Financing Options, Mechanisms and Distribution of Benefits

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Presentation Plan

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2. Financial mechanism – Initial Proposals from Latin America
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Ad Hoc Working Groups

AWG-LCA is the main body for REDD negotiations under the UNFCCC, with a mandate to reach an agreement on how to strengthen the implementation of the convention by December 2009.

- Reducing emissions from deforestation and forest degradation in developing countries (REDD) and;
- The role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD +).

AWG-KP works on the development of new emissions reduction targets for developed countries, but the negotiations have links to the REDD negotiations.

- Will developed countries be able to rely on REDD to help reach their emissions reduction targets?
- Will new rules for Land use, Land-use Change and Forestry (LULUCF), have implications for REDD activities?

Financial Mechanisms - Bali

Costa Rica on behalf of a group of Latin-American Countries

Propose the adoption of market mechanism for the reduction of emissions generated by deforestation and degradation activities.

Propose the possibility of generating credits for early action with immediate access to the carbon market and other financial mechanisms.

In favour of the creation of a carbon fund focused on the promotion of sustainable forest management and forest conservation.

In favour of the creation of a REDD fund for capacity building and strengthening, as well as the financing of demonstrative project activities.

Open to a large variety of projects, including small-scale projects, national and sub-national programs.
Brazil

Rejects any possibility that Annex I countries may use REDD credits to accomplish their national reduction goals.

Opposed to the development of any kind of market mechanism.

Proposes a system that allows developing countries to develop voluntary non-binding measures and objectives to reduce deforestation and degradation.

Countries that achieve their objectives and reduce their deforestation and degradation emissions will be compensated by an international fund created for this purpose.

Special Working Group - Bangkok

Brazil continues to promote a fund-based approach. It is open to discussing the possibility of a market mechanism in a later phase of a phased approach.

Other countries such as Australia have argued about reliance on the carbon market.

Most of the developing countries able to develop REDD activities are proposing a phased approach that considers national circumstances.

It was considered premature to try to achieve consensus at this point on the definition of which REDD actions will be eligible for support.

It’s important to consider the implications of the position of the EU and Brazil that REDD actions should be considered to be NAMAs.

Papua New Guinea and others considered that the REDD negotiations are advanced compared with the negotiations on NAMAs and that the two should be kept separate.
Funds and Market Mechanisms

- Market mechanisms allow a direct involvement of the private sector.
- Funds mechanisms allow financing of readiness activities not attractive to the private sector.
- Neither of them assures by themselves that enough money will be transferred to the REDD mechanism.

Some questions related to the financing mechanisms:
- How to deal with the liability related to the non-permanence risk?
- How to assure equitable distribution mechanisms, including geographical distribution?
- How to develop a commodity similar to the CER for a REDD market?
- How to create the REDD market demand?

Reforestation and Conservation of the “Cordillera Chongón Colonche” - Ecuador

Financed by the KFW with the support of the Ecuadorian Environment Ministry in 1998

1. Development of consensus on the guidelines for the management of the protected forest areas.
2. Definition and respect of property rights over the natural resources and the land.
3. Participation of the local communities in the share of revenues.
4. Application of environmentally friendly agricultural and forest production by the communities.

Communities develop and approve a legal framework for the use of their natural resources and define a permanent protection forest where neither the community nor any third parties are able to deforest.

In exchange, the community receives financial resources related to the area of the forest under conservation, technical support for the application of the legal framework and development of the necessary infrastructure to control the sound use of the natural resources.

154,000 ha conserved under this scheme.
**Noel Kempff Mercado Climate Action Project - Bolivia**

Approach based on the reduction of CO₂ emissions related to timber extraction activities and land use change.

- Expansion and protection of the Noel Kempff National Protected Area in the short term
- Financing of conservation and sustainable management of the area in the long term
- Community development and leakage prevention

In addition, financing for monitoring and verification of long term measures as well as administrative cost of the Bolivian government related to control and verification activities.

- 51% of the credits for the investors
- 20% of the credits will feed the National Protected Areas Fiduciary Fund (75% of the revenues will go directly to the project)
- 29% of the credits for the Bolivian government to finance sustainable development and climate change related activities

Negative reaction from the local communities affected by the project. Lack of access to the forest resources, loss of infrastructure (roads and transportation), job loss in the timber extraction sector.

**Phased Approach**

Constructed in part following the idea of the «nested approach» proposed by a group of Latin American countries.

Considering the growing consensus that REDD / REDD+ will only achieve its objectives if:

- Able to be adapted to national circumstances of tropical countries
- Directly meets the needs of local people

The phased approach was proposed as an alternative for a sound development of the REDD mechanism.

This approach proposes three phases, beginning with a fund-based phase preparing the ground for the development of a market mechanism.
Phase I: Preparation and Readiness

- Development of a national REDD strategy, involving civil society and governments.
- Identification and prioritization of key policy and institutional capacity building measures (for both state and non-state actors).
- Development of MRV schemes and identification of protocols.
- Planning for demonstration activities.
- This phase could be supported through public and private, multilateral and bilateral grant schemes, such as FCPF and UN-REDD.
- Demonstrative activities may be open to access private sector financing (A kind of prototype REDD fund) where ER may be considered in a carbon market.

Phase II: Intermediate Phase

- Establishment or strengthening of policies and measures to allow implementation of REDD activities and promote private sector investments:
  - Forest governance and information
  - Land tenure
  - Reduction of land change pressure over forest lands
- Activities must be compensated in relation to their performance, based on indicators related to local deforestation and degradation drivers, e.g.:
  - Results of overall deforestation rates measures
  - Level of implementation of REDD policies
  - Level of Involvement of indigenous peoples and local communities
- Funding could include public or private sources: voluntary contributions from governments; carbon market levies; multilateral financing sources; bilateral and private funding.
**Phase III: Final Phase**

- Projects or activities should generate performance-based outcomes to access market or fund payments.
- Independent third party verification of ER or carbon stock enhancements should be required.
- Equitable distribution mechanisms, transparent price determination and risk management tools should be in place as part of a market mechanism.

*It is important to clarify that it won’t be necessary to go through phase I and II to be eligible for phase III, as this will be related to each country’s national circumstances and capacities.*

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**The Waxman Markey proposal**

The American Clean Energy and Security Act was introduced in May 2009, including very important considerations for REDD financing.

The proposal includes REDD considering that the reduction of deforestation rates will be a highly cost-effective way to reduce global greenhouse gas emissions.

Under this proposal hundreds of millions of dollars would be invested in:

- Funding REDD activities - “supplemental emission reductions through reduced deforestation” (Sec. 753) and
- Acquiring REDD credits in developing countries – “proceeds of the strategic auction reserve” (Sec. 726)

This proposal has been passed in the House and now goes on to be voted by the Senate.
Supplemental Emissions Reductions Through Reduced Deforestation

- Propose the establishment of a program, administrated by EPA, to reduce emissions by avoiding deforestation in developing countries.

- The program should prevent the destruction of an equivalent of tropical forest that would have emitted 720 million tons CO$_2$e in 2020, and a cumulative 6 billion tons by the end of the year 2025.

- Funding will come from the annual US allowance budget each year guaranteeing large amounts of funding for long-term efforts, not actually tied to a volume of credits upfront.

- The bill details specific parameters and requirements for eligible projects and activities, mandating that the US must have an agreement with the country in which they take place.

- National governments, civil society organizations, private projects developers, and local government entities may be eligible to receive the financial support for forest preservation.

Strategic Reserve Proceeds to Fund Forest Protection

- EPA will be in charge of using the proceeds from each strategic reserve auction to purchase "international offset credits issued for reduced deforestation activities."

- REDD credits would be issued for the amount of CO$_2$ that stays in the biosphere due to successful tropical forest conservation programs.

- The bill establishes a framework and requirements to turn avoided deforestation efforts into offset credits.

- This use of the strategic reserve auction revenues guarantees some level of demand for those future REDD credits and provides an incentive to develop eligible projects.
Elements to Consider

• What are the financial implications for considering only forest lands under REDD?
• What are the financial implications of developing REDD at national or sub-national levels?
• Should financing for REDD activities rely only on markets or on public funds?
• What kind of long-term commitments would be necessary from developed and developing countries to secure financial flows?
• How to finance tailored capacity building actions according to governmental and non-governmental needs for the implementation of REDD?
• How to building of a portfolio approach to financing that coordinates and aligns funding from a diversity of sources?
• How the financial mechanism contribute to clarification and recognize the rights of indigenous peoples and other forest-dependent communities?
• How accountable, performance-based delivery of emissions reductions and removals may impact the level of investment on REDD activities?