



THE FORESTS DIALOGUE

TFD STEERING COMMITTEE 2009

George Asher
Lake Taupo Forest Trust -
New Zealand

Marcus Colchester
Forest Peoples Programme

Minnie Degawan
International Alliance of
Indigenous and Tribal Peoples
of the Tropical Forests

Gerhard Dieterle
The World Bank

Peter Gardiner
Mondi

James Griffiths, TFD Co-Leader
World Business Council for
Sustainable Development

Jack Hurd
The Nature Conservancy

Peter Kanowski
Australian National University

Matti Karjula
Stora Enso

Mikhail Karpachevskiy
Biodiversity Conservation Center -
Russia

Lars Laestadius
World Resources Institute

Stewart Maginnis, TFD Co-Leader
International Union for the
Conservation of Nature (IUCN)

James Mayers
International Institute for
Environment and Development
(IIED)

Colin McKenzie
Global Forest Partners

Cassie Phillips
Weyerhaeuser Company

Bob Ramsay
Building and Woodworkers
International

Carlos Roxo
Aracruz Celulose

Antti Sahi
Confederation of European
Private Forest Owners

Liz Sandler
American Forest Foundation

Roberto Smeraldi
Amigos da Terra - Amazonia
Brasileira

Ken Strassner
Kimberly-Clark

Rod Taylor
WWF International

Justin Ward
Conservation International

Emmanuel Ze Meka
International Tropical
Timber Organization

Gary Dunning
Executive Director
The Forests Dialogue

3rd Dialogue on Frameworks for REDD-plus Finance and Implementation¹

5-6 August 2009 - Gland, Switzerland

Co-chair's Summary Report

James Griffiths and Stewart Maginnis

Introduction

Building upon the consensus statement developed in 2008², which now enjoys a wide degree of support among leaders in the forest community, The Forests Dialogue (TFD) has initiated a series of multi-stakeholder dialogues on REDD (Reducing Emissions from Deforestation and Forest Degradation) Finance Mechanisms with a view to:

- ➔ Define the challenges and opportunities of the financial mechanism options currently debated in the international community;
- ➔ Elaborate on the possible solutions for identified challenges;
- ➔ Develop a series of multi-stakeholder supported recommendations on frameworks for REDD-plus finance and implementation for discussion with negotiators in the lead up to, and during, COP-15 in Copenhagen.

The first dialogue in the series was convened on 25-26 April 2009. It was hosted by the United Nations Forum on Forests (UNFF), during its 8th Session in New York City, USA. The dialogue successfully engaged 50 leaders from a wide spectrum of stakeholders in a constructive discussion about the current leading options for REDD-plus finance mechanisms and the challenges for successful implementation.

The second dialogue was co-hosted by Swiss State Secretariat for Economic Affairs (SECO) and Intercooperation on 19-20 June 2009, in Montreux, Switzerland. It attracted 37 participants from different key stakeholder groups who were given the chance to comment on the outcomes of first dialogue, discuss safeguards and the "phased approach" in light of current UNFCCC AWG-LCA negotiations on REDD.

This dialogue is the third and final one in this initiative in 2009 and was hosted by International Union for Conservation of Nature (IUCN) on 5-6 August in Gland, Switzerland. 31 participants from a wide spectrum of stakeholder groups joined the meeting. A summary of the dialogue along with its key outputs is presented below.

Gland Program

The primary tasks for Gland Dialogue were to address several key issues raised in Montreux Dialogue and to further flesh out a framework for REDD-plus finance and implementation based on the phased approach framework developed in Montreux.

In addition to “Financing Mechanism for Forest Mitigation Options: a background/working paper for TFD Dialogue in Montreux, Switzerland”³, the co-chair summary for Montreux Dialogue and the “Short input for the TFD Meeting in Gland, Switzerland on REDD and NAMA: Update with specific reference to the current negotiations text”⁴ were distributed among participants prior to the dialogue as background documents for further discussions in Gland.

(All documents available at www.theforestdialogue.org).

Key outputs from the first two dialogues under this initiative and some updates on REDD financing on the Climate Change Negotiation front were presented to all participants at the beginning of the Gland Dialogue before participants were divided into four mixed stakeholder working groups according to their main constituency affiliation. On the first day of the dialogue, the four working groups were instructed to address some of the main fracture lines identified in Montreux Dialogue and report back to the planetary the next morning. The main fracture lines include:

- ➔ How are the REDD-plus financing instruments developing? How can we guarantee that the instruments have the capacity to stay viable in the long term?
- ➔ What should be the commitment to REDD-plus strategy? Should there be a right to “opt-out” by NAI countries? If so, in which phase?
- ➔ How to bring FPIC in the cope of REDD-plus Finance Mechanism to the next level? How safeguards can be carried out in the next steps of negotiation?
- ➔ Should co-benefits be covered under a REDD-plus Finance Mechanism? If so, what degree of confidence do stakeholders have that a REDD-plus Finance Mechanism under the UNFCCC framework will succeed in doing so?
- ➔ What are the triggers for moving through different phases in the phased approach framework?

Based on the inputs from participants on the first day, participants were regrouped into three mixed working groups with two working on fleshing out a framework for REDD-plus Finance and Implementation based on Table 1 developed from the Montreux Dialogue, and the third group discussed terminology issues related to REDD, which were flagged by some participants on the first day as an emergent problem. All three working groups reported back to the plenary on their key findings before the dialogue moderator ended the meeting with updates on TFD's next steps under this initiative.

Table 1: Framework for phased approach developed from TFD Montreux Dialogue

Phase	Action	Safeguards	Finance
Preparation & readiness	<ul style="list-style-type: none"> • REDD strategy • Protocols • Capacity 	<ul style="list-style-type: none"> • Transparency • Participation 	Multilateral & bilateral grants (FCPF / UN-REDD)
Policy & measures	<ul style="list-style-type: none"> • Capacity • Policy reform • Rights/ tenure • Pilots 	<ul style="list-style-type: none"> • Stakeholder platforms • Soc & env audit • FPIC • MRV system 	<ul style="list-style-type: none"> • Grants and loans • Global facility • Domestic & others • Voluntary market
Performance -based payments	<ul style="list-style-type: none"> • CO₂ reduction • Verification • Assess impact 	<ul style="list-style-type: none"> • MRV system • FPIC • Soc & env audit 	<ul style="list-style-type: none"> • Compliance market • Non-market compliance fund



TFD's Gary Dunning

Extension of the Montreux Dialogue

Gland participants strongly endorsed the Phased Approach model to REDD-plus actions - based around 3 phases with specific safeguard and finance requirements - that had emerged from TFD's earlier New York and Montreux Dialogues.

Participants felt this could be further developed by incorporating the concept of "triggers" from the REDD options assessment paper prepared by the Meridan Institute for the Government of Norway .

Matrix 1 outlines a condensed version of a phased approach model developed in TFD Montreux Dialogue . As a result of the Gland discussions this model has been further edited and elaborated and is included in this summary as Annex 1.

Participants also confirmed that in REDD discussions the focus of governments and forest stakeholders should now be on "REDD plus" actions - incentivizing a wider range of carbon emission reduction and storage actions within developing countries based on bringing more forest area under sustainable management.

Working in groups, participants also addressed the following issues highlighted in the Montreux Dialogue:

How can we guarantee that REDD-plus finance instruments have the flexibility to stay viable in the long term?

In general, it was suggested that transparency should be the "rule of thumb" for financing REDD-plus and we can learn from existing principles like those of Extractive Industries Transparency Initiative (EITI). One important consensus was that REDD-plus goes beyond one-to-one and project-based transactions and requires different financial tools to deal with different asset classes and we need to view sustainability of long term financial flows for REDD-plus at a portfolio level instead of instrument by instrument.

Some participants also pointed out that the ways to ensure viability differ between fund-based mechanisms and market-based mechanisms. For market, long-term commitments come from binding contracts including standardized trading processes to avoid non-delivery risk. For funds, fund management and revenue distribution guidelines were highlighted as key elements for viability. But funding commitment is likely to be limited to a specific phase (e.g. FCPF is designed for REDD Readiness Phase) thus leads to countries' anxieties over how funds will be negotiated and delivered beyond the Readiness Phase. Bilateral funding for all phases of REDD-plus was recommended as the solution for some countries with negotiation leverage. For those countries who do not have such negotiating power, it was suggested that "negotiation skills" should be mapped into "capacity building" in the Readiness phase.

How can safeguards, including FPIC, be carried out in the next steps of the negotiations?

All participants in Gland endorsed the consensus point that FPIC issues cannot be avoided in implementing REDD-plus strategy and FPIC should be carried out throughout different phases of REDD-plus. A grievance/dispute resolution mechanism should be designed in as an important safeguard. It was noted that the intent of FPIC was strongly linked to stakeholder participation and consultation as well as the delivery of co-benefits (like sustainable livelihoods and biodiversity) and the equitable sharing and distribution of forest carbon related income.



Sarah Price



Joe Cobbinah and Lambert Okrah

Different stakeholder participation was highlighted as another important safeguard for REDD-plus throughout different phases. The Nine Major Groups' model under UN Commission on Sustainable Development (CSD) was generally endorsed as a model for inclusive stakeholder participation for REDD-plus. A multi-stakeholder platform was listed as one way to advocate financial, environmental, and social issues related to REDD-plus throughout the process.

Some participants cautioned against marginalizing small forests owners and small-scale projects by creating a too complicated REDD-plus system and raising transaction costs too high. The tCER model and microfinance loans were suggested as possible mechanisms to allow participation for small scale projects and small forests owners.

What should be the commitment to REDD-plus strategy? Should there be a right to "opt-out" by NAI countries?

To address the commitment issue for investors and donors, some suggested that the key is to work out a mechanism to ensure some level of certainty. Some participants recommended using international protocols to create a rating system for country level invisibility, for example, using EITI principles to rate transparency, and to create response system for problems, for example, legality licensing under Forest Law Enforcement and Governance (FLEG). To commit Non-Annex I countries, some argued that the question is not how to prevent "opt-out" but how to guarantee "stay-in". To motivate countries to stay in, a multi-stakeholder approach was suggested for reaching commitment on REDD-plus under the assumption that self-regulation can work as different stakeholder groups will hold each other to account for an agreement reached by all. Some pointed out that, in some countries, the drivers for deforestation are very political, which can be only combated by strong financial incentives. Thus economic benefits need to be demonstrated to provide economic incentives for countries to "stay-in".

Should REDD-plus Finance Mechanism be designed to cover co-benefits?

There was no consensus reached on this question. The difference between "safeguards" and "co-benefits" was highlighted: as the former relates to "do no harm" while the later translates into "do more good". While it was generally accepted that REDD framework should be designed to cover all elements of REDD-plus and REDD-plus finance mechanisms should be designed for "do no harm", some argued that "do more good" should be financed outside of REDD-plus finance schemes, for example, by ecosystem services payments for biodiversity. On the other hand, arguments were made that the market will automatically compensates certain co-benefits in the end, which legitimize funding in capacity building for REDD-plus to prepare stakeholders for benefiting from co-benefits in the full implementation phase of REDD-plus. Although others cautioned about the danger of lowering prices for carbon credits created under REDD-plus by assuming market will pay for co-benefits automatically.

Other highlights from the discussions

Some participants raised the issue that women's rights have not been recognized in the discussions on REDD-plus. There should be safeguards in place to address gender differentiated impacts of REDD-plus among its impacts on all marginalized groups.

Some participants flagged the importance of terminologies and the fact that "we are becoming casualties of too many acronyms". The unclear definitions of some acronyms are begging unnecessary conflicts and debate on REDD-plus and it was proposed that the meanings of some controversial acronyms should be addressed in a context-specific way in REDD-plus discussions, for example, FPIC and MRV. It was also recognized by many that to avoid misusing acronyms, we need to trace back to the roots of those acronyms and keep in mind their intent.



Raja Jarrah

In the case of SFM (Sustainable Forest Management), the original definition was created in 1993 at the pan-European Ministerial Conference on the Protection of Forests in Europe as "... the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil now and in the future relevant ecological, economic and social functions, at local, national and global levels, and that does not cause damage to other ecosystems", which are not disputed by any parties under the discussions on REDD-plus.



In the case of FPIC (Free, Prior, and Informed Consent), attention was called to how we interpret the meaning and spirit of FPIC to avoid simplifying or misrepresenting FPIC. The term 'FPIC' is in essence shorthand for the right of indigenous peoples to give or to withhold their free prior and informed consent to activities proposed on their lands and territories or to other measures that that will affect them. So it includes the right to say 'no'. International law and associated jurisprudence is explicit that this is a right of indigenous Peoples (IPs) as it derives from the collective right of all peoples to self-determination. It has been a thirty-year struggle of Indigenous Peoples to be recognized as 'Peoples' endowed with the same rights as other peoples referenced in the international human rights covenants. It was proposed that we need to defend FPIC as a right of IPs instead of diluting the concept under REDD-plus.

The Co-chairs noted that in 2010, TFD will be organizing a dialogue initiative specifically focusing on the FPIC theme.



Gérard Rambeloarisoa

Framework for REDD-plus Finance and Implementation

Participants kept working on the phased approach model (Table 1) created based on the outputs of the Montreux Dialogue. Their comments and inputs in Gland, combined with the outputs of the Montreux Dialogue, are summarized in Annex 1: Framework of REDD-plus Finance and Implementation.

Next Steps for TFD REDD-plus Financial Mechanisms Dialogue

Participants in Gland encouraged TFD and the TFD Forest and Climate Change network to continue its work with climate negotiators and other forest stakeholders including:

- ➔ Preparation of this co-chair summary;
- ➔ Preparation of a TFD key issues and key messages paper for discussion with negotiators and other stakeholders at UNFCCC meetings in Bangkok (Sept), Barcelona (November) and Copenhagen (December);
- ➔ Organization of informal REDD-plus rooms for daily briefings and interactions with forest stakeholders at UNFCCC events;
- ➔ Accelerate TFD's dialogue program on REDD-plus Readiness to illustrate actual on-the-ground challenges and opportunities, starting with the first REDD-plus Readiness Dialogue in Belem, Brazil, 26-29 October 2009.

There was also the realization that REDD-plus issues will continue beyond COP 15 and that TFD will need to continue its work subsequent to the Copenhagen UNFCCC negotiations.



Carlos Chex and Agus Setyarso

Further Reading and Information

For further information on TFD, summaries and referenced documents on the Frameworks for REDD-plus Finance and Implementation Dialogues, please visit our website at www.theforestsdialogue.org or email TFD at info@theforestsdialogue.org.

Acknowledgements

TFD would like to thank the Co-Chairs of the Gland Dialogue: James Griffiths (WBCSD) and Stewart Maginnis (IUCN), as well as the dialogue's moderator, Gary Dunning (TFD) and TFD Program Coordinator Xiaoting Hou. A special thanks to IUCN for hosting this dialogue, with particular thanks to Sizakele Noko. We would also like to acknowledge the support from the following organizations: IUCN, WBCSD and NORAD.

References

- ¹ It was agreed by the Gland dialogue participants that this dialogue stream has addressed issues closely linked with REDD finance mechanism but not necessarily technical financial issues and the focus of discussions should be on "REDD Plus"(REDD+). Therefore TFD will re- title the initiative on "Dialogue on REDD Finance Mechanism" to the "Dialogue on Frameworks of REDD+ Finance and Implementation" to capture the broad scope of this dialogue stream and "REDD+" will be used instead of "REDD" throughout this document
- ² "Beyond REDD: The Role of Forests in Climate Change: A Statement from The Forests Dialogue"
- ³ Prepared by Jürgen Blaser and Carmenza Robledo, Intercooperation for TFD's Montreux Dialogue
- ⁴ Prepared by Jürgen Blaser and Carmenza Robledo, Intercooperation for TFD's Gland Dialogue
- ⁵ Angelsen et al., Meridian Institute, "Reducing Emissions from Deforestation and Forest Degradation (REDD+): An Options Assessment Report", http://www.REDD+-oar.org/links/REDD+-OAR_en.pdf
- ⁶ For a more detailed model, please refer to Annex 1 in "Co-Chair Summary of TFD Montreux Dialogue", <http://www.theforestsdialogue.org/pdf/switzerland2/TFD-Montreux-REDD+-Finance-Dialogue-Co-Chairs-Summary.pdf>
- ⁷ The 9 Major Groups are: women, children and youth, workers and trade unions, indigenous people and their communities, NGOs, local authorities, scientific and technological community, business and industry, and farmers.
- ⁸ Refer to "Annex 1 Activities for the "phased approach"" in co-chair summary of Montreux dialogue.

Participants

Ida Aronsen	Econ Pöyry	Henrik Lindhjem	Econ Pöyry
Jan Willem Den Besten	IUCN	Stewart Maginnis	IUCN
Carlos Chex	Sotz'il	Edgar Maravi	The World Bank
Joe Cobbinah	FRI - Ghana	James Mayers	IIED
Marcus Colchester	Forest Peoples Programme	Lambert Okrah	Institute of Cultural Affairs
Gary Dunning	TFD	Nathalie Olsen	IUCN
Chris Elloit	WWF	Ghan Shyam Pandey	FECOFUN, Nepal
Consuelo Espinosa	IUCN	Herbert Pircher	Stora Enso
James Griffiths	WBCSD	Sarah Price	PEFC
Jeannette Gurung	WOCAN	Gérard Rambeloarisoa	MEFT - Madagascar
Xiaoting Hou	TFD	Agus Setyarso	NFC - Indonesia
David Huberman	IUCN	Roberto Smeraldi	Amigos da Terra, Amazônia Brasileira
Natalie Hufnagl-Jovy	IFFA	Gabriel Thoumi	MGM International Group
Bill Jackson	IUCN	Femke Tonneijck	IUCN, Netherlands
Raja Jarrah	Care International	Ben Vickers	RECOFTC
Chris Knight	PricewaterhouseCoopers	Jouko Virta	APRIL
Andrey Laletin	Global Forest Coalition		

Annex 1: Framework of REDD-plus Finance and Implementationⁱ

	Preparation & readiness	Policy and Measures (PAM)	Performance-based Payments
Action / outcome	<p>REDD-plus strategyⁱⁱ</p> <p>Issue identification:</p> <ul style="list-style-type: none"> ○ Tenure ○ Governance ○ Legality review (including international laws) ○ Drivers of deforestation ○ Risk assessment ○ Benefit sharing mechanisms <p>Protocols:ⁱⁱⁱ</p> <ul style="list-style-type: none"> ○ Grievance resolution ○ Benefit sharing/distribution ○ Multi-stakeholder participation ○ Information database <p>Capacity building assessment^{iv}</p> <p>Institutional development /strengthening</p> <p>Demonstration activities^v</p>	<p>Capacity building^{vi}</p> <p>Policy and legal reform</p> <ul style="list-style-type: none"> ○ Forestry: address drivers of deforestation and forest degradation (using international standards, forest certification standards) ○ Rights/ tenure <p>Pilots: learning by doing</p> <p>Development of national REDD-plus portfolio ^{vii}</p> <p>Benefit sharing and equitable distribution mechanism^{viii}</p> <p>Marketing provision for small scale projects (overcoming legal, transaction, capacity obstacles)</p> <p>Develop Carbon Registry (software; linked internationally, ITL, IETA) ^{ix}</p>	<p>CO2 reduction</p> <ul style="list-style-type: none"> •Verification^x •Assess impact^{xi}

<p>Safeguards^{xii}</p>	<p>Transparency</p> <p>Participation^{xiii}:</p> <ul style="list-style-type: none"> ○ Representation^{xiv} ○ MSD with major groups^{xv} 	<p>Stakeholder platforms</p> <p>Social and environmental audit^{xvi}</p> <p>FPIC ^{xvii}</p> <p>MRV system relates and includes social and environmental variables</p> <p>Transparency in the use of funds</p> <p>Governance and legality audits</p>	<p>The following safeguards are implemented with emphasis on internationally agreed frameworks:</p> <ul style="list-style-type: none"> ▪ MRV system ▪ FPIC^{xviii} ▪ Social and environmental audit ▪ Financial audit
<p>Finance Mechanism^{xix}</p>	<p>Multilateral & bilateral grants (FCPF / UN-REDD)^{xx}</p> <p>Proposed windows within the UNFCCC</p> <p>Private funding / banking</p> <p>Public sector funding</p>	<p>Diverse financial flows^{xxi}:</p> <ul style="list-style-type: none"> ▪ Grants and loans ▪ Global and domestic facilities ▪ Public/Private funding ▪ Voluntary market ▪ Pilot performance based payments <p>Underwriting risk (financial, livelihood and political risk)</p> <p>Rules for performance based payments</p> <p>Implement equitable distribution mechanism</p>	<p>Compliance market^{xxii}</p> <p>Non-market compliance fund^{xxiii}</p> <p>Underwriting risk (financial, livelihood and political risk)</p> <p>Implement equitable distribution mechanism</p>

<p>Triggers / Eligibility criteria^{xxiv}</p>	<p>Multi-stakeholder endorsement of the REDD-plus strategy (this could include the recognition of traditional ways of managing the forest)</p> <p>Co-relate National / regional / landscape land use plan / forest plans / development policies</p> <p>Plan for overcoming the governance and policy gaps</p>	<p>Legal rights – tenure system adequate for REDD-plus (independent third party audit of the land registry)</p> <p>Endorsement of the benefit distribution mechanism by the multi-stakeholder platform</p> <p>Capacity to implement and audit REDD-plus projects at national level</p> <p>Carbon registry (software; linked internationally, IETA, ITL)</p> <p>FPIC – the definition of an appropriate mechanism for implementing FPIC based on international standards and best practices</p> <p>MRV system</p> <p>Proxy indicators of emission reductions or enhanced removals: performance based rewards</p>	<p>Forestry carbon pool buffer and forestry carbon project insurance</p>
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ⁱ It was agreed by many at the Gland Dialogue that there is a need to distinguish international and national actions in the phased approach to ensure better coordination and effective allocation of resources at international level as well as participation and efficient implementation at national level. Participants at the Gland dialogue were not able to discuss in depth on this topic due to time constraints but suggested this issue is worth of recognition and further discussion under UNFCCC negotiations. Some identified international needs for the framework at the dialogue include:

- International protocols and standards or Action Plan including grievance procedures
- Definition of a mechanism for distribution of benefits (including the appropriate legislation and international guidelines)
- Social and environmental audit to an independent third-party standard and environmental impact assessment that is incorporated into the MRV system including periodic monitoring
- FPIC: the definition of an appropriate mechanism for implementing FPIC based on international standards and best practices
- Guidance from World Trade Organization on where carbon credits are accounted for (under which WTO chapter)
- Guidance on uniform tax code for carbon transactions between countries internationally: tax fraud existing in current market
- Carbon forestry insurance (reinsurance)
- An oversight international organization to coordinate and oversee efforts throughout different phases

ⁱⁱ It was endorsed by all that REDD strategy should cover all different elements of “REDD plus” under the current negotiation.

The following key characteristics of “REDD+ Strategy” were highlighted:

- Existing real political will, with integration of REDD+ into existing government structures and governmental functions for example, PRSPs(Poverty Reduction Strategy Programs) or other cross-sectoral/overarching strategies, and with collaborations built among countries and regional approaches for mobilization of capacities
- Existing dialogue and broad consultations “to get the house in order” on processes, stakeholder involvement and technical issues:
 - Agreement on scope of REDD+ and its applicability (locations and stakeholders)
 - Agreements among land users, land beneficiary, and land owners, and on fiduciary control mechanisms
 - Identification of opportunity costs, both within and outside the forest sector