Assessing Performance-Based Payments for Forest Conservation: Six Successes, Four Worries, and Six Possibilities to Explore of the Guyana-Norway Agreement

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In 2009, Guyana created a Low Carbon Development Strategy to develop economically while keeping its entire forest intact, and signed a Memorandum of Understanding with Norway to receive performance-based payments in the tens of millions of dollars annually contingent upon holding nationwide deforestation to a near-zero rate. In mid-February, 2014, we visited Guyana as part of a three-country study to attempt to gain insights of value to the future expansion of performance-based payments in other countries and other sectors. We are grateful for the time and expertise of the 25 experts[1] in Georgetown, Guyana, with whom we spoke February 17-19, 2014, and with whom we have shared these reflections. The views expressed here are ours alone.

Six Successes

1. **MRV.** Guyana has built with the assistance of Norway a national system for monitoring, reporting and verifying deforestation and carbon emissions. Though Guyana's deforestation rates have remained extremely low by international standards, the National MRV system has identified a recent rise in emissions from deforestation, and has been able to attribute the increase to a particular driver—gold mining.

2. **Reference Level.** The reference level has succeeded as the basis for making payments-for-performance in a high-forest, low-deforestation country. Modification of the terms of the reference level in the second Joint Concept Note (2011) to add a sliding payment scale is evidence of a healthy level of trust and interchange between Guyana and Norway, and a flexible "learning-by-doing" approach to the partnership.

3. **Performance-Based Payments.** The performance-based payment system has functioned as designed. Three tranches of performance-based payments of about $115M have been approved from Norway to the Guyana REDD+ Investment Fund (GRIF), of which about $65M has been delivered. Payments have been lower in years when deforestation emissions are higher, consistent with a credible contingent payment system.

4. **Broad buy-in for the principles of the Low Carbon Development Strategy.** The LCDS originated with the office of President Jagdeo rather than externally, and passed unanimously through Parliament. The Government of Guyana undertook a vast and unprecedented effort to transmit understanding of the

[1] We are grateful to President Donald Ramotar, Office of Climate Change, Forestry Commission, Geology and Mines Commission, People's National Congress Reform/A Partnership for National Unity, Guyanese Organization of Indigenous Peoples, Amerindian People's Association, Amerindian Action Movement of Guyana, Inter-American Development Bank, United Nations Development Program, Ambassadors of the United States, United Kingdom, European Union, Canada, Iwokrama, Conservation International, World Wildlife Fund.

LCDS to remote regions (consultations), and to include sectors of society in the decision-making process (the Multi-Stakeholder Steering Committee). As a result, the idea of Guyana as a steward of its forests for the benefit of both the people of Guyana and of the rest of the world is broadly shared: by the government, in the opposition, and in civil society. Our understanding is that Guyana is not constrained in the projects it proposes to include in the LCDS for funding through its agreement with Norway.

5. **Some notable strengthening of institutions of forest governance.** In addition to the considerable progress in developing an MRV system, the government has begun to undertake several reforms for low-carbon development. For example, the Forestry Commission has tightened reporting requirements for FLEGT, the Geology and Mines Commission has begun to track lease activity, a National Land Use Map is being developed, and Priority Biodiversity Forests are being identified.

6. **Delivery of some money flowing to smaller projects.** Amerindian community development projects have begun through UNDP, while monitoring, reporting and verification (MRV) has advanced through Conservation International.

Four Worries

1. **Increasing commercial pressures from gold and logging markets.** The recent, unanticipated expansion of deforestation for gold mining spurred by a recent spike in global gold prices demonstrates the challenge of minimizing deforestation in the face of globally transmitted commercial pressures. Moreover, roads created by the mining sector will persist in facilitating access into forests even after gold prices have fallen. Pressure to deforest is likely to continue rising with the eventual completion of the Linden-Lethem road, deep-water port development, and increasing commercial pressure for logging.

2. **Slow delivery of finance – apparently associated largely with concerns of the "partner entities" about procurement.** Slow delivery of money from the GRIF to planned spending in Guyana (most notably for the Amaila Falls hydropower project) puts at risk local support for forest preservation and the LCDS in general in the face of the commercial pressures above.

3. **Outside partners focused mostly on compliance.** The World Bank and the Inter-American Development Bank were brought in as "partner entities" in executing specific projects in large part to ensure compliance of the government of Guyana with standard safeguards (fiduciary, social and environmental). But the focus of the banks on compliance with safeguards in the context of investment projects, particularly regarding procurement, appears to have eclipsed the institutions' potential contribution to the broader policy dialogue on how Guyana might tackle such challenges as introducing new technologies that would encourage responsible (lower-deforestation and higher-productivity) mining; creating incentives for investment in industries adding value in logging; and encouraging job-creating eco-tourism. The outside institutions, including Norway itself, are in that sense "missing the forest for the trees" – focusing on sticks to prevent bad outcomes while neglecting carrots, including for the private sector, to encourage good outcomes.

4. **Uncertainty beyond 2015.** A long-term shift in the development trajectory requires clarity that Guyana will be able to access financial support for low-carbon development beyond the end of the current MoU in 2015. And if commercial pressures increase further, the current transfers through the

Norway agreement, though substantial, may not be sufficient to compensate for the opportunity costs of alternative economic activities. Even now the transfers are small relative to recent annual royalties associated with mining concessions (about $40 million a year compared to about $100 million in 2011).

Six Possibilities for the Partners to the Agreement to Explore

1. **Tell, but also show: get benefits and reforms flowing quickly.** Rapid disbursement of payments and implementation of reforms is necessary to support low-carbon development in contrast to mine-and-log development, and will increase local understanding in a way that consultations alone cannot. Possibilities that the partners to the agreement could explore include:

    a. For some existing or new LCDS activities, use alternative instruments to the conventional investment project: the World Bank Program-for-Results loan and/or small, targeted policy-based loans.
    b. Consider requesting some disbursements that do not need to go through government procurement, e.g. disbursements against a universal annual per-person cash transfer, as a means to more quickly share the benefits the Guyanese people's forest stewardship (this could be closely linked to the size of the Norwegian transfer to signal the nature of the transfer). Alternatively or in addition, transfers could be made into a a sovereign wealth fund from which interest could eventually be shared.
    c. Request use of a portion of the annual payment to set up a separate fund for Guyana to buy advice from an agreed positive list of consultants, non-profits and other entities and agencies; this could be set up on a revolving basis.
    d. Request more use of an *ex post* approach to safeguards by partner entities**.** There may be opportunities within existing investment programs under the LCDS to shift application of some safeguards from upfront hurdles to *ex post* auditing and independent evaluations (ie. "trust but verify"), as has been done for consultations, monitoring of carbon, and governance indicators.
    e. Expand the list of partner entities to include delivery partners from civil society (e.g. Iwokrama) that can more rapidly translate funding into action and understanding on the ground.

2. **Begin dialogue now on the next round of partnership.** Starting a dialogue early will provide confidence in the continuity of the LCDS within Guyana, and will have positive repercussions in broadcasting a shared perception of success to the rest of the world.

Larger context

Until an international market for reduced emissions from deforestation is established, perhaps as part of a global climate agreement implemented by 2020, bilateral payment-for-performance agreements are important to test models for reducing deforestation and delivering contingent finance. But while buyers who purchase a service in a market don't generally ask how money will be spent after the service is purchased, funders in bilateral agreements require reassurances that the money they have spent will be used satisfactorily. This is especially true when funds originate from aid budgets. As a result the purchasing country must either devote staff to administering safeguards or outsource this role to an intermediary. In the short run, efficiently delivering contingent payments for environmental services will require some innovation on the part of the aid agencies and financial intermediaries. In the long run, it will help to have the OECD and the new Global Partnership for Development Cooperation recognize the distinction between traditional aid transfers (ODA) and transfers in support of global public goods (GPGs) that will eventually occur through a future carbon market.