

U.S. Assistance for International Sustainable Landscapes

Recommended Spending Priorities Offered by Environmental, Conservation and Business Interests

Summary Statement

In December 2009, the United States pledged to invest at least \$1 billion over three years (FY10-12) in a new sustainable landscapes program. These funds should be managed with a coherent vision through a targeted program that will catalyze large-scale, lasting improvements in the way that developing nations pursue sustainable development and manage their forests and other high-carbon landscapes. The funded activities should contribute to countries' development of national programs to reduce greenhouse gas (GHG) emissions from deforestation and the conversion of other natural ecosystems, and increase land-based carbon sequestration, in key developing nations in ways that are cost-effective, support local livelihoods, and protect nature

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Measure of success: The United States should measure the success of the sustainable landscapes program in terms of the quantity and quality of: innovative pilots financed, countries ready to participate in pay-for-performance mechanisms, national and subnational programs and performance benchmarks under development (namely reference levels for forest emissions), emissions abated (in tons of GHG), and improvements in livelihood security for forest-dependent communities. Funds appropriated for the sustainable landscape program should be allocated for the following three major activities*:

- **Technical and readiness assistance** to prepare nations to participate in pay-for-performance programs, including carbon markets (15-25%)
- **Demonstration activities** that are innovative and large scale, including low carbon development programs, changes in land-use policy, and protected area trust funds (60-70%)
- **Purchases of emission reductions** (8-12%)

Geographic focus: U.S. investments should be focused geographically, concentrating primarily on a modest number of high priority regions, nations or provinces that are demonstrating political will to reduce deforestation, creating subnational or national level accounting of forest emissions and establishing the right enabling environment for success.

The majority of investments in demonstrations or pilots should be further focused on 3 to 8 places that are interested in pay-for-performance models and (i) are, or would otherwise become, major emitters from forests and land-use and (ii) are poised for early success.

Bilateral funding mechanisms: To achieve program coherence, three bilateral funding mechanisms would be created to augment existing bilateral and multilateral channels. New bilateral mechanisms include:

1. **A centrally managed global readiness program** in USAID would serve as a center of excellence to support USAID missions and help align the program with U.S. climate diplomacy.
2. **A pay-for-performance program** in USAID would provide up-front financing for innovative demonstration activities that meet performance criteria, apply appropriate standards and permit third-party auditing of results based on simplified or proxy measures of success (such as acres of forest conserved and estimated carbon stocks per acre).
3. **A sustainable landscapes fund** would provide ex-post compensation for measured reductions in emissions, determined according to rigorous standards.

Please note: To avoid undermining existing biodiversity programs, no more than 20% of sustainable landscapes funding should count toward meeting biodiversity targets.

* The administration has proposed spending a small portion of the sustainable landscapes funds on related diplomatic initiatives, which seems wise as long as it is no more than 5%.

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Discussion

The remainder of this paper elaborates on the ideas and themes presented in the summary above. The first section that follows outlines how the program should be designed, including program goals, measures of success, priority activities to be funded, and recommended geographic focus. The second section suggests how funds should be allocated across various agencies and mechanisms.

I. Program Design

Goal Reduce greenhouse gas emissions from deforestation, forest degradation and peat lands, conserve and enhance forest carbon stocks, and sustainably manage forests in key developing countries in a manner that is cost-effective, conserves biodiversity, promotes sustainable economic development, enhances climate adaptation, supports local communities and improved livelihoods, and encourages tropical forest countries to move toward nation-wide Sustainable Landscapes strategies.

Measures

Of Success Indicators to assess program effectiveness should include:

- Number and size of innovative pilot activities that demonstrate the scope, scalability, and ability to achieve emission and sustainability objectives including biodiversity, conservation and improved social outcomes
- Number of countries committed to establish national and subnational programs and reference levels for forest emissions based on historic data adjusted, where appropriate, for national circumstances
- Number of countries with adequate GHG monitoring and reporting systems ready to participate in U.S. and global pay-for-performance mechanisms
- Volume of emission reductions and removals achieved, as well as those that will result from interventions already financed, measured in tons of CO₂-equivalent abated

Activities Readiness¹ and technical assistance

- Support host countries' development of national and sub-national strategies to reduce emissions and address drivers of deforestation and degradation
- Support the development of national and regional forest carbon inventories and emission reference scenarios that help establish an accounting framework to achieve measurable, reportable and verifiable emission abatement goals and programs for the entire forest sector of a country
- Identify and promote the adoption of: harmonized standards; methods to measure, monitor and verify forest-related emission reductions; best and transparent practices; environmental and social safeguards; and effective participation by local communities
- Strengthen forest sector governance, enhance government coordination, create appropriate legal, financial and institutional structures, and support efforts to clarify land tenure and rights

- Improve technical capacity for sustainably managing land to reduce emissions

Demonstrations

- Support innovative, large-scale pilot activities with a focus on promoting economic development, verifying emission reductions, and catalyzing private-sector investment. These activities should lead to real emission reductions, have the ability to be scaled up, and contribute to sub-national or national sustainable landscapes strategies
- Develop and implement low-carbon development programs at national and sub-national scales
- Support specific activities within low-carbon programs including spatial planning, policies and measures, engagement with forest concessionaires, debt-for-nature swaps, creation and improved management of protection forest, incentives to shift emission-intensive activities from carbon-rich lands to degraded lands, land acquisitions, landowner incentives and compensation for opportunity costs, and protected area trust funds with anticipated long-term climate benefits
- Demonstrate how local activities feed into and are accounted for in national plans and reference levels for forest emissions
- Include approaches to avoid shifting emissions from one place to another both within and across borders

Emission Reduction Purchases

- Purchase of verified emission reductions and forward contracts to deliver such reductions
- Test different emission reduction payment structures and the importance of such payments for incentivizing supplemental reductions within developing nations

**Geographic
Focus**

U.S. investments in sustainable landscapes should be coordinated with other major multilateral and bilateral initiatives and directed primarily toward nations that are:

- Demonstrating cabinet-level political commitment and global leadership with respect to reducing terrestrial carbon emissions
- Creating an enabling environment with robust governance, manageable investment risk and general readiness
- Pursuing a wide range of sustainable landscapes activities, which will enable the testing of concepts, and financial and governance arrangements with a preference for emission reduction activities that can be applied at scale
- Are committed to maximizing social and environmental co-benefits such as improvements in resource security for forest-dependent communities, improvements in land titling and other forms of resource tenure, enhanced ecosystem and community resilience and the preservation of biodiversity and other ecosystem services
- Demonstrating the value-added by U.S. investments given synergies or gaps in international support

Investments in demonstrations should be further focused on a small number of regions, nations, and potentially states, provinces and districts within major emitting nations, that are:

- Major emitters from forests and land-use
- Poised for early success
- Vulnerable to displaced emissions
- Interested and able to take advantage of pay-for-performance models with reference levels for forest emissions based on historic data adjusted, where appropriate, for national circumstances

II. Major Components and Allocations

Sustainable landscapes appropriations will support some ongoing programs as well as new programs, and will flow through both multilateral and bilateral channels. To ensure that U.S. funding for international biodiversity conservation does not decline year-over-year as the USG raises its international climate assistance, no more than 20% of sustainable landscape appropriations should count towards fulfilling biodiversity earmarks. This safeguard will help avoid diluting the focus of existing biodiversity programs and guard against diverting essential funding for marine, grassland, arid and freshwater ecosystems to new forest programs.

This section describes how the sustainable landscapes funds should be allocated to different activities, agencies and mechanisms. While the majority of sustainable landscapes allocations should flow through existing bilateral and multilateral programs, three new bilateral mechanisms are needed to fill important gaps and to achieve program coherence. These new mechanisms – a global readiness program, pay for performance demonstration program, and a sustainable landscapes fund – are in bold below.

Readiness

Approximately 15 to 25% of the total funding should be allocated to the readiness and technical assistance activities outlined in Section I, above. Funding through multilateral mechanisms will support readiness activities in a broad range of countries and may flow through the World Bank's Forest Carbon Partnership Facility (FCPF) and/or mechanisms arrived at through other multilateral initiatives. The United States should reserve approximately \$100 million of its readiness funds for a centrally managed "global readiness program" managed by USAID in Washington (see below). Remaining bilateral funds for readiness should be allocated directly to USAID missions to meet country-specific readiness needs.

A centrally managed **global readiness program** would create a center of excellence within USAID that i) develops a coherent global sustainable landscapes strategy in consultation with the State Department, ii) keeps U.S. foreign assistance aligned with U.S. climate diplomacy, iii) provides technical assistance to USAID missions, iv) supports national emission reduction plans and the establishment of reference levels for forest emissions based on historic data adjusted, where appropriate, for national circumstances, v) provides transparent, accessible, timely reporting on readiness activities to maximize learning, vi) spreads robust, globally-applicable technical standards and best practices, vii) supports USAID's overall anti-poverty objectives, and viii) maintains high levels of program quality. This center of excellence could be housed within USAID's existing Economic Growth, Agriculture and Trade (EGAT) bureau, or as part of a new "Sustainable Development and Climate Change" unit reporting directly to the Administrator. The global readiness program would link to country and regional readiness activities funded through traditional USAID and multilateral channels. The substantial majority (approximately 70%) of USAID's global readiness funds should be allocated by this center of excellence to individual USAID missions. Giving the USAID climate team, in consultation with the State Department, a voice in national allocation decisions regarding readiness would ensure that missions receiving these monies are supported by technical experts, operate within a global strategy, and follow U.S. policies and best practices.

Demonstration Activities

The United States should allocate 60 -70% of total sustainable landscapes funding to priority nations for high impact demonstration activities. These demonstrations should lead to real emission reductions, be in partnership with host country governments, have the ability to be scaled up or replicated elsewhere, and contribute to sub-national, national, or regional strategies including the establishment of reference levels for forest emissions. A portion of this funding should flow through the World Bank's Forest Investment

Program (FIP) and other multilateral channels, with the balance flowing through USAID. To ensure maximum effectiveness, the majority of demonstration funds should be allocated to 3 to 8 countries following the priorities for geographic focus presented in Section I. A proactive approach to preventing deforestation from moving from one place to another is recommended by targeting major emitters from forests and land-use, such as Brazil and Indonesia, as well as those countries with the greatest vulnerability to new deforestation pressures, including regions with large intact forests. In areas where regional approaches more effectively reduce emissions and control displacement of deforestation, these initiatives should be pursued or expanded. In order to support early and innovative action, funds could also be allocated directly to states, provinces or local authorities within major emitting nations if they have host country approval and meet the above criteria. Bilateral funding for these demonstration programs would flow in two ways:

- **Program Pipeline:** USAID should allocate roughly half of bilateral assistance to fund ‘program pipeline’ activities for demonstrations and pilots in priority nations. These monies should flow through traditional development assistance channels with national and regional allocations made early each fiscal year by USAID -- i.e. USAID missions would have considerable discretion to ensure expenditures respond to host country priorities and fit with overall development strategies. Program pipeline funding should be available to support all the demonstration activities listed in Section I above, with a heavy focus on “early implementation.” “Early implementation” includes activities that directly reduce emissions, but need up-front finance to get going. Examples include the creation and management of protected areas, financial incentives to landowners for conservation, and preparation of degraded land for productive use. USAID should create protocols to ensure that activities funded in the program pipeline are implemented and achieve the anticipated outcomes, with a view to facilitating evaluation of the effectiveness of the entire program.
- **Pay for Performance:** Approximately half of the bilateral assistance for demonstrations should be allocated to USAID missions to provide needed up-front financing for innovative pilot **pay for performance demonstrations** that are expected to generate emission reductions. Disbursements of these funds should require approval by USAID Washington and the State Department, to ensure that activities align with program objectives and emerging U.S. and global standards for measuring progress. This ‘dual key’ approach – with allocations to USAID missions for activities in high priority countries and close coordination with Washington sustainable landscape policy teams – will help move funding quickly while also maintaining close alignment with evolving U.S. and global best practices. Activities undertaken in this component should be subject to auditing to verify implementation and outcomes, including by qualified third parties. Estimates of emission benefits achieved in this component of the sustainable landscape program need not be verified to standards appropriate for a future regulatory framework. Instead, progress could be measured using simplified methodologies such as area of forest protected, estimated forest carbon stocks and other estimation techniques and proxies for success. Pay for Performance monies may be leveraged through public-private partnerships facilitated through USAID’s Global Development Alliance or other similar mechanisms, recognizing that without carbon crediting the primary participants are more likely to be motivated by philanthropic commitments.

Emission Reduction Purchases

Approximately 8 -12% of total sustainable landscape funds should be allocated to purchasing verified (ex-post) emission reductions achieved within developing countries. A portion of this funding would flow through the World Bank’s FCPF Carbon Fund with the remainder establishing a new domestic **Sustainable Landscapes Fund** (hereafter called the Fund) designed to provide ex-post compensation for robust emission reductions. Initially, emission reductions financed by the Fund would be retired so the reductions

could not be used for regulatory compliance purposesⁱⁱ. The bilateral fund should pilot new approaches and payment structures in a controlled learning-by-doing environment and create the enabling conditions and frameworks for the effective development of potential forest carbon markets in the future. The Fund should also help the U.S. government create institutional capacity to measure, monitor and verify emission reductions in tropical forest nations. The Fund should welcome participation by other governments and international organizations. It should also welcome public-private partnerships through the Global Development Alliance and other existing authorities. The Fund would enter into agreements with interested developing country governments, potentially including national, state/provincial, regional or local authorities to enable the implementation of Sustainable Landscapes activities and pilot ex-post pay-for-performance mechanisms.

U.S. Climate Change Diplomatic Priorities

A small portion (approximately 5%) of sustainable landscapes funds should be available to undertake efforts that support priorities for U.S. climate change diplomacy and to react to evolving political circumstances. These funds should flow through the State Department and be directed to nations that share U.S. goals concerning emission reductions from forests and international transparency in global climate cooperation. These resources, for example, could be allocated to nations that commit to legally binding emission reductions or to deep emission reductions. They could also be used to support diplomatic dialogue among key nations in forums that supplement and support the United Nations climate negotiations.

ⁱ “Readiness” includes those activities critical to building the foundation for reducing emissions but which don’t directly lead to emissions reductions.

ⁱⁱ After a climate bill is passed or after 2012, whichever comes first, the role of the fund should be re-examined.