

Financing mechanisms for mitigation options

An overview

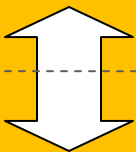


TFD Dialogue

Montreux, 19-20 June 2009

Some facts with Forests in Climate Change: Forests can increase resilience, fix and maintain carbon

- ➔ If average CO₂ concentration continues to increase to 550 ppm or higher, forests will become highly vulnerable → high risk that Climate Change will impact some sources of GHG emissions:
 - Forests are a mitigation option now and in the future. To meet the Paris Agreement target, a necessary transitional measure to reach net-zero by 2050 is to increase forest cover. It takes up to 40 years, a long time to reach full carbon sequestration potential.
 - Need to increase resilience of forests and ecosystems at the same time as using forests as a mitigation option.
- ➔ Nevertheless, the potential of forests as a mitigation option is huge (5 GtCO₂e/yr from Afforestation/Reforestation, Forest Restoration)
- ➔ How to deal with these new risks and potentials?
- ➔ How do these risks and potentials influence CC financing?
- ➔ If best mitigation options are adequately implemented, there is great potential to also address co-benefits (adaptation, biodiversity, ...)

<i>Mitigation option</i>	<i>Mitigation objective</i>	<i>Mitigation policy instrument</i>	<i>Forest/Land Management Option</i>
Reduce GHG emissions	Reducing deforestation	REDD ("first D")	(1) Committing forests as carbon pools (through e.g. enforcement of law, creation of new protection areas, payments for environmental services in form of contractual agreements to retain forests)
	Reducing degradation	REDD ("second D") 	(2) Restoring lost carbon pools (through various forms of sustainable/multiple-use forest management such as sustainable timber yield management, community forest management; PES in the form of credits per ton carbon sequestered, ecological restoration of degraded forests)
Increase CO2 sequestration (removals of CO2)	Enhancing existing (degraded) forests (restoration of lost carbon pools)	REDD Plus	
	Creating new forests and tree cover	CDM A/R (outside forests)	(3) Creating new carbon pools (through planted forest; agroforestry; rehabilitation of degraded lands; agro-sylvo-pastoral systems)

(1) Committing forests as carbon pools

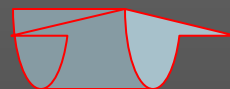
100 tC/ha \longrightarrow 65 tC/ha



Unlogged forest Production forest



Forest



Deforested

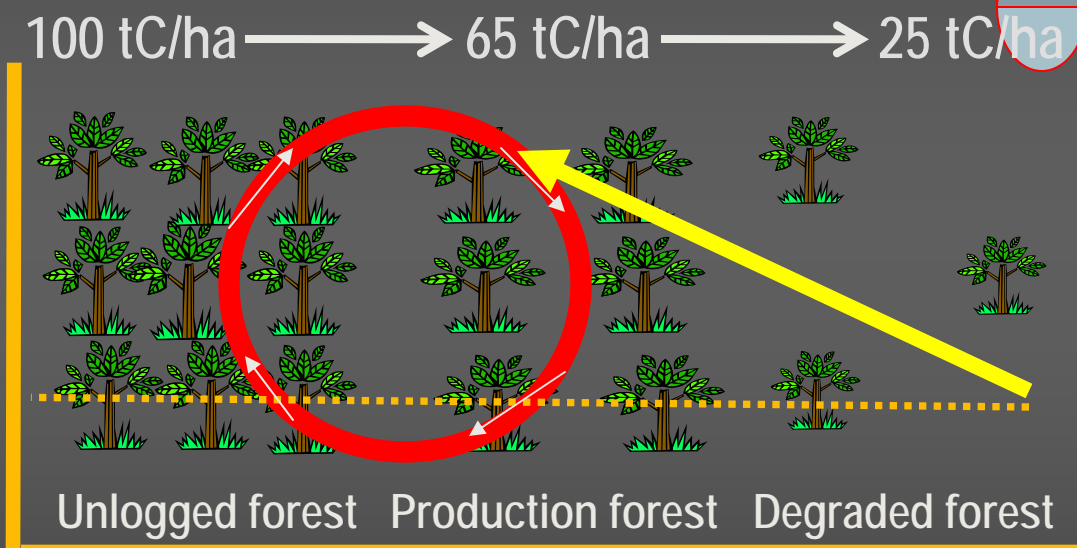
Reducing/Avoiding Deforestation
(land-use change)

----- Sustainable use of existing forest:

- **REDD \rightarrow 3.76 GtCO₂e per year, about 77 GtCO₂e until 2030**
- **In production forests: carbon gain through silvicultural mgmt. \rightarrow 6.6 GtCO₂e until 2030**

(2) Restoring lost carbon pools

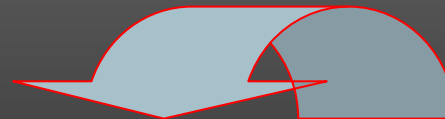
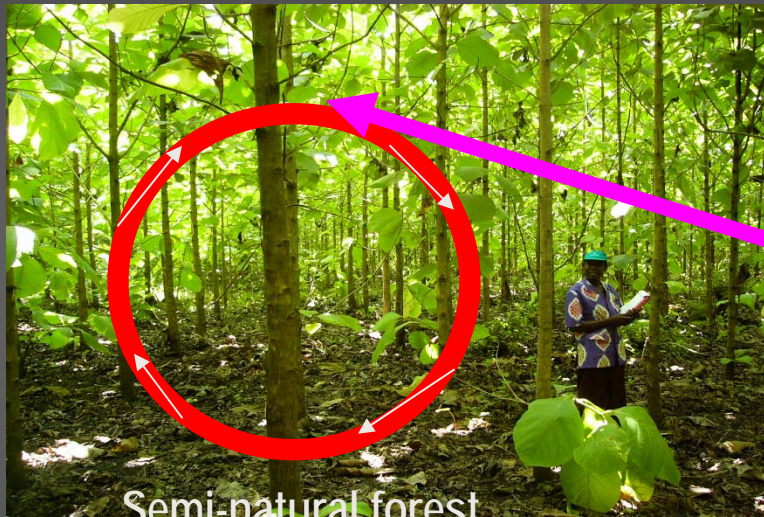
Carbon	+++	→	+	Deforestation (land-use change)
Protective functions	+++	→	+	
Biodiversity	+++	→	+	



Forest Restoration = Carbon sequestration in forested areas
→ estimated at 117 GtCO₂e up to 2030

(3) Creating new carbon pools

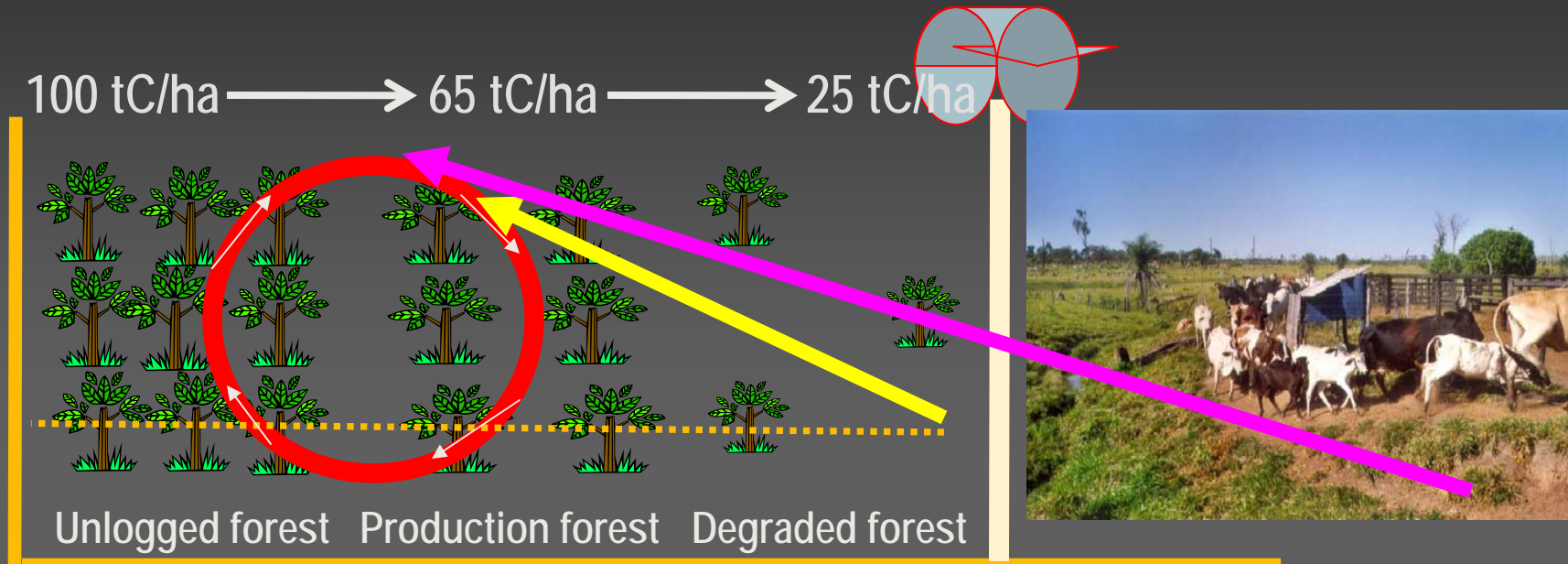
100 tC/ha ← 65 tC/ha ← 25 tC/ha



- Planted forests & Agroforestry: Carbon sequestration
 - included in A/R CDM
 - min. 18.7 GtCO₂e up to 2030

→ Forest Degradation Process →

Deforestation (land-use change)



----- Sustainable use of existing forest:

REDD → 3.76 GtCO₂e per year, about 77 GtCO₂e until 2030

Silvicultural Mgtm. → 6.6 GtCO₂e until 2030

----- Forest Restoration: Carbon sequestration

→ Not clearly considered as a mitigation option yet

→ estimated at 117 GtCO₂e up to 2030

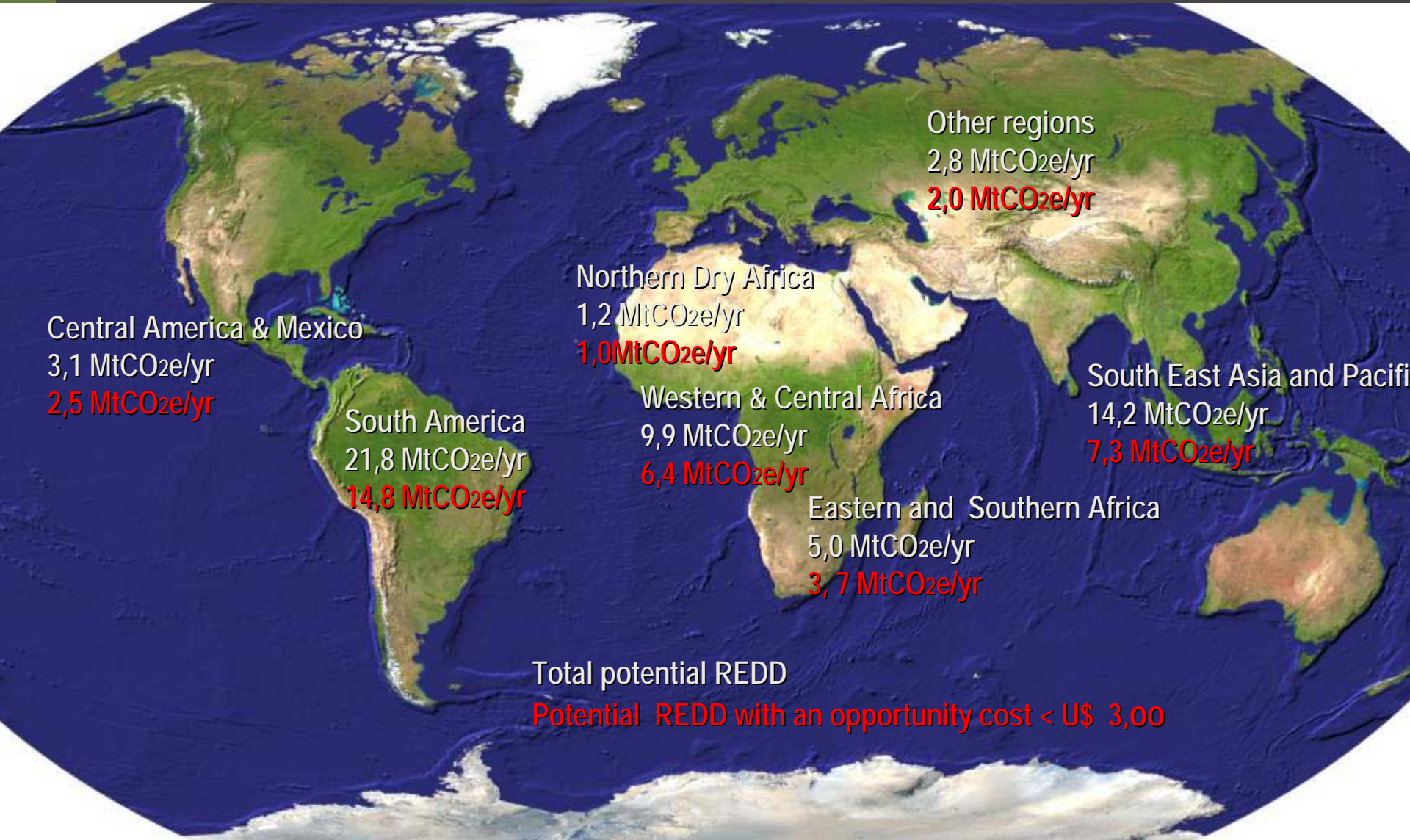
----- Plantations & Agroforestry: Carbon sequestration

→ included in A/R CDM

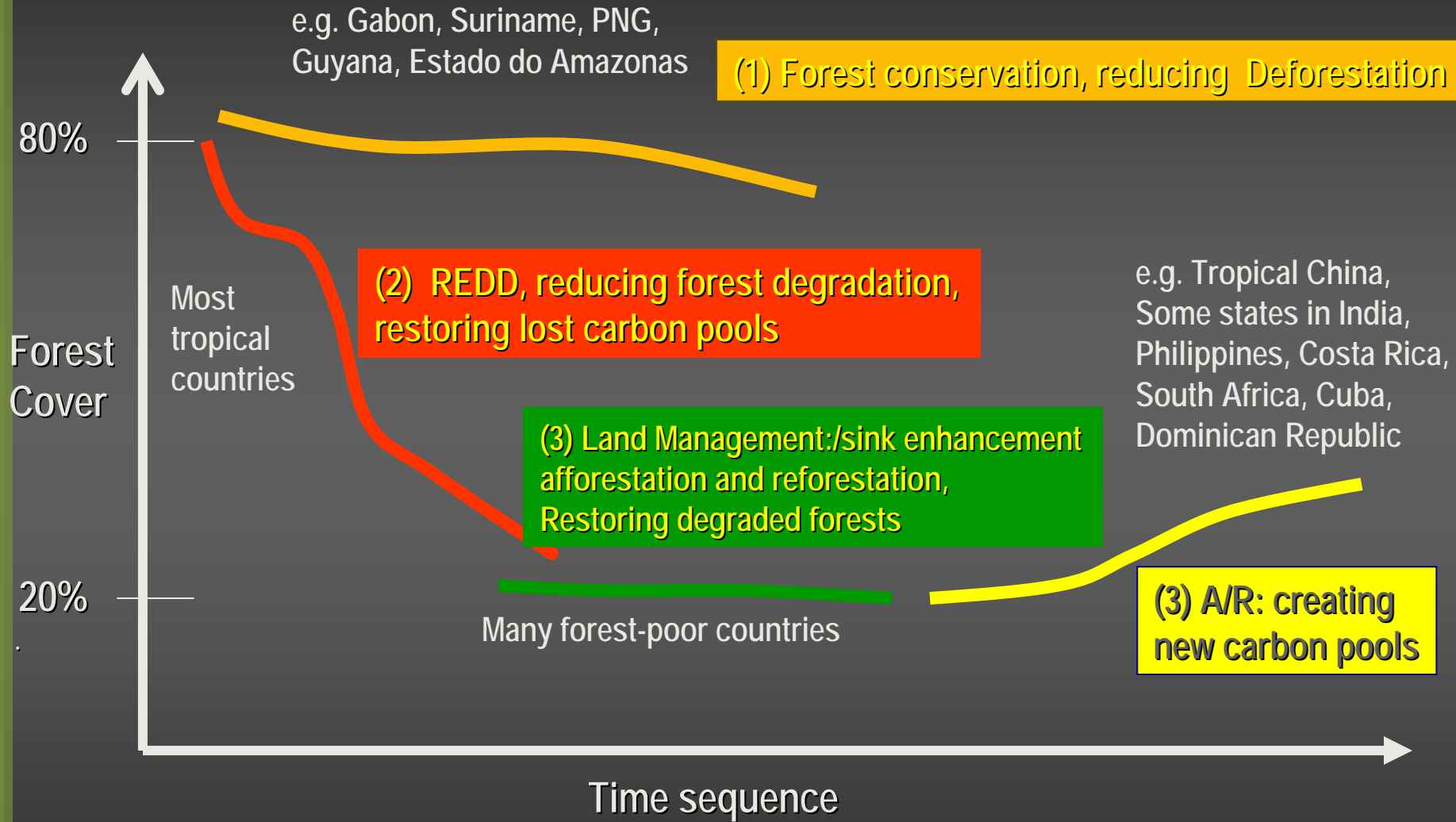
→ min. 18.7 GtCO₂e up to 2030

A carbon
potential
worth several
billion US\$

Forest-based mitigation potential (REDD)



Distinct situations, distinct C approaches



→ Different forest landscape carbon options,

→ needs differentiated approaches also in respect to funding

What has already been agreed?

Agreements for the First Commitment Period of the Kyoto Protocol (2008–2012)

- ⇒ **Annex I (industrialized countries) → committed countries of the KP**
 - Forest management (Art. 3.4)
 - Afforestation, Reforestation and Avoided Deforestation (Art. 3.3)
 - Bioenergy
- ⇒ **Non-Annex I (developing countries)**
 - Using the CDM
 - Afforestation and reforestation (11 approved methodologies)
 - Bioenergy (1 approved methodology yet)
 - Piloting REDD → FCPF, UN-REDD, voluntary market

The use of wood products is not eligible at all for the first commitment period (neither Annex I, nor non-Annex I countries)

What is under negotiation – to be negotiated?

Post 2012 Regime

→ to be agreed by COP 15 in Copenhagen in end of 2009

Bali Action Plan and Forests (December 2007)

- Which countries will agree to make what type of commitments?
- Which forest mitigation options will be eligible in industrialized countries?
 - Role of harvested wood products
- Which forest mitigation options will be eligible in developing countries?
 - REDD, REDD+ and its financing mechanisms?
 - CDM (including A/R) → Kyoto Protocol
 - Role of other forestry activities such as SFM and forest restoration?
- How to develop a financial system for REDD/REDD+?

Financing forest mitigation

(within the broader financial mechanism of the UNFCCC;
AWG-LCA framework)

⇒ Financial Mechanism:

- Revenue raising
- Revenue disbursement
- Oversight/MRV

⇒ CC-Forest finance payment modalities

- Payer – Payee?
- Donor – Donee?
- Contributors – Recipients?
- Restitution payment ?
(payer owes earmarked funds to the payee)

Revenue raising

(within the broader financial mechanism of the UNFCCC;
AWG-LCA framework)

- ⇒ Who contributes for what and how much?
 - ⇒ Additional, common but differentiated responsibilities
 - ⇒ Markets or fund-based financing (the later mainly public), or both?
- ⇒ Fragmented or consolidated financing?
 - ⇒ Decentralized versus centralized financial flows?
 - ⇒ National level versus sub-national, project level, or nested?
- ⇒ How to deal with political dimension of financing REDD?
 - ⇒ Conditionality criteria (used directly or indirectly) *versus* the need to tackle the problem where it appears!

Revenue disbursement

(within the broader financial mechanism of the UNFCCC;
AWG-LCA framework)

- ⇒ How to ensure a fair distribution of (probably inadequate) funds?
- ⇒ How do deal with mismanagement?
 - ⇒ Governance in forest resource use; corruption, misappropriation of funds
- ⇒ How to ensure the principle of „pay the fair share, get the fair share“?

→ **Accountability is a serious issue**

Where are we now?

(within the broader financial mechanism of the UNFCCC;
AWG-LCA framework Chair's discussion paper, June 2009)

⇒ Annex I (commitments)

- ⇒ Mostly through domestic actions (max. 10% for FM)
- ⇒ Domestically (FM only if increased commitments)
- ⇒ Internally (no flexible mechanisms)

⇒ Non Annex I (Nama, REDD)

- ⇒ Integrated in Nama
- ⇒ Self-standing REDD

⇒ Options for REDD+ financing: Phasing is basically agreed)

- ⇒ Readiness: various options for a fund based approach
- ⇒ Implementation: Using public funds, use of markets, combination of market approaches and fund approach
- ⇒ How much money is needed to be credible, verifiable (MRV)?

Open questions

(within the broader financial mechanism of the UNFCCC;
AWG-LCA framework Chair's discussion paper)

- ⇒ How to deal with the financial „MRV support regime“?
- ⇒ Benefit sharing?
- ⇒ Ex-post payments versus upfront/during implementation?
 - ⇒ What is required (how high the standards)?
 - ⇒ How to monitor compliance?
 - ⇒ How much money is needed to be credible, verifiable?

→ **A yet largely unknown component in forestry**

What financing options for forest mitigation?

<i>Forest mitigation objective</i>	<i>Mitigation policy instrument</i>	<i>Approach to financing</i>
Reducing deforestation	REDD ("first D")	FUND-based? Donor – Donee? Restitution funding?
Reducing degradation Enhancing existing (degraded) forests (restoration of lost carbon pools)	REDD ("second D") REDD Plus	Fund or/and Market-based?
Creating new forests and tree cover	CDM A/R (outside forests)	MARKET-based Payer – Payee Project level

TFD – where do we stand?

Commonalities, divergences and fracture lines between stakeholder groups.

- ⇒ REDD Scope → all forest mitigation options, REDD+
- ⇒ REDD Financing Options (revenue raising)
 - Hybrid/market linked mechanism
 - Phased approach
 - Phased approach agreed, need to be further discussed
- ⇒ Benefits and Participation (safeguards)
 - need to be further discussed
- ⇒ REDD Activities, Measurement, Reporting and Verification (revenue disbursement)
 - still need to be discussed

Tasks TFD Montreux

- ⇒ Discussing/Endorsing the stakeholder perceptions developed in New York
- ⇒ Discuss no consensus issues, in particular the approaches needed for social and environmental safeguards
- ⇒ Develop further the concept of phased approaches in the light of the course of the AWG-LCA negotiations
- ⇒ Tackle other open issues, including
 - ⇒ carbon revenue raising/and disbursement
 - ⇒ benefit sharing
 - ⇒ ex-ante/ex-post payments
 - ⇒ fragmented/consolidated funding

Background Paper Montreux

- ⇒ Background
 - ⇒ Mitigation options
 - ⇒ Methodological challenges
 - ⇒ Governance challenges
- ⇒ Previous existing financing mechanisms
- ⇒ Financing mechanisms after 2005
- ⇒ Financing REDD+ in a post 2012 agreement
- ⇒ Developments under the AWG-LCA
- ⇒ Stakeholder perception
- ⇒ Points of consensus and fracture lines