential at scale<br>3. Cost-effectiveness<br>4. Implementation potential<br>5. Integrating sustainable development (co-benefits)<br>6. Safeguards | |

# 5. NATIONAL CONTEXT

## 5.1 National circumstances

Bhutan has a special status within the REDD+ community, due to its high forest coverage and strong forest legislation, rendering (yet) little pressure on its forest stand. However, good governance needs to be maintained to safeguard forest assets.

To get a good overview of specific national circumstances of Bhutan, available capacity and of the national and international projects running of potential interest to REDD+ and the National REDD+ Strategy, including fund mobilization, the finance specialist visited Bhutan in November 2017. This visit allowed to make the following observations relevant to the national context:

1. **Unique REDD+ country:**
    - high forest coverage currently under little threat making verified carbon reduction hard to obtain
    - existing strict but efficient forest management and protection policies
    - National Gross Happiness concept, with embedded legislation
2. **Forest degradation is happening** – despite good forest management and legislation, forest degradation is occurring and without appropriate policies and measures addressing identified drivers (see NRS) could increase and posing a threat to the currently healthy forests.
3. **Opportunities to implement a cross-sectoral approach**– the country is gradually moving from a low-income country to a middle-income country, however, much needs to be done to uplift local livelihoods. In particular many people are dependent on the forest reserves, this opens opportunities for a *cross-sectoral initiatives.*
4. **Adapted approach to REDD+ funding** – based on the high forest coverage; Results Based Financing does not appear feasible. Instead, *Project Based Financing* seems more realistic, with benefits tied to results (output deliverables). *Landscape Approach* seems feasible and is also preferred by most donor organizations.

In summary, REDD+ funding from International donors to Bhutan is feasible, if smart packaging of prioritized activities is done.

## 5.2 National context related to REDD+ funding opportunities - stakeholder consultations

Limited availability of human resources is considered problematic with respect to implementing and managing REDD+ interventions. The meetings held during the mission in October 2017 revealed that there is a constraint in the absorptive capacity in Bhutan, mainly referring to the limitations of qualified staff at the Agency levels and at implementation (project) levels. Many of the ministries and departments are under-staffed and lack required capacity. At various levels and in particular sectors, e.g. in the finance and environment sectors, significant capacity to improve technical expertise is required.

At times, such capacity limitations may hinder inter-departmental cooperation. coordination and cooperation between projects and programmes. Currently there are many initiatives in the field of environmental conservation, and in climate related adaptation and mitigation activities (e.g. running projects or shortly to start ones financed by GEF, GCF and AF and under supervision of WWF, BTFEC and UNDP). There is thematic and geographical overlap of activities regarding environmental conservation, rural development and uplift of livelihoods, with synergies of activities and projected outcomes. Consequently, there are collaboration opportunities, including possibilities for co-financing.

Despite the capacity limitations in various sectors, there appears to be adequate and relevant understanding of REDD+ fund mobilization, fund allocation, donor mapping, proposal development and fund implementation. Specifically, when it comes to developing the actual Fund Investment and Implementation Plan, specialized expertise is available in other projects (i.e. from BFL and BIOFIN, both extensively having been working on donor mapping and prospecting), while relevant reports held by these projects also can deliver the concrete data required for adequate fund mobilization

The institutions working on mitigation and adaptation jointly have access to a vast network in the communities and as such possess a valuable social capital. For instance, the Tarayana Foundation, as partner in developing the NRS, has a very good understanding on what is happening at grass-root level and will be very effective in supporting implementation of the selected NRS activities.

Finally, and a great asset to securing international funding and enabling transparent disbursement of funds when available, the country has robust and effective operational finance mechanism in place. Using *Financing Item Code* ensures effective tracking of allocated budgets and will pose no risk even after increased decentralization planned under the upcoming 12$^{th}$ Five Year Plan (FYP; July 2018). Identified and acknowledged capacity challenges at the decentralized levels refer mainly to the availability of qualified staff, and a priority is set by the Government to solve this constraint with support from the WB.

## 5.3 SWOT analysis

A Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis was performed to obtain a fair understanding on where Bhutan would stand regarding its capacity to access (international) funding. In particular the barriers (e.g. institutional gaps) prohibiting or slowing down the process are of interest and need to be identified and addressed.

The SWOT analysis was based on the discussions with the national stakeholders. Although overlapping and strongly related strengths and weaknesses were found, a grouping was made into three fields: Governance and Finance; Institutional; and Fund Mobilization. The complete SWOT analysis is presented in Annex 1.

### Outcomes

Clearly, strengths are generally related to opportunities and weaknesses to threats, although weaknesses can also be turned into opportunity when addressed properly.

Based on the SWOT analysis some main observations can be made, relevant to future fund mobilization (see table, below).

Part of the outcomes from the SWOT analysis, e.g. outcomes on managerial and technical capacity, also affect the implementation of relevant policies and measures to REDD+.

| Strengths, Weaknesses, Opportunities and Threats (SWOT) | |
|---|---|
| *Relevant strengths* | *Relevant weaknesses (barriers)* |
| • Stable government and political system, with adequate legislation<br>• Country ownership to environmental conservation and commended sustainable forest management and forest stewardship, with a recurrent budget maintaining domestic financial support<br>• Bhutan committed to landscape approach with prioritized cross-sectoral cooperation, synergy building and co-financing<br>• Robust and internationally recognized financing mechanism, with auditing and anti-corruption measures, and supported by checks and balances, accounting, reporting and monitoring<br>• Adequate fund implementation arrangements, facilitating equity and disbursement of budget and funds<br>• Available in-country donor-network (contacts) and capacity in fund mobilization and proposal development<br>• Presence of GCF accredited institutions | • Limited fund absorption capacity due to the lack of human resources and technical expertise at the implementation level (various sectors, but not in REDD financing)<br>• Off-setting royalties limits the financial opportunities for domestic funding of REDD+ activities[5]<br>• A transparent but complex distribution system for programmes and financing, due to a decentralized Governance system<br>• Limited presence and participation of the private sector in REDD+ activities and Green Technology<br>• Limited scope for REDD+ Results Based Payments, and therefore focus needs to be given to other REDD+ opportunities for payments, requiring a smart packaging<br>• Inadequate inter-agency and organisational cooperation (including projects and programmes), limiting the implementation of cross-sectorial plans necessary in combating climate change. Interventions are still very sector-based (operating in "siloes") |
| *Relevant opportunities* | *Relevant constraints (risks)* |

[5] HydroPower as a State entity pays 15% royalties of the revenue to RGoB into the National Budget. By law, RGoB is obligated to plough 1% of that amount back in to the Environment Sector. However, this 1% is offset with any demand from the Environment Sector, whereas this should be on top of the budget from RGoB to the Env. Sector (personal communication K.B. Samal, Sr Advisor REDD+)

| | |
|---|---|
| • Increasing international commitment to climate funding with available funds, with a widening scope for non-verified emission reduction activities, while promoting environmental, social, economic and development co-benefits<br>• Limited options for results-based payments encourage an adapted approach to fund mobilization, i.e. considering a project-based financing, which is facilitated by the robust national financing mechanism<br>• Abundance of domestic (co-) funding options, e.g. through the presence of running and planned other projects/programmes in the Environmental and Conservation sector, having adequate capacity and relevant professional experience, and willing to operate under the landscape approach<br>• Internationally recognized good forest stewardship and forest management practices, embedded in robust legislation, opens the door for climate change (hence wider than just REDD+) funding by multi-lateral funding organisations<br>• REDD+ funding opportunities may create an increasing awareness and strengthen coordination between the private sector and government to facilitate commercial investments | • National priority setting may lead to inadequate funds available for the Environmental and Conservation Sector, hence the domestic funding of REDD+ activities<br>• Related to this, insufficient / lacking financial resources become available to the Environmental and Conservation Sector as royalties (e.g. received from the Energy Sector (hydropower)) are off-set with common national budget allocations<br>• Strong decentralization may lead to a lack of capacity at the decentralized levels to manage an increasingly complex fund and benefit distribution system<br>• Current Policies, Laws and Regulations (PLR) in Bhutan may not be in line with, and can even be in conflict with, international donor eligibility criteria for REDD+ / climate mitigation funding |

### 5.4 Relevant PAMs

One of the most important results of the Analysis of Strategy Options is an overview of the policies and measures (PAMs) that are relevant to operationalize and implement the National REDD+ Strategy. The PAMs are prioritized on their impact to address the drivers of deforestation and forest degradation and are separately costed through a cost-benefit analysis (CBA). The selected PAMs are also relevant to the funding needs assessment (amount and type) and to identify potential funding donor to be targeted for financial support.

A study on the drivers of deforestation and forest degradation in Bhutan revealed a total of 6 major drivers:

1. Timber harvesting
2. Forest fires
3. Hydropower projects

4. Firewood usage
5. Road construction
6. Agriculture and Livestock

Based on this, a total of 10 PAMs have been selected to address these drivers.

## 5.5 Relating SWOT results with PAMs

Implementing the Policies and Measures has certain financial consequences and for Bhutan requires (international) funding assistance. Indirectly therefore, PAMs and the ability or inability to attract funds are related and it makes sense to see if and how PAMs and the results of the SWOT analysis (i.e. the strengths and weaknesses) are related. In particular, it is useful to appreciate the required improvements at the institutional level to enhance effective implementation of PAMs and subsequently connect to the correct source of international funding. Effectively this implies that gaps in capacity adequately need to be identified and addressed.

For this, Strategy options and PAMs presented in the Draft Bhutan NRS and Action Plan have been connected to the weaknesses/barriers of (broad) categories identified in the SWOT analysis (Table 5.1).

**Table 5.1 Strategic Option, PAMs, SWOT type and Weakness, and Intervention**

| Strategic Option | # | PAM | SWOT parameter | | Intervention |
|---|---|---|---|---|---|
| | | | SWOT type | Weakness/barrier | |
| 1. **Strengthening forest management practices** | 1 | Strengthening sustainable forest resources management and conservation of biodiversity beyond Pas | (access to) Fund Mobilization | - **Insufficient coordination** among the agencies (implementers, fund approvals, lead agencies and other key stakeholders) | - Institutional strengthening |
| | 2 | Promote diversification and efficiency in the wood value chain | (access to) Fund Mobilization | - **Insufficient coordination** among the agencies (implementers, fund approvals, lead agencies and other key stakeholders)<br>- No clarity and agreement how to use **standardized mechanisms** | - Institutional strengthening<br>- Capacity building (technical) |
| | | | Institutional | - **Limited awareness of** Public Private Partnership Policy 2016 leading to an **unused opportunity for corporate financing** | - Capacity building (management) |

| | | | | | |
|---|---|---|---|---|---|
| | 3 | Strengthen forest fire management | (access to) Fund Mobilization | - Bhutan has **no overarching Country Programme** in place as yet | - Policy Development |
| **2. Promote climate smart plantations for mitigation and adaptation** | 4 | Plantation development and restoration of degraded areas for increased carbon stock, biodiversity conservation and sustainable supply of wood products (timber and firewood) | (access to) Fund Mobilization | - Bhutan has **no overarching Country Programme** in place as yet<br>- **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. Interventions are still very sector-based, excluding other agencies operating in the same field and forgoing options for co-financing<br>- **Improving yet still weak fund absorbing capacity through lagging readiness in Bhutan** (insufficient human resources and financial system, unpreparedness of communities, weak technical capacity at implementation level, etc.). | - Policy Development<br>- Institutional strengthening<br>- Capacity building (technical and management) |
| **3. Strengthening land use planning, regulatory & policy implementation and monitoring** | 5 | Harmonizing land use planning (cross sectoral integrated land use planning) | (access to) Fund Mobilization | - Bhutan has **no overarching Country Programme** in place as yet<br>- **Insufficient coordination** among the agencies (implementers, fund approvals, lead agencies and other key stakeholders)<br>- **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. Interventions are still very sector-based, excluding other agencies operating in the same field and forgoing options for co-financing | - Policy Development<br>- Institutional strengthening<br>- Institutional strengthening |
| | 6 | Support & strengthen | Governance | - **Inadequate cross-sectorial plans** to implement | - Institutional |

| | | | | | |
|---|---|---|---|---|---|
| | | environmental impact assessment and compliance monitoring system and coordination | | environmental strategies including mitigation of, and adaptation to climate change. Interventions are still very sector-based, excluding other agencies operating in the same field and forgoing options for co-financing | strengthening |
| | | | Institutional | - Weak and **limited number of environment related CSO / NGOs and private sector (Green Technology).** | - Capacity building (technical and management) |
| | | | (access to) Fund Mobilization | - **Improving yet still weak fund absorbing capacity through lagging readiness in Bhutan** (insufficient human resources and financial system, unpreparedness of communities, weak technical capacity at implementation level, etc.). | - Capacity building (technical and management) |
| **4. Contributing to national economic development and growth through supporting rural livelihoods** | 7 | Sustainable management of NWFPs (domestication and cultivation) and promote enterprise development | Institutional | - **Limited awareness of** Public Private Partnership Policy 2016 leading to an **unused opportunity for corporate financing** | - Institutional strengthening |
| | 8 | Encourage & promote income generation from ecosystem services in key sectors | Governance | - **In-effectiveness yet to mobilize conservation funds**. Until now, Bhutan has been unable to effectively mainstream Payment for Environmental Services to support conservation efforts at scale. | - Capacity building (technical) |
| | | | (access to) Fund Mobilization | - **In-efficient infrastructure** to promote eco-tourism (inadequate accessibility, insufficient marketing and promotion).<br>- **Insufficient coordination** among the agencies | - Policy Development<br><br>- Institutional |

| | | | | | |
|---|---|---|---|---|---|
| | | | | (implementers, fund approvals, lead agencies and other key stakeholders)<br>- **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. | strengthening<br><br>- Institutional strengthening |
| | 9 | Climate smart livestock farming practices | (access to) Fund Mobilization | - **Improving yet still weak fund absorbing capacity through lagging readiness in Bhutan** (insufficient human resources and financial system, unpreparedness of communities, weak technical capacity at implementation level, etc.).<br>- **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. | - Capacity building (technical and management)<br><br>- Institutional strengthening |
| | 10 | Climate smart agriculture practices | (access to) Fund Mobilization | - **Improving yet still weak fund absorbing capacity through lagging readiness in Bhutan** (insufficient human resources and financial system, unpreparedness of communities, weak technical capacity at implementation level, etc.).<br>- **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. | - Capacity building (technical and management)<br><br>- Institutional strengthening |

The actions (interventions) based on the strengths and weaknesses from the SWOT analysis and related to the PAMs identified, and required to address the drivers, have the following scoring (the same PAM may benefit to different interventions):

- 3 PAMs benefit from strengthening, reforming or renewing existing policies (*Policy Development*);
- 5 PAMs refer to improving current management capacity;
- 6 PAMs have a need for improvement of the technical capacity;
- 9 PAMs benefit from some kind of institutional strengthening

These identified actions successively will be matched with specific donor requirements to assess the feasibility for funding (Section 6.4.3).

# 6. FUND MOBILIZATION STRATEGY FOR BHUTAN

## 6.1 Pathway

The FMS aims to outline a funding framework that identifies the national circumstances making a country eligible for funding and matching with international funding criteria set by funding donors.

Based on the national circumstances, which is shaped by the available capacity in the country to access funds (revealed by the SWOT analysis) and the opportunities for funding, the options and associated actions for accessing funds can be determined. This is done closely together with the development of the NRS, while having close links to the Benefit Sharing and Distribution System (BSDS) / Benefit Sharing Mechanism (BSM). Actual fund requirements are determined by the Cost-Benefit Analysis (CBA) performed for the different PAMs identified. Together they will point to the most feasible funding organization for REDD+ support.

In accessing the preferred donor organization, some of the constraints and barriers identified need to be addressed. This will be part of a resource mobilization framework with recommendations to address these barriers, and possibly already eliminating them. After this Bhutan can start preparing a comprehensive Fund Implementation Plan.

## 6.2 Current funding landscape in Bhutan

### 6.2.1 Domestic funding opportunities

Domestic funding is required to provide core financing regardless of donor resources. Moreover, most international funds require co-financing from the government.

Currently, there are several running government initiatives or opportunities in Bhutan for domestic financing of REDD+. The following domestic funding sources are potentially the most important ones:

- *Department of National Budget (DNB)* – The national budget includes contribution to the different economic sectors, the actual percentage confirmed in each Fifth Year Plan (FYP). On top of this national percentage, and as per its constitution, 1% of royalties received from state actor activities having an ecological footprint and affecting the natural environment (e.g. building of dams by Hydropower) will be ploughed back into the environmental sector. The Central Planning and Coordination Agency of the Ministry of Finance (MoF) coordinates all the requests from the departments and ministries. Funds reserved for e.g. Environment, Agriculture and Forestry could be used for selected REDD+ interventions. Currently this is still at will of RGoB[6] however, under NKRA 6 in the 12$^{th}$ FYP it is clearly mentioned that Climate Change mitigation and adaptation is a priority ("NKRA 6: Carbon Neutral, Climate and Disaster Resilient Development Enhanced"). Additionally, a clear earmarking is recommended in support of requesting international donor funding; the

[6] personal communication Mr Ugyen Lhendup, Chief Program Officer, BTFEC

current system of a Financing Item Code is adequate for such. Additionally, the budgetary, monitoring and accounting system of MoF is a valuable financial safeguard for international donors.

- *Green tax* – It is assumed that the Green Tax in Bhutan assigns a set percentage of the share of tax receipts to the criteria of forest cover and additionally could be reserved for REDD+ activities.

- *Hydropower offset* – Hydropower activities in Bhutan impact the natural environment. Infrastructure and plant development cause vast areas to be deforested, apart from unavoidable forest degradation. Under the so-called *Gross National Happiness Accounts*, the RGoB has set-up an offset mechanism to compensate for the negative impacts of this vital economic activity[7]. However, instead of ploughing back by law at least 1% of these royalties into the Environment Sector as compensation for environmental damages, the 15% levy from hydropower is currently off-set with common national budget and directly inserted in the National Treasury as part of the National Budget. As a result, there are insufficient / lacking financial resources available to the environmental conservation sector to restore affected areas and/or develop alternative and compensation areas.

- *Bhutan Trust Fund for Environmental Conservation (BFTEC)* – Although not yet done, co-financing of REDD+ activities is possible, if a clear indication of the activities is provided and if there is an overlap with BFTEC mandate Clear and effective cooperation between in-country operating programmes and organisations is vital to access co-financing from donors.

- *Payment for Environmental Services (PES)* – Bhutan is already engaged in PES and has acquired relevant experience and knowledge of its benefits and opportunities. For example, a valuation of forest ecosystem services has been carried out that enables RGoB to compare between its different watersheds. REDD+ itself can be considered as a special form of PES. Charging for the benefits provided by forests and other natural ecosystems is a way to recognize their value and ensure that these benefits will be available beyond the present generation. Funds derived from PES initiatives in the country could co-finance REDD+, therefore returning indirect benefits to the local communities.

- *The Tarayana Foundation* - has a vast network in the communities and possess valuable social capital. They have a very good understanding on what is happening at grass-root level. The Foundation is participating in different programmes running under RGoB that have a close connection to REDD+ activities (e.g. the *Rural Advisory Programme* focusing on poverty reduction,

[7] The National Biodiversity Strategy Action Plan highlights that, "even the critical watersheds supplying clean and abundant water for the generation of hydropower, a major driver of economic growth and a revenue generator in the country has been overlooked. Recognizing this, the government has taken recent initiatives to establish Gross National Happiness Accounts, covering ecological capital, cultural capital, human capital, social capital and economic capital (RGOB 11th FYP).". - Terms of References for Valuation of (Forest) Ecosystems Services, Watershed Management Division (REDD+ Secretariat)

the *National Adaptation Plan of Action project* on environmental conservation with particular focus on water shortages, their involvement in micro hydro-power projects saving the use of fuelwood, and participating in a project building a cable-car system as an alternative for transporting goods in inaccessible areas instead of access roads avoiding unwanted deforestation and forest degradation). Current experience working with the private sector may open new and favourable pathways in REDD+ support see also Section 6.2.3). Therefore, though not able to financially support REDD+, the Foundation can contribute in kind, i.e. providing social capital (network) and logistical support.

### 6.2.2 Synergy with international programs in Bhutan

Several internationally funded programmes are running in Bhutan, having relevant overlap and synergies with proposed REDD+ interventions. The following have been noted of special interest to the NRS and the fund mobilization aspect:

- *BIOFIN* – The UNDP implemented BIOFIN project is considering the various available (domestic) financial sources to support natural resource management and sustainable development initiatives, including climate related interventions (mitigation and adaptation). BIOFIN promotes close synergy between running and planned projects. It maintains a close relationship with MoF and therefore is familiar with legal and other issues and is meant to be the intermediary between Finance and Environmental Conservation. It works across sectors and considers vertical and horizontal barriers in financing.

  There are many other financing resources available in Bhutan, e.g. through eco-tourism, but also in Green Bonds, PPP models, private funding, etc. A comprehensive list of international and domestic funding options is available with the project and can be shared with WMD.

  Outside of BIOFIN, UNDP can also directly co-finance REDD+, i.e. with a focus on the social uplift of communities. In that respect, PES is a good entry point to open a discussion on co-financing opportunities.

- *Bhutan for Life (BFL)* – Having successfully applied for a GCF funding, this programme has invaluable in-house experience with respect to the entire process of preparing the funding proposal and securing funding. BFL is scheduled to start together with the $12^{th}$ FYP. Relevant to REDD+ is the program´s combination of adaptation, mitigation, and resilience activities, though only operating in Protected Areas (PAs). Although no forest degradation is observed and therefore applying to GCF posed a challenge, through smart combination of elements (i.e. stressing a protection regime), climate impact has been demonstrated and funding was secured. This could be a most helpful example for funding NRS and needs to be taken up in the fund Investment Plan (IP).

Similar to the BIOFIN project, BFL has a complete list of all potential donors, their eligibility criteria, the contact persons, etc. Although this cannot officially be shared, through MoF this information is available and available to NRS fund mobilization (i.e. later when compiling the IP).

### 6.2.3 Private sector

As mentioned earlier (Section 3.6), the private sector is potentially increasingly important in financing climate mitigation and adaptation activities. However, until now the activities of the private sector in Bhutan are relatively small and its contribution to sustainable forestry and related climate change mitigation activities have remained rather limited. As hydropower-related investments have the largest impact, the hydropower-related companies could be targeted and they could have real interest to get involved in REDD+ activities, e.g. securing the quality of upstream watersheds, thus protecting the lifespan of the reservoirs. Agro-industry could be also potentially targeted, as changes in current agricultural practices could positively contribute to REDD+ and would open the door to attract international financial support (in particular when verified reductions can be presented).

The potential role of the private sector merits further investigation and attempts to involve the sector should be made. To attract the private sector in participating in climate mitigation and adaptation activities, the government should provide more information and guarantees to allow a better understanding of what is required under climate mitigation and adaptation and to decrease liabilities, e.g. through adapting the earlier-mentioned *Accountability Framework Initiative*.

## 6.3 International funding opportunities for REDD+

### 6.3.1 Funding organizations

The potential funding donor organizations for REDD+ implementation in Bhutan and their ranking have been mentioned in Section 4.2.3. All of them support REDD+, have results-based financing as a criterion, and also show flexibility by adopting a landscape approach. The goal of the landscape approach is to implement a development strategy that pursues environmental, social, and economic impacts at scale, all of them contributing to emission reductions and therefore is eligible for REDD+ funding.

Because a mosaic of land units and a plethora of land uses is rather common in most countries, funding organizations increasingly accept -and even promote- innovative requests for funding. A wider approach with adequate and clear reporting on, and accounting for, GHG emission reductions across agriculture, forestry and other land use sectors becomes eligible for financial support.

While GCF and GEF allow any country to put in a request for funding, both BioCF (linked with the World Bank, therefore with CIF) and FIP could be difficult to access given that the CIFs work only in a few countries with deep engagement. They may not be easily accepting new countries, in particular not those where a significant volume of verified carbon reduction is hard to achieve, such as Bhutan.

With the GCF being recognized as a genuine climate fund, at present it would be considered the easiest (as so-called "low-hanging fruit") international multilateral fund for REDD+ interventions in Bhutan, though a long pathway for application needs to be accepted. With BFTEC about to be approved as the National Accredited Entity and solid in-country experience and assistance through BFL is available, it seem most logic to prioritize GCF as the first organization to finance implementation of the Bhutan NRS.

### 6.3.2 Conditions for programme/project funding

The selected potential donor organizations have their own conditions to fund countries. Though each of them has their specific requirements, a general set of criteria can be distinguished when applying for funds. These conditions are relevant to match with current barriers and constraints derived from the SWOT analysis which need to be addressed to increase the potential for success in submitting applications.

The general eligibility criteria set by the funding organisations are sometimes clearly defined (see also Annex 2 under column "Conditions and Eligibility Criteria") or are put as preferable conditions. As such, the following donor conditions have been extracted from their programs:

1. ***Good Governance***: an active government with adequate legislation and enforcement according to clear and transparent set of laws and policies;
2. ***Institutional Capacity***: an implementation potential for incoming projects and programmes with adequate in-country capacity through designated government officials responsible for country-driven climate mitigation and adaptation activities based on national priorities, while being able to receive and manage funds (i.e. having available a Focal Point and/or a National Accredited Entity) and to give support to programmes and projects;
3. ***Technical Capacity***: adequate know-how and trained staff and in-country experts available to give technical support and/or input to programmes and projects;
4. ***Adequate financial structure***: a transparent, robust and reliable financial structure available to receive, disburse and monitor international and domestic funds;
5. ***National co-financing***: an active government participating in climate resilience and able to allocate domestic funding;
6. ***Stakeholder involvement***: country-driven approach that encourages the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects;
7. ***Social safeguards***: a government having essential tools to prevent and mitigate undue harm to people in the development process, aiming to avoid, reduce or compensate for negative effects of activities. Governments are supposed to have in place a set of rules (such as policies, laws, regulations) that reduce the social risk and negative impact of activities, with institutions to implement these rules;
8. ***Environmental safeguards***: similar to social safeguards, but concerning negative environmental effects of activities;

9. ***Robust monitoring and reporting framework***: to ensure intended outcomes can be achieved efficiently and effectively

The conditions are generally used as a guideline to assess applications for funding. Countries can negotiate how to address shortcomings if not all conditions are met.

For Bhutan it is useful to evaluate these conditions against the national circumstances (through the SWOT analysis) and assess where it falls short in meeting these conditions. This is done in the next section.

## 6.4 Options for fund mobilization in Bhutan

### 6.4.1 Addressing barriers and constraints

Barriers and constraints refer to institutional shortcomings or current practices or capacity limitations. These need to be identified, and where possible addressed to facilitate international fund mobilization. Some of the constraints Bhutan may face in accessing funds are beyond its control, i.e. the fact that Bhutan is a low deforestation and high forest country, limits the scope for RBP.

Whatever fund is selected, in order to access international funding, Bhutan needs to prepare itself to meet all or part of aforementioned conditions maintained by all donor organisations. The presence of a cooperative and participating private sector is considered by most of the donors as an additional advantage.

Annex 3 presents a matrix in which the strengths, weaknesses/barriers, opportunities and threats/risks related to the general conditions as stated by the donor organizations. The table also identifies possible remedial actions or improvements suggested to increase the rate of success when applying for international donor support.

In case of weaknesses/barriers, but also in the case of opportunities that can be turned into strengths, some suggested remedial actions are presented in Table 6.1. Additionally, identified strengths and opportunities can be further improved and/or strengthened (Table 6.2).

**Table 6.1 Addressing (aggregated) constraints and barriers**

| | Constraint/barrier | Recommended intervention |
|---|---|---|
| 1 | Strengthen current good governance | Simplify and decrease administrative procedures for requesting and subsequently releasing funds at the district level and by developing a clear suite of operational standards for appraising environmental services |
| 2 | Further institutional strengthening | focusing on improved cooperation between departments, agencies and public and private sector. This includes improving/strengthening cross-sectorial plans to implement environmental strategies with strong inter-departmental participation across the sectors |

| | | |
|---|---|---|
| 3 | Continue decentralization process | Continue improvements on functionality and services provided, together with ongoing capacity building |
| 4 | Increase domestic funding | Increase domestic funds for sustainable development and climate mitigation activities, through reassessing prioritization of disbursement of the national budget and increasing national contribution to the environmental sector, promoting additional international co-funding, and allowing full allocation of royalties from hydropower to the environmental sector in addition to the regular sectoral budget allocations |
| 5 | Build institutional and technical capacity | - *Institutional* capacity in the fields of finance (e.g. fiscal and account management, budget support, accounting, proposal development (including Fund Investment Plans), etc.),<br>- *Technical capacity* in the fields of environmental management and climate mitigation (e.g. REDD+, SFM, carbon accounting, etc.); |
| 6 | Include investments in the environmental sector | Amend the *Priority Sector Lending* (PSL) Policy |
| 7 | Develop safeguards and incentives to improve private sector participation and the involvement of NGOs/CSOs | Encourage and support of new initiatives in this field. E.g. improve (options for) ecotourism, with enhanced international promotion, leading to increase in national budget, capacity and options for co-financing. Governmental support can be institutional, technical, fiscal and financial. Development of a guidebook or adopting latest initiatives developed in this field (e.g. the Accountability Framework Initiative; see Section 3.6) may be useful. The current disadvantage of restricted participation can be turned into an opportunity: increase options for co-funding in the environment sector through active participation of the private sector |
| 8 | Establish a National Accredited Entity | *Establish a* NAE as soon as possible. BFTEC is currently recognized as the best suited candidate for this entity and acceleration of the approval process needs to be give priority. Additionally, an overarching Country Programme needs to be developed to better prioritize developments and to increase success of international financial support |

**Table 6.2 Consolidation of strengths and opportunities**

| | Strength/opportunity | Recommended intervention |
|---|---|---|
| 1 | Strengthen the landscape approach | Implement REDD+ activities embedded in an overall approach towards sustainable development and a green economy, and to (better) attract climate funding |
| 2 | Accelerate assessment of current institutional and technical capacity | Plan remedial actions supporting effective implementation of NRS. Use the development of NRS and parallel running activities in other programmes in the environment sector in support of this process |
| 3 | Continue practices of good governance | Such as the fostering the process of decentralization and devolution of activities and responsibilities with further implementation in all sectors, with adequate institutional capacity building and developing the essential technical skills. As part of good governance and stakeholder involvement, building a stronger sub-national and local government while promoting transparency is favourably looked upon by funding donor organizations |
| 4 | Improve current platform for effective stakeholder involvement | Continue and improve the process developed/implemented under NRS REDD+ and used for discussions on and participation in sustainable management and development of natural resources. Such practices of regularly seeking consent (e.g. the FPIC process) needs to be firmly embedded in national policies. A stronger and more institutionalised cross-sectoral cooperation and streamlining/integration of projects and programmes will have a positive spin-off for social cohesion and opportunities across communities<br><br>Ensure social and environmental safeguards are in place to address any negative impacts |
| 5 | Develop safeguards and incentives for the private sector | Strengthen current initiatives and provide wider support to initiate stronger private sector participation (see Table 6.1) |
| 6 | Strengthen operating CSOs and NGOs | Provide stronger support to increase efficiency and effectiveness, with cross-over support of programmes and harmonization of projects |
| 7 | Enhance efficiency and available budget to REDD+ initiatives and SFM | Further embrace, use and integrate a firmly integrated landscape approach under NRS. Cross-sectoral support and building on harmonization between the (international) programmes and projects to be further encouraged and utilized |

### 6.4.2 PAMs guiding funding opportunities

Based on the Policies and Measures identified in the NRS, the selection of potential donor organizations can be made.

All donor organisations still maintain funding based on verified results (i.e. through results-based payments), however, increasingly a broader spectrum is allowed. The landscape approach expands the scope of eligible types of activities combining sustainable forest management (SFM) with e.g. sustainable agriculture and infrastructure and the development of livelihoods and improved social cohesion (the "plus" of REDD+). Despite a growing acknowledgement of such a more holistic approach, this is not yet done by all organizations.

Therefore, based on cross-matching with national circumstances and with the ten PAMs selected for Bhutan, the most potential funding organizations for REDD+ activities in Bhutan are (in descending order) (1) The Green Climate Fund (GCF); (2) Global Environment Fund (GEF); (3) BioCarbon Fund Initiative (BioCF) - Sustainable Forest Landscapes Emissions Removal (ISFL ER); and (4) the Forest Investment Programme (FIP).

### 6.4.3 Funding potential

With the constitution stipulating that at least 60% of the country must be covered in forests for all times to come, a current forest cover of more than 70% and a low deforestation rate, finance strictly based on verified emission reductions in the forestry sector is rather limited, although the potential to reduce emissions from forest degradation is considerable. Most benefits that Bhutan could receive from REDD+ funding may be directed to conservation efforts and sustainable forestry, interlinking with other interventions targeting the uplift of rural livelihoods, (non-carbon benefits) thus having synergy with existing or planned rural development programmes positively affecting the use and management of Bhutan's forests. Many benefits will be non-monetary in the form of environmental conservation, improved tenure and protection of culturally valuable but vulnerable sites.

Most donor organizations, with GCF in the lead, officially recognize funding needs beyond mere verified carbon-sequestration results. In particular, GCF mentions that focus of their funding is *at least in part* on scaling up results-based financing for land use change and forests, which has been identified as having potential for climate change mitigation, *alongside benefits for ecosystem services and livelihoods*. This opens up carbon-sequestration-related activities of NRS to such funding.

For REDD+, good marketing of the proposed activities could be effective when applying for funding. For instance, with the Bhutan for Life project operating in Protected Areas (PAs, including the National Parks), some 50% of Bhutan's forests is covered with REDD+ related activities. RGoB / UNDP with the new programme is going to cover an additional 12%, making some two thirds of Bhutan's forests covered for REDD+. Thus, NRS with its selected activities could apply at least for the remaining one third. With these three parties working together, such cooperative and harmonized approach is most effective and cost-saving and will be highly appreciated by donor organizations and other funding partners, including private investors and up-coming internationally funded programmes and projects.

### 6.4.4 Synergy and collaboration

Bhutan has a good scope for synergy and collaboration of (international) projects. Collaboration between current and future projects/programmes are strongly encouraged by RGoB. In particular, there seems to be (planned) complimentary options for REDD+ activities.

As mentioned above, BFL is planning REDD+ activities within the Protected Areas, encompassing 50% of the forested areas in Bhutan. Additionally, the new 14m USD six-year project awarded to RGoB by UNDP will enhance sustainability and climate resilience of forest and agriculture landscape, and community livelihoods in the country. The project will strengthen management systems in some protected areas in the country. This partially takes care of projected activities as prioritised under the National REDD+ Strategy, and funding for remaining areas (outside PAs, but possibly to a certain extent within the protected areas) can be sourced.

Also, further cooperation with the NGOs in Bhutan can bring fruitful partnerships. For instance, the Tarayana Foundation has a clear overlap with sustainable forest management practices and overlap with proposed PAMs under NRS, i.e. establishing plantations and eradication of invasive species at the community level. Some of the Foundation's other activities support REDD+ interventions and may facilitate applying for additional funding in this field. For instance, the *Green Technologies* programme targets communities that are highly dependent on timber and wood and has already delivered over 1,000 eco-stoves together with the Department of Energy Resources (DRE). Most of the beneficiaries of these programmes are women, strengthening the gender aspect which is appreciated by most of the international donors. Furthermore, the Foundation has started fuelwood saving micro hydro-power projects and a project on cable-car for transporting goods in inaccessible areas instead of building access road which avoids unwanted deforestation and forest degradation. Tarayana also has adequate skilled staff with relevant professional experience working with the private sector.

## 6.5 Fund modalities, management and implementation requirements

### 6.5.1 Funding modality and mechanisms

Three options for international funding for REDD+ are distinguished:

**Grants with national co-financing**
This is the preferred option by Bhutan (verbal communication by GNHC): grants, complimented by domestic financing and with co-financing from other international projects, contributions (e.g. in-kind) by CSO/NGOs, and possibly the private sector (increasingly recognized and preferred). Although a lengthy way (proposals are complex and time-consuming, and associated with high transaction costs), this funding modality secures national self-ruling.

**Loans**
Another option is borrowing of required funds. Multilateral development banks such as WB, IFC and ADB provide loans. Although loans may lead to some level of dependency, they provide an option for e.g. the private sector involvement and possibly other interventions under REDD+ implementation. In this respect, RGoB can play a pivotal role in helping the private sector in acquiring low-interest loans for activities that fall under the umbrella of the NRS.

**Results-Based Payments (RBP)**
RBP is linked to a strong monitoring, verification and reporting system on carbon sequestration. Albeit being a most feasible financing option for most other countries, this for Bhutan is rather limited due to aforementioned reasons.

### 6.5.2 Fund management

With a limited scope for RBP, options for an integrated landscape approach, and the presence of an internationally recognized robust national financial disbursement structure (inclusive of fund tracking system using a Financing Item Code as a safeguard to distribute funds also at the decentralized levels), a real REDD+ Endowment (or "Sinking") Fund does not seem appropriate (and is also strongly discouraged by GNHC). Instead, direct project-based funding for REDD+ seems the most appropriate modality for Bhutan.

In technical terms, REDD+ financing using the Financing Item Code by MoF/DNB may still follow the practices of Country Trust Fund (CTF). In particular, the capital of the fund can be invested by a skilled asset manager to generate a long-term stream of income to finance grant awards for the CTF's stated purposes. Additionally, and moving more towards a revolving fund, a continuous stream of revenue from specially earmarked fees, taxes, fines or payments for environmental services (PES) could be registered and added to available REDD+ investments. Eventually, a CTF that manages and disburses REDD+ funding from the sale of national carbon credits on international markets would take the form of a revolving fund.

CTF-like funds offer lower transaction costs, openness, transparency, flexibility, an ability to secure stable and long-term funding, and credibility with a broad array of national as well as international stakeholders. Given the need for urgent action to start the flow of funds for supporting REDD+ activities, the advantages of using CTF-like funds is recommended.

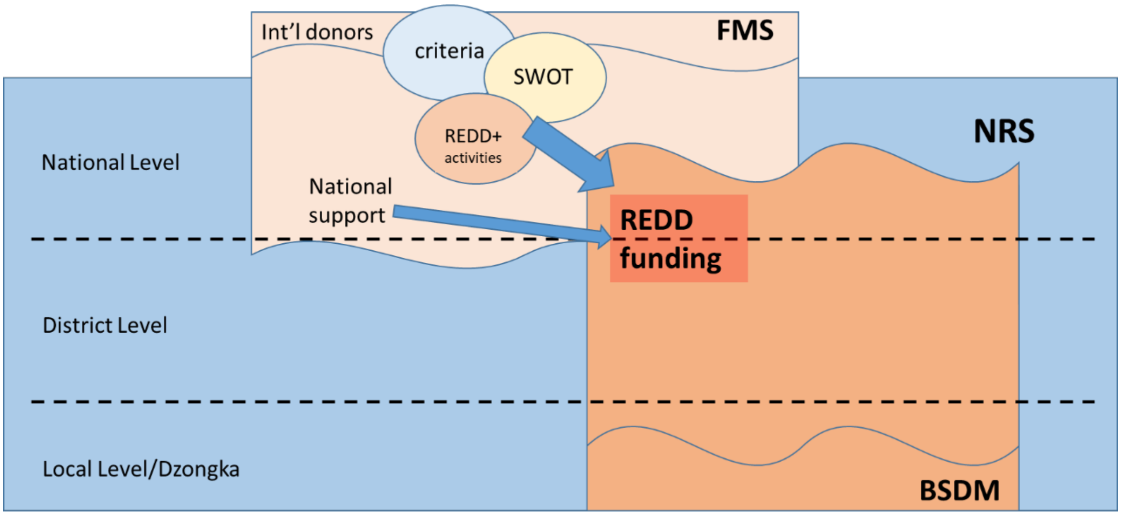
## 6.6 Integration with National REDD+ Strategy

The FMS is not a stand-alone initiative but is closely linked with the NRS, the programs and projects under which will have individual time paths and associated costing. Each intervention requires funding. Domestic funding will be the principal source of funding in the first stages of development and supplemented with international funding.

Predominantly, the FMS is a framework for mobilizing required funds to implement the activities that are prioritized under the NRS. A cost-benefit analysis is performed to identify the funding needs, upon which the best approach for fund mobilization is selected and the most feasible donor organizations are carefully chosen. Hence, a FMS and a worked-out detailed Fund Investment and Implementation Plan (see Section 6.11) are required to implement the NRS.

Figure 6.1 shows how FMS is part of the NRS and how it links to the Benefit Sharing (and Distribution) Mechanism (BSDM).

**Figure 6.1 FMS associated with NRS and BSM**




## 6.7 Linkage to Benefit Sharing Mechanism

FMS will be closely linked with the Benefit Sharing Mechanism (BSM) to equitably and transparently distribute the received funding to the selected activities.

As Figure 6.1 shows, FMS works on attracting international funding in support of domestic funding. After receiving and registering international funds for REDD+, together with domestic funding for the same, BSDS will guide the effective disbursement and distribution of funds from the national to district and local levels.

Bhutan possess an internationally recognized and robust domestic financing structure which is important for developing a solid Benefit Sharing and Distribution Strategy closely interlinked with the existing financial disbursement system of RGoB.

The *Financing Item Code* is useful for a trustworthy and transparent fund distribution system, and as such also of critical importance to international funding organizations and is regarded as an important precondition for funding. Additionally, the *Annual Performance Agreement (APA)* monitoring and verifying activities in project/programmes builds to a required reliable budgetary monitoring and accounting system.

## 6.8 Strategy and Action Plan

The FMS is a *strategic framework* promoting a programmatic approach that minimizes duplication and transaction costs associated with REDD+ investments. It serves as the financial arm of the NRS and guides RGoB in identifying and mobilizing funding of implementation of the NRS activities.

Preparing the FMS has resulted in the preparatory steps identifying the opportunities for REDD+ funding in Bhutan (Table 6.3), which in turn is the basis for a clear set of proposed actions. A possible Action Plan is presented in Annex 5.

The actions are necessary to prepare for developing a comprehensive Fund Investment Plan. Such Plan is the "programmatic approach" (see next section) setting out the implementation priorities of the NRS over the next period (post 2020) and steering the country towards a green development pathway. Figure 6.2 presents a schematic overview of the sequential steps of fund mobilization.

**Figure 6.2 Schematic overview of Fund Mobilization and timeline**

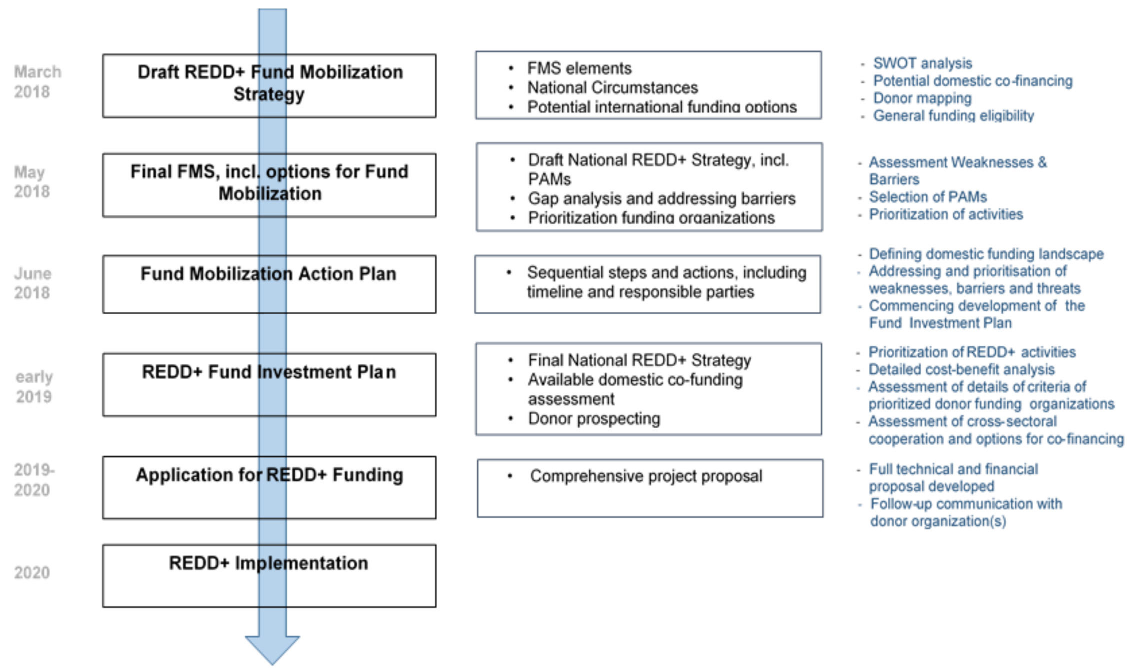



**Table 6.3 FMS strategic framework – steps and actions**

| # | Step | Actions | |
|---|---|---|---|
| 1 | Defining Purpose, Objective and Scope | | ☑ |
| 2 | Analysis of Fund Mobilization perspectives | a. Analysis of REDD+ finance elements<br>b. International best practices<br>c. Elements of a FMS | ☑ |
| 3 | Define Int'l (REDD+) Donor criteria | a. Identify potential REDD+ donor funding organisations<br>b. Analysis of eligibility criteria set by the major donor organisations | ☑ |
| 4 | Assess National Context | a. Assessing National Circumstances through SWOT analysis | ☑ |

| | | | |
|---|---|---|---|
| | | b. Analysis of barriers and opportunities<br>c. Define primary strengths, weaknesses, opportunities and constraints | |
| 5 | Matching and gap analysis | a. Defining potential gaps<br>b. Matching opportunities and barriers with selected PAMs | ☑ |
| 6 | Cost-analysis of REDD+ activities and generic funding requirements based on the PAMs and the outcome of the workshops | a. Analysis of PAMs<br>b. Prioritizing interventions<br>c. Cost-analysis | ☑ |
| 7 | Aggregating the results in a Fund Mobilization Strategy | a. International Donor mapping, based on main eligibility criteria for funding<br>b. Analysis of domestic support and co-funding opportunities<br>c. Assessment of barriers to fund mobilization<br>d. Prioritize actions to resolve weaknesses and constraints / to enhance strengths and opportunities<br>e. Description of funding modalities and - mechanisms<br>f. Generic funding requirements based on the PAMs and the outcome of the workshops | ☑ |
| 8 | Developing an Action Plan | a. Defining the next steps leading to a Fund Implementation and Implementation Plan (Table 6.2) | ☑ |

## 6.9 The REDD+ Fund Investment and Implementation Plan (post FMS)

The REDD+ Fund Investment and Implementation Plan is the actual programming framework for a set period (e.g. 5 years) that translates the priorities set by the NRS into concrete actions. It has all the required details on the national level, including the options for domestic co-financing and synergy for cooperation between (inter) national projects, programmes and other stakeholders (including NGO/CSOs and private sector). Furthermore, based on the selected potential funding organizations from the FMS, the IP will provide full details on selection criteria and application requirements of these donors (donor *mapping* vs donor *prospecting*; see footnote[8]).

[8] **Donor Mapping: t**o identify the potential donors available to REDD+ financing , either at the international level or at the national (domestic) level. These include multi- and bilateral donors. The result will be an overview of potential donors and their eligibility criteria for funding. Considering the abundance and growing number of donors, only the major donors will be listed under FSM.

**Donor Prospecting: t**o identify a concrete set of donor organizations that realistically can and will financially support REDD+ interventions, because of ability of covering the funding activities, sufficient funds available, ensuring sustainable support, etc. Exact details of requirements are listed and matched with proposed activities. Prospecting is a detailed form of Donor Mapping

**Table 6.4 Fund Investment and Implementation Plan**

| Fund Investment and Implementation Plan | |
|---|---|
| **Overall objectives** | • Mobilize funding to achieve REDD+ national objectives and to strengthen the global leadership of RGoB<br>• Finance the implementation of REDD+ investment plans through REDD+ programs<br>• Promote political dialogue associated with the REDD+ process<br>• Use a milestone-based framework and support the development of national instruments to measure, report and verify, in an ongoing and transparent manner, investment results, in accordance with UN-REDD standards and UNFCCC guidelines<br>• Increase the Government's coordination capacity for rapid, consistent and effective implementation |
| **Special objectives** | To develop a financial vehicle designed to drive the implementation of the REDD+ National Strategy Framework and through which the required international funding will be raised, and financial allocations will be coordinated. Additionally, to set up a basic underlying structure to coordinate the various sources of climate finance for the country, whilst ensuring a streamlined management of the programme that complies with social and environmental safeguards |
| **Aim** | The Investment and Implementation Plan aims at attracting and guiding the allocation of international and national funding sources for the implementation of the country's REDD+ strategy, as well as guiding the allocation of other necessary investments that will play a role in steering the country towards a green development pathway |
| **Elements of the Plan** | • Objectives<br>• Proposed activities (from NRS)<br>• Eligible donor prospecting<br>• Output-based action plan<br>• Filling identified gaps (from FMS)<br>• Inventory of domestic funding opportunities<br>• Analysis of cross-sectoral initiatives and synergy<br>• Time-bound steps |
| **Best International Practices** | Amongst the few, and besides the Amazon Fund in Brazil and the Democratic Republic of Congo (DRC) have progressed in developing such IP for accessing climate funding. Although different situations and having a far more serious threat to their forests, they could serve as some international best samples |

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| | guiding the development of a country-specific Fund Investment Plan for Bhutan |

## 7. KEY MESSAGES

The study on REDD+ finance revealed some key messages applicable for the situation in Bhutan. These messages can be clustered according to the categories *Governance, Finance*, *Institutional setting, Capacity building* and *Funding opportunities and barriers*. Not necessarily in the order of importance, these messages are the following:

| Key Messages to enhance success-rate for REDD+ financing |
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| **Governance:** |
| 1. **Private sector should play a greater role in REDD+ finance**. To attract the private sector in participating, the government should provide more information and guarantees, and minimize liabilities, e.g. through adapting the so-called *Accountability Framework Initiative* (Section 3.6), and possibly even should adjust legislation. |
| 2. **Continue practices of good governance**. RGoB need to lead the process and take ownership of organizing, and therefore funding, non-critical REDD+ activities such as meetings, presentations, organizing stakeholder engagement, etc. being activities most relevant to sustainable development of a country while building national capacity at the same time, shaping REDD+ and secure funding on the long run. |
| 3. **Continuation of the decentralization process remains relevant**. The current process of decentralization and devolution of activities and responsibilities with further implementation in all sectors is most crucial in building transparency and developing trust with funding organizations. This decentralization process needs to be accompanied by adequate institutional capacity building and developing the essential technical skills. |
| **Finance:** |
| 1. A **Project Based Financing** with benefits with results (output deliverables) is the better option for Bhutan compared to a REDD+ Fund (Endowment or Sinking Fund), based on the existing robust and operational financial structure. |
| 2. Using **the Financing Item Code ensures effective tracking of allocated budgets** and will pose no risk to lose oversight of REDD+ funds even after increased decentralization planned under the upcoming 12th Five Year Plan. |
| 3. There are **many financing resources available** in Bhutan, e.g. through eco-tourism, but also in Green Bonds, PPP models, private funding, etc. A comprehensive list of international and domestic funding options is available with the BIOFIN project needs to be consulted by WMD at the time of preparing its Fund Investment and Implementation Plan. |
| **Institutional setting:** |

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| 1. **Enhance efficiency and available budget to REDD+ initiatives and SFM**. Good and effective synergy and cooperation is essential between Government interventions, development partners and private sector. Currently there is insufficient inter-departmental cooperation and cooperation between (international and national financed and managed) projects and programmes. |
| 2. There seems to be **complimentary REDD+ activities** in (parts of) the country. Streamlining programmes and projects will decrease current thematic and geographical overlap of activities regarding to environmental conservation, rural development and uplift of livelihoods, with synergies of activities and projected outcomes, including options for co-financing. |
| 3. **Strengthen operating CSOs and NGOs**. Organisations operating in Bhutan, even in a diversified field outside of the environment sector, have a significant network in the communities and associated social capital. This needs to be utilised efficiently. |
| 4. **Improve current platform for effective stakeholder involvement**. The process developed/implemented under NRS REDD+ need continuation and stakeholders need to be kept invited to discussions on and participation in sustainable management and development of natural resources. Such practices of regularly seeking consent (e.g. the FPIC process) needs to be firmly embedded in national policies. |
| **Capacity Building:** |
| 1. **Accelerate the assessment of and building current institutional and technical capacity**. There is a need for institutional and technical capacity building, as a constraint in the absorptive capacity in Bhutan has been noticed, mainly referring to the lack of qualified staff at the agency levels and at implementation (project) levels. Many of the ministries and departments are under-staffed and lack required capacity. |
| 2. **Lack of capacity and deficiency of actual understanding of Climate Change and the role of REDD+** results in insufficient inter-departmental cooperation and cooperation between projects and programmes (related to institutional setting, above). |
| 3. The various stakeholders concerned with REDD+ combined show adequate and relevant know-how related to REDD+ fund mobilization and fund distribution, donor mapping exercises, proposal development and fund implementation. |
| **Funding opportunities:** |
| 1. **Changing funding landscape** with several international donor organizations officially recognize funding needs beyond mere verified carbon-sequestration and appear to focus efforts at least in part on scaling up results-based financing for land use change and forests, which has been identified as having potential for climate change mitigation, alongside benefits for ecosystem services and livelihoods. |

2. **Strengthen the landscape approach**. Broad low-carbon development approach integrating sustainable forestry, agriculture, infrastructure development etc. has been a major trend in international climate financing. Fund request should have a smart packaging of prioritized activities.

3. All PAMs require “soft” interventions, with focus on technical and managerial capacity building, institutional strengthening and policy development. Therefore, funding donor organizations need to be selected that go beyond funding only verified emission reductions.

4. **The Green Climate Fund (GCF) is presumably the most feasible international source for REDD+ funding in Bhutan,** being recognized as a genuinely targeting climate fund, and because already a successful and recently rewarded application to this fund has been made by BFL, though a long pathway for application needs to be accepted.

5. **Increase domestic funding**. With respect to domestic co-financing of REDD+, there are several running government initiatives or opportunities in Bhutan. Prioritize access and use of domestic funds, e.g.:
   - Green tax funding
   - Royalty from hydropower
   - Synergy with other (international) projects and programmes
   - Social capital available with NGOs (e.g. Tarayana Foundation)

6. **Cooperation with other REDD+ overlapping projects need to be sought** to increase synergies and effectiveness, while diminishing costs and utilize options of co-financing. For instance, Bhutan for Life and the new 14m USD six-year project awarded to RGoB by UNDP offer good opportunities for effective collaboration.

**Funding barriers:**

1. **The application process for accessing international funding is lengthy**. Therefore, the process should be started as soon as possible, i.e. after the Fund Investment and Implementation Plan has been developed.

2. **Access to external funds could take time and funds allocated may not cover the entire scope of actions proposed.** REDD+ finance can be difficult to access and if obtained funds may prove insufficient to cover the entire trajectory of deforestation and/or forest degradation. Particularly results (or performance) based payments is very difficult to achieve for Bhutan, considering its high forest coverage/low deforestation rate. Therefore, in addition to domestic financial support by government, a differentiated approach is required in which potential REDD+ financing needs to be combined with economically more powerful market players from the private sector, creating a so-called *layered finance incentive* system.

Annex 1

**SWOT Analysis**

| | Internal | | External | |
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| | **Strengths** | **Weaknesses / Barriers** | **Opportunities** | **Threats** |
| **Governance and Economy** | a) **Stable government and political system** with a **low level of corruption.**<br>b) **Gross National Happiness**. An internationally recognized concept of national commitment to address the delicate balance between environmental issues, socio-economic development culture and governance.<br>c) **Strong commitment to environment conservation.** As per constitution a strong national commitment to conserve natural resources and prevent degradation by maintaining at least 60% of Bhutan's land under forest cover for all time.<br>d) **Effective and targeted policies & legislation** for all aspects of | a) **Decline of (the need for) international bi-lateral financial support** through increased income status (growing to Middle-income status).<br>b) Yet as Bhutan is not a Middle-Income Country as yet (possibly from 2025), this will **impede options for domestic funding and adequate PPP**.<br>c) **In-effectiveness yet to mobilize conservation funds**. Until now, Bhutan has been unable to effectively mainstream Payment for Environmental Services to support conservation efforts at scale.<br>d) **Limited and narrow resource-based economy** (predominantly hydro-power, subsistence agriculture and | a) Assessment of capacity development needs and institutional strengthening.<br>b) With an improved economy recognition of Environmental Services can increase and current PLRs in Bhutan can be utilized allowing royalties paid by other (national) economic activities and programmes (e.g. hydropower and Eco-tourism) to be ploughed back in the Environmental Sector, including REDD+.<br>c) Decentralization policies bring more responsibility, | a) Strong requirements from funding sources may conflict with existing policies.<br>b) Inadequate national funding of Environmental Sector including REDD+ by RGoB due to **other national priority setting**. |

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| | resource conservation and management. These include:<br>▪ **Legislation protecting forests, flora, and fauna**, e.g. the Forest and Nature Conservation Act (1995); Forest and Nature Conservation Rules and Regulations (2017); Biodiversity Act (2003); Water Act (2011).<br>▪ **12th FYP**, fostering greater inclusivity in development planning by engaging all stakeholders, with an increased decentralization. More focus on institutional strengthening, capacity building, enhanced service providing, and streamlining of policies/regulations to avoid overlaps. Environmental criteria have been explicitly mentioned.<br>▪ **LG Act**, aiming to regulate protection and harvesting of edible forest products in community forest; prevent illegal construction and all other types of encroachment; prevent the depredation of crops and livestock by wildlife. Local Government is authorized to enact on environmental issues. | tourism) with unemployment and debt burdens.<br>e) **Trade constraints**, as locked between 2 regional economic giants (China and India).<br>f) Royalties from economic sectors (e.g. Hydro Power) are not fully ploughed back into Environmental Sector and are **off-set with regular national sectoral budgets**.<br>g) **Priority Sector Lending Policy (PSL)** from 2019 acting as a stimulus for economic transformation, targeting important sectors such as agriculture and Cottage and Small Industries (CSIs) that have greater capabilities to become more enterprising and business oriented. | accountability and participation to all stakeholders and a stronger participation of the private sector.<br>d) REDD+ provides a platform for meaningful engagement of all forest dependent communities, which is missing at the moment.<br>e) **Socio-economic development opportunities** under opportunities offered through cross-sectoral operations and funding. | |

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| | ▪ **Economic Development Policy 2016,** allowing clean economic growth while pursuing protection of biodiversity, genetic resources and promotion of indigenous knowledge.<br><br>e) **Bhutan is signatory to international environmental conventions and agreements**, e.g. CBD, UNFCCC, WHC, CITES, CCD, RAMSAR.<br><br>f) The immense potential to contribute to the U.N.'s Sustainable Development Goals being **carbon neutral.** Bhutan has made a strong commitment to this as reflected in its Intended National Determined Contribution (INDC) to the UNFCCC. Significant achievements have been made and sustained in the country's development.<br><br>g) Intent to have a **cross-sectoral and 'landscape approach** to the national reduction of emissions where the interventions will be integrated and involve all stakeholders in Bhutan. | | | |
| **Institutional** | a) **Recognized experience in fund management in government and** | a) **A transparent but complex dispersal system** for programmes and financing, due to a decentralized Governance system | a) Increased awareness and strengthened coordination between the | a) Too strong decentralization may lead to a l**ack of capacity at the decentralized levels** to |

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| | **NGOs**. Bhutan has proven records on proper utilization of donor funds.<br><br>b) **Appropriate financing and accounting system** in Government and **acknowledged by international funding partners** (including WB and ADB).<br><br>c) **Strong and robust legal system for financial disbursement.** Ministry of Finance mobilizes all resources and integrates such funds into the budget. MoF also has the power to issue financial rules and regulations, manuals, directives, decrees, instructions or notifications.<br><br>d) **Decentralized Governance** system with devolution of implementation of development programmes, allowing stable and equal development opportunities and improvement of livelihoods | with devolution of the implementation of development programmes to the 20 districts (Central Agencies/Ministries linking to districts).<br><br>b) Weak and **limited number of environment related CSO / NGOs and private sector (Green Technology).**<br><br>c) **Limited awareness of** Public Private Partnership Policy 2016 leading to an **unused opportunity for corporate financing**. The PPP policy offers an enabling environment to strengthen the role of private sector in achieving economic growth and sustainable development through improved infrastructure and optimal utilization of resources | private sector and government sectors to **enhance corporate financing**.<br><br>b) **Strengthening of existing CSOs in the environmental sector** to access funds with bilateral and multi-lateral organizations to enhance financing.<br><br>c) Options for **institutional strengthening through ongoing projects** (see a. under Governance). | manage an increasingly complex fund and benefit distribution system |

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| **Fund Mobilization** | a) **Adequate financial management policy and procedures** in place with checks and balances (budgeting, fund flow and reporting, annual auditing, anti-corruption, etc.) and a **solid budgetary monitoring and accounting system**.<br><br>b) **Adequate fund implementation arrangements.** Funds flow from GNHC to MoF (Department of National Budget & Account) and then to field for project and program implementations. Transparency and the accounting system for fund disbursement is good. Easy tracking through a **Financing Item Code**. When funds are being disbursed on District and Local level, there is no risk funds are used for unplanned other activities.<br><br>c) **Effective audit mechanism** led by the Royal Audit Authority, and publicly accessible and contributing to better transparency.<br><br>d) **Anti-corruption Commission** in place and is open and accessible to the public, generating better transparency and accountability. | a) Bhutan has **no National Accredited Entity** (NAE) yet (although BFTEC is applying as one). Access to funding under GCF is limited to a predefined ceiling (approx. USD 15 million). AF has a limit of USD 10 million.<br><br>b) Bhutan has **no overarching Country Programme** in place as yet, which is required for access to GCF funding.<br><br>c) **Improving yet still weak fund absorbing capacity through lagging readiness in Bhutan** (insufficient human resources and financial system, unpreparedness of communities, weak technical capacity at implementation level, etc.). Despite improvement over the years more needs to be done.<br><br>d) **Constraints in REDD+ secretariat capacity** (inadequate staffing and multi-tasking). Bhutan follows a policy of maintaining a small civil service size leading to HR constraints.<br><br>e) **Delayed fund releasing of too much bureaucracy (red-tape)**. Release of | a) **Increasing commitment and availability of international funding for Climate Change.**<br><br>b) Bhutan is becoming a National Accredited Entity (NAE) in **BFTEC accredited by AF**. This will facilitate becoming the same for other donors.<br><br>c) REDD+ funding can be tracked through the **Financial Item Code** and as such opens the door to **Project Based Funding.**<br><br>d) **In-country experience and knowledge** with International Donor funding opportunities and eligibility criteria, and available data on various donors through donor prospecting and mapping. | a) Due to appropriate forest cover and -management there is a **real concern that Bhutan is not perceived to be a genuine REDD+ country**.<br><br>b) **Limited direct access to GCF funding** with a defined ceiling (approx. up to USD 15 million) **due to lack of National Accredited Entity** (NAE).<br><br>c) **No Country Programme** in place prohibits GCF funding.<br><br>d) **Bhutan may have to invest in proposal development**. Not all donors (e.g. GCF) will pay for proposal development, which may deter agencies from preparing such.<br><br>e) **Efficient and conducive coordination** |

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| | e) **Active fund mobilization through conservation funds**. Currently Bhutan taps into global climate change funds, such as GEF, GCF, LDCF, PPCR (Pilot Program for Climate Resilience), CIF, Adaptation fund, etc. E.g. Bhutan has been successful with applications to GCF funding (WWF with its Bhutan for Life (BFL) project (26m USD to operate in Protected Areas (PAs), e.g. with climate mitigation (carbon - sequestration) activities; UNDP proposal expected to be approved soon). This shows reliability to other donors.<br><br>f) Financing by RGoB in other sectors with **overlapping REDD+ interventions allows for co-financing**. Bhutan has various existing or recently approved projects operating in a variety of REDD+ designated areas, which provides a positive signal to donor organisations. E.g. under GCF BFL is covering 50% of Bhutan, UNDP approx. 12%, while REDD+ could cover the remaining under GCF financing. | funds to the districts and blocks take longer time.<br><br>f) **Limited scope for vast REDD+ Results Based Payments**, as vast forest cover in Bhutan is under relative little threat.<br><br>g) **In-efficient infrastructure** to promote eco-tourism (inadequate accessibility, insufficient marketing and promotion).<br><br>h) **Insufficient coordination** among the agencies (implementers, fund approvals, lead agencies and other key stakeholders).<br><br>i) **International un-attractive debt ceiling**. The new Debt Policy prescribes a debt of 35% of GDP on external non-hydro borrowing.<br><br>j) **Inadequate cross-sectorial plans** to implement environmental strategies including mitigation of, and adaptation to climate change. Interventions are still very sector-based, excluding other agencies | e) **Abundance of domestic (co-) funding options**, **e.g.** through a **Landscape approach** for the whole of Bhutan. RGoB, and various projects have overlapping interventions in a variety of REDD+ designated areas, which provides a positive signal to donor organisations. Available GCF funding for Bhutan for Life project for Protected Areas (PAs) covering approx. 50% of Bhutan allows for complimenting funding for outside PA areas, as well as funding for uncovered REDD+ aspects within current PAs. BTFEC and BIOFIN/UNDP co-funding possible.<br><br>f) Bhutan currently has 72% forest cover. Although options for RBP therefore are limited, **good forest stewardship** is recognized | **and collaboration** between projects/programmes in Bhutan is not adequate.<br><br>f) **Dependency on international funding**. Bhutan is slowly graduating from a Developing Country to the next level with a slow phasing out of donor support. Additionally, under-utilization of domestic resources required for (co-) financing (conservation) development projects cause such dependency. |

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| | g) **GNHC as National Designated Authority** to access external funding for the government.<br><br>h) **Good forest stewardship** and a forest coverage over 72% shows strong sustainable forest management, with a proper diversification of forest-use, including readily funding awarded heritage forest and protective forestry. This builds trustworthiness with donors for funding of additional/alternative climate mitigation activities related to forest management.<br><br>i) Bhutan has an active and **operational Environmental Trust Fund**, with PES as a much valued as financial instrument.<br><br>j) **Favourable donor landscape**. The country enjoys a positive and favourable relation with the donors/development partners.<br><br>k) **Improved capacity.** The HR capacity on fund mobilization and utilization is rapidly improving. | operating in the same field and forgoing options for co-financing.<br><br>k) Despite a valuation of Environmental Services is in place, there is **no clarity and agreement how to use standardized mechanisms.** | by international donors and **opens opportunities for alternative funding**.<br><br>g) Interventions from the REDD+ strategy are **reflecting underlying issues that cause deforestation and forest degradation**, such as income generation and poverty alleviation. This could open the door to additional fund sources. | |

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| | l) **Financial instruments** are introduced to stimulate green economy, e.g. a green tax.<br>m) **Recurrent expenditures** of the government are mandated to finance only through domestic revenues. | | | |

Annex 2

**Country eligibility requirements**

| Multilateral | | | | | |
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| | **Summary** | **Objectives** | **Activities supported** | **Conditions and Eligibility criteria** | **Remarks** |
| **Green Climate Fund** | The Green Climate Fund (GCF) was adopted as a financial mechanism of the UN Framework Convention on Climate Change (UNFCCC) at the end of 2011. It aims to make an ambitious contribution to attaining the mitigation and adaptation goals of the international community. Over time it is expected to become the main multilateral financing mechanism to support climate action in developing countries. | The GCF will contribute to the achievement of the ultimate objective of the United Nations Framework Convention on Climate Change (UNFCCC). In the context of sustainable development, the Fund will promote the paradigm shift towards low-emission and climate-resilient development pathways by providing support to developing countries to limit or reduce their greenhouse gas emissions and to adapt to the impacts of climate change, taking into account the needs of those developing countries particularly vulnerable to the adverse effects of climate change. National | The GCF will support projects, programmes, policies and other activities in all developing country parties to the UNFCCC.<br><br>The GCF finances activities to both enable and support adaptation, mitigation (including REDD+), technology development and transfer (including CCS), capacity-building and the preparation of national reports.<br><br>Countries will also be supported in the pursuit of project-based and programmatic approaches in accordance with strategies and plans (such as low-emission development strategies, Nationally Appropriate Mitigation Actions, National Adaptation | The GCF is an operating entity of UNFCCC's financial mechanism. Recipient countries can submit funding proposal through National Designated Authorities (NDAs). Recipient countries will be allowed direct access through accredited sub-national, national and regional implementing entities they propose and set up as long as these implementing entities fulfil certain fiduciary standards.<br><br>GCF funds can also be accessed through multilateral implementing entities, such as accredited multilateral development banks and UN agencies. See a current list of accredited implementing | The GCF is an operating entity of the UNFCCC's financial mechanism. It is to be "accountable to and function under the guidance of the COP". |

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| | | ownership is intended to be central to the GCF approach.<br><br>The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two, while promoting environmental, social, economic and development co-benefits and taking a gender-sensitive approach. | Plans of Action, National Adaptation Plans and others). | entities at the bottom of this page.<br><br>A private sector facility will also be established that allows direct and indirect financing by the GCF for private sector activities. National Designated Authorities, which can object to private sector activities, are to ensure that private sector interests are aligned with national climate policies.<br><br>**Nature of Recipient Country Involvement**<br>The GCF aims to provide simplified and improved access to climate finance including through direct access. It also aims to adopt a country-driven approach that encourages the involvement of relevant stakeholders, including vulnerable groups and addressing gender aspects. | |
| **GEF Trust Fund** - Climate Change focal area | The Global Environment Facility Trust Fund supports the implementation of multilateral | The GEF aims to help developing countries and economies in transition to contribute to the overall objective of the United | **Climate Change Mitigation:** Reducing or avoiding greenhouse gas emissions in the areas of renewable energy; energy efficiency; sustainable transport; | A country is an eligible recipient of GEF grants if it is eligible to borrow from the World Bank or if it is an eligible recipient of UNDP technical | The decision-making structure of the GEF is quite complex and |

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| (GEF-4, GEF-5, GEF-6)[9] | environmental agreements and serves as a financial mechanism of the UN Framework Convention on Climate Change. It is the longest standing dedicated public climate change fund. Climate Change is one of the six focal areas supported by the GEF Trust Fund. The GEF also administers several funds established under the UNFCCC including the Least Developed Countries Trust Fund (LDCF), the Special Climate Change Trust Fund (SCCF) and is interim secretariat for the Adaptation Fund | Nations Framework Convention on Climate Change (UNFCCC) to both mitigate and adapt to climate change, while enabling sustainable economic development. The GEF is intended to cover the incremental costs of a measure to address climate change relative to a business as usual base line. | and management of land use, land-use change and forestry (LULUCF)<br><br>**Climate Change Adaptation:** Supporting developing countries to become climate-resilient by promoting both immediate and longer-term adaptation measures in development policies, plans, programs, projects, and actions.<br><br>The fund has adapted its objectives for the **GEF-6** funding cycle. Projects approved from 2014-18 under the GEF's climate mitigation focal area are expected to contribute to the following objectives:<br>• Promote innovation, technology transfer, and supportive policies and strategies<br>• Demonstrate systemic impacts of mitigation options<br>• Foster enabling conditions to mainstream mitigation concerns into sustainable development strategies | assistance. The GEF can only offer finance in a form other than grants within the framework of the convention in accordance with eligibility criteria decided by the convention COP. The council can offer finance on other terms as long as it is not in acting as the official financial mechanism of the convention.<br><br>Any eligible individual or group may propose a project that meets the following criteria:<br>1. Consistent with national priorities and programs in an eligible country, and endorsed by the government<br>2. Addresses one or more GEF Focal Areas, improving the global environment or advance the prospect of reducing risks to it.<br>3. Consistent with the GEF operational strategy. | perceived as opaque. The project cycle is cumbersome and slow, and there is a high level of bureaucracy and transaction costs at every stage of the process. The GEF has tended to support one off projects rather than programmatic approaches and has been criticised for not focusing on underlying policy, regulatory and strategic barriers to environmental sustainability.<br><br>Furthermore, it |

[9] GEF-7 has come online, however has not been assessed here for eligibility criteria for REDD+ funding. When the new GEF replenishment has been approved (expected mid-2018, Bhutan needs to assess if additional opportunities for funding are available, or if the application process has changed in relation to previous GEF cycles

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| | | | • Enabling activities and capacity building<br><br>The programming strategy for GEF-6 places more emphasis that in the past on cross-focal area programmatic approaches, rather than more specific support to individual technology projects for instance. | 4. Seeks GEF financing only for the agreed-on incremental costs on measures to achieve global environmental benefits<br>5. Involves the public in project design and implementation<br><br>**Nature of Recipient Country Involvement**<br>Developing countries are members of the GEF council, which is the main governing body of the GEF. In addition, each GEF member country has a GEF Focal point -- designated government officials responsible for GEF activities and ensuring they are country driven and based on national priorities.<br><br>A project must be endorsed by the country or countries where it will be implemented to be considered to receive GEF funding. | has directed limited funding for adaptation and vulnerable countries. |
| **BioCarbon Fund - Initiative** | The BioCarbon Fund Initiative for Sustainable Forest Landscapes | To reduce emissions from the land sector through smarter land use planning, | Activities supported by BIOCF-ISFL include: | Any eligible individual or group may propose a project | The BIOCF-ISFL supports programs in in |

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| **Sustainable Forest Landscapes Emissions Removal (BIOCF - ISFL ER)** | Emissions Removal (BIOCF-ISFL) is a multilateral fund that promotes and rewards reduced greenhouse gas (GHG) emissions and increased sequestration through better land management, including REDD+, climate smart agriculture, and smarter land use planning and policies, supported by donor governments and managed by the World Bank. It has a geographically diverse portfolio of large-scale programs that can have significant impact and transform rural areas by protecting forests, restoring degraded lands, enhancing agricultural productivity, and by improving livelihoods and local environments.<br><br>The BIOCF-ISFL is pioneering work that enables countries and private sector actors to adopt changes in the way | policies, and practices. To involve public and private sector supporting sustainable landscapes, climate-smart land use, and green supply chains, hence using a ***landscape approach*** | • Geographically diverse portfolio of large-scale programs that can have significant impact.<br>• Transform rural areas by protecting forests, restoring degraded lands, enhancing agricultural productivity, and by improving livelihoods and local environments.<br>• To make improvements to enabling environment for sustainable land use | that meets the following criteria:<br><br>• Scale and ambition: demonstrate that a jurisdictional and Integrated Landscape Management approach is undertaken<br>• Analysis of drivers of AFOLU emissions and removals to inform program design<br>• Provide non-carbon benefits, such as social and environmental benefits beyond reduced emissions or increased carbon sequestration and the mitigation of social and environmental risks, which may include, but are not limited to, improving local livelihoods, building transparent and effective governance structures, promoting improvements on clarifying land tenure, and enhancing or maintaining biodiversity and/or other ecosystem services | just a few countries (Colombia, Ethiopia, and Zambia) with an additional program in Indonesia under consideration.<br><br>The fund provides technical assistance to support the design of programs that impact multiple sectors of the economy and results-based payments to incentivize and sustain program activities. |

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| | farmers work on the ground to the way policies are made at the international level. This work supports sustainable landscapes, climate-smart land use, and green supply chains. | | | • Identify an appropriate Feedback and Grievance Redress Mechanism (FGRM)<br>• Undertake and make publicly available an assessment of the land and resource tenure regimes present in the Program Area, including land and resource tenure rights, the legal status of such rights, areas subject to significant conflicts or disputes, and any potential impacts of the BioCF ISFL Program on existing land and resource tenure in the Program Area<br>• Develop a benefit sharing mechanism<br>• Develop appropriate arrangement to avoid double counting, including double issuance, selling/use, or claiming | |
| **Forest Investment Program (FIP)** | The Forest Investment Program (FIP) is a targeted program of the Strategic Climate Fund (SCF) within the Climate Investment Funds (CIF). | The FIP is designed to support developing countries' REDD efforts and promote sustainable forest management through <u>four main objectives</u>: | Activities supported by the FIP include:<br>• Investments that build institutional capacity, forest governance and information; | **Country access requires:**<br>• ODA-eligibility (according to OECD/DAC guidelines); and<br>• Existence of active multilateral development | Civil society and private sector observers have expressed concerns that the FIP criteria |

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| | The FIP supports developing countries' efforts to reduce deforestation and forest degradation (REDD) and promotes sustainable forest management that leads to emission reductions and the protection of carbon reservoirs. It achieves this by providing scaled-up financing to developing countries for readiness reforms and public and private investments, identified through national REDD readiness or equivalent strategies. | • Initiate and facilitate transformational change in developing countries' forest related policies and practices, by:<br>• Facilitate the leveraging of additional and sustained financial resources for REDD, including through a possible UNFCCC forest mechanism, leading to an effective and sustained reduction of deforestation and forest degradation, and enhancing the sustainable management of forests;<br>• Pilot replicable models to generate understanding and learning of the links between the implementation of forest-related investments, policies and measures and long-term emission reductions and conservation, sustainable management of forests and the enhancement of forest carbon stocks in | • Investments in forest mitigation efforts, including forest ecosystem services; and<br>• Investments outside the forest sector necessary to reduce the pressure on forests such as alternative livelihood and poverty reduction opportunities.<br><br>• FIP investments also mainstream climate resilience considerations and contribute to multiple co-benefits such as biodiversity conservation, protection of the rights of indigenous peoples and local communities, and poverty reduction through rural livelihoods enhancements. | bank (MDB) country programs.<br><br>**Criteria for FIP Investment Strategies, Programs and Projects**<br>FIP Investment strategies, programmes and projects should deliver transformational change and go beyond business-as-usual, and are assessed according to:<br>• Climate change mitigation potential;<br>• Demonstration potential at scale;<br>• Cost-effectiveness;<br>• Implementation potential;<br>• Integrating sustainable development (co-benefits); and<br>• Safeguards.<br><br>**Criteria for Pilot Programme Selection**<br>Transformational impact through a few programs should be prioritised over limited impact across numerous programs. The selection of pilot programs is based on: | for country selection, which are almost exclusively technical, fail to take into account recipient countries' governance or absorptive capacities.<br><br>Some groups, such as the Rainforest Foundation, have raised concerns that FIP activities are no more than 'business as usual' World Bank forest sector lending – particularly in relation to plantations and 'sustainable forest management' (industrial-scale logging of |

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| | | developing countries.; and<br>• Provide valuable experience and feedback in the context of the UNFCCC deliberations on REDD. | | • Programme potential to contribute and adhere to FIP objectives and principles;<br>• Country preparedness and ability to undertake REDD initiatives; and<br>• Existing pilot programme distribution across regions and biomes, ensuring that pilot programs generate lessons on scaling up activities.<br><br>**Nature of Recipient Country Involvement**<br>FIP pilot programs are intended to be country-led and country–owned, by building on, enhancing and strengthening existing nationally prioritized REDD efforts, and respect national sovereignty. | natural forests). A composite of critical civil society perspectives on the FIP is compiled by REDD Monitor.<br><br>Although the FIP's operational guidelines were revised to reference the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), specific criteria to comply with UNDRIP and/or to include free, prior and informed consent of affected indigenous peoples have not been incorporated. |

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| | | | | | Furthermore, recommendations by civil society observers that FIP guidelines should comply with relevant international environmental and human rights agreements were rejected. |
| **Global Climate Change Alliance (GCCA)** | The Global Climate Change Alliance (GCCA) is an initiative of the European Union. Its overall objective is to build a new alliance on climate change between the European Union and the poor developing countries that are most affected and that have the least capacity to deal with climate change. The GCCA does not intend to set up a new fund or governance structure but is working through the European | To strengthen dialogue and cooperation on climate change between the European Union (EU) and developing countries most vulnerable to climate change, in particular Least Developed Countries (LDCs) and Small Island Developing States (SIDS), which are hardest hit by the adverse effects of climate change.<br>The GCCA acts as a platform for dialogue and exchange of experience between the EU and developing countries on climate policy | GCCA rests on two pillars:<br>• Platform for dialogue and cooperation<br>• Technical support in five priority areas:<br>1. Mainstreaming climate change into poverty reduction and development efforts: The GCCA supports the systematic integration of climate change considerations into national development planning, from policymaking and budgeting to implementation and monitoring. This priority area, which focuses on institutional strengthening, is often | The GCCA provides support to poor developing countries most vulnerable to climate change, particularly the Least Developed Countries (LDCs) and Small Island Development States (SIDS) using a set of eligibility criteria:<br>• Eligibility of a country for funding under the GCCA. The country must belong to either the group of Least Developed Countries (LDCs) or the group of Small Island Developing States (SIDS) recipients of aid (in line with | |

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| | Commission's established channels for political dialogue and cooperation at national and international level. | and on practical approaches to integrate climate change into development policies and budgets. The results of dialogue and exchange of views feed into the discussions on the post-2012 climate agreement under the UN Framework Convention on Climate Change (UNFCCC), and inform the technical and financial cooperation supported by the GCCA. Discussions take place at global, regional and national levels.<br><br>The GCCA also provides technical and financial support to partner countries to integrate climate change into their development policies and budgets, and to implement projects that address climate change on the ground, promoting climate-resilient, low-emission development. Technical and financial cooperation, in turn, informs political dialogue and exchange of | combined with another priority, in particular adaptation<br>2. Adaptation: The GCCA aims to help improve knowledge about the effects of climate change and the design and implementation of appropriate adaptation actions, in particular in the water and agriculture sectors, that reduce the vulnerability of the population to the impacts of climate change. The GCCA builds on National Adaptation Programmes of Action (NAPAs) and other national plans.<br>3. Reducing emissions from deforestation and forest degradation (REDD): The GCCA supports solutions to reduce carbon dioxide ($CO_2$) emissions from deforestation and create incentives for forest protection, while preserving livelihoods and ecosystems depending on forests.<br>4. Enhancing participation in the global carbon market: The GCCA aims to promote a more | the official OECD/DAC and UN lists).<br>• Vulnerability of the country to climate change. In particular risk related to floods, droughts, storms, see level rise or glacier melting and the coastal zone elevation with proportion of the population at risk. The importance of the agricultural sector, being one of the most sensitive sectors, is also taken into account.<br>• The adaptive capacity of the country.<br>• Policy Context. Ideally, the country should have national and/or sectoral climate change policies in place or expressed its intention of preparing them to ensure the integration of climate change into development strategies, plans and budgets. The government is keen to enhance policy dialogue and cooperation on climate change with the EU and donors more widely. Last, the country should | |

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| | | experience at regional and global levels.<br>The five GCCA priority areas include:<br>1. Mainstreaming climate change into poverty reduction and development strategies<br>2. Adaptation, building on the National Adaptation Programmes of Action (NAPAs) and other national plans<br>3. Disaster risk reduction (DRR)<br>4. Reducing emissions from deforestation and forest degradation (REDD)<br>5. Enhancing participation in the Global Carbon Market and Clean Development Mechanism (CDM) | equitable geographic distribution of financing opportunities linked to the Clean Development Mechanism (CDM) by building the capacities of partner countries to access this source of funding, particularly in the field of energy.<br>5. Disaster risk reduction (DRR): The GCCA seeks to help developing countries to prepare for climate-related natural disasters, reduce their risks and limit their impacts. | preferably be involved with and be politically active in the negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) and in this sense serve as a model for other countries in its group/region.<br>**Nature of Recipient Country Involvement**<br>With regard to the GCCA's second pillar (Technical Support), i.e. technical and financial cooperation, there are two ways in which a partner country government can contribute to a GCCA-funded programme:<br>• by taking an active role in programme preparation and<br>• implementation, and by co-financing the GCCA programme | |
| **Adaptation Fund (AF)** | The Adaptation Fund is a financial instrument under the UNFCCC and its Kyoto Protocol (KP) and has been established to finance concrete | The AF aims to support concrete adaptation activities that reduce the adverse effects of climate change facing communities, countries, and sectors. | Activities supported include:<br>• Water resources management, land management, agriculture, health, infrastructure development, fragile ecosystems; | In the first instance, developing countries must be Parties to the Kyoto Protocol and must be particularly vulnerable to the adverse effects of climate change. This | |

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| | adaptation projects and programmes in developing country Parties to the KP, in an effort to reduce the adverse effects of climate change facing communities, countries and sectors. The Fund is financed with a share of proceeds from Clean Development Mechanism (CDM) project activities as well as through voluntary pledges of donor governments. The share of proceeds from the CDM amounts to 2% of Certified Emission Reductions (CERs) issued for a CDM project activity. | | • Improving the monitoring of diseases and vectors affected by climate change, and related forecasting and early-warning systems, and in this context improving disease control and prevention;<br>• Supporting capacity building, including institutional capacity, for preventive measures, planning, preparedness and management of disasters relating to climate change;<br>• Strengthening existing and, where needed, establishing national and regional centres and information networks for rapid response to extreme weather events, utilising information technology as much as possible. | includes: low-lying coastal and other small island countries, and countries with fragile mountainous ecosystems, arid and semi-arid areas, and areas susceptible to floods, drought and desertification.<br>Country allocation also takes into account the Strategic Priorities, Policies and Guidelines of the Adaptation Fund, specifically:<br>• Level of vulnerability to climate change;<br>• Level of urgency and risks arising from delay of action;<br>• Ensuring access to the fund in a balanced and equitable manner;<br>• Lessons learned in project and programme design and implementation to be captured;<br>• Securing regional co-benefits to the extent possible, where applicable;<br>• Potential for maximising multi-sectoral or cross-sectoral benefits;<br>• Adaptive capacity to the effects of climate change; | |

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| | | | | • Potential for learning lessons in project and programme design and implementation.<br><br>Those LDCs that are unable to access the Least Developed Countries Fund (LDCF) will also be given priority to AF funds.<br><br>**Nature of Recipient Country Involvement**<br>In September 2009, the board operationalised the Direct Access Modality, which allows recipient countries to have direct access to its funds through National Implementing Entities (NIE). This approach should ensure that projects are driven by country needs and priorities. | |
| **FCPF Carbon Fund** | The Forest Carbon Partnership Facility (FCPF) is a World Bank programme and consists of a Readiness Fund and a Carbon Fund. The FCPF was created to assist developing countries to reduce emissions from deforestation and forest | 1. Provide financial and technical assistance to:<br>• Assist eligible REDD Countries to achieve emission reductions from deforestation and/or forest degradation; and<br>• Build recipient country capacity for benefitting from possible future | The Carbon Fund provides payments for verified emission reductions from REDD+ programs in countries that have made considerable progress towards REDD+ readiness. Assistance is divided into four main categories:<br>General Economic Policies and Regulations (taxation, subsidies, | A few countries that have successfully participated in the Readiness Fund may be selected, on a voluntary basis, to participate in the Carbon Fund (see below for further details).<br><br>Countries that have made considerable progress towards | An external evaluation was critical of the pace of financial commitments and disbursements from the Readiness Fund, the inflexibility |

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| | degradation, enhance and conserve forest carbon stocks, and sustainably manage forests (REDD+). | systems with positive incentives for REDD;<br>2. Pilot an emissions reduction performance-based payment system generated from REDD activities, to ensure equitable benefit sharing and promote future large scale positive incentives for REDD;<br>3. Test ways within the REDD approach to conserve biodiversity and sustain or enhance livelihoods of local communities; and<br>4. Disseminate the knowledge gained through the development and implementation of the FCPF and related programmes. | rural credit, certification, law enforcement).<br>Forest Policies and Regulations (taxation, subsidies, certification, concession regimes, securing land tenure and land rights, forest law, governance and enforcement, zoning, protected areas, payments for environmental services (PES)).<br>Forest Management (forest fires, reduced impact logging, reforestation).<br>Rural Development (community development, rural electrification, community forestry) | REDD+ readiness submit programme proposals that are assessed according to the following criteria:<br>• Potential for generating high quality sustainable emissions reductions and social and environmental benefits;<br>• Scale of implementation;<br>• Consistency with emerging compliance standards under the UNFCCC and other regimes;<br>• Potential to generate learning value for the FCPF and other participants;<br>• Clear and transparent 'benefit sharing' mechanisms with broad community support; and<br>• Transparent stakeholder consultations.<br><br>**Nature of Recipient Country Involvement**<br>The FCPF is characterised by a governance structure that gives equal weight to developing and industrialised countries. The FCPF respects recipient countries' national policies and sovereign rights to | of rates to adjust to country needs, the lack of in-country procurement capacity and the limited country level involvement of World Bank staff.<br><br>The FCPF was criticised for its failure to adequately consult non-government stakeholders prior to its public launch in 2007. It responded to these criticisms (see above) however failure to facilitate full consultation and participation of indigenous and |

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| | | | | manage their own natural resources. Recipient countries determine specific strategy options and the manner in which to use the Readiness Mechanism (to prepare for REDD) or the Carbon Mechanism (to reduce GHG emissions). The countries are given autonomy to individually prepare and submit proposals to the Facility under both mechanisms. | local peoples is a recurring criticism. |
| **Bilateral** | | | | | |
| **Norway's International Climate and Forest Initiative (NICFI)** | Norway's International Climate and Forest Initiative (NICFI) supports the development of the REDD+ international agenda and architecture. The ICFI's primary goal is to help establish a global, binding, long-term post-2012 regime that will ensure the necessary and sufficient cuts in global greenhouse gas emissions to limit global temperature rises to no more than 2°C.<br><br>Up to NOK 3 billion | The NICFI aims to:<br><br>1. Work towards the inclusion of emissions from deforestation and forest degradation in a new international climate regime.<br><br>A key focus is to contribute to the development of a credible system for monitoring, assessment, reporting and verification.<br>2. Take early action to achieve cost-effective and verifiable reductions in greenhouse gas emissions. | The NICFI supports activities that strengthen international cooperation on REDD. It focuses on the development of international finance and support systems through close cooperation with multilateral organisations. Specifically, the NICFI works to establish:<br><br>Credible systems for monitoring, reporting and verification (MRV) of emissions reductions from deforestation and forest degradation, at national levels in partner countries, and at the international level. | **Multilateral Channels**<br>The majority of NICFI's activities are conducted through multilateral channels including the Forest Investment Program (FIP). Continued contributions to FIP is dependent on the:<br>• degree of complementarity with UN efforts;<br>• level of interest from relevant recipient countries; and<br>• clarity of focus on transformational change and results-based approaches to REDD. | |

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| | (USD$517 million) per year has been pledged to the NICFI. The NICFI contributes to several multilateral and bilateral initiatives including the Brazilian Amazon Fund, Congo Basin Forest Fund, Forest Carbon Partnership Facility and Forest Investment Program. | In the preliminary phase, it is likely to focus on capacity building, where progress is measured against milestones for the capacity building process and not against emission reductions results which cannot reasonably be expected in the immediate term.<br>3. Promote the conservation of natural forests to maintain carbon storage capacity. | Robust, effective and flexible international architecture to advance efforts in reducing deforestation and forest degradation. | **Bilateral Channels**<br>NICFI activities are only conducted through bilateral channels in countries where multilateral initiatives and/or multi-donor cooperation already exist. This ensures that recipient countries possess the necessary capacity for the uptake of projects. However, exceptions are made for:<br>• Countries that have already made such extensive progress at the national level that performance-based support for the implementation of an established strategy can be immediately provided; and<br>• Countries with which Norway has long, broad-based experience of cooperation on natural resource management, and which have already started internationally supported REDD programmes.<br>• Generally continued funding from the NICFI is dependent | |

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| | | | | on performance of the bilateral initiatives. | |

Annex 3

| SWOT | | # | Description | Good | Institutional | Technical | Adequate | National co- | Stakeholder | Social | Environmenta | Private sector | Remedial Actions / Improvements |
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| | | | | Country Conditions | | | | | | | | | |
| Governance and Economy | Strengths | a | Stable government and political system with a low level of corruption | √ | | | | | | | | | |
| | | b | Gross National Happiness. An internationally recognized concept of national commitment […] | √ | | | | | | | | | |
| | | c | Strong commitment to environment conservation […] | √ | | | | | | | | | |
| | | d | Effective and targeted policies & legislation for all aspects of resource conservation and management | √ | √ | | | | √ | | | | |
| | | e | Bhutan is signatory to international environmental conventions and agreements, e.g. CBD, UNFCCC, WHC, CITES, CCD, RAMSAR. | √ | | | | | | | | | |
| | | f | The immense potential to contribute to the U.N.'s Sustainable Development Goals being carbon neutral […] | √ | | | | | | | | | |
| | | g | Intent to have a cross-sectoral and 'landscape approach to the national reduction of emissions where the interventions will be integrated and involve all stakeholders in Bhutan. | | | | | | √ | | | | To further develop/strengthen the Landscape Approach, with implementation of REDD+ activities embedded in an overall approach towards sustainable development and a green economy, and to (better) attract climate funding. |

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| Weaknesses/Barriers | a | Decline of (the need for) international bi-lateral financial support through increased income status (growing to Middle-income status). | | | | | | | | | | Opportunities for increased domestic funding for sustainable development and climate mitigation activities. |
| | b | Yet as Bhutan is not a Middle-Income Country as yet (possibly from 2025), this will impede options for domestic funding and adequate PPP. | | | | | √ | | | | √ | Possibly temporarily to be compensated by accelerated allocation of royalties from Hydropower to the Environmental Sector. |
| | c | In-effectiveness yet to mobilize conservation funds. Until now, Bhutan has been unable to effectively mainstream PESs to support conservation efforts at scale. | √ | | | | √ | | | √ | | Bottlenecks for impediments to be identified and solved. Institutional and/or technical capacity to be built. |
| | d | Limited and narrow resource-based economy (predominantly hydro-power, subsistence agriculture and tourism) with unemployment and debt burdens. | √ | | | | | | | | | |
| | e | Trade constraints, as locked between 2 regional economic giants (China and India). | | | | | | | | | | |
| | f | Royalties from economic sectors (e.g. Hydro Power) are not fully ploughed back into Environmental Sector and are off-set with regular national sectoral budgets. | √ | | | | √ | | | | | To allow full ploughing-back of royalties from Hydropower to the Environmental Sector, in addition to regular sectoral budgets. |
| | g | Priority Sector Lending Policy (PSL) from 2019 acting as a stimulus for economic transformation | √ | | | | | | | | | To include investments in the Environmental Sector in PSL. |
| Opportunities | a | Assessment of capacity development needs and institutional strengthening. | | | | | | | | | | Development of NRS and parallel running activities in other programmes in the Environment Sector prompt the assessment of current institutional and technical capacity upon which remedial actions can be planned supporting effective implementation of NRS |
| | b | With an improved economy recognition of Environmental Services can increase, and current PLRs in Bhutan can be utilized allowing royalties | | | | | √ | | | √ | √ | Understanding international donor requirements for co-funding, domestic |

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| | | | paid by other (national) economic activities and programmes […] | | | | | | | | | | investment in climate resilience and mitigation activities should increase to the extent feasible. |
| | | c | Decentralization policies bring more responsibility, accountability and participation to all stakeholders and a stronger participation of the private sector. | √ | √ | | | | √ | | | √ | Decentralization of activities and responsibilities contributes to a stronger sub-national and local government, promotes transparency and is part of capacity building. This needs to be further carried out and will be favourably looked upon by funding donor organizations. |
| | | d | REDD+ provides a platform for meaningful engagement of all forest dependent communities, which is missing at the moment. | | | | | | √ | √ | | | Platform for stakeholder involvement in all sorts of discussions on and participation in sustainable management and development of natural resources needs to be firmly embedded in national policies. |
| | | e | Socio-economic development opportunities under opportunities offered through cross-sectoral operations and funding. | | | | | | | √ | | | A stronger and more institutionalised cross-sectoral cooperation and streamlining /integration of projects and programmes will have a positive spin-off for social cohesion and opportunities across communities. RGoB should positively encourage and support developments in this field. |
| | Threats | a | Strong requirements from funding sources may conflict with existing policies. | √ | | | | | | | | | |
| | | b | Inadequate national funding of Environmental Sector including REDD+ by RGoB due to other national priority setting. | | | | | √ | | | √ | | With increasing pressure on the natural environment, and in particular its forests, RGoB may reassess prioritization of disbursement of the national budget and increase national contribution to this sector, promoting additional international co-funding on the way. |
| Instituti | Strengt | a | Recognized experience in fund management in government and NGOs. Bhutan has proven records on proper utilization of donor funds. | | | | √ | | | | | | |

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| | | b | Appropriate financing and accounting system in Government and acknowledged by international funding partners (including WB and ADB). | | | | √ | | | | | | This is an asset that can be integrated in fund application proposals. |
| | | c | Strong and robust legal system for financial disbursement. Ministry of Finance mobilizes all resources and integrates such funds into the budget […] | √ | | | √ | | | | | | As above. |
| | | d | Decentralized Governance system with devolution of implementation of development programmes, allowing stable and equal development opportunities and improvement of livelihoods | √ | √ | | | | | √ | √ | | This is a clear example of devolution of responsibilities and stakeholder involvement. This is an asset when developing fund application proposals. |
| | Weaknesses/Barriers | a | A transparent but complex dispersal system for programmes and financing, due to a decentralized Governance system with devolution of the implementation of development programmes […] | √ | √ | | | | | | | | Continuing the decentralization process with improvements on functionality and services provided, together with ongoing capacity building remains needed. |
| | | b | Weak and limited number of environment related CSO / NGOs and private sector (Green Technology). | | | √ | | | | | √ | √ | RGoB to encourage and support new initiatives in this field. Support can be institutional, technical, fiscal and financial. |
| | | c | Limited awareness of Public Private Partnership Policy 2016 leading to an unused opportunity for corporate financing […] | | | | | √ | | | | √ | Development of a guidebook and/or adhering to current initiatives developed in this field (e.g. the *Accountability Framework Initiative*) may be useful |
| | Opportunities | a | Increased awareness and strengthened coordination between the private sector and government sectors to enhance corporate financing. | | | | | √ | | | | √ | Limited participation of the private sector can be turned into an opportunity: options for funds increase through participation private sector. Safeguards and incentives for the private sector (see above) can initiate this. |
| | | b | Strengthening of existing CSO's in the environmental sector to access funds with bilateral and multi-lateral organizations to enhance financing. | | √ | | √ | | | | √ | √ | Current CSO's and NGO's can be further strengthened and supported to increase efficiency and effectiveness, with cross-over support of programmes |

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| | | c | Options for institutional strengthening through ongoing projects (see a. under Governance). | | √ | | | | | | | | |
| | Threats | a | Too strong decentralization may lead to a lack of capacity at the decentralized levels to manage an increasingly complex fund and benefit distribution system | √ | √ | √ | √ | | | | | | Need for continued capacity building at all levels. |
| Fund Mobilization | Strengths | a | Adequate financial management policy procedures in place with checks and balances and a solid budgetary monitoring and accounting system. | | | | √ | | | | | | |
| | | b | Adequate fund implementation arrangements. Funds flow from GNHC to MoF and then to field for project and program implementations. Transparency and the accounting system for fund disbursement is good […] | | | | √ | | | | | | |
| | | c | Effective audit mechanism led by the Royal Audit Authority, and publicly accessible and contributing to better transparency. | √ | | | √ | | | | | | |
| | | d | Anti-corruption Commission in place and is open and accessible to the public, generating better transparency and accountability. | √ | | | √ | | | | | | |
| | | e | Active fund mobilization through conservation funds […] | | | | | √ | | | | | |
| | | f | Financing by RGoB in other sectors with overlapping REDD+ interventions allows for co-financing […] | | | | | √ | | | | | Possibly room for more streamlining increasing efficiency and available budget to REDD+ initiatives. |
| | | g | GNHC as National Designated Authority to access external funding for the government. | √ | √ | | | | | | | | |
| | | h | Good forest stewardship and a forest coverage over 72% shows strong sustainable forest management, with a proper diversification of | √ | | | | | | √ | √ | | |

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| | | | forest-use, including readily funding awarded heritage forest and protective forestry […] | | | | | | | | | | |
| | | i | Bhutan has an active and operational Environmental Trust Fund, with PES as a much valued as financial instrument. | | | | | √ | | √ | √ | √ | With increasing PES schemes in Bhutan financial manoeuvring of BFTEC will be increased with more available funds for REDD+ and SFM. |
| | | j | Favourable donor landscape. The country enjoys a positive and favourable relation with the donors/development partners. | √ | √ | | | √ | | | | | |
| | | k | Improved capacity. The HR capacity on fund mobilization and utilization is rapidly improving. | | | √ | | | | | | | |
| | | l | Financial instruments introduced to stimulate green economy, e.g. a green tax. | | | | √ | √ | | | | | |
| | | m | Recurrent expenditures of the government are mandated to finance only through domestic revenues | | | | √ | √ | | | | | |
| | Weaknesses/Barriers | a | Bhutan has no National Accredited Entity (NAE) yet […] | | √ | | | | | | | | BFTEC as NAE to be proposed to and agreed by the international funding organizations as soon as possible. |
| | | b | Bhutan has no overarching Country Programme in place as yet, which is required for access to GCF funding. | √ | | | | | | | | | An overarching Country Programme needs to be developed. |
| | | c | Improving yet still weak fund absorbing capacity through lagging readiness […] | | √ | √ | | | | | | | Capacity building with improved availability of skilled human resources, a robust financial system and adequate information dissemination required. |
| | | d | Constraints in REDD+ secretariat capacity […] | | √ | √ | | | | | | | As above. |
| | | e | Delayed fund releasing of too much bureaucracy (red-tape). Release of funds to the districts and blocks take longer time. | √ | | | √ | | | | | | Simplification and lessening of administrative procedures for requesting and subsequently releasing funds at the district level. |

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| | | f | Limited scope for vast REDD+ Results Based Payments, as vast forest cover in Bhutan is under relative little threat. | | | | | | | | | | | |
| | | g | In-efficient infrastructure to promote eco-tourism (inadequate accessibility, insufficient marketing and promotion). | | √ | | | | | | | | √ | Improving (options for) ecotourism, with enhanced international promotion leading to increase in national budget, capacity and options for co-financing. |
| | | h | Insufficient coordination among the agencies (implementers, fund approvals, lead agencies and other key stakeholders). | | √ | | | | | | | | | Further institutional strengthening required focusing on improved cooperation between departments, agencies and public and private sector. |
| | | i | International un-attractive debt ceiling. The new Debt Policy prescribes a debt of 35% of GDP on external non-hydro borrowing. | √ | | | | √ | | | | | | |
| | | J | Inadequate cross-sectorial plans to implement environmental strategies including mitigation of, and adaptation to climate change […] | √ | √ | √ | | | | | | | | Improving/strengthening cross-sectorial plans to implement environmental strategies with strong inter-departmental participation across the sectors |
| | | k | Despite a valuation of Environmental Services is in place, there is no clarity and agreement how to use standardized mechanisms | | | √ | | | | | | | √ | Develop a clear suite of operational standards for the valuation of environmental services. |
| | Opportunities | a | Increasing commitment and availability of international funding for Climate Change. | | | | | | | | | | | |
| | | b | Bhutan is becoming a National Accredited Entity (NAE) in BFTEC accredited by AF. This will facilitate becoming the same for other donors. | | √ | | | | | | | | | See Above. |
| | | c | REDD+ funding can be tracked through the Financial Item Code and as such opens the door to Project Based Funding. | | | | √ | | | | | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | d | In-country experience and knowledge with International Donor funding opportunities and eligibility criteria, and available data on various donors through donor prospecting and mapping. | | √ | √ | | | | | | | Cross-sectoral support and building on synergy between the (international) programmes and projects to be further encouraged and utilized. |
| | e | Abundance of domestic (co-) funding options, e.g. through a Landscape approach for the whole of Bhutan […] | | | | | √ | | | | | The Landscape approach to be further embraced, fully used and integrated under NRS. |
| | f | Bhutan currently has 72% forest cover. Although options for RBP therefore are limited, good forest stewardship is recognized […] | | | | | | | | √ | | This calls for a firm integrated (Landscape) approach which will be favourably considered by funding organizations. |
| | g | Interventions from the REDD+ strategy are reflecting underlying issues that cause deforestation and forest degradation […] | | | | | | | √ | | | |
| Threats | a | Due to appropriate forest cover and -management there is a real concern that Bhutan is not perceived to be a genuine REDD+ country. | | | | | | | | | | |
| Threats | b | Limited direct access to GCF funding with a defined ceiling (approx. up to USD 15 million) due to lack of National Accredited Entity (NAE). | | √ | | | | | | | | See Above on NAE. |
| Threats | c | No Country Programme in place prohibits GCF funding. | √ | √ | | | | | | | | See Above. |
| Threats | d | Bhutan may have to invest in proposal development. Not all donors will pay for proposal development, which may deter agencies from preparing such. | | | √ | | | | | | | Capacity to be built in preparing and developing technical proposals, including Fund Investment Plans. |
| Threats | e | Efficient and conducive coordination and collaboration between projects/programmes in Bhutan is not adequate. | | √ | | | | | | | | See above. |
| Threats | f | Dependency on international funding. Bhutan is slowly graduating from a Developing Country to the next level […] | | √ | √ | | | | | | | Opportunities for increased domestic co-funding and a shift to more firmly financially support the Environment Sector. |

√ SWOT strengths / opportunities criteria complying with funding conditions
√ SWOT weaknesses, barriers and threats applying to funding conditions

Annex 4

**Potential funding donors for REDD+ implementation activities in Bhutan – background information**

| The Green Climate Fund |
|---|

**General**

The Green Climate Fund (GCF) is an operating entity of the Financial Mechanism of the UNFCCC and since becoming fully operational in 2015 has approved over USD 2.7 billion for 54 projects. The Fund's vision is to support a paradigm shift to low-emission and climate-resilient development. It is driven by innovation and targets its investments for transformational impact.

In 2017 the GCF focused on addressing policy gaps in essential policies and frameworks to receive and manage finance as well as policy reforms to speed up proposal approval and disbursement of approved funding. By September of last year, USD 10.1 billion of pledged finance was formalised through contribution agreements. By October it also accredited a total of 59 implementing entities. During COP 23 in Bonn (November 2017) the GCF acknowledged further unlocking of the funds to applying countries is a priority and disbursement rate should be augmented (see further under *Simplified Approval Process*).

The GCF offers grants, concessional loans, equity investments and guarantees using the executing and financial management capacities of partner organisations that work as implementing entities or intermediaries. The interim criteria for accrediting GCF implementing and intermediation agencies were set in 2014, allowing for a "fit-for-purpose" graduated approach and considering comparable principles and standards of entities already accredited at other finance institutions.

It is important to note that the GCF is still working on refining its funding criteria and further methodological work is still ongoing.

**GCF focus areas**

The GCF is financially supporting al initiatives to combat global warming through mitigation and adaptation to climate change.

The focus areas for *mitigation* include: low- emission transport, low emission energy access and power generation at all scales; reduced emissions from buildings, cities, industries and appliances; and sustainable land and forest management (including REDD+ implementation) for mitigation. The core metric is that of greenhouse gas (GHG) emission reductions in tons of carbon dioxide equivalents.

For *adaptation* focus areas include: increased resilience of health, food and water systems; infrastructure; ecosystems; and enhanced livelihoods of vulnerable people, communities and regions. In this context, the indicators also commit to assess the resulting development, social, economic and environment co-benefits and gendersensitivity of GCF investments at the Fund- level, thereby including both quantitative and qualitative measures.

The Board approved a separate performance measurement framework for REDD+ activities, for results-based payments. However, work on further refining initial performance indicators for adaptation and mitigation, aimed at capturing both outcomes of projects and programmes funded, as well as the transformative impact of the Fund's aggregate activities, stalled in 2017 as did efforts to advance accounting methodologies.

Relevant to the situation in Bhutan is that the approach GCF is taking is in transition, looking to set focus at least in part on scaling up results-based financing for land use change and forests, which has been identified as having potential for climate change mitigation, alongside benefits for ecosystem services and livelihoods, though it is not a dedicated REDD+ fund. Therefore, although still looking to verified emission reduction under REDD+ (i.e. considering accounting methodologies), there is room for changing approach and innovative presentation (e.g. Landscape approach and based on cross-cutting proposals) will have an increasing rate of success for funding.

**Investment Framework and Initial Approval Process**

Country ownership and a country-driven approach are core principles of the Fund. A National Designated Authority (NDA), or a focal point, acts as the main point of contact for the Fund, develops and proposes individual country work programmes for GCF consideration and ensures the consistency of all funding proposals that the Secretariat receives with national climate and development plans and preferences.

To be successful in applying for GCF funds, the proposals for funding a country forwards to the Fund should adhere to eligibility criteria set. Project proposals are evaluated against a set of six agreed investment criteria focusing on:

1. impact (contribution to the GCF results areas);
2. paradigm shift potential;
3. sustainable development potential;
4. needs of the recipient countries and populations;
5. coherence with a country's existing policies or climate strategies; and
6. the effectiveness and efficiency of the proposed intervention, including its ability to leverage additional funding (in the case of mitigation)

Additional to this, the Fund evaluates proposals against a list of activity-specific sub-criteria and indicators agreed to earlier in 2015 (see also Tables 4.1 and 4.2, and Annex 2). Evaluation of medium and large-size funding proposals is aided by a pilot scoring approach, ranking proposals as low, medium or high against the investment criteria.

The Secretariat conducts due-diligence on proposals submitted to ensure compliance with the Fund's interim environmental and social safeguards, its gender policy, financial and other relevant policies and assesses proposals against the GCF investment framework as well as specific additional scorecards in the case of targeted RFPs. Only funding proposals that have received a no-objection clearance by a national designated authority (NDA) or a country's focal point can be submitted.

The GCF's outreach to and engagement with the private sector is seen as a key defining element of the GCF. A private sector facility will be established that allows direct and indirect financing by the GCF, using loan, equity or guarantees, to leverage private sector investments and activities. National designated authorities are to ensure that private sector interests are aligned with national climate policies.

Last year GCF approved funding for adaptation (29%), adaptation (33%) and cross-cutting projects (38%). In particular the latter is of interest to Bhutan, as pure funding for mitigation efforts (REDD+, thus verified carbon reduction) is difficult to achieve.

GCF increasingly seeks to support innovative, and inherently more risky projects, positioning itself as the 'cutting edge' Fund for climate action. However, it would not be conducive for the Fund to provide definitions of what constitutes a paradigm-shifting project, as it depends so much on context. Instead, GCF urges countries to explain their case in their funding proposals as to why a particular project was indeed innovative.

Having awarded a country financial support to develop its sustainable green and low-emissions pathway, the Fund will carefully monitor implementation through a *Results Management Frameworks* and using *performance indicators*.

**The Simplified Approval Process - SAP**

One of the latest developments to accelerate unlocking of the funds to applying countries is achieved through the Simplified Approval Process – SAP, which is now operational. This SAP aims to simplify and streamline the approval of certain small-scale projects, particularly from direct access entities.

Adopted during the 18th Board meeting in October 2017, the Simplified Approval Process (SAP) is for small-scale low risk activities. The simplifications are two-fold:

1. The documentation to be provided with the Funding Proposal is reduced; and
2. The review and approval processes are streamlined.

These two simplifications should lead to a reduction in time and effort required to go from project conception to implementation.

Projects or programmes are eligible for the SAP if they meet three main eligibility criteria:

- Ready for scaling up and having the potential for transformation, promoting a paradigm shift to low emission and climate-resilient development;
- A request for financing to the GCF of up to USD 10 million of the total project budget; and
- The environmental and social risks and impacts are classified as minimal to none.

More information on how SAP works and what the eligible activities under the program are, can be found on the GCF website.

Global Environment Fund – GEF

**General**

The Global Environment Facility Trust Fund supports the implementation of multilateral environmental agreements and serves as a financial mechanism of the UN Framework Convention on Climate Change. It is the longest standing dedicated public climate change fund. Climate Change is one of the six focal areas supported by the GEF Trust Fund. The GEF also administers several funds established under the UNFCCC including the Least Developed Countries Trust Fund (LDCF), the Special Climate Change Trust Fund (SCCF) and is interim secretariat for the Adaptation Fund.

In fact, all multilateral organizations involved in the implementation of projects under the UN-REDD Programme (FAO, UNDP, UNEP), the FCPF (World Bank) and the Forest Investment Program (World Bank, AfDB, AsDB, EBRD, IADB) are also GEF Agencies.

Thus far the GEF has a small REDD+ program, the Sustainable Forest Management (SFM)/REDD+ program.

**GEF set-up**

GEF has different programme cycles, of which the latest programme is GEF-7. Together with GEF-6 and GEG-5, these cycles emphasize the role of REDD+ and SFM.[10]

Acting on GEF Council guidance to foster a convergence of investments in more efficient and cost-effective projects and programmatic approaches, GEF-5 expanded and strengthened SFM efforts. Unique among GEF programs, this initiative supported countries to combine resources from Biodiversity, Climate Change, and Land Degradation Focal Areas for more comprehensive SFM/REDD+ multi-focal area (MFA) projects and programs. The GEF-5 SFM/REDD+ Incentive sought multiple global environmental benefits from the management of all types of forests and strengthening of sustainable livelihoods for people dependent on forest resources.

The objective of encouraging $1 billion investment in forests reinforced GEF's position as a significant funder of forest-related activities. The GEF SFM/REDD+ Incentive expanded GEF support for a wide range of activities. Some key lessons already emerging from this experience are:

a) After a slow start due to the novelty of the incentive mechanism, it has proved effective in mobilizing resources for forests both within GEF and through co-financing, particularly through the programmatic approach modality. The SFMREDD+ Program has contributed over $650 million towards forest projects. This compares with $470 million in GEF-4. The program has also encouraged a total of $4.35 billion in co-financing so far during GEF-5.
b) The incentive mechanism has encouraged over 70 countries to target significant investments in a range of different forest types. These investments address a range of forest use situations, including strictly protected areas, mixed agricultural and

[10] GEF7 is the latest of the replenishment funds. It was launched in March 2017 and is currently undergoing international approval process. Opportunities for Bhutan need to be separately assessed after finalization of the document, expected mid-2018

forest landscapes, and community managed areas. In particular, GEF is promoting SFM as a tool for delivering multiple benefits at a range of levels, including REDD+ and through payment for ecosystem services (PES) mechanisms.

c) The SFM/REDD+ incentive mechanism has supported an expansion in GEF investments in landscape-level approaches promoting an integrated approach to SFM. From GEF-4 to GEF-5, the focus of forest projects has developed towards integrated approaches rather than the previous predominance of forest projects directed at the creation and strengthening of protected area systems. Many projects aim at mainstreaming management practices to support biodiversity, reduce land degradation, and address REDD+ issues in active landscapes. This has included a wide range of sustainable livelihood opportunities for forest dependent communities. There are several areas of research that need to be strengthened to support REDD+ policy formulation, e.g. the role of access rights and tenure and of local institutions, inclusion of women, indigenous people and the importance of forests to local livelihood.

d) Implementation of the incentive identified some issues to be considered for follow up:

   i. Tied to the use of STAR resources, the incentive focused attention on only national issues. This approach did not allow the potential for synergy between projects to be harnessed through addressing overarching thematic issues. While each project addresses important national issues, because of its diversity, GEF's forest portfolio has not had similar impact on issues facing forests regionally or globally.

   ii. Although the mechanism has led to over 50% of the incentive being drawn down, it is easier and more attractive for those countries with larger allocations and the ability to develop larger projects. Except in a small number of cases few countries have taken maximum advantage of the incentive. The incentive ratio of 3:1 may not provide suitable incentive for countries with more modest STAR allocations (particularly where forests are not on the development agenda) or the development of smaller SFM projects.

   iii. Financial support for regional projects and programmatic approaches are becoming more relevant for low forest cover countries (LFCCs) and small island developing states (SIDS). However, countries with modest forest resources tend to have fewer forest-focused staff and thus face a perennial issue when it comes to developing new projects. The programmatic approach for both LFCCs and SIDS will remain an important instrument for directing financial resources until the necessary capacity is built within national agencies.

   iv. While the major role of the private sector in the active management of forests is acknowledged, relatively few projects had substantial components led the private sector by or supported by private sector finance. In particular, the limited number of regional and global projects provided few opportunities for private sector engagement.

   v. Opportunity exists to enhance the level of cooperation with initiatives that also foster the objectives of SFM, such as FCPF, FIP, and UNREDD, as well as bilateral initiatives. Synergy with existing work should be sought so that GEF does not duplicate but builds on and complements it.

**Strategic considerations**

GEF's SFM Strategy advocates an integrated approach at the landscape level, embracing ecosystem principles and including livelihood objectives in the management of forest ecosystems. Supporting an integrated approach to managing forest ecosystems, GEF aims to achieve multiple global environmental benefits, including those related to the protection and sustainable use of biodiversity, climate change mitigation and adaptation, and combating land degradation. By mainstreaming gender equality and women's empowerment into the SFM strategy for GEF-6, these benefits will be significantly enhanced.

The strategy develops synergy through multi-focal area programs and projects. The strategy recognizes the importance of forests in maintaining the Earth's critical life support systems and the need for management that considers the impacts and opportunities far beyond the forest boundary. Thus, the strategy is linked to the pilot integrated approach for Sustainable Cities through landscape level interactions between cities and the provision of forest-derived environmental services on which cities' future development depends. Given the important role that production of agricultural commodities plays in the continuing loss of forests, the strategy complements the focus of the pilot integrated approach. Taking Deforestation out of Commodity Supply Chains by helping governments avoid the loss of high conservation value forests. The SFM strategy will generate the following global environmental benefits addressing the emphasis placed by UNFCCC, CBD, and UNCCD, as well as UNFF, on the importance of conservation, sustainable use, and management of forests:

a) Reduction in forest loss and degradation;
b) Maintenance of the range of environmental services and products derived from forests; and
c) Enhanced sustainable livelihoods for indigenous and local communities and forest-dependent peoples.

**Goal and Objectives**

The GEF aims to help developing countries and economies in transition to contribute to the overall objective of the United Nations Framework Convention on Climate Change (UNFCCC) to both mitigate and adapt to climate change, while enabling sustainable economic development. The GEF is intended to cover the incremental costs of a measure to address climate change relative to a business as usual base line.

The goal for the GEF-6 SFM strategy is to achieve multiple environmental benefits from improved management of all types of forests and trees outside of forests. The strategy supports the move away from governance with single sector focus towards management across institutional, commercial, and planetary system boundaries. This includes pristine, managed forests and degraded forest land. The program is applicable to forests under all forms of ownership, tenure, and use regimes including public, private, community, and traditional or customary arrangements.

The strategy acknowledges that countries vary significantly in their current development pathway, technical and institutional capacity, and the extent and nature of the forest resources with which they are endowed. The strategy recognizes the importance of integration with and support for existing efforts developing national strategies, programs, and frameworks relevant for SFM, including those focusing on biodiversity, climate change adaptation, and REDD+ readiness. The strategy also recognizes the importance of multi-stakeholder approaches for SFM and encourages wide stakeholder engagement and involvement including indigenous communities, civil society, the private sector, and local communities.

The strategy provides options for tackling the drivers of deforestation and forest degradation that recognize differing country circumstances while supporting the development of forests' role in national and local sustainable development plans. Four objectives will drive the SFM portfolio and contribute to the goal:

a) Maintained Forest Resources: Reduce the pressures on high conservation value forests by addressing the drivers of deforestation.
b) Enhanced Forest Management: Maintain flows of forest ecosystem services and improve resilience to climate change through SFM.
c) Restored Forest Ecosystems: Reverse the loss of ecosystem services within degraded forest landscapes.
d) Increased Regional and Global Cooperation: Enhance regional and global coordination on efforts to maintain forest resources, enhance forest management, and restore forest ecosystems through the transfer of international experience and know-how.

**Activities supported**

*Regarding Climate Change Mitigation:* reducing or avoiding greenhouse gas emissions in the areas of renewable energy; energy efficiency; sustainable transport; and management of land use, land-use change and forestry (LULUCF)

*Regarding Climate Change Adaptation:* supporting developing countries to become climate-resilient by promoting both immediate and longer-term adaptation measures in development policies, plans, programs, projects, and actions.

The fund has adapted its objectives for the GEF-6 funding cycle. Projects approved from 2014-18 under the GEF's climate mitigation focal area are expected to contribute to the following objectives:

a) Promote innovation, technology transfer, and supportive policies and strategies
b) Demonstrate systemic impacts of mitigation options
c) Foster enabling conditions to mainstream mitigation concerns into sustainable development strategies
d) Enabling activities and capacity building

The programming strategy for GEF-6 places more emphasis than in the past on cross-focal area programmatic approaches, rather than more specific support to individual technology projects for instance.

**GEF Investment Criteria / country eligibility**

A country is an eligible recipient of GEF grants if it is eligible to borrow from the World Bank or if it is an eligible recipient of UNDP technical assistance. The GEF can only offer finance in a form other than grants within the framework of the convention in accordance with eligibility criteria decided by the convention COP. The council can offer finance on other terms as long as it is not in acting as the official financial mechanism of the convention. Furthermore, it has directed limited funding for adaptation and vulnerable countries.

Any eligible individual or group may propose a project that meets the following criteria:

- Consistent with national priorities and programs in an eligible country, and endorsed by the government
- Addresses one or more GEF Focal Areas, improving the global environment or advance the prospect of reducing risks to it.
- Consistent with the GEF operational strategy.
- Seeks GEF financing only for the agreed-on incremental costs on measures to achieve global environmental benefits
- Involves the public in project design and implementation

**Decision making process**

The decision-making structure of the GEF is quite complex and perceived as opaque. The project cycle is cumbersome and slow, and there is a high level of bureaucracy and transaction costs at every stage of the process. The GEF has tended to support one off projects rather than programmatic approaches and has been criticised for not focusing on underlying policy, regulatory and strategic barriers to environmental sustainability.

GEF has different rules but will look for an Implementing Partner and will look for co-financing. Therefore, leverage with Government funding or from other projects is of importance.

BioCarbon Fund - Initiative Sustainable Forest Landscapes Emissions Removal (BIOCF -ISFL ER)

**General**

The BioCarbon Fund Initiative for Sustainable Forest Landscapes Emissions Removal (BIOCF-ISFL) is a multilateral fund that promotes and rewards reduced greenhouse gas (GHG) emissions and increased sequestration through better land management, including Reduced Emissions from Deforestation and Forest Degradation (REDD+), climate smart agriculture, and smarter land use planning and policies, supported by donor governments and managed by the World Bank. It has a geographically diverse portfolio of large-scale programs that can have significant impact and transform rural areas by protecting forests, restoring degraded lands, enhancing agricultural productivity, and by improving livelihoods and local environments.

The BIOCF-ISFL is pioneering work that enables countries and private sector actors to adopt changes in the way farmers work on the ground to the way policies are made at the international level. This work supports sustainable landscapes, climate-smart land use, and green supply chains.

There has been a growing consensus on the need to report on and account for GHG emission reductions across a landscape where a mosaic of land uses exists, but such an approach did not exist when the BioCF ISFL was established. The BioCF ISFL addresses this need by pioneering the development of a first-of-its-kind GHG reporting and accounting approach to meet its objectives to account for emission reductions across agriculture, forestry, and other land use sectors. This is not only a significant achievement for the BioCF ISFL, but also for the broader climate change community, as it will test approaches to comprehensive landscape GHG reporting and accounting that could be expected of emission reductions programs in the future.

The BIOCF-ISFL supports programs in Colombia, Ethiopia, and Zambia. An additional program in Indonesia is under consideration. The fund provides technical assistance to support the design of programs that impact multiple sectors of the economy and results-based payments to incentivize and sustain program activities.

The Initiative for Sustainable Forest Landscapes was established in 2013 with the support of Germany, the Kingdom of Norway, the United Kingdom, and the United States. It has $350 million in fund capital

**BioCF *plus***

The BioCF *plus* has been designed specifically to support the vision of the BIOCF-ISFL, which requires several innovative elements to meet the demand on the ground in BIOCF-ISFL countries. First, the fund supports technical assistance and capacity-building efforts in each jurisdiction and can provide some critical investment finance to test sustainable land use approaches. This combination of finance from one source gives countries the flexibility to design their programs in an integrated way and identify the most effective approaches for land management. In addition, the BioCF *plus* can directly finance advisory service (technical assistance) projects through the

International Finance Corporation (IFC). This direct funding link with the IFC is groundbreaking for the World Bank Group (WBG) and aligns goals and visions more closely. IFC advisory service projects can attract private sector interest in ISFL jurisdictions and benefit farmers and other private sector actors directly.

The BioCF *plus* gives BIOCF-ISFL donors the flexibility to align their efforts to each program country more closely and create a framework for collaboration on sustainable land use. In order to achieve success in each BIOCF-ISFL program, countries will require several tools and approaches and the flexibility to combine these to suit a country's specific context. The design of the BioCF *plus*, a true pioneer for the WBG and carbon and land use funds—in combination with the results-based finance from BioCF ISFL—provides this flexibility.

Late last year, the BioCF ISFL launched a first-of-its-kind comprehensive landscape greenhouse gas accounting approach that countries can use to access results-based payments from the fund and test approaches to account for emission reductions from landscapes involving forests, agriculture, and other relevant sectors that affect land use. This accounting framework is known as the BioCF ISFL Emission Reductions Program Requirements.

**BIOCF-ISFL principles**

Each BioCF ISFL program focuses on an entire jurisdiction (state, province, or region) within a country, thereby enabling it to engage with multiple sectors affecting land use and have an impact on a relatively large area. The BioCF ISFL utilizes a landscape approach in each jurisdiction, which requires stakeholders to consider the trade-offs and synergies between different sectors that may compete in a jurisdiction for land use—such as forests, agriculture, energy, mining, and infrastructure. In doing so, solutions that serve multiple objectives and influence a variety of sectors can be identified. The goal of the landscape approach is to implement a development strategy that pursues environmental, social, and economic impacts at scale.

In order to reduce GHG emissions from land use across an entire jurisdiction while simultaneously creating livelihood opportunities, the BioCF ISFL will partner with other public sector initiatives and private sector actors. Public-private partnerships (PPPs) are essential to mobilize capital and align objectives to create sustainable and scalable models for long-term improved land use.

The BioCF ISFL reflects the demand for progression from relatively small-scale pilot projects to a program aimed at promoting sustainable land use at scale. To work at scale effectively, the BioCF ISFL builds on the experiences and lessons learned through the BioCarbon Fund's initial work piloting land use projects, REDD+ initiatives, and other sustainable forest and land use programs.

More specifically, the BioCF ISFL relies on the national REDD+ readiness work of the Forest Carbon Partnership Facility (FCPF) and the United Nations REDD Programme (UN-REDD), which have created essential institutional infrastructure for large-scale land use programs, including:

- Accountable and transparent program management arrangements

- Clear operating mandates
- Multisector coordination mechanisms and cross-sector collaboration
- Technical supervision capacity
- Funds management capacity
- Mechanisms for feedback and grievance redress.

This streamlined approach allows the BioCF ISFL to concentrate its efforts and activities at the jurisdictional level, adding value to existing platforms rather than duplicating existing processes.

**Objectives**

To reduce emissions from the land sector through smarter land use planning, policies, and practices. To involve public and private sector supporting sustainable landscapes, climate-smart land use, and green supply chains, hence using a ***landscape approach***.

BioCF *plus* supports BioCF ISFL in providing additional finance for collaboration on sustainable land use

**Activities supported**

- Geographically diverse portfolio of large-scale programs that can have significant impact.
- Transform rural areas by protecting forests, restoring degraded lands, enhancing agricultural productivity, and by improving livelihoods and local environments.
- To make improvements to enabling environment for sustainable land use

**Eligibility criteria**

Any eligible individual or group may propose a project that meets the following criteria:

- Scale and ambition: demonstrate that a jurisdictional and Integrated Landscape Management approach is undertaken
- Analysis of drivers of AFOLU emissions and removals to inform program design
- Provide non-carbon benefits, such as social and environmental benefits beyond reduced emissions or increased carbon sequestration and the mitigation of social and environmental risks, which may include, but are not limited to, improving local livelihoods, building transparent and effective governance structures, promoting improvements on clarifying land tenure, and enhancing or maintaining biodiversity and/or other ecosystem services
- Identify an appropriate Feedback and Grievance Redress Mechanism (FGRM)
- Undertake and make publicly available an assessment of the land and resource tenure regimes present in the Program Area, including land and resource tenure rights, the legal status of such rights, areas subject to significant conflicts or disputes, and any potential impacts of the BioCF ISFL Program on existing land and resource tenure in the Program Area
- Develop a benefit sharing mechanism

- Develop appropriate arrangement to avoid double counting, including double issuance, selling/use, or claiming

Forest Investment Programme – World bank

**General**

The Forest Investment Program (FIP) is a targeted program of the Strategic Climate Fund (SCF), which is one of two funds within the framework of the Climate Investment Funds (CIF). The $775 million Forest Investment Program (FIP), a funding window of the CIF, provides indispensable direct investments to benefit forests, development and the climate.

FIP provides grants and low-interest loans which are channeled through partner multilateral development banks (MDBs). These funds empower countries to address the drivers of deforestation and forest degradation both inside and outside of the forest sector to achieve the triple win of being good for forests, good for development and good for the climate.

The FIP supports developing countries' efforts to reduce deforestation and forest degradation (REDD+) and promotes sustainable forest management. This helps make forests a central component of low-carbon development. It also contributes to other benefits such as biodiversity conservation, poverty reduction and protection of the rights of indigenous peoples and local communities.

**FIP principles**

The principles set out in the Governance Framework of the Strategic Climate Fund (SCF) apply to the FIP. In addition to the general SCF principles the following principles are important considerations for the FIP:

a) **Climate change mitigation potential.** FIP investments should lead to significant reductions in deforestation and forest degradation and promote policies and measures for improved sustainable forest management that lead to emissions reductions and protection, maintenance and enhancement of carbon reservoirs;

b) **National ownership and national strategies.** FIP pilot programs should be country-led and –owned, should build on, enhancing and strengthening existing nationally prioritized REDD efforts, and should respect national sovereignty;

c) **Inclusive processes and participation of all important stakeholders, including indigenous peoples and local communities**. FIP-supported programs should be designed and implemented with the full and effective participation and involvement of – and with respect for the rights of – indigenous peoples, family forest owners and local communities at the country level, building on existing mechanisms for collaboration and consultation. FIP-financed activities should, moreover, be based upon effective collaboration between local communities, government ministries, private sector companies and financial institutions in planning and implementing programs;

d) **Coordination with other REDD demonstration efforts.** The FIP should complement, be coordinated with and cooperate closely with other REDD demonstrations initiative and ongoing REDD efforts, such as FCPF and UN-REDD, and where applicable build directly on the efforts of the latter two initiatives.

e) **Measurable outcomes and results-based support**. The FIP should be results based over time and promote measurable outcomes with regard to the effectiveness of FIP investments on REDD, livelihoods, climate resilience and other forest benefits. Performance measures, and procedures for performance assessment, should be part of the project design and should serve as a basis for course correction during the implementation;

f) **Piloting.** The FIP should support pilot programs in order to demonstrate how to scale up resources and activities so as to achieve transformational change;

g) **Forest related governance.** The FIP should capitalize on the lessons learned concerning inclusive and effective governance reform and support that the co-dependent relationship between such processes and forest related climate change outcomes is recognized and strengthened;

h) **Address drivers of deforestation and avoid perverse incentives.** FIP pilot programs must assess and address drivers of deforestation and ensure a holistic national approach to REDD. Economic incentives and benefits systems should support sustainable forest practices by local forest dependent communities and where appropriate the private sector, as well as the maintenance of ecosystem services;

i) **Contribute to sustainable development.** The FIP should ensure that its investments make a tangible contribution to the livelihoods of forest dependent communities as well as generate biodiversity benefits and ecosystem services;

j) **Safeguarding High Conservation Value Forests**. The FIP should not support the conversion or unsustainable management of High Conservation Value Forests;

k) **Investment need and integration.** The FIP should focus on meeting the financial gaps not covered by other climate and forest-related funding sources and initiatives, complementing the activities supported by them and leveraging further financial support;

l) **Partnership with private sector.** The FIP should develop models for working with the private sector in effective implementation of REDD investment programmes;

m) **Cooperation with other actors and processes.** The FIP should complement the aims and objectives of other global environmental conventions and processes, such as the Convention on Biological Diversity, the UN Convention to Combat Desertification, the Non-Legally Binding Instrument on all Types of Forests of the UNFF, and the International Tropical Timber Agreement. It should cooperate closely with other international agencies and partnerships, such as the CPF, and with other relevant stakeholders, including IPGs, NGOs, and the private sector;

n) **Early, integrated and consistent learning efforts**. Learning opportunities should be integrated into FIP programming from the start, including, where applicable, identification of pilot program approaches with significant potential for replication, and building in mechanisms for learning lessons from both successes and failures in collaboration with relevant stakeholders. The FIP should proactively communicate these lessons to others engaged in REDD efforts.

**Country eligibility**

Country eligibility of the FIP will be based on:

a) Official Development Assistance (ODA)-eligibility (according to the Organization for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) guidelines);
b) An active MDB country program. For this purpose, an active" program means where an MDB has a lending program and/or on-going policy dialogue with the country.

**Criteria for selection of pilot programs**

Transformational impact through a few programs should be prioritized over limited impact in many programs. The number and extent of pilot programs will be proportional to the resources available and can thus only be determined once there is a clear idea on the magnitude of contributions. The selection of pilot programs should be based on the following criteria:

a) Program potential to contribute to FIP objectives described above under "Section II. Objectives and Purpose of FIP", and adherence to the principles described under "Section III. FIP Principles";

b) Country preparedness and ability – institutional and otherwise – to undertake REDD initiatives, taking into account government efforts to date and government willingness to move to a strategic approach to REDD and to integrate the role of forests into development. The selection of pilot programs would also be made on the basis of a REDD investment note, demonstrating that a REDD strategy and investment portfolio is at an advanced stage of development;

c) Country distribution across regions and biomes, ensuring that pilot programs generate lessons on how to go to scale with respect to immediate action to curb high rates of deforestation, maintenance of existing carbon stocks within pristine forests, enhancement of carbon stocks on degraded forest lands and building effective capacities for sustainable forest management.

**FIP Investment Criteria**

Financing from the FIP will be provided on the basis of an Investment Strategy, developed under the leadership of the recipient country in coordination with the MDBs, for the use of FIP resources in the country through a joint MDB program. The Investment Strategy should highlight how it is embedded in national development plans and REDD+ strategies and action plans or any equivalent framework that include low carbon objectives from natural resources management. The Investment Strategy will include a potential project pipeline and associated notional resources envelope.

Country requests for FIP investments will have to make the case for initiating transformational change by highlighting activities that are additional and provide an alternative to the business-as-usual scenario and result in sector- and cross-sector wide impact related to GHG savings. Investment Strategies1 as well as projects and programs supported under it would need to describe what and how activities will result in significantly reduced GHG emissions or enhanced carbon sequestration that would not have occurred or are significantly enhanced had it not been for the FIP investment.

The following criteria are based on the initial guidance provided in the *FIP Design Document* as to what constitutes transformational change in the context of FIP and the need for proof of going beyond business-as-usual. The criteria are complemented by more detailed information on ways to review a proposed investment strategy, program or project. These criteria are consistent with the FIP Design Document:

a) Climate change mitigation potential.
b) Demonstration potential at scale.
c) Cost-effectiveness.
d) Implementation potential.
e) Integrating sustainable development (co-benefits).
f) Safeguards.

The FIP will focus on high abatement opportunities at the country level and address the country-specific key barriers to address REDD+. It is understood that not all criteria will be applicable to each project and program. Nevertheless, all criteria need to be addressed in a program or project proposal and applicability should be discussed. A core set of indicators will be applied to FIP investments which are consistent with the FIP results framework.

Annex 5

**Potential FMS Action Plan**

| # | Step | Actions | Timeframe | Responsibility |
|---|---|---|---|---|
| 1 | Preparatory analysis | Steps 1 – 8 Table 6.1 | Feb 2018 | International Consultant |
| 2 | Defining domestic funding landscape | Determine the options for co-financing through National Budget, International projects / programmes, (i)NGO/CSOs, private sector, green bonds, etc. | Mar – June 2018 | GNHC; MoF; WMD |
| 3 | Addressing and prioritisation of weaknesses, barriers and threats (see also Section 6.4.1) | Strengthen current good governance through simplification and lessening of administrative procedures for requesting and subsequently releasing funds at the district level; together with 12th FYP | Jul 2018 – Dec 2019 | GNHC; MoF; DNB; |
| | | Develop a clear suite of operational standards for the valuation of environmental services | Dec 2019 | DFPS/WMD |
| | | Further institutional strengthening focusing on improved cooperation between departments, agencies and public and private sector | ongoing | GNHC; DFPS/WMD |
| | | Assess and build institutional capacity in the fields of finance | ongoing | GNHC; MoF; DNB |
| | | Assess and build technical capacity in the fields of environmental management and climate mitigation | ongoing | DFPS/WMD |
| | | Include investments in the environmental sector in the Priority Sector Lending (PSL) Policy; part of 12th FYP | as soon as possible | GNHC; MoF; DNB |
| | | Develop safeguards and incentives to improve private sector and NGOs/CSOs participation | Jul 2019 | DFPS/WMD |

| | | | | |
|---|---|---|---|---|
| | | Establish a National Accredited Entity (NAE) | as soon as possible | GNHC |
| | | Strengthen the landscape approach, with integrated REDD+ activities | ongoing | DFPS/WMD |
| | | Improve current platform for effective stakeholder involvement | ongoing | WMD |
| | | Strengthen operating CSOs and NGOs to increase efficiency and effectiveness | ongoing | GNHC; DFPS/WMD |
| | | Enhance efficiency and available budget to REDD+ initiatives and SFM; together with 12th FYP | Jul - Dec 2018 | GNHC; MoF; DNB |
| 4 | Development of the Fund Investment and Implementation Plan | Including full donor prospecting, establishing, domestic co-financing opportunities, assessment of cross-sectoral cooperation and synergy, etc. (see Section 6.11) | Jul – Dec 2018 | WMD + (International) Consultant(s) |
| 5 | Proposal development | Develop full technical and financial proposal and follow-up communication with donor organization(s) | Jan – Dec 2019 | WMD |