



## Options for a national REDD+ architecture

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- Key criteria for assessing different institutional options are their overall legitimacy and ability to produce 3E+ outcomes.
- Four major options for channelling (international) REDD+ finance are projects, funds – independent or within the state administration – and budget support. The mix of these depends crucially on national conditions and the choice of REDD+ actions.
- Building national REDD+ institutions takes time, and early design might constrain later options. Countries must therefore ensure that the immediate steps taken fit future and more developed solutions.

### Building a national REDD+ architecture

Realising REDD+ presupposes a national architecture or governance structure that facilitates comprehensive actions and delivers carbon mitigation outcomes that are effective, efficient and equitable (the 3Es). The long-term legitimacy of the system also hinges on the ability to deliver well on co-benefits, in particular poverty alleviation and sustainable livelihoods (3E+). Different constituencies will look critically at the quality of the procedures involved,

such as democratic processes, transparency, accountability, broad participation and respect for national sovereignty.

The national REDD+ architecture can be seen as an institutional structure defining the capacities and responsibilities of the different actors involved and the rules for their interaction. Actors at the national level include private, state and civil society organisations. The governance literature emphasises that these actors are formed to serve specific needs or interests. The structures to facilitate coordination between the actors include trade, communication/negotiations and command. The format of these structures influences both the costs of coordination – transaction costs – and the motivations of those involved (Box 5.1).

The chapter first gives an overview of the key tasks of a national REDD+ system. Second, we present a set of governance dimensions and evaluation criteria to consider. Third, we define and assess the main alternatives for national REDD+ architectures. In addition to a broad overview, we focus on four options to channel international REDD+ funding into national-level actions: projects, funds located outside the state administration, funds within the state administration, and budget support. The chapter closes with a reflection on the process taking REDD+ architecture from ‘the drawing board into the forest’. Several of the topics raised in this chapter are elaborated in other chapters: Chapter 6 discusses the separate conservation fund option, and Chapters 7 and 8 focus on monitoring, reporting and verification (MRV) institutional set-ups. Our discussion also relates to later chapters, e.g., coordination across scales and actors (Chapter 9) and decentralisation (Chapter 14).

Instituting REDD+ at the national level will take time. Capacity building and pilot projects will be emphasised in the early stages to prepare the country for REDD+ at a larger scale in the future. This chapter looks at options for such a future national REDD+ architecture. It also underlines that the circumstances of each country form unique constraints and opportunities for instituting REDD+ that must be taken into account when forming the specific national systems.

## **Key functions within a national REDD+ architecture**

The four main tasks to be performed by a national REDD+ architecture are described in the following four sections, overall responsibility and coordination, channelling international funding, monitoring and reporting, and verification and safeguards (inspired by Meridian Institute [2009b]).

### Box 5.1. Institutional analysis

The REDD+ architecture is a system of *institutions and actors*. Institutions are the conventions, norms and legal rules that form the actors and regulate the relationships between them (Scott 1995; Vatn 2005). Actors are both individuals and organisations (e.g., firms, NGOs, state-level and local-level decision and administrative bodies). Institutional analysis studies how institutions are formed and function. It concerns three main issues: 1) the distribution of rights and responsibilities among the actors; 2) the costs of coordination/interaction between them (transaction costs); and 3) how institutional structures influence actors' perspectives, interests and motivations.

Institutions define who has access to which resources and the power to make decisions. Hence, legitimacy is a core concept in institutional analysis. This concerns not only whether the institutions in place are legally appropriate, but also the wider issue of democratic support.

Rights and responsibilities vary from system to system. In the case of political systems, the issues concern the distribution of decision-making power and the rules defined for political decision-making, e.g., who has access to the process and what role can they play. In the case of the economic system, rights concern, among other, access to productive resources, e.g., property rights. Rights and responsibilities are normative questions, and the overall legitimacy of institutional systems is very much related to the procedures established for decision making at various levels of society.

Transaction costs concern the technical aspect of institutions, i.e., how costly interactions between actors are. They cover costs of information gathering, formulation of agreements and controls related to fulfilment of what is agreed. Transaction costs vary due to both the characteristics of the issues or goods involved and the type of institutional system. Some services can easily be transacted through markets while, for others, the high level of uncertainty and measurement costs may make public systems more favourable. Whether REDD+ should be managed by markets or by political-administrative systems is a core question.

Institutional structures also influence the way actors see issues and what motivates their actions. Motivations vary across institutional systems and the positions people have. Owners of firms are motivated by the opportunity to make profits, managers by the opportunity to expand business and politicians by the logic of interest representation (stakeholders), or by wider concerns for the society at large (citizens). The capacity of different political systems to cultivate the role of politicians and to avoid corruption is a core aspect of motivational analyses (March and Olsen 1995).

## Overall responsibility and coordination

The overall responsibility for REDD+ and its implementation lies with the government. Assigning the responsibility for general coordination to the highest possible level, e.g., to the office of the president, vice president or prime minister, offers several advantages. Alternatively, the task might be given to a ministry (e.g., Planning, Finance, Environment, Natural Resources, Forestry), or a special task force or commission within the government with representatives from several offices and ministries. (Country designs are detailed in boxes in Chapter 3). The tasks might include:

- developing a national REDD+ strategy, including a causal analysis of deforestation and forest degradation and identification of necessary policy reforms;
- assuming overall responsibility to approve and implement the strategy;
- identifying stakeholder groups and conducting consultations with regional/local governments, the private sector, civil society, NGOs, traditional land rights holders, indigenous people, parliamentarians and other stakeholders;
- aligning the strategy with low-carbon development (climate) plans (e.g., NAMAs) or other development strategies for the country, including the annual and medium-term government budgets;
- facilitating the necessary policy processes to define REDD+ related activities in non-forest sectors, and assigning clear sectoral responsibilities within the national strategy;
- specifying the rights and responsibilities of different levels of government;
- establishing necessary new actors with the capacity and authority to implement the strategy;
- reviewing and regularly assessing the strategy's implementation and outcomes based on agreed indicators; and
- reporting to relevant international bodies, or delegating this responsibility to technical agencies.

## Channelling international funding

Appropriate national structures need to be developed to channel international funding to undertake readiness activities, capacity building and policy reforms, and to institute policy measures and direct incentives. The tasks might include:

- disbursing resources to approved REDD+ policies, programmes and projects;
- establishing a system of payments (incentives and compensation) to carbon rights holders – individuals, communities, companies or government agencies – for emission reductions and carbon stock enhancement;

- securing legitimate benefit sharing, including distribution of potential rents (see Chapter 12); and
- establishing a transaction registry for REDD+ payments to comply with international and national standards of transparency, accountability and fiduciary standards.

### **Monitoring and reporting**

The monitoring and reporting of changes in forest carbon stocks is essential for international payments and for evaluating progress of the national REDD+ strategy. Moreover, if countries are to develop a system with direct payments to carbon rights holders, they need regular monitoring of stock changes at a scale equivalent to where payments are made. The tasks might include:

- developing national standards, in line with international protocols and good practice, to measure changes in forest carbon stocks;
- establishing or developing an independent national organisation with the required capacity to monitor and verify information;
- coordinating and harmonising carbon accounting and MRV systems across sectors and scales;
- establishing non-carbon MRV systems, including social and environmental safeguards;
- establishing transparent and coordinated systems for managing information, ensuring that all relevant information is publicly available to all stakeholders; and
- reporting to the relevant national and international agencies and providing relevant information to carbon market actors as appropriate.

### **Verification and safeguards**

One or several independent organisations are needed to audit and approve REDD+ results and to publish results to support ‘watchdog’ functions. The tasks might include:

- overseeing that MRV for carbon is implemented in accordance with national and international standards;
- verifying or certifying emissions reductions to be credited in the voluntary or compliance markets, or to be rewarded by national or international funds or donors;
- overseeing the operation of social and environmental safeguards; and
- implementing and overseeing grievance procedures.

## **Governance dimensions and evaluation criteria**

Crafting the national REDD+ architecture implies making decisions about what are legitimate governance principles and distribution of responsibilities, and how the tradeoffs involved should be dealt with. For example, an institutional structure delivering cost-efficient results in terms of greenhouse gas (GHG) emissions reductions may not deliver well on other important goals, such as poverty reduction, alternative livelihoods or biodiversity preservation. The way the system is set up will strongly influence the handling of such tradeoffs and hence the overall outcomes.

Past efforts have failed to yield long-term or transformative change, often because they did not adequately take into account the inherent complexity and interconnected nature of the diverse actors, rules and practices that comprise governance of forests (see Chapter 4). Failing to tackle problems of weak institutional capacity and coordination, accountability, transparency and public participation may exacerbate current conflicts over the use of forest resources and risk creating perverse outcomes for forest-dependent people, forest ecosystems and the global climate.

In practical terms, formulating a REDD+ architecture concerns which actors should be involved and what authority they should be granted. For example, to what degree should REDD+ systems be established separately from the present national administration? Who should have the responsibility for making which types of decisions? How should nongovernmental participation be facilitated? In what way should international actors formulate the conditions for money transfers? How can transparency and accountability be enhanced?

In Table 5.1 we put forward a set of criteria to consider when making such decisions. These overlap in part. For example, legitimacy can be an umbrella term encompassing the others.

## **Options for national REDD+ funding architectures**

International funding for REDD+ could be made available in different ways, as discussed in Chapter 2. The use of these financial resources will partly depend on the local context and at which stage the country is in developing REDD, i.e., from readiness and demonstration activities to a fully developed REDD+ approach. The issues and demands will vary substantially between stages. Our analysis focuses on a set of alternative architectures for a more mature REDD+ structure at the national level. We envisage four different generic 'type' systems (see Figure 5.1).

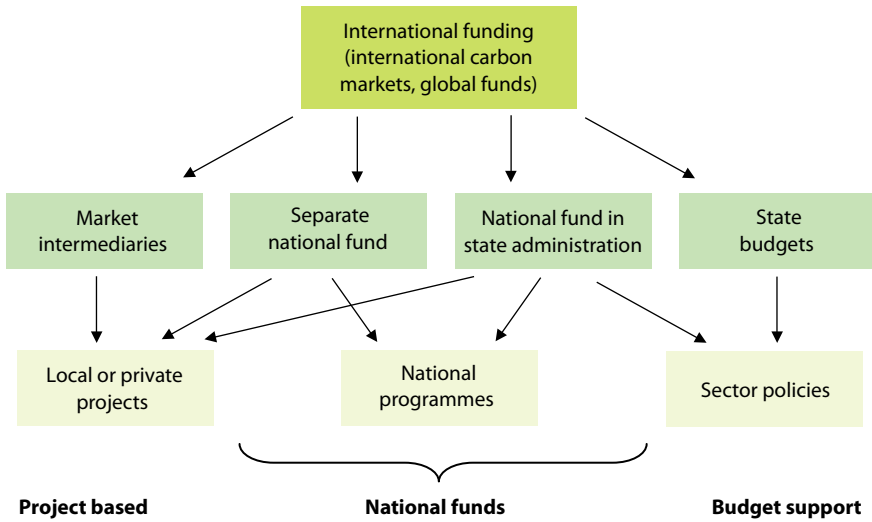
**Table 5.1. Criteria for assessing institutional options**

Criteria	Specifications
Overall political legitimacy <sup>1</sup>	<ul style="list-style-type: none"> <li>• Across sectors (horizontally) and across levels (vertically) of government</li> <li>• Within civil society</li> <li>• Internationally: donors, international organisations, NGOs</li> </ul>
Good governance	<ul style="list-style-type: none"> <li>• Transparency and accountability</li> <li>• Distribution of power and wealth</li> <li>• Protection and improvement of rights, responsibilities and participation</li> <li>• Motivational aspects, including the risk of corruption (see Box 5.1)</li> </ul>
Coordination capacity	<ul style="list-style-type: none"> <li>• Across sectors</li> <li>• Across levels of government</li> <li>• With the private sector and civil society</li> </ul>
Links to broader reforms <sup>2</sup>	<ul style="list-style-type: none"> <li>• Need for changes in basic societal structures, e.g., property rights structures and systems for participation</li> <li>• Potential as a catalyst for reforms</li> </ul>
The above will influence the outcomes in terms of the 3E+ criteria. Specific aspects concerning these criteria will be:	
Effectiveness	<ul style="list-style-type: none"> <li>• Ability to target the key drivers of deforestation and degradation</li> <li>• Capacity to handle leakage and secure additionality and permanence<sup>3</sup></li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>• Ability to target low-cost REDD+ actions</li> <li>• Transaction costs of administering policies/payments for environmental services (PES) system: MRV, setting reference levels; setting distribution of REDD+ resources</li> </ul>
Equity	<ul style="list-style-type: none"> <li>• Equitable sharing of REDD+ financial flows and any REDD+ rents (benefit sharing)</li> <li>• Channelling resources</li> </ul>
Co-benefits	<ul style="list-style-type: none"> <li>• Poverty reduction</li> <li>• Alternative livelihoods</li> <li>• Biodiversity</li> <li>• Protection and improvement of rights</li> <li>• Climate change adaptation</li> </ul>

1 Ballesteros *et al.* (2009) defines legitimacy in three dimensions: power distribution, responsibility and accountability.

2 This criterion can be used in two opposite ways: REDD+ can be used as a vehicle to generate such changes, e.g., forest tenure reforms, but it can also be used as an argument against certain options if those options require large societal changes to be successful.

3 This is particularly important in the early stages before a national system of accounting and crediting is in place.



**Figure 5.1. Options for national REDD+ funding architecture**

The first option is project-based funding, where payments are channelled from international sources (voluntary market, CDM+ or donor funding) to local projects, or are used as a mechanism for national funds/governments to engage the private sector more directly (e.g., via a national REDD+ fund). The second option is a separate or independent national fund outside the government structure with independent administration and decision-making structures. This is similar to conservation trust funds (CTFs) in biodiversity protection (Chapter 6). The third option is a national fund within the state administration. This uses the capacities of the present administration, but resources are allocated by a separate board. The fourth option is regular budget support, where external resources are channelled directly via existing sector administrations. These options are not mutually exclusive; a country might pursue several options to fit different elements of the national REDD+ strategy.

The national REDD+ architecture will also require that MRV systems be set up, including monitoring of co-benefits. These should be established independent of the funding structure (see Chapter 7).

Table 5.2 offers a generic summary evaluation of the four options. Clearly, national circumstances vary and need to be taken into account, including existing institutional structures, capacities and legal frameworks. Further, the institutional choice and outcomes depend on the policies selected to be part of the national REDD+ strategy. For example, equity outcomes depend more on the design of the REDD+ actions than the location of the fund within or outside the state administration. Institutional choices also affect the fundamental incentives including equity considerations, for example.



Table 5.2. Generic evaluation of main options for national REDD+ funding architectures

	<b>Project</b>	<b>Separate REDD+ fund</b>	<b>REDD+ fund within state administration</b>	<b>State budgets</b>
Political legitimacy	Capacity to deliver targeted results on carbon. National legitimacy may be weak, especially if transfers are large. High legitimacy among private carbon buyers and donors.	National legitimacy higher than for projects. Might raise issues of state sovereignty. Legitimacy among the private sector may be less than for projects.	Scores high on state sovereignty, secures high national control. Potential concerns by the private sector and donors. Some issues concerning capacity to target interventions.	Scores highest on state sovereignty and national control. Problems of private actor engagement highest. Issues concerning capacity to target interventions.
Governance	May attract intermediaries that use information asymmetry to their advantage. Opportunities for corruption. Challenges concerning overall transparency. Need to establish separate fiduciary systems.	Corruption is a challenge. Might avoid corruption in state administration, but has governance challenges for funds. Need to establish separate fiduciary systems.	Corruption a serious challenge, but variable. Relies on country systems. REDD+ resources might be used to improve governance.	Corruption a serious challenge, but variable. Relies on current budget systems. REDD+ resources might be used to improve governance.
Coordination	Weak.	Weak, but depends on mandate.	Stronger, but depends on mandate and ability to use specific sector administrations.	Potentially strong, especially the use of specific sector administrations.
Changes in societal structures	Demands clearly defined property rights. Individual property rights favoured.	Depends on mandate. May require legal reforms. Well-defined property rights an advantage.	Depends on mandate, but offers high flexibility.	Depends on REDD+ policies implemented. Offers high flexibility.

	<b>Project</b>	<b>Separate REDD+ fund</b>	<b>REDD+ fund within state administration</b>	<b>State budgets</b>
Effectiveness (leakage, additionality, permanence)	Leakage a major problem. Permanence also an issue, but can be better secured through long-term contracts.	Leakage depends on mandate and size of forest area covered. Might have power to institute measures to avoid leakage. Permanence as for projects.	As for separate funds, but might have more power to institute measures to avoid leakage. Might also use sector policies to better secure this. Permanence depends on national commitment.	Better able to control and internalise leakage in accounting. Permanence depends on national commitment.
Efficiency (transaction costs)	The larger REDD+ becomes, the higher the transaction costs compared to funds and budget support. Establishment of intermediaries required.	Increases its competitiveness as REDD+ grows in volume. Needs to establish new systems to reach to 'the ground'.	Increases its competitiveness as REDD+ grows in volume as existing state administrations may be used. Further developments, especially in local administrations, may be needed.	Increases its competitiveness as REDD+ grows in volume as existing state administrations used. Further developments, especially local administrations, may be needed.
Equity	Intermediaries may capture large rents. Positioned to compensate losers directly, but local elite capture a challenge.	Positioned to compensate losers directly. Elite capture, especially at local level, a challenge	Positioned to compensate losers directly, but a challenge to secure equitable sharing of rents. Risk of elite capture.	Potential rents may be used to balance state budget. Risk of elite capture at all levels.
Co-benefits (poverty reduction, livelihoods, biodiversity)	Weak if conflict exists between cost-effective carbon measures and co-benefits. But project open to national and international scrutiny.	May be weak if conflict between cost-effective carbon measures and co-benefits, but specific focus on co-benefits might be part of mandate.	More likely to secure co-benefits as wider set of policy measures available. Depends on willingness and capacity of state.	More likely to secure co-benefits as wider set of policy measures available. Depends on willingness and capacity of state.
Examples of systems	<ul style="list-style-type: none"> <li>• CDM projects</li> <li>• PES projects</li> <li>• REDD+ demonstration projects</li> </ul>	<ul style="list-style-type: none"> <li>• Conservation Trust Funds</li> </ul>	<ul style="list-style-type: none"> <li>• Indonesian Reforestation Fund</li> <li>• Amazon Fund</li> </ul>	<ul style="list-style-type: none"> <li>• ODA budget and programme support</li> <li>• Some REDD+ demonstration activities</li> </ul>

## Project-based funding

The strength of the project-based solution is that it resembles a market for carbon projects, thereby drawing on the capacity of markets to deliver efficient outcomes. A core aspect is the ability of this system to find solutions with the lowest opportunity costs of forest conservation. The system has high legitimacy among private carbon buyers and donors, and may therefore be more effective than the other options in mobilising private funding (Angelsen *et al.* 2008). The efficiency argument also relates to projects' independence from political systems that are assumed to have a weighty bureaucracy with high transaction costs and the potential for corruption.

Establishing and operating markets for environmental goods and bads often involve high transaction costs. When many actors are involved and the commodities or services are hard to demarcate and measure (e.g., environmental services), state-based systems such as subsidies and taxes may be more cost efficient (Rørstad *et al.* 2007; Vatn *et al.* 2009).

Further, potentially high transaction costs mean that the project solution depends on strong – in some cases even monopolistic – intermediaries that can both reap a significant share of REDD+ rent and become directly involved in corrupt practices. This critique has been raised against CDM and intermediaries involved, whose interests lie in the 'big money' rather than in the achievement of the overall goals (Lloyd and Subbarao 2009; see also Chapter 13).

While the prospects of delivering efficient solutions contribute to the legitimacy of the project-based option, it marginalises the state and local authorities of the host country, thereby potentially reinforcing the governance challenges. Again, the conclusion may depend on the magnitude of REDD+. National participation and integrity become more important the larger the REDD+ volumes are. But a classical dilemma resurfaces: should REDD+ resources be used to strengthen weak state administrations, channelled directly to projects or used to build separate systems such as independent REDD+ funds?

A project-based approach could undermine the state administration's ability to improve transparency, accountability and participation in decision-making; implementation of sector reforms; and coordination in forest management. This option will also not be able to cushion changes in REDD+ payments over time as effectively as the other options.

The experience with the Clean Development Mechanism (CDM) illustrates another challenge with a project-based solution: how to avoid leakage, which undermines both effectiveness and efficiency. To be viable, monitoring and control schemes must be set up outside the project area as well. While feasible,

the system is based on separate projects; this might create a situation where actions on the ground are poorly coordinated.

The production of co-benefits is contested. A project will have as its primary aim producing emissions reductions (and removals), which might conflict with other aims (see Chapter 21). But NGOs and the private sector also have an interest in thinking beyond carbon, and projects are often subject to strong national and international scrutiny for their delivery of non-carbon benefits (Angelsen *et al.* 2008).

A project approach has equity implications in two ways: First, a project-based approach will affect country selection and location of projects, and thereby the distribution of REDD+ funds at the regional or country level. The CDM experience is not very encouraging (Sutter 2003). Few CDM investments have been made in the poorest regions, such as most of Africa (Saunders *et al.* 2008), reflecting concerns that weak institutions and high transaction costs, due to working in poor regions with poor people, will risk project success.

Second, a project approach has implications for the distribution within the project area. A system for payments for environmental (PES) has a number of prerequisites (Chapter 17). While land rights do not need to be either individual or fully formalised to secure participation in trading systems (Corbera *et al.* 2007), the project-based option will favour those with formalised property rights. The PES literature emphasises the problems of providing equitable processes and outcomes (Vatn *et al.* 2009). Moreover, there is a risk that the formalisation of property rights may exclude the rural poor not only from access to REDD+ resources, but also from land in general.

### **Separate national fund**

This type of fund is established outside the state administration and is governed by a board of representatives from a broad range of stakeholders, perhaps also international ones, as has been the case for some Conservation Trust Funds (Chapter 6). A separate national fund can be assigned different tasks, e.g., managing a specific conservation area or managing a national PES system. The overall legitimacy depends on the process leading to its establishment and the stakeholders represented on the board. One critical issue is how the fund interacts and coordinates with other political and economic processes in a country.

A general advantage of the fund model is the prospect for more stable long-term funding than for the 'project' and 'regular budget' alternatives, e.g., to avoid resources being used to balance the state budget in periods of fiscal crisis. A separate national fund might also be a more stable solution in political systems where part of the administration is changed every time there

is a change of government or minister. Compared to the project option, the possibility of formalising more trustworthy requirements on the delivery of co-benefits is an advantage.

Depending on the tasks of the fund, another potential strength compared to the project solution concerns the coordination of REDD+ resources nationally. It would be possible for this system to get involved in activities across sectors, although only in exceptional cases will it be able to get fully involved in the cross-sectoral policy coordination needed in implementing national REDD+ strategies.

A potential argument for a separate fund is that many state administrations are hampered by corruption. To the extent the separate fund is established along with a strong norm of supporting local communities, a guard against misuse exists. Nevertheless, if REDD+ grows, large amounts of money will be channelled through these funds, and it would be naïve to believe that the fund managers would not be at risk of corruption. The advantage is, however, that the transparency and public scrutiny of funds seem higher than they are for budget support, for example.

If REDD+ finance grows, the overall legitimacy of a separate fund to manage the lion's share of REDD+ funding might be questionable. If a large fraction of the forest land becomes involved, it will be politically difficult to accept that decisions concerning these areas are sidelined by a country's general decision-making structures and land use policy. Establishing systems parallel to the present administration may result in inefficient allocations and high transaction costs; the risk is that this will contribute to further undermining the government structures and limit the ability to undertake required sector reforms. But again, this depends on the country context: if the general operation of a government has low legitimacy because of high corruption, allocating a high share of REDD+ resources outside government structures might be the only credible solution.

### **National fund within the state administration**

In contrast to the separate national fund, this type of fund is placed within the state administration. This could be within a ministry, or an agency under the ministry, as is the case with the Amazon Fund (Box 5.2)<sup>1</sup>. The allocation of resources is, as for separate funds, handled by an independent board with members from relevant state and public administrations and possibly from civil society. The board can allocate money to specific programmes, sector administrations or individual projects. Existing state structures and systems are used to allocate and disburse funds to relevant stakeholders.

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<sup>1</sup> The Amazon Fund may be viewed as lying somewhere between a separate fund and a fund within the state administration. It operates quite independently of the federal agencies responsible for policies which affect deforestation and land use, with few attempts to coordinate national policies.

## Box 5.2. The Brazil Amazon Fund

Peter May

Launched in 2008, the Brazil Amazon Fund is designed to combat deforestation and promote sustainable development in the Amazon. Its creation was an indirect response to Brazil's gradual acceptance of REDD+ as a worthy approach to climate mitigation, counteracting the country's ongoing national sovereignty objections to any multilateral efforts to control forest land use that date back to the Rio accords in 1992. In both COP-12 of 2006 and COP-13 of 2007, Brazilian negotiators presented an approach for 'compensated reduction' that would reward national (and eventual subnational) reductions in deforestation against a 10-year historical reference level. Compensation payments would be derived, according to this approach, from public or private donations to a central fund, with no direct relationship to the carbon market. Despite initial scepticism regarding the potential to attract funding, the idea caught the interest of the Norwegian government, and later Germany. The fund has so far received a pledge for up to US \$1 billion from Norway, contingent on achieving reduced deforestation rates. As of November 2009, US \$110 million had been disbursed or committed for a first round of projects.

The Brazilian Development Bank (BNDES) is managing the Fund as part of its revamped environmental portfolio. This role constitutes a significant addition to the portfolio of activities of BNDES, whose role has otherwise been to finance major public and private infrastructure and investment projects in Brazil and other Latin American countries. BNDES is one of the world's largest national development banks, with annual loans exceeding those of the World Bank, the Inter-American Development Bank and the Eximbank combined. BNDES is not a signatory to the Equator Principles which articulate social and environmental principles for development financing. The bank has had a dismal environmental record over the past decade. It has, for example, recently been responsible for a number of substantial operations in the cattle industry that have contributed to pasture expansion and deforestation in the Amazon.

The Amazon Fund, which represents part of BNDES' efforts to 'green' its image, will finance the sustainable use of forests, recovery of deforested areas, conservation and sustainable use of biodiversity, and environmental control, monitoring and enforcement. Most of the 38 projects submitted to date include a mixture of these activities, with a substantially greater emphasis on restoring degraded landscapes, enhancing sustainable forest products and enforcing forest codes than on avoiding deforestation through

trial payment schemes. Grant awards follow guidelines established by a guidance committee (COFA), which includes government and civil society representatives, but actual grant decisions will be made by BNDES (see <http://www.amazonfund.gov.br/> for further details on fund management, including a listing of initial projects under consideration). Project proposals may be submitted by public institutions, state-owned companies and NGOs. A number of proposals have been submitted by private enterprises. However, a decision was made by a COFA subcommittee to deny grant support for profit-making enterprises. While international donors will have no direct influence over the award and use of grants, the Brazilian government has declared that the operations of the Fund will be 'results based, transparent and independently monitored'.

Following its resistance to the fund-based donations approach during the COP13 negotiations in Bali, Brazil has since moved toward a more flexible approach, involving eventual access to the carbon market and subnational project architectures. The Fund will play a transitional role in REDD+ readiness, but there is strong pressure from within Brazil to extend financing to the broader use of market instruments. It is not clear as yet whether such an expansion would be managed by the Fund or by another government agency.

If the administration is politically legitimate, there are strong arguments for using it in facilitating REDD+. This type of fund has many qualities of a separate fund when it comes to coordination and avoiding leakage, but it extends these by making coordination across sectors and achieving co-benefits easier. Transaction costs could be lowered by using the existing administrative structures of the state and local administrations. The fund also gets access to state powers, implying that several policy instruments other than payments can be included. These can either supplement payments or be stand-alone measures. Implicit in this is also the possibility of using instruments that better reach areas and groups with weak land rights.

The experience with, for example, national parks and logging contracts in many countries illustrates that national administrations are not always protecting the interests of the rural poor (Hutton *et al.* 2005; World Bank 2006). Furthermore, state administrations may be weak, especially at the local level, and vulnerable to corruption. Using the instrument of a fund with an independent board is a way to guard against some of these problems. It can also deter the state from using REDD+ money to balance the state budget in times of fiscal crisis.

The strength of this model is that it offers the option to use current capacities of the state administration, but it could create competence conflicts within the national administration, i.e., between the fund and the sector administrations. There is also a risk of the system being co-opted. It might therefore be sensible to establish a unit for monitoring and control that is separate from the administration. This unit could be established under a national control board with representation from the private sector, civil society, national authorities and, possibly, international agencies.

### **Specific budget support**

The last option reviewed is to channel international REDD+ funding through existing budget systems in the form of general budget support, or as more or less earmarked funding. This might be an option in the early phases of REDD+, which emphasise readiness activities and specific policies and measures (PAMs; see Chapter 2). At later stages, in a purely results-based national-level system, fewer strings will be attached to how the money is being spent. The continuous flow of international funding depends on the results delivered, and how money is spent is a matter for national governments to decide.

During the past decade, budget support, or macrolevel programme aid, has become an increasingly popular aid modality, although project support still dominates. In a number of African countries, it accounts for 20–40% of government budgets (Lawson *et al.* 2005). It represents a ‘shift from traditional *ex ante* conditionality to a partnership approach’ (Koeberle *et al.* 2006). It is assumed that a policy dialogue between host governments and donors will initiate appropriate policy reforms.

Budget support has the potential to reduce transaction costs, improve coordination across sectors and delivery of co-benefits, generate greater country ownership and assure overall policy coherence (Killick 2004). These potential advantages are similar to those generated by a fund within the national administration. The main problems concern potentially lower transparency and the risk that money will be directed toward purposes other than REDD+. This could be avoided through the way the MRV systems are set up and by using a purely performance-based system: International payments would be made to national authorities on the basis of documented emissions reductions and removals. Sovereign states are free to do whatever they find most appropriate to achieve the carbon credits and obtain the payments.

Although this option looks attractive, it faces some problems. First, it imposes great demands on a reliable and credible MRV system (Chapter 7). At least in the short to medium term, it is unlikely to generate enough good data to put all the ‘eggs’ of control into the ‘basket’ of measuring changes in carbon



stocks. Credible reference levels must also be established (Angelsen 2008b). Second, the countries must assume all the risk. Only after actions are taken will anyone know if REDD+ generated any income. The risks concern both the actual impact of the measures taken on emissions and how these will be rewarded internationally.

Third, there is a potential problem of international legitimacy of the REDD+ policies. The international community has preferences for how REDD+ comes about locally. A system offering co-benefits and compensation to local people would be very differently assessed to one that forces local communities away from their livelihoods through the establishment of protected areas as a way to maximise REDD+ revenues for the state budget.

The potential gain lies in the capacity to avoid setting up a duplicate structure at the national level. Hence, transaction costs can be kept down as the solution also provides incentives to improve a country's overall governance, secure coordination across sectors and ensure better coordination with the use of other funding sources (e.g., ODA). Finally, if successful, REDD+ actions result in reduced state income (e.g., lost revenue from logging concessions), then budget support is a simple and logical compensation method.

## **From the drawing board to the forest**

Setting up a national institutional REDD+ architecture that is legitimate and can deliver 3E+ outcomes on the ground is a major challenge for REDD+ countries. The particular form and mix of options in each country will depend on existing institutions and legal structures, current political and economic processes, the distribution of power and wealth, and the REDD+ actions appropriate to address the drivers of deforestation and degradation. It is demanding, both technically and politically, to establish systems that are very different from the existing ones. Nevertheless, REDD+ is 'a new game in town' and this invites new or modified institutional structures. Effective REDD+ actions also demand stronger links among central and local authorities and the communities involved (Chapters 9, 14, 16).

The four options discussed are of course not mutually exclusive. In many situations the solution is to formulate a good mix and to define which solutions are suitable for implementing which policies. For example, policies targeting intensive agriculture (Chapter 15) might appropriately be implemented through a separate fund or regular budgets within the Ministry of Agriculture, while the responsibility for developing a national PES system might be with a separate REDD+ fund. But the higher transaction costs of operating several systems must also be considered.

Building national REDD+ institutions – whether entirely new ones or modified existing ones – takes time. The phased approach (p. 14) has increasingly become a standard way of viewing the REDD+ process. National REDD+ strategies need to reflect that, but also be aware that the early design will constrain later options. The climate challenge demands quick actions, but an institutional long-term strategy is also needed to ensure that the immediate steps taken fit future, more developed, solutions.