

Exploring forest finance for the Hindu Kush Himalaya

13 December 2021

SECTION 1

Introduction

On 13 December 2021, ICIMOD's Reducing Emissions from Deforestation and Forest Degradation (REDD+) Initiative organized a workshop to explore how carbon finance can be mobilized to address deforestation and forest degradation in the Hindu Kush Himalaya (HKH) region. The workshop aimed to demystify carbon finance and its links with landscape management, enhance understanding about how to mobilize finance for sustainable landscape management, and explore opportunities from post-COP26 forest finance for the HKH member countries.

Experts from the Green Climate Fund (GCF), Asian Development Bank (ADB), Food and Agriculture Organization (FAO), VNV Advisory, and Indian Council of Forestry Research and Education (ICFRE) participated in the workshop and shared examples of ongoing carbon-financed projects with a focus on forestry.

SECTION 2

Key takeaways

The workshop allowed participants to explore whether climate mitigation projects implemented globally can be customized for the HKH region. In India, forestry was responsible for 15% of national carbon emissions sequestered in 2016. The government aims to create an additional carbon sink of 2.5–3 billion tonnes through forestry by 2030. Experts at the workshop argued that the future of forest management and conservation lies in carbon financing. Last year at COP26, leaders from 105 countries committed to ending deforestation by 2030, which was backed by USD 12 billion in financial commitments. The ADB as part of Future Carbon Fund (FCF) has allocated USD 115 million to mobilize carbon finance to support greenhouse gas (GHG)-reduction activities in Asia and the Pacific. Meanwhile the GCF is partnering with the private sector on forestry and land use, and plans to further explore REDD+ strategy implementation.

Experts from the private sector gave presentations on the use of nature-based solutions (NbS) in the voluntary carbon offset market and how carbon offset projects enable carbon neutrality. With the current market value of carbon credits being USD 748 million equivalent to 239.3 MtCO₂e₂ (calculated by Forest Trends' Ecosystem Marketplace), the global carbon market is expected to grow to the tune of USD 10–25 billion/year by 2030.

The REDD+ programme in the Terai Arc Landscape (TAL) spreads across 15% of total land area of Nepal and 20% (1.17 million ha) of Nepal's forests area. An emission reduction payment agreement has been signed with the World Bank to sell carbon emissions of 9 MTCO₂e through the project, which will generate result-based payments of up to USD 45 million by 2025. Whereas the GCF-funded project in the Churia region of Nepal will reduce up to 11.48 million tCO₂e_q over 20 years.

SECTION 3

Experts' views

ICIMOD's Deputy Director General **Izabella Koziell** gave the opening remarks and spoke about using forests and forest restoration as a tool to leverage finance, as the world embarks on the UN Decade on Ecosystem Restoration (2021–2030). According to Koziell, "COP26 saw renewed and enhanced commitments on forest finance. Leaders from 105 countries pledged to end deforestation by 2030, which was backed by USD 12 billion in financial commitments from 12 governments and USD 7 billion from private companies, including USD 1.7 billion dedicated to indigenous communities involved in conservation."

She said that forest finance for climate action will take the form of result-based payments, where payments will be made per tonne of carbon sequestered or removed. She also highlighted that there is growing interest in the private sector to invest in the voluntary carbon market, where carbon finance has already crossed USD 1 billion.

Bhaskar Singh Karky, Programme Coordinator, REDD+ Initiative, ICIMOD, said that COP26 has put forest restoration at the centre stage for climate action, and this entails exploring prospects for financing forest restoration through climate finance pledged in COP26. He said, "The workshop will help us explore whether climate mitigation projects being

implemented globally can be customized for the HKH region. There is tremendous opportunity to mobilize forest finance for restoring and improving the landscapes for not only meeting the ambitious Nationally Determined Contribution (NDC) targets, but also to address the goals of the Convention on Biological Diversity and the United Nations Convention to Combat Desertification. We also have the responsibility to convey that the Amazon, the Congo, and the Himalayan forests are equally important and have equal global significance."

Takeshi Miyata, Climate Change Specialist (FCF) from the ADB, shared ADB's perspective on the growing carbon market in Asia. He said that FCF, a USD 115 million trust fund established and managed by ADB, has mobilized carbon finance to support GHG-reduction activities in Asia and the Pacific. These activities are part of the Clean Development Mechanism (CDM) projects under the Kyoto Protocol. Miyata said that FCF is supporting 33 CDM projects across 10 developing countries that are members of ADB, with projects spanning renewable energy, energy efficiency, waste management, and transport. The FCF-funded projects have benefitted over 10.5 million people across Asia and the Pacific. He called upon the international community to work together and expand the market for forestry credits.

Shankar Adhikari from the REDD Implementation Centre, Ministry of Forest and Environment, Nepal, shared the highlights of the REDD+ Programme in the TAL region of Nepal. He said that the programme covers 13 districts of southern Nepal, which is equivalent to 15% of the total land area of Nepal and 20% (1.17 million ha) of Nepal's forest area. Programme interventions seek to improve forest management practices under community-based forest management models, transfer national forests to community and collaborative forest user groups, engage private sector forestry through improved access to finance, expand alternate energy, scale up pro-poor leasehold forestry, integrate land use planning, and manage protected areas.

Adhikari also mentioned that an emission reduction payment agreement has been signed with the World Bank to sell emissions reductions of 9 MTCO₂e at the rate of USD 5/tonne. It will help generate result-based payment of up to USD 45 million by 2025.

Jacob Bourgeois, [ClimatePartner](#), Germany, delivered a presentation on using NbS in the voluntary carbon offset market. Bourgeois informed how carbon offset projects enable carbon neutrality, promote sustainable development goals (SDGs), and improve overall wellbeing. He explained how

his organization, ClimatePartner, certifies carbon offset projects according to international standards, using methodologies that assess how much carbon emission has been avoided or removed. This is followed by annual auditing through an independent third-party.

Bourgeois also talked about various carbon offset projects they are working on, including the use of bamboo as an opportunity for climate and people in eastern Nicaragua, and improving soil health and air quality through sustainable farming in Punjab and Haryana, India. He went on to describe how project development opportunities depend on the intervention and certification standards. This affects, for example, project duration as in the case of an afforestation project, the duration can be 20 years.

Sandeep Roy, [VNV Advisory](#), gave a presentation on carbon finance. He said that carbon offsets equivalent to 239.3 MtCO₂e with a market value of USD 748 million has been recorded by the Forest Trends' Ecosystem Marketplace (as of 31 August 2021). In his view, the global carbon market will likely grow to the tune of USD 10–25 billion/year by 2030. He suggested that buyers of carbon credits need to understand where they are buying from. Roy also highlighted funding challenges in the carbon offset market – timebound private sector grant-based funding; public sector funding keeping grassroots organizations and communities out of the direct funds purview; and the reluctance of the private sector to contribute financial resources for intangible results.

Kai Windhorst from FAO Nepal shared the highlights of the first GCF-funded project in Nepal, “Building a Resilient Churia Region in Nepal” (BRCRN), which has a total budget of USD 47.34 million.

The project targets 26 river systems in three provinces of Nepal – Province 1, Province 2, and Bagmati Province. One of the main outcomes of BRCRN is the improved management of land/forest areas, contributing to emission reductions. Windhorst said that climate finance in BRCRN is related to estimated carbon return on project investment. It is expected that the project will reduce up to 11.48 million tCO₂e over the period of 20 years through better forest practices and improved agricultural land management. As the buy-in of local stakeholders is important, the project will engage 750 community-based organizations (CBOs).

Ben Vickers from the GCF said that GCF aims to leverage projects through public and private sector financing. The Private Sector Facility within GCF

is mandated to work with the private sector, which allows for a wider range of financial instruments. Since grant finance has limited capacity to leverage additional investments, GCF prefers partnering with private sector entities that focus on forestry and land use projects.

Vickers said that they have only one mitigation-focused forestry project in Laos but several cross-cutting projects with a forestry focus – two in Nepal, one in Kyrgyzstan, and one in Bhutan. GCF also has coastal resilience projects with forestry activities in India and Vietnam. GCF plans to further explore REDD+ strategy implementation in ecosystem-based adaptation in the programme design, sustainable forest management, and sustainable supply. Vickers also mentioned that GCF has partnered with Arbaro Fund to invest USD 200 million (cofinancing) in sustainable forestry projects in Paraguay, Ghana, Sierra Leone, Uganda, Ecuador, Peru, and Ethiopia.

R. S. Rawat, Biodiversity and Climate Change Division, ICFRE, provided details of various carbon finance projects in India. He said that land use change and forestry are net sinks of carbon dioxide and helped to remove 15% of India's carbon emissions in 2016. As per the government's record, the forest area of India is 76.74 million ha, which is 23.24% of the total area of the country, with total forest carbon stocks at 7,124.6 million tonnes. The NDC goal for forestry is to create an additional carbon sink of 2.5–3 billion tonnes of CO₂ through additional forest and tree cover by 2030. Since up to 43% of forests in India are degraded, the restoration potential of degraded forests is up to 75.8 million hectares (Forest Survey of India).

Rawat also highlighted the challenges for forestry carbon projects in India, which include fewer investors for forestry projects, lack of participation of private sector actors, financial and banking institutions, procedural issues, higher transaction costs and leakages, lower price of forest sector carbon credits, and insufficient capacity for developing forestry carbon projects.

Nakul Chettri, Regional Programme Manager, Transboundary Landscapes, ICIMOD, delivered the closing remarks, highlighting the potential of climate finance in the HKH region. He reiterated that the future of forest management and conservation lies in carbon financing. He added that ICIMOD's Transboundary Landscapes Programme provides an integrated approach to managing the HKH landscape and that carbon finance could be embedded in it. Chettri also emphasized the need to recognize biodiversity value while trading carbon credits.

The way forward

From REDD+ to “Mountains of Opportunity” Investment Framework

The REDD+ Initiative identified threats to forests, promoted community-centric forest management and monitoring, developed livelihood alternatives for forest dependent populations in the region. These achievements were largely a result of a science-policy-practice approach.

ICIMOD has mobilized communities across the HKH to participate in the restoration of forested lands in their home areas. Six of the RMCs – Bangladesh, Bhutan, India, Myanmar, Nepal, and Pakistan – have endorsed REDD+. ICIMOD supported the REDD+ Readiness phase in Bhutan, India, Myanmar, and Nepal, and now many of the countries are making successful transition to the implementation phase.

ICIMOD works in close partnership with governments to promote REDD+. The work on REDD+ has been mainstreamed and adopted in Bhutan, India, Myanmar, and Nepal through joint research, policy level engagement and support, adoption of manuals, use of reference-level methodology, and mainstreaming community-based approaches in REDD+.

ICIMOD is also working with the member countries to highlight the role of forests and ecosystem restoration in achieving the NDC targets during the UN Decade on Ecosystem Restoration (2021–2030). Through this partnership, ICIMOD has assisted the HKH member countries in developing action plans to address deforestation and forest degradation across degraded landscapes. Over the last decade, ICIMOD has contributed to customizing global climate policy of REDD+ to the country-specific circumstances.

In order to make a regional effort on addressing deforestation and forest degradation, ICIMOD has established a functional south-south learning platform. As different Regional Member Countries (RMCs) have different competencies and areas of expertise, the sole purpose of this platform is to harness and cultivate learning among RMCs. Expert knowledge and experience from one country pertaining to a specific topic was shared with other

RMCs to improve understanding of the global REDD+ instrument. It was a successful experience for the countries, as they were able to make progress in their specific REDD+ strategy by removing bottlenecks and addressing country-specific needs through mutual learning and replicating best practices across borders.

Global climate investment instruments

COP26 in Glasgow reached agreement on Article 6 of the Paris Agreement, which provides guidance on how countries should cooperate to significantly reduce their greenhouse gas emissions (GHGs) by contributing to their NDCs. This has opened doors for the RMCs to start accessing finance for implementing REDD+ across the landscapes. Similarly, the volunteer emission market has also grown post COP26, opening a window of opportunity for financing NbS to support climate actions that simultaneously address the Multilateral Environment Agreement commitments including the SDGs.

The voluntary carbon market that operates separately from Article 6 is likely to remain the venue of choice for many private sector investments. Many RMCs are new to this and will require policy adjustments to tap this opportunity, which may be regarded as a low-hanging fruit for the mountainous landscape. Market instruments do not function effectively in the HKH region given its complex topography and the high transaction cost, so voluntary carbon markets outside Article 6 can be a fast-track approach for unlocking the real potential of mountain communities and the landscape to participate in the global climate initiative.

With these new and additional climate finance opportunities opening at COP26, ICIMOD has launched the “Mountains of Opportunity” Investment Framework to scale up climate investment in the region. This framework seeks to leverage finance from global instruments for investment in the HKH landscape. It is based on the notion that ambitious climate action in the HKH region requires additional financial flows supported by appropriate policy instruments and capacity. The Mountains of Opportunity Investment Framework will enable investment partners including HKH member governments, mountain communities, financial institutions, private sector, and development partners to identify, align, and scale up investments in mountain-specific climate priorities in the near- to medium-term. The focus of landscape financing has now expanded beyond

the narrow REDD+ perspective to include NbS from different climate financing instruments based on ICIMOD's Mountains of Opportunity Framework to scale up climate investment.

ICIMOD is now looking for ways to link such climate finance to the HKH landscape through intermediary agencies i.e., government institutions, CBOs, and NGOs. ICIMOD will provide technical support for capacity building, policy engagement, data generation, and programme development.

Articulating the Mountains of Opportunity Investment Framework into action

The Mountains of Opportunity Investment Framework is a broad framework for climate action. What remains to be done is the designing of climate actions that attract climate finance as outlined in this framework, in keeping with climate finance standards. This can be done by customizing NbS-related climate actions for the HKH landscape, based on a self-sustaining financial model aligned with the priorities of RMCs. In order for the Mountains of Opportunity Investment Framework to leverage climate finance, we will need a policy environment that is backed by science and supports incentive-based mechanisms to drive NbS.

ICIMOD's REDD+ Initiative has enabled countries to customize climate actions according to national circumstances while complying with the global framework for accessing finance. This successful model can be used to translate the Mountains of Opportunity Investment Framework into action.

Additional event information and materials are available at:
<https://www.icimod.org/event/virtual-workshop-on-demystifying-forest-finance/>

Compiled by: Bhaskar Singh Karky and Syed Muhammad Abubakar

Edited and laid out by the Production Team, Knowledge Management and Communication Unit, ICIMOD

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International Centre for Integrated Mountain Development
GPO Box 3226, Kathmandu, Nepal
T +977 1 5275222 | **E** info@icimod.org | **www.icimod.org**