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# Financing REDD+: Issues with absorptive capacity

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## Key message

For REDD+ to be effective, absorptive capacity needs to be developed and strengthened at all levels within national society.

**1 Lack of national absorptive capacity is a long-known challenge.** There are numerous examples of attempts by the international community to raise and utilise finance in response to issues ranging from poverty alleviation to protection of biodiversity. In some cases this has been successful, but there are many other examples where it has, at best, only partially succeeded and, at worst, failed entirely. There are many reasons for this lack of success, but a key one, particularly in cases where the recipient countries are poor (which is the case for many rainforest nations), has been a lack of domestic capacity<sup>1</sup>.

**2 A lack of absorptive capacity can be caused by institutional constraints, human capital constraints, or it can be related to the levels of finance received.** Institutional and human capital constraints include:

- A lack of effective institutions to develop coordinated strategies;
- Poor transparency and inefficiency of budget systems;
- Inconsistent or unsuitable patterns of public expenditure (for example, lack of consistency in types of projects being supported);
- Lack of expertise in dealing with complex and highly technical agendas, and competition over limited pool of capable staff.

These require country-specific analysis to understand the key bottlenecks and constraints.

**3 Issues of absorptive capacity can create an unsustainable funding system.** In the case of development aid there is a growing body of research, which indicates that if aid exceeds a certain level in relation to GDP, it ceases to be effective. Different studies have estimated that this occurs when aid reaches anywhere between 15-45% of GDP and suggests that beyond this level the marginal benefits of additional aid inflows becomes negative<sup>2</sup>. This may occur because:

- Significant levels of aid in the form of foreign currency may provoke a 'Dutch disease' effect causing an appreciation of the exchange rate and therefore harming the export sector (However, this could have a positive impact on forest conservation, as export-led logging declines);
- Aid flows are often unpredictable and volatile, and therefore can negatively influence macroeconomic stability by triggering inflation, interest-rate and exchange-rate volatility.

**4 There can also be negative impacts on governance.** This may occur because high (and increasing) levels of aid dependency can provide negative incentives for much needed reforms, and shift government accountability from domestic to international actors<sup>3</sup>. The way in which aid is delivered (budgetary support,

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pooled funding or project support) and the institution via which it is delivered (government, private sector, or civil society) has been shown to impact on its effectiveness<sup>4</sup>.

- 5 **Raising funds for REDD+ versus using funds for REDD+.** Most REDD+ initiatives have focused on how to raise finance to support REDD+ efforts without thinking through the implication of how this money will impact on many of the rainforest countries who will be receiving it<sup>5</sup>. If there is a lack of absorptive capacity to access and use funds quickly and effectively, efforts to raise funds for REDD+ will be compromised. In the context of REDD+ one way to address absorptive capacity constraints in certain countries would be to focus on sub-national approaches in the interim, which can then gradually scale-up to a point where national progress can be made<sup>6</sup>. However, forest legislation and policy can only be dealt with at the national level to effect credible and legitimate change (Angelsen, 2009).

### Key publications on this issue

Brown, D. and N. Bird (2008). [The REDD road to Copenhagen: readiness for what?](#) ODI Opinion 118. ODI, London.

De Renzio, P. (2005) [Scaling up versus absorptive capacity: Challenges and opportunities for meeting the MDGs in Africa.](#) ODI Briefing Paper. ODI, London.

IDD and Associates. (2006) 'Evaluation of General Budget Support: synthesis report. Executive Summary.' International Development Department, University of Birmingham, UK.

Nussbaum, et al (2009) '[Accelerating Transfers of Interim Finance for REDD+: Building Absorptive Capacity](#)' ProForest, Oxford.

Persson, R. (2000). Assistance to forestry: what have we learnt? *International Forestry Review* 2(3), 218-224.

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1 Persson, R., 2000

2 De Renzio, 2005

3 Ibid.

4 IDD and Associates, 2006

5 Brown and Bird, 2008

6 Nussbaum, 2009