

## **Working Group #4 TFD REDD Financing August 5, 2009 Gland, Switzerland**

### **Question #2 Safeguards / FPIC**

- **How can they be carried out in the negotiations on REDD finance mechanisms?**

### **Comments**

- Safeguards are better addressed at the national level because easier to address at national levels than to address at international levels
- Can have robust guiding principles developed at international level that influence in a non-binding fashion national level process but don't predetermine the outcome of the national process
- No guidance yet on legal contracts under various property rights regimes
  - o Recourse
  - o Transferring, bequeathing, gifting, and selling forestry carbon rights across
    - Municipalities
    - States / provinces
    - Tribes
    - Nations
- No guidance yet on financial accounting for forestry carbon projects from the International Accounting Standards Board and Financial Accounting Standards Board
  - o Are forestry carbon credits an absolute fee simple property right?
    - Intangible assets
    - Tangible assets
- What are safeguards and when are they needed in the REDD process?
- Safeguards for whom?
  - o Primarily
    - Communities
    - Earth
    - Biodiversity
    - Water
    - Women
  - o Of note
    - Finance
      - Sellers
      - Buyers
    - Legal
    - Permanence

- Methodological
  - Insurers
  - Reinsurers
  - Etc.
- Can we endorse national stakeholder process and national standards setting process such as how PEFC endorses national stakeholder and certification process?
  - Barrier for entry to phase III if national safeguards are not met
  - Partial safeguards are met, then barrier for entry to phase III is adjusted over time
  - Full safeguards are met, then barrier for entry to phase III is minimal
  - Mimic Climate, Community, Biodiversity Standards Alliance national standards development and monitoring and verification approach (currently under development)
- Bilateral grants should have safeguards built into the process
  - Transparency
  - Participation
- Put FPIC, in spirit, in words in a more diplomatic manner
  - Mitigate China “blocking threat”
  - Possible relative synonyms for FPIC
    - Look for possible relative synonyms and phrases for FPIC
  - Guidelines for “consultation (FPIC)” early engagement process
    - The World Bank is promoting FPIC in FCPF and FAO / UNDP / UNEP in UN-REDD
  - Maybe FPIC will be in more detailed post-Copenhagen text(s)
  - What about countries that have self-supported REDD mechanism such as Brazil and others?
    - Can they develop REDD strategies without honoring specifically FPIC?
  - Three FPIC solutions
    - Market-based
    - International
    - Nationally Appropriate Mitigation Actions
  - Future stakeholders have no say
  - Dead stakeholders have no say
    - Ancestral spiritual opinions
- Will investors always buy the best?
  - What do investors know about FPIC?
  - Do buyers understand FPIC?
- Organizations, nations, and governmental agencies need to enforce FPIC

- Lacey Act is US legislation
  - Will the US enforce Lacey Act legislation?
- Safeguards is about enforcing the precautionary principle and the “do no harm” principle

### Questions #3 Co-benefits

- **Should REDD finance mechanisms be designed to ensure them?**
- **If so, how?**
- **Can UNFCCC achieve that?**

### Comments

- Loading REDD with too many ecosystem services and community co-benefits?
- Since biodiversity under Ministry of Environment which is the weakest section of many governments
  - Yet, in the same country, Ministry of Economics and Energy / Forests, Land management etc. must now implement biodiversity co-benefits
    - Improving biodiversity co-benefits unimplementable by Ministry of Environment
    - Improve CBD
    - Improve ecosystem services quality
  - Must have an ecosystem approach
  - Now forests must be valued for carbon, timber, and biodiversity / communal ecosystem services
    - Services are undervalued
    - Now must use universal valuation
      - Soil protection valued
      - Biodiversity valued
      - Water valued
    - (similar to Eliasch Review)
  - Need to link biodiversity offsets with forestry carbon offsets
    - 2007 biodiversity offsets trade in US valued at US\$ 300 million (?)
  - Need to link water quality trading rights with forestry carbon offsets
    - 2007 water quality trading rights in US valued at US\$ 1 billion (?)
  - Can we suggest “do no harm” to co-benefits under REDD? (safeguards)
    - “do no harm” to biodiversity
      - Must monitor and verify
    - “do no harm” to water quality
      - Must monitor and verify

- Develop international funding mechanisms for biodiversity offsets and water quality trading rights
  - Market mechanism such as
    - Malua BioBank
      - US\$ 25 per 100 sq meters per year
      - Selling to oil palm producers
      - 33,000 hectares
      - Sabah, Malaysia
      - TZI (Markit) is the registry
  - Fund mechanisms similar to CBFF broadly speaking for biodiversity and water quality. Complexity of assigning empirical value to biodiversity – would be undesirable to link directly to REDD markets
  - Monitoring and measuring biodiversity change and social impacts could be compulsory under multilateral/bilateral funds for REDD readiness and PAM phases.
  - National level
    - CBD COP 10 will meet in Osaka, Japan 2010
    - Linking of biodiversity to forestry carbon
- Look at “paper” protected areas
- Develop specific funds for biodiversity credits or use CBFF
- REDD is an adaptation measure
- Funding appropriate “land-use planning”
  - Conflicting “land-use planning”
    - Mining versus forestry
    - Mining versus carbon
  - Multi-use overlapping
- REDD is next great scale of large-scale land-use change
  - Part of countrywide development agenda
  - Part of long-term sustainability planning
  - Cross-sectoral nature

#### **Question #4 Commitment Issue**

- **Should there be an option to “opt-out” by NAI countries?**
- **If so, in which phase?**

#### **Comments**

- Yes, countries can opt-out
  - Contractual issue
  - How will this impact confidence in markets?

- Sovereign bonds are currently being developed to finance forestry carbon “Reddiness” with a partial periodic payment of forestry carbon credits to the bondholder
- Direct insurance for forestry carbon
  - Reinsurance
- Developing market quality
  - Assurance of completion
  - Transparency
  - Liquidity
- Mandatory part of Annex 1 commitment yet voluntary for non-Annex 1 countries?
  - Moral hazard because “Brazil keeps everyone out of the market so as to benefit Brazil”
- Maybe less than half of the countries will be able to receive funding under FCPF – because of governance/capacity gaps
- Can we develop a program similar to the Joint Implementation program?

#### **Question #5**

- **Triggers for moving through different phases with a finance focus**

#### Comments

- Pilots can start when ready
- Many pilots are being developed by
  - Not for profit organizations
  - For profit organizations
- Trigger to next stage should have indicators monitoring
  - Transparency
  - Local community development
  - Distribution of monies from national to local government
  - Biodiversity
  - Performance indicators
  - Water quality trading rights
  - Awareness throughout all stakeholder groups
  - International intergovernmental stakeholder approval
- Start with softer and then move to harder triggers and indicators
  - Due process
  - Countries need to know where they are at in the phase and how they are doing with the criteria