Forest carbon pricing on REDD+ and Forest Finance

Evan W. Johnson
Asako N.G. Takimoto

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Current Scope of REDD+

- Geographically delimited projects
- National-level programs
- Jurisdictional programs

Future scope of REDD+

- Agriculture and sustainable land use policies
- Low carbon development strategies, holistic approaches

Future REDD+ Finance

- Phase 1+2 public sector finance
- Phase 3 public and private sector finance

But REDD+ is supposed to bring long-term, sustainable finance to forests

- Long-term finance will be determined by compliance demand/financing

Learning from Voluntary Market

- Private sector finance depends upon reducing risk
- The scope and shape of REDD+ is flexible, and ultimately determined by standards and rules

Learning from CDM

- Afforestation/Reforestation credits only achieve 2.5% of their capacity under CDM
- Inclusion in a compliance scheme is no guarantee of funding
- Program design rules, managing risk, and increasing demand must all be addressed

The shape of finance will determine the scope of REDD

- Private sector funding is necessary for long-term sustainable finance of forests
- Market mechanisms must be carefully designed to reduce risk and support investment
- Standards and social and environmental safeguards can be used to determine what goals are achieved.
- Broader REDD+ = alignment with broader global forest management goals

Economic considerations of carbon pricing on REDD+ major working areas

Forest carbon pricing affects various issues economically/financially:

- Costs and benefits of forest management changed
- REDD+ requires investment to safeguards and governance
- Impact on both public funding and voluntary markets
- Leads to changes on national policies and development process of REDD+ countries

REDD+ feasibility

Potential costs and revenues of REDD+ may vary due to forest types and countries

Key issues to consider:

- Opportunity cost - good proxy or not?
- Institutional cost - hidden but potentially large
- Usual suspects - leakage, permanence, and additionality (not only MRV issues!)

Safeguards

- Guidance for safeguards: heavily discussed at UNFCCC
- Safeguards information system:

  Economic and political implications

  - to carbon market

  - to national development process

  - to relevant international conventions and agreements

Co-benefits

Extent of REDD+ co-benefits depends on design and implementation of REDD+

How to promote gains of co-benefits:

1) 'piggybacking' co-benefits monitoring and/or relate to national statistics

2) Economically efficient allocation of available funding

3) Voluntary premiums

Governance

- Major indirect drivers of deforestation in many countries = weak governance
- Costs involved in governance reform are large (both readiness and results-based), difficult to estimate ($13-92 mil/country)
- ‘Tenure/land ownership’ and ‘benefit sharing’: critical area for good governance
- High degree of overlap with ongoing forest governance initiatives – challenges for financial management.

International initiatives

- Ongoing pilot activities/initiatives outside of UNFCCC   e.g. REDD+ Partnership
- Competition of available funding / Lack of demarcation
- Registries/databases being requested for coordination
- Other climate change financing may become stakeholders
- Many non-traditional stakeholders joined

Governments: Developed countries

- Investing for REDD+ programs/projects with ODA and non-ODA funding
- Mostly multiple approaches: bilateral, multilateral, knowledge sharing system etc.
- Preferences for financing system:

EU - Focus on comprehensiveness (national scale, safeguards, equity)

Umbrella group – Prefers flexible mechanism (market & non-market, nested approach)

Governments: Developing countries

Collaboration and technology/information sharing are big trends

Ongoing examples:

- Regional initiatives, e.g. Congo basin, Amazon basin, SID countries
- South-south collaboration on MRV sector
- Support for LDCs and countries with delayed readiness action
- Bilateral cooperation

Governments: Developing countries (cont.)

- Many countries *struggle* to use the given REDD+ funding: Ex. Amazon Fund in Brazil, Guyana REDD Investment Fund
- Need to change the whole sets of national policy to efficiently use REDD+ funding, including:
  - address the drivers of deforestation
  - involve non-forest sectors
  - governance (fiscal) reform

Indigenous and Forest-Dependent Communities

- Causing a increase incoordination/mobilization
- First attempt at implementing FPIC principles
- Land tenure remains a critical challenge

Land Users: Agriculture and Forestry

- Agriculture has become part of the REDD+ conversation
- Several ways to engage this sector
  - Revising and aligning national policies
  - Private-sector engagement and incentives to support low-carbon agriculture approaches
  - Incentives to redirect agriculture to conserve forest

Multilevel, Multi-Stakeholder Coordination

- New international collaborations
  - South-south collaborations
  - Bilateral partnerships
- New domestic collaborations
  - Multi-stakeholder dialogues
  - Multi-agency roundtables

Scenario 1: All financings under UNFCCC

- Possibly most effective way to organize available financings and control leakage
- Costs of integrating all ongoing practices might be large
- Market-based/non-market based/combination
- Both public and private source
- Better to address equity issue

Scenario 2: Decentralized financings

- Financings fragmented and can be build on current experiences
- Possibly most economic option in short-term, but long-term inefficiency (e.g. duplication, uneven allocation) may occur
- National and sub-national scale actions co-exist – challenges to manage leakage
- Likely focus on only carbon value may jeopardize sustainable forest management

Scenario 3: Loosely coordinated under UNFCCC

- Coordinating body: several styles proposed in the negotiation
- More efficient financing allocation, but still difficulty in managing possible leakage
- Most popular option in negotiation
- Enforcement issue – lessons from CDM experience in difficulty of regular review and regulatory framework

Key Findings

- Long-term sustainable finance is unique to REDD+ and critical for its success
- Safeguards and co-benefits must be embraced to not only ensure successful engagement of all stakeholders, but also to broaden REDD+ to include environmental/social co-benefits
- Benefits must flow to responsible users of the land, including forest-dependent communities and indigenous peoples
- REDD+ must address drivers of deforestation

Conclusion

Key findings ➔ Continued evolution of REDD+ towards a mechanism for transformational change, encompassing:

- Conservation
- Forest and other natural resource management
- Forest governance
- Low-carbon development
- Rights

Payment for performance or results must be retained.

The question remains: how can REDD+ finance provide a strong enough incentive to effect this transformational change?