



**The Forests Dialogue
REDD Financing**

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**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

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

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**



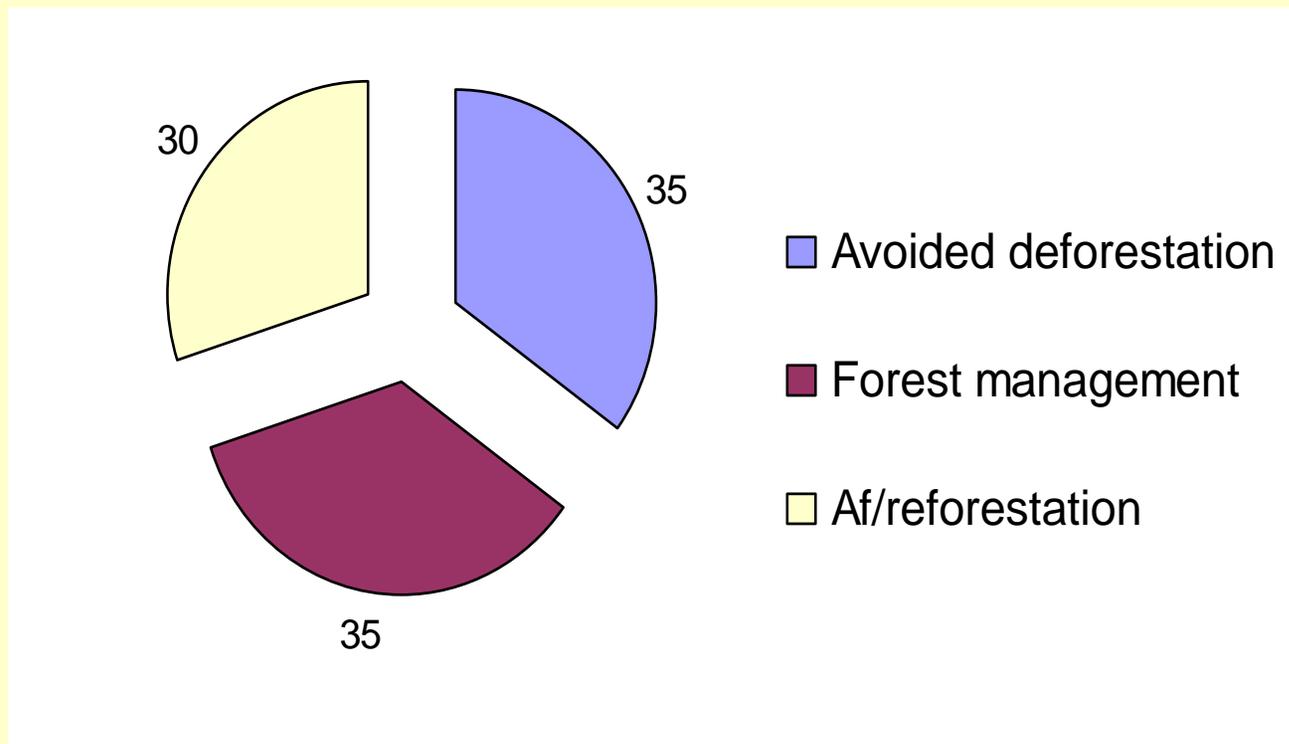


Key Strategic Gap: Upfront Investment for SFM

Initial upfront investment	Mainstreamed upfront investment	Sustained financing
<ol style="list-style-type: none"> 1. Analytical work (DD drivers, barriers to SFM, PES market potential, etc.) 2. Stakeholder participation and engagement 3. Planning (nfp, specific national strategies, e.g. REDD, bioenergy, forest biodiversity) 4. Information base (resource assessment, baselines, reference scenarios) 5. Monitoring and verification system design 6. Safeguards and SFM guidelines development 7. Initial capacity building 8. Programme and project design 	<ol style="list-style-type: none"> 1. Implementation of policy reform (incl. cross-sectoral impacts on forests) 2. Strengthening of institutions 3. Land use zoning and planning 4. Strengthening of land tenure (demarcation, titling) 5. Strengthening of law enforcement 6. Restoration of degraded lands and forests 7. Strengthening of stakeholder constituencies (smallholders, forest communities, civil society, private sector) 8. Infrastructure development 9. Scaled-up capacity building 10. Education, training and extension - smallholders, communities, SMEs - forest managers 11. Research and innovation (silviculture, harvesting, utilization) 12. Market-based and other voluntary instruments (certification, C&I implementation) 13. Company-community/smallholder partnerships 14. Implementation of monitoring and verification systems 	<p><u>PES schemes</u></p> <ol style="list-style-type: none"> 1. REDD payments (sink protection) 2. Sink creation payments (afforestation, reforestation, forest management) 3. Biodiversity offsets 4. Landscape offsets 5. Watershed conservation offsets 6. Bundled services <p><u>Forest products and services</u></p> <ol style="list-style-type: none"> 1. Timber 2. Non-timber forest products 3. Ecotourism and other 4. Other services



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

Item	USD billion/year
opportunity costs for REDD	12.2
Investment needs for sustainable forest management	8.2
Total	20.4

Eliash Review 2008 estimates by 2030

USD 17-33 bill./year

which could be covered by

REDD offsets

USD 7 bill./year

Other sources

USD 10-26 bill./year

European Union

EUR 15-25 bill./year





Scope of Forest Mitigation Options

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

Source: Adapted from Angelsen et al. (2009)





Forest Investment Potential for Climate Change Mitigation

Deforestation rate\relative forest cover	Low forest cover countries	High forest cover countries
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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