REDD Financing: Overview of Key Issues

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Objectives

To contribute to scoping the issue of REDD financing

More specifically, tentatively,

- Identify key themes (5) related to REDD financing mechanisms and related issues
- Explore some options to address them
- Identify commonalities, divergencies and fracture lines among stakeholders on issues and options
## Existing International Forest Financing Landscape

<table>
<thead>
<tr>
<th>Source</th>
<th>USD mill./yr</th>
<th>Main focus areas (Forestry)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bilateral donors</td>
<td>1,100</td>
<td>Capacity building, catalytic investments.</td>
</tr>
<tr>
<td>World Bank Group</td>
<td>587</td>
<td>Poverty, sustainable development, global environmental services</td>
</tr>
<tr>
<td>Other MDBs</td>
<td>94</td>
<td>Sustainable economic development, environmental conservation</td>
</tr>
<tr>
<td>GEF</td>
<td>109</td>
<td>Biodiversity, land degradation and climate change.</td>
</tr>
<tr>
<td>UNFCCC/CDM</td>
<td>::</td>
<td>Afforestation/reforestation offsets</td>
</tr>
<tr>
<td>BioCarbon Fund</td>
<td>10</td>
<td>Afforestation and reforestation</td>
</tr>
<tr>
<td>FCPF</td>
<td>[25]</td>
<td>REDD readiness building and offsets</td>
</tr>
<tr>
<td>UN-REDD Program</td>
<td>[12]</td>
<td>Specific REDD capacity building</td>
</tr>
<tr>
<td>Strategic Climate Fund/FIP</td>
<td>[80]</td>
<td>Climate resilience and maintenance of carbon-rich ecosystems. Upfront SFM investment</td>
</tr>
<tr>
<td>FAO and NFP Facility</td>
<td>48</td>
<td>Technical assistance, national forest programs</td>
</tr>
<tr>
<td>ITTO</td>
<td>16</td>
<td>Capacity building for SFM.</td>
</tr>
<tr>
<td>Conservation funds</td>
<td>..</td>
<td>Biodiversity hotspots and other protected and conservation.</td>
</tr>
<tr>
<td>Voluntary and other carbon markets</td>
<td></td>
<td>Forest conservation, afforestation and reforestation.</td>
</tr>
</tbody>
</table>

1E.g., Critical Ecosystem Partnership Fund, Amazon Fund, Congo Basin Forest Fund, etc.
Main Geographic Gaps in Forest Financing

- Many low forest cover countries
- Many countries with high or medium forest cover
- Many small or medium-sized countries with still large forests
- Most small island countries

- Africa is lagging behind other regions

- Many least developed countries and low income countries
Main Thematic Gaps in Forest Financing

- Forests outside protected areas
  - Management of natural tropical forests
- Restoration of degraded forests
- Reforestation and afforestation of degraded lands and drylands

⇒ Cross-cutting gap: Upfront investment for sustainable forest management
**Key Strategic Gap: Upfront Investment for SFM**

<table>
<thead>
<tr>
<th>Initial upfront investment</th>
<th>Mainstreamed upfront investment</th>
<th>Sustained financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Analytical work (DD drivers, barriers to SFM, PES market potential, etc.)</td>
<td>1. Implementation of policy reform (incl. cross-sectoral impacts on forests)</td>
<td><strong>PES schemes</strong></td>
</tr>
<tr>
<td>2. Stakeholder participation and engagement</td>
<td>2. Strengthening of institutions</td>
<td>1. REDD payments (sink protection)</td>
</tr>
<tr>
<td>3. Planning (nfp, specific national strategies, e.g. REDD, bioenergy, forest biodiversity)</td>
<td>3. Land use zoning and planning</td>
<td>2. Sink creation payments (afforestation, reforestation, forest management)</td>
</tr>
<tr>
<td>5. Monitoring and verification system design</td>
<td>5. Strengthening of law enforcement</td>
<td>4. Landscape offsets</td>
</tr>
<tr>
<td>8. Programme and project design</td>
<td>8. Infrastructure development</td>
<td><strong>Forest products and services</strong></td>
</tr>
</tbody>
</table>

| 11. Research and innovation (silviculture, harvesting, utilization) | 11. Strengthening of stakeholder constituencies (smallholders, forest communities, civil society, private sector) | 3. Ecotourism and other |
| 12. Market-based and other voluntary instruments (certification, C&I implementation) | 12. Implementation of monitoring and verification systems | 4. Other services |
| 13. Company-community/smallholder partnerships | | |
| 14. Implementation of monitoring and verification systems | | |
Climate Change Mitigation Potential through Forestry Measures in Non-Annex I Countries

Total forest mitigation potential will be 11 GtCO₂/year in 2030

Source: IPCC 2007
Financing Needs for Climate Change Mitigation

**UNFCCC 2007 estimates for Non-Annex I countries by 2030**

<table>
<thead>
<tr>
<th>Item</th>
<th>USD billion/year</th>
</tr>
</thead>
<tbody>
<tr>
<td>opportunity costs for REDD</td>
<td>12.2</td>
</tr>
<tr>
<td>Investment needs for sustainable forest management</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.4</strong></td>
</tr>
</tbody>
</table>

**Eliash Review 2008 estimates by 2030**

USD 17-33 bill./year

which could be covered by

- REDD offsets
- Other sources

USD 7 bill./year
USD 10-26 bill./year

**European Union**

EUR 15-25 bill./year
## Scope of Forest Mitigation Options

<table>
<thead>
<tr>
<th>Changes in</th>
<th>Reduction of emissions</th>
<th>Enhancement of forest carbon stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forest area (measured in hectares)</td>
<td>Reduced deforestation</td>
<td>Creation of new forests Afforestation and Reforestation (A/R), rehabilitation of degraded forest lands (not classified any more as forests), natural expansion of forest to non-forest land</td>
</tr>
<tr>
<td>Carbon density (measured in amount of carbon stored per hectare)</td>
<td>Reduced forest degradation</td>
<td>Sustainable forest management including conservation, restoration of degraded forests, regeneration, and other forest management activities</td>
</tr>
</tbody>
</table>

Source: Adapted from Angelsen et al. (2009)
<table>
<thead>
<tr>
<th>Deforestation rate\relative forest cover</th>
<th>Low forest cover countries</th>
<th>High forest cover countries</th>
</tr>
</thead>
</table>
| Countries with high deforestation rate   | REDD: high/medium potential  
SFM: low/no potential  
Restoration: high potential  
A/R: high potential | REDD: high potential  
SFM: high potential  
Restoration: high potential  
A/R: high potential |
| Countries with low deforestation rate    | REDD: low/no potential  
SFM: low/no potential  
Restoration: medium potential  
A/R: high potential | REDD: medium potential  
SFM: high potential  
Restoration: low potential  
A/R: low/medium potential |
| Countries with zero deforestation/ increasing forest area | REDD: no potential  
SFM: low potential  
Restoration: low/medium potential  
A/R: medium potential | REDD: no potential  
SFM: high potential  
Restoration: low/no potential  
A/R: low potential |
REDD+ Scope: Divergences and Fracture Lines

- Relative priority to be given to carbon enhancement activities: increasing carbon density and creation of new carbon pools through new forests
- Relative priority to be given to co-benefits
- Participation of other than High Deforestation countries
- Industrial plantations

⇒ The choices are critical for effectiveness, equity and other impacts of REDD
REDD Financing Options

1. Voluntary fund(s)
2. Direct market mechanism(s)
3. Hybrid/market linked mechanism(s)

There are various proposals for each option with variations to improve effectiveness and to mitigate risks.

⇒ The choice between options is critical for climate and other benefits and impacts of REDD
Some Specific Proposals for REDD Financing

- Coalition of Rainforest Nations (Kevin Conrad) (developing countries to acquire AAUs from REDD countries against REDD credits and sell these)
- Waxman-Markey Bill proposal (sale of Annex I country AAUs by developing countries)
- EU Global Carbon Mechanism (proceeds of auctioned allowances in the EU ETS as main source of EU contribution in the short term)
- Meridian Institute (Angelsen et al. 2009)
- REDD bonds (Prince Rainforest Project)
Possible Initial Elements of an "Ideal" REDD Financing Scheme

- Effective in achieving climate mitigation objectives
- Capacity building
- Flexibility of entry for participating countries
- Performance-based payments from early implementation
- Predictability, sustained adequate funding: large-scale financing of REDD activities from a variety of sources
- Phased approach
Phased Approach to REDD Financing Options

- Phase 1. Initial support for national REDD strategy development (REDD Readiness) financed by voluntary contributions

- Phase 2. Voluntary fund-based financing linked with performance in the implementation of the national REDD strategy (a fund or a clearinghouse)

- Phase 3. Financing instrument rewarding performance in quantified forest emissions and removals against agreed reference levels

Source: Angelsen et al. 2009
REDD Financing: Divergences and Fracture Lines

- Fund or market-based approaches
- National vs. subnational/project-level financing
- Large-scale government-driven scheme vs. local stakeholder-driven approaches
- Ex-post payment of mitigation services vs. upfront/ during implementation
- Mechanisms to raise financing (auctioned allowances saleable AAUs, levies, etc.)
- Fungibility of REDD credits (flooding of the CO2 market)
- Allocation of funds for co-benefits
Benefits and Participation

- Potential benefits differ by interest groups
- Preconditions to have access to benefits:
  - land and carbon tenure rights
  - adequate governance
- Slowness of policy and implementation processes
- Need for mechanisms for benefit distribution
- Support needs to indigenous people and local communities
Benefits and Participation: Divergences and Fracture Lines

- Interpretation of equity principle
- Equity between countries (incl. non-emitting countries)
- Sharing of benefits within the country
- Pro-poor REDD
- Participation of stakeholders in REDD processes and implementation
- Safeguards: focus and contents of forest carbon standards
Additionality: REDD Reference Levels

- Sub-national/national/global
- Historical trend/present level/projected level
- Adjustment factors
- Procedures of setting and adopting reference level

 Choices determine the amount of REDD financing received
Measurement, Reporting and Verification: Divergences and Fracture Lines

- National forest definition
- Definition of forest degradation
- Temporary reduction of the carbon stock
- Measurement approach (3 tiers) and its application in national conditions

**Choices determine:**

- The amount of REDD financing received
- How forests can be managed
- How co-benefits are impacted
Thank You

(I hope this did not add to your confusion)

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