



ECUADOR

Financing for REDD+ and Other Forms of Land Use

A REDDX INFORMATION BRIEF

International financial commitments to REDD+ aim to contribute to a shift towards more sustainable land use and landscapes. This REDDX report presents information from Ecuador through the end of 2015. It can help assess the impact and relative scale of REDD+ efforts and identify opportunities to generate synergies and leverage resources to reduce deforestation and encourage more sustainable rural development with lower emissions of greenhouse gases.

Tamara Montalvo, Jacob Olander, Margaret Stern, Paola Zavala

EcoDecisión

JULY 2016

 **EcoDecisión**
investment in nature

FOREST TRENDS
1203 19th Street, NW
4th Floor
Washington, DC 20036
www.forest-trends.org

Abstract

The Paris Agreement (PA) of the United Nations Framework Convention on Climate Change (UNFCCC), adopted on December 12, 2015, marked an important milestone in international climate negotiations and the role of forests and land use. The Paris Agreement is a turning point to formally encourage the adoption of measures with "results-based payments" that contribute to "reducing emissions from deforestation and forest degradation," also known as REDD+, at the jurisdictional and national level. After more than a decade of negotiations, REDD+ is expected to pass from the preparation stage to implementation and financing of policies and tangible actions at significant scales.

Since 2012, EcoDecisión has researched and disseminated data on financing for REDD+ in Ecuador as part of the REDDX global initiative led by Forest Trends. The REDDX initiative aims to provide transparency about the financing mechanisms of REDD+ and information that helps governments and other actors interested and involved in REDD+ to better assess the gaps and needs of national REDD+ strategies. REDDX countries represent over 65% of global tropical forests and include Brazil, Colombia, Ecuador, Mexico and Peru in Latin America; the Democratic Republic of Congo, Ethiopia, Ghana, Liberia and Tanzania in Africa; and Indonesia, Papua New Guinea and Vietnam in the Asia-Pacific. Since its launch, the REDDX initiative has tracked more than US\$6 billion in REDD+ pledges, US \$3.7 billion in commitments and of this amount, over USD \$2.3 billion (60%) has been disbursed to support REDD+ development in 13 key countries.

Ecuador has been innovative in building REDD+ capacity through readiness efforts that have positioned the country for a transition from preparatory measures to implementing results-based actions and payments. These include investments in the country's monitoring and reporting systems about forest cover and emissions, safeguards, and an incentive mechanism for conservation through its Socio Bosque Program.

International financial commitments to REDD+ aim to contribute to a shift towards more sustainable land use and landscapes, with less deforestation and forest degradation and consequently lower emissions of greenhouse gases. In Ecuador, as in other countries (Lowery et al., 2016, McFarland et al., 2015),¹ national and international funding for REDD+ is limited as compared to funding for other activities that affect land use change (e.g., investment, credit, subsidies, sales related to agricultural activities). Clearly, REDD+ financing will be more effective and efficient if aligned and leveraged with other government and private resources to conserve forests and reduce emissions.

This REDDX report presents information from Ecuador through the end of 2015. International financial information flows for REDD+ as well as other sources of public and private financing for the agricultural and forestry sectors have been

¹ Lowery, Sarah, David Tepper, and Rupert Edwards. Bridging Financing Gaps for Low-Emissions Rural Development through Integrated Finance Strategies. Washington, DC: Forest Trends, 2014. 2) McFarland, Will, Shelagh Whitley, and Gabrielle Kissinger. Subsidies to key commodities driving forest loss. Implications for private climate finance. London: Overseas Development Institute, 2015.

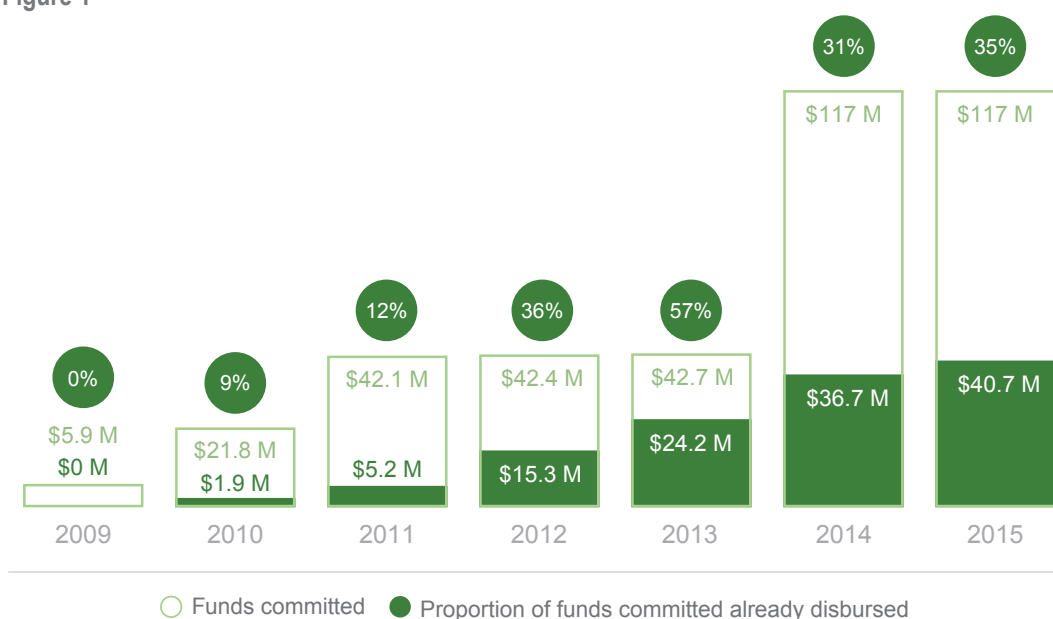
collected, organized and analyzed. The data was validated at a national validation workshop in 2016. This broad overview of land use financing is useful to assess the impact and relative scale of REDD+ efforts and identify opportunities to generate synergies and leverage resources to reduce deforestation and encourage more sustainable rural development with lower emissions of greenhouse gases.

REDD+ Financing in Ecuador

Between 2009 and 2015, international donors pledged a total of US\$117 million in REDD+ financing in Ecuador. Through the end of 2015, a total of US\$40.7 million had been disbursed, with the remainder of current commitments programmed through 2019.

Through the end of 2015, funds for REDD+ implementation focused on preparatory or “readiness” activities for REDD+, including participatory processes with stakeholders, developing monitoring systems, building in safeguards and other aspects of strengthening institutional capacity, mainly of the national government.

Figure 1



In Ecuador, REDD+ resources have not been allocated only to preparatory activities. A large portion of disbursements (42%, US\$17 million) were channeled to rural communities and forest-dwelling groups and individuals through the government’s conservation incentive program called Socio Bosque. The Socio Bosque program has been seen by both the national government and international donors as one of the concrete mechanisms for benefit-sharing in the implementation phase of REDD+.

The national government has been the largest recipient of international funds for REDD+ (40% of total disbursements 2009-2015), reflecting its institutional capacity and demand to exercise a central leading role. The other major recipients in order of importance were international non-governmental organizations (24%), multilateral agencies (17%) and agencies of donor countries (15%).

REDD+ financing was dominated by public entities, as both sources and executors, with minimal involvement of the private sector. This reflects a global trend that has been exacerbated by a national regulatory framework that does not favor the participation of private investment in REDD+.

The year 2015 marked a turning point for REDD+ in Ecuador. The pace of disbursements fell during 2015, with a total of 12 disbursements amounting to US\$3.9 million: US\$ 1.8 million for new projects and US\$ 2.1 million for on-going projects. But this ramping down of previous commitments also coincided with major new commitments that are quantitatively and qualitatively different from those of earlier years.

In 2015, the governments of Norway and Germany were the major funders for the implementation of REDD+, pledging a total of US\$58.8 million in new resources through 2019. Of these resources, US\$43.6 million are in the form of "payment for results" in reducing emissions under the REM program (REDD Early Movers). The activation of these very significant commitments has been delayed by bilateral political difficulties between Ecuador and Germany in late 2014/early 2015.

Other Land Use Finance in Ecuador

Seventy-two percent of deforestation in recent years has been caused by the expansion of pasture area for livestock (65%), cocoa tree crops (4%) and palm oil plantations (3%). Deforestation from these land-use activities is concentrated mainly in the regions where nearly 80% of Ecuador's natural forest cover remains, namely the Amazon and the province of Esmeraldas on the north coast. Much of the agricultural activity in these regions is in the informal sector; unclear land tenure and the small scale of operations limit access to formal finance. However, financial flows from public programs and the financial sector still play an important role for farmers in these heavily forested regions.

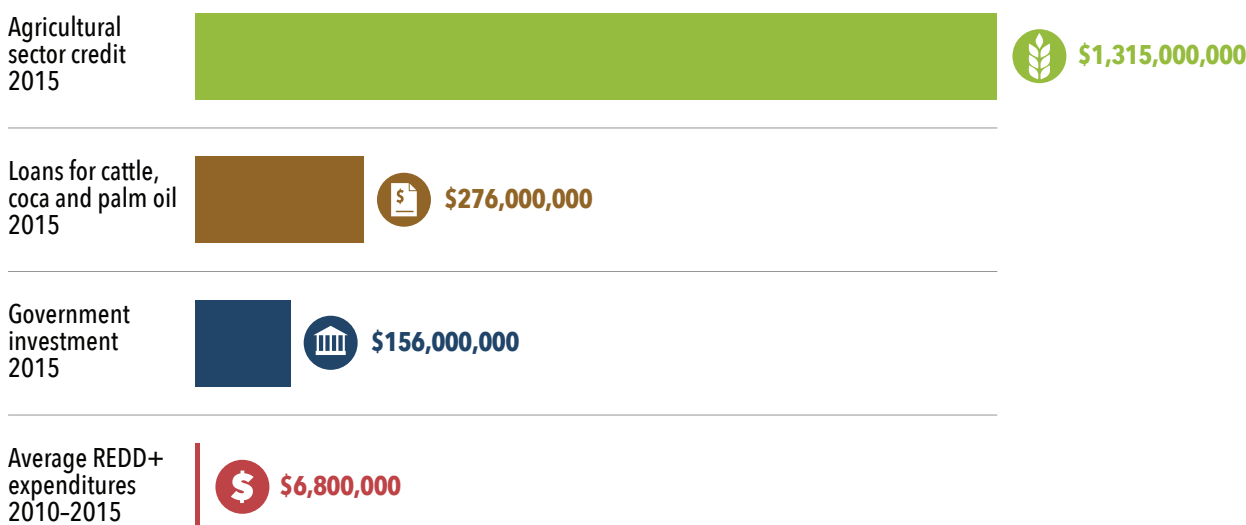
Credit from financial institutions represented more than US\$53 million in loans in 2015 for farming activities in the Amazonian provinces and Esmeraldas where forest cover is concentrated. The amount of farming loans in these provinces, in 2015 alone, was more than the amount of international funding for REDD+ spent by the country over the last six years.

The public financial sector (mainly BanEcuador, Ecuador's national development bank) is especially important in these provinces and for these farming activities. This underscores the importance of aligning environmental public policies and REDD+ funding effectively with public sector investments.

At the same time, the private financial sector provides the majority of finance nationwide, mobilizing a total of US\$175 million for livestock, cocoa and palm oil production. However, it has a disproportionately low influence in provinces of greater forest cover. This suggests an opportunity, or at least a need for further analysis, to see how to make investment in sustainable farming activities more attractive in these regions.

The public sector, especially the Ministry of the Environment and the Ministry of Agriculture, Livestock, Aquaculture and Fisheries, also implements a series of agricultural and forestry programs that, although not usually identified with REDD+ as normally defined, can contribute towards the same goals of conserving forests and/or improving the productivity of already deforested land. Our preliminary review of eight government programs in 2015 estimated that together they mobilized US\$156 million that year for land use activities that could be aligned with the objectives of REDD+.

Figure 2. Relationship between the average REDD+ funding 2010-2015 and loans for farming activities in 2015



Source: Superintendencia de Bancos 2015 (http://www.superbancos.gob.ec/practg/sbs_index?vp_art_id=39&vp_tip=2&vp_buscr=41); Senplades 2015 (<http://www.planificacion.gob.ec/informacion-de-inversion-publica-series-historicas-2/>); EcoDecisión 2016 (http://www.forest-trends.org/documents/files/doc_5053.pdf).

Conclusions and Recommendations

Ecuador, as a result of investments in REDD+ readiness over the last few years, is on the threshold of a significant increase in international funding to implement concrete REDD+ activities. However, the funding available for the farming sector, especially agriculture and livestock, will continue to far exceed REDD+ financing.

To be effective, REDD+ funds will have to be successfully integrated, aligned and used to leverage lending from the public and private financial sectors as well as other public programs. By linking efforts of different programs, policies and funding sources, greater support will be generated for more productive and profitable rural development while stabilizing deforestation, particularly in the country's extensively forested areas.

There are many synergistic opportunities among different actors and financial sources, some of which are already being explored by the Ecuadorian government. These include, among others, integrating environmental considerations in rural public credit, facilitating access to credit for farmers with sustainable activities, leveraging REDD+ resources to improve conditions and terms for rural credit that helps to reduce deforestation, and strengthening the institutional, regulatory and planning frameworks to mitigate a rising risk of deforestation that might be caused by increased funding to farmers in rural areas near forests.