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Focali Brief: 2011:01

In the aftermath of a REDD+ bilateral agreement

The bilateral REDD+ agreement between Norway and Guyana in 2009 has received international attention, both as an innovative model for forest conservation activities under continued economic development, and for allowing Guyana to increase its historically low deforestation rates. Now the discussion turns to Guyana's plans to use the Norwegian REDD+ funds for a project that might in fact increase deforestation in Guyana.

In a Focali publication in March 2010 (Henders 2010) the case of Guyana was described as one of the first bilateral REDD+ (Reducing Emissions from Deforestation and Forest Degradation) agreements, which was based on a Memorandum of Understanding (MoU) with Norway. The MoU establishes a performance-based approach for payments from Norway of 30 million USD in 2010 and potentially up to 250 million USD by 2015 for Guyana's efforts to limit its emissions from deforestation and forest degradation (MOU 2009). The Norwegian funds are to be invested in the implementation of Guyana's Low Carbon Development Strategy (LCDS), which was launched in 2009. While this bilateral agreement is being discussed and presented as an innovative demonstration model for global forest conservation activities under continued economic development, it has also been subject to criticism due to the fact that Guyana has had very low deforestation rates in the past, and the permitted deforestation agreed to in the MoU is actually higher than current rates (Lang 2009, see below). Guyana is a country with an extensive forest cover and low deforestation rates; although different sources quote slightly different rates: while the FAO (2005) reports a deforestation rate of 0% for the years 1990 to 2000 as well as 2000 to 2005, Guyana's REDD+ Readiness Plan (2010) refers to a rate of 0.29% as a result of quick assessment. In contrast to these historically low rates, however, scenarios developed by the consulting company McKinsey for Guyana's LCDS foresee a massive expansion of commercial agriculture, which would cause a globally unprecedented increase in deforestation to a rate of 4.2% per year (LCDS 2010).

About this brief

Focali provides knowledge to Swedish ministries, government agencies and other relevant actors for effective forest management to achieve climate-poverty targets. This brief is a follow-up of the Country Brief Guyana (Henders 2010) and describes latest developments and discussions in the bilateral REDD+ agreeement between Norway and Guyana.

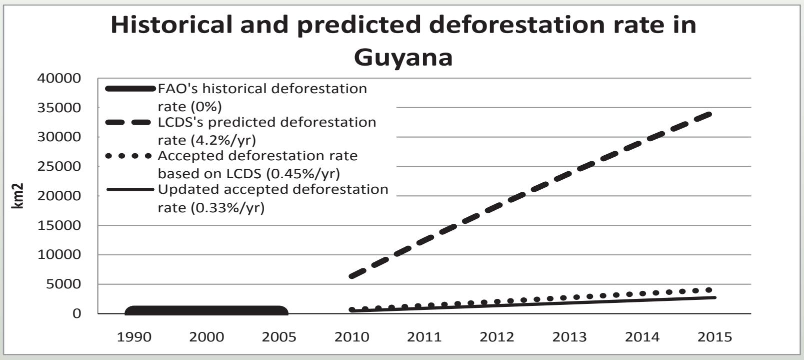

Figure: Historical deforestation rate according to FAO 2005 (0%); predicted deforestation rate according to LCDS 2010 (4.2%/yr) and the agreed limit of deforestation according to the MoU: Original combined reference level (0.45%/yr) and updated level (0.33%/yr). Figures are based on FAO data on a forest area of 151 040 km².

Reference level might increase deforestation

For the purpose of the MoU, Guyana and Norway agreed on the "combined reference level methodology" (CRL) to establish a reference level to which Guyana needs to limit its emissions from deforestation and forest degradation. This approach has been developed by the Joint Research Center of the European Commission (see Achard et al. 2005) and determines a country's reference level through an equal weighting of the national deforestation rate (0.3% for Guyana as per Readiness Plan 2010) and the mean deforestation rate in tropical forested developing countries (0.6%). Based on this, the reference level for Guyana has been set at 0.45% . The equation (as per LCDS 2010) is CRL= (0.5*Guyana's def rate)+(0.5*average tropical country def rate).

The main argument for the CRL method is that it assigns low-deforestation, high forest cover countries higher reference levels in order to create incentives for participation in REDD+, compensate them for good policies in the past (resulting in low deforestation), and allow for a limited increase in deforestation rates in the future. The idea of converging national and global deforestation rates can, however, be questioned (e.g., Angelsen 2008). Further, the practical implication is that Guyana would in fact be eligible for payments even if it were to increase its deforestation rate up to 0.45%. To avoid this, the partnership decided to retrieve updated deforestation rates based on latest monitoring, reporting and verification (MRV) insights until October 2010 the latest. The recently published progress report (GFC and Pöyry 2010) estimates an annual deforestation of 0.02% for the years between 1990 and 2009, and 0.06% for 2009-2010. According to the reference level method applied by the partnership, the updated limit for deforestation in Guyana would be 0.33% instead of 0.45%, still providing much room for increases in deforestation.

Update on MoU and LCDS: what has happened in 2010?

Since March 2010 when the Focali Brief on Guyana was published (Henders 2010), there have been important developments relating to the partnership between Guyana and Norway mainly in terms of the national Low Carbon Development Strategy, and The Guyana REDD+ Investment Fund (GRIF).

The national Low Carbon Development Strategy

In May 2010, an updated third draft of Guyana's LCDS was published. Compared to earlier versions, this document contains national stakeholders' feedback and outcomes of COP15 in Copenhagen and other international REDD+ processes. The revised LCDS sets outs seven areas of strategic importance to the development of a low-carbon economy in Guyana, which are:

1. Government equity in the Amaila Falls Hydro Electricity Company;
2. Accelerating Amerindian land titling, demarcation and extension processes;
3. Amerindian Development Fund;
4. Expansion of fibre optic digital infrastructure;
5. Micro-finance for Enterprises and Vulnerable Groups' Low Carbon Development;
6. Establishment of an International Centre for Bio-Diversity Research and Low Carbon Development;
7. Work on Monitoring, Reporting and Verification Systems (MRVS).

Guyana REDD+ Investment Fund (GRIF)

In October 2010, the financial mechanism for channelling Norway's funds into Guyana was set up at the World Bank, which means that payments can from now on be processed. The establishment of an international and independent fund administrator was a central part of the partnership agreement as it maintains Guyana's sovereignty over LCDS decisions and at the same time ensures adherence to internationally accepted standards, such as financial, social and environmental safeguards in investment decisions (World Bank and Governments of Guyana and Norway 2010). The GRIF will be overseen by a Steering Committee that takes decisions on investments, and is chaired by the Government of Guyana. Members are the Government and the financial contributors to the GRIF; at present only the Government of Norway. In addition, the World Bank as trustee, the GRIF partner entities, civil society organizations and private sector entities will be invited to participate as observers.

Use of GRIF investments – modalities and controversies

The first priority of the LCDS implementation, and according to the Guyanese President Jagdeo "the flagship of the strategy" (DT 2010), is an investment in the large hydropower dam "Amaila Falls" in the Guyanese rainforest. The planned dam project will have an electricity potential of 154 megawatts. The total cost will be around 675 million USD, which will be covered through a mixture of debt (70%) and equity (30%). Part of the debt funding will come from an agreement with the Chinese Development Bank, and another part most likely from the Inter-American Development Bank (IDB). The IDB makes its investment decision dependent on the outcome of an Environmental Impact Assessment, which is currently being undertaken (IDB 2010).

The equity funding on the other hand will be provided by an US company and the Government of Guyana, which is planning to use up to one third of the GRIF funds for 2010 and 2011 for the project (LCDS 2010). Controversial discussions have arisen around the intention to use Norwegian REDD+ funds for the construction of the dam and reservoir that are expected to destroy 0.001% of Guyana's forest area (LCDS 2010) or less than 2 km^2 based on FAO figures (while the Norwegian Environmental Minister gave reference to 70 km2 in

The Norwegian funds are to be invested in the implementation of Guyana's Low Carbon Development Strategy (LCDS), which was launched in 2009. Since March 2010 when the Focali Brief on Guyana was published (Henders 2010), there have been important developments relating to the partnership between Guyana and Norway mainly in terms of the national Low Carbon Development Strategy, and The Guyana REDD+ Investment Fund (GRIF).
Photo: Samuel Rich

late 2010 (Nationen 2010)). In addition to the direct impacts, the construction of a new, 110 km long access road through pristine rainforest is likely to cause further deforestation in future (DT 2010). According to a Norwegian official the GRIF investment decision into Amaila Falls has not been made yet and will need approval by the GRIF Steering Committee (DT 2010). This can only be granted if the project meets the environmental and social safeguards of a "partner entity". If the Environmental Impact Assessment currently undertaken for the IDB reveals that the project is in line with the Bank's environmental and social safeguards, then the GRIF Steering Committee will not have any reason to reject the use of Norwegian REDD+ funds in the Amaila Falls hydro project. This situation means that Norway's payments for forest conservation might be used to finance forest destruction; albeit with emission-saving ends.

Different rationales – donors and receivers

From a REDD+ donor's point of view... the MoU between Norway and Guyana is one of the first bilateral REDD+ agreements worldwide (alongside agreements with Brazil and Tanzania) and as such gains substantial attention. Accordingly, Norway's interests will not be served if it becomes known for financing an increase in deforestation rather than a reduction, or even to be accused of creating perverse incentives for deforestation.

Norway did not have any previous diplomatic or ODA relations with Guyana (DT 2010) and accordingly no official ODA agreement in place that could provide the legal framework and specific conditions for how the money can be used. The GRIF as intermediate trust fund was therefore needed to enable Norway to ensure that their climate funds are invested according to internationally accepted quality standards. Although basic international quality standards are now applied to all GRIF investments, in this case an IDB-approved EIA could be insufficient to ensure that Norway's interest in achieving "no national-level increase of deforestation" (JCN 2009, p.10) is met in Guyana.

From a REDD recipient's point of view... the GRIF funds present a long-awaited opportunity to finally realise decade-old plans to develop hydropower within Guyana. Amaila Falls is seen as a first step towards the redirection of the entire economy away from fossil fuel imports for energy generation and towards an autonomous source of renewable energy, which will reduce emissions from that sector in the long term. Short term deforestation of a very limited area justifies this end in Guyana's view (LCDS 2010).

Crucially, the intended use of the GRIF funds is in accordance with agreements that have been made:

- The Amaila falls project has long been on top of the priority list contained in the LCDS; it is not a new and surprising proposal.
- The partnership modalities allow Guyana to increase deforestation significantly from current levels (GFC and Pöyry 2010).

In conclusion

It seems that Norway has little influence over the final decision as to whether funds can be used for a project that could induce further deforestation. The international standards and safeguards that have been adopted do not preclude this possibility. According to the rules and modalities agreed by Norway and Guyana, the approval of the project is now dependent only on a decision by the IDB.

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Sabine Henders and Madelene Ostwald (2011)

Controversial discussions have arisen around the intention to use Norwegian REDD+ funds for the construction of the dam "Amaila Falls" in the Guyanese rainforest that are expected to destroy 0.001% of Guyana's forest area (LCDS 2010).
Photo: Samuel Rich

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Photo: Sabine Henders

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