

Financing Options for REDD+

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A diverse set of funding sources, including both market and non-market REDD+¹ funding, will be required to realize the full mitigation and sustainable development potential of this mechanism. Sufficient funding and resources should be applied consistent with the goal of halving deforestation by 2020.

Forests in many developing countries are under sustained or increasing threat of degradation and destruction. Without adequate and consistent financial support for protecting and maintaining these globally vital ecosystems, many developing countries are often constrained to the only revenues their forests can currently produce, which in many cases come through logging and clearing. Deforestation and degradation destroy about 13 million hectares of tropical forest per year; release about 15% of global greenhouse gases; threaten the livelihoods of indigenous peoples and forest-dependent communities worldwide; and harm biodiversity, ecosystems, and the services they provide.

Creating an economic value for standing forests may provide the necessary long-term economic incentives for effectively protecting tropical forests and reducing emissions from deforestation and forest degradation while contributing to improved livelihoods and sustainable development. A diverse set of funding sources, including both market and non-market REDD+¹ funding, will be required to realize the full mitigation and sustainable development potential of this mechanism. Non-market funding is necessary to build capacity in countries and make the initial investments in implementation and market funding is necessary to reach the scale of financial resources needed to truly address the problem.

Early REDD+ Financing

In the early phases of REDD+, public investment in building readiness will be needed to get REDD+ off the ground. There is an urgent need for a dedicated funding stream to support activities such as the establishment of credible reference levels, development of robust and accurate monitoring systems, strengthening of national institutions, improvement of forest governance, and development of programs to channel funds to actors at the local level. These resources may be generated in various ways, including through new and additional official development assistance (ODA), and market-linked approaches such as dedicating portions of allowance value within cap-and-trade systems. As countries increase their REDD+ readiness and begin to implement emissions reduction activities, additional public funding may be needed to provide up-front capital for implementation, buffer the risk of early actions, facilitate market access for higher-risk countries, and catalyze private investment.

¹ We support a mechanism that encompasses reduced emissions from deforestation and forest degradation (REDD), sustainable management of natural forests subject to strict environmental and social criteria and robust carbon accounting, conservation of existing natural forests and maintenance of carbon stocks including in areas with high forest cover and low deforestation rates, enhancement of forest carbon stocks through the restoration/improvement of existing but degraded forests, and increasing forest cover through environmentally appropriate afforestation and reforestation.

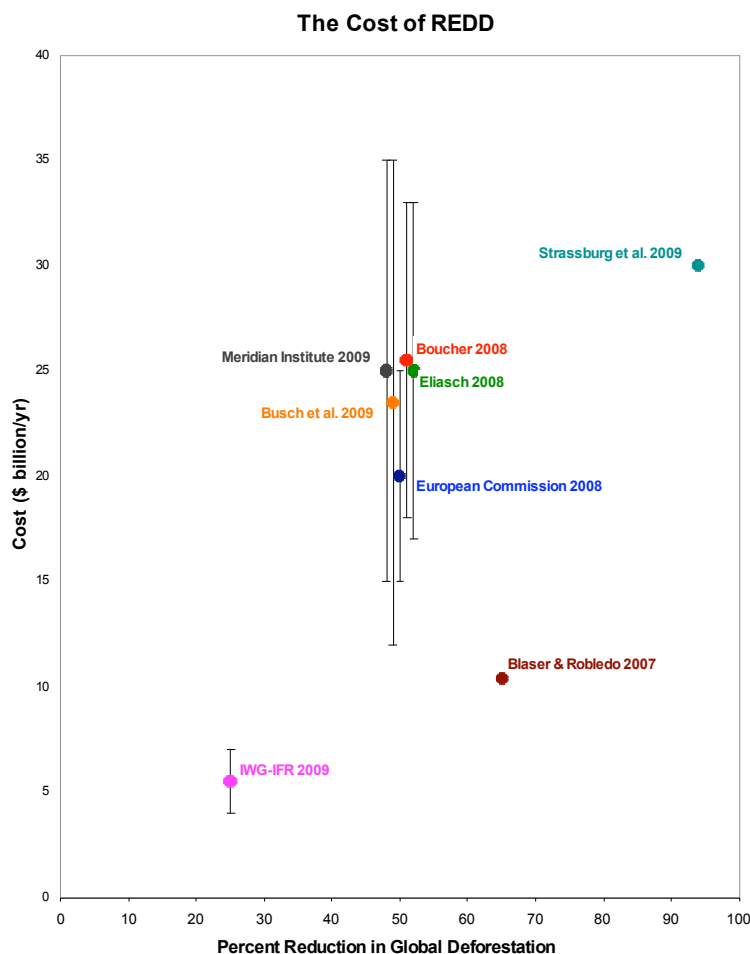


Figure 1: Range of estimated costs for reducing emissions from deforestation and forest degradation. Note: Most of the estimates are for reductions by the year 2020, but the Eliasch Review considers reductions by 2030, the IWG-IFR report considers reductions for 2010 to 2015, and the Busch et al. analysis is a historical simulation over 2000-2005. The Meridian Institute report reviews results from various studies for reductions by 2020 to 2030. References for this figure listed at the end of this document.

Long-term REDD+ Financing

Once countries have the capacity to generate compliance grade emission reductions,² market approaches to REDD+ financing offer great potential to provide the large-scale level of funding needed to reduce deforestation and forest degradation emissions globally over a sustained period of time. It should be made clear from the start of a REDD+ mechanism that countries will gain market access as soon as they have the capacity to generate additional, permanent, and verified compliance-grade emission reductions. This market certainty is necessary to motivate countries to make the large initial investments to develop robust monitoring, reporting, and verification systems. REDD+ credits generated through such rigorous and verifiable methodologies should be exchangeable with emissions reductions from other sectors. Within a global framework of ambitious emissions reductions, REDD+ can and should help industrialized countries take on deeper and earlier emission reduction targets. A REDD+ framework needs to contribute to an emissions trajectory that keeps global warming as far below 2 degrees Celsius as possible.³

The most recent estimated costs of cutting deforestation in half range from \$12 to \$35 billion USD/year (see Figure 1). A substantial portion of financing will need to come from non-market sources. This funding is needed to implement the readiness activities mentioned above and to provide up-front investment in order to implement early emissions reductions and ‘prime the pump’ for increasing private investment. Sufficient funding and resources should be applied

² In order to qualify activities would need to be designed to ensure additionality, permanence, as well as strong monitoring, reporting, and verification provisions.

³ Meinshausen, M., N. Meinshausen, W. Hare, S. C. B. Raper, K. Frieler, R. Knutti, D. J. Frame and M. R. Allen (2009). Greenhouse-gas emission targets for limiting global warming to 2°C. *Nature* 458: 1158-1163. (<http://www.nature.com/nature/journal/v458/n7242/full/nature08017.html>).

consistent with the goal of halving deforestation by 2020, which will require financing on the higher end of the ranges above.

Current State of REDD+ Finance in the UNFCCC

The current REDD+ negotiating text produced by the UNFCCC's Ad Hoc Working Group on Long-term Cooperative Action (LCA) at its eighth session in Copenhagen (FCCC/AWGLCA/2009/17, Annex I.G) includes a placeholder for quantitative emissions reductions and financing goals. The text lays out a phased approach, including results-based demonstration activities and actions. It also includes three potential options for the provision of financial support: 1) a financing framework for REDD+ that would be guided by the Convention's overarching decision on financing, 2) finance for result-based activities from flexible sources, and/or 3) finance from existing bilateral and multilateral sources. These three options are not necessarily mutually exclusive. The current negotiating text on finance (Annex I.C) includes options for both public and private sources of finance. Similarly, the current negotiation text on market-based approaches (1bv - Annex I.I) includes options for both non-market and market approaches. In addition, under the Copenhagen Accord, countries "decide to pursue various approaches, including opportunities to use markets, to enhance the cost-effectiveness of, and to promote mitigation actions." Under the Copenhagen Accord developed countries also committed to provide \$30 billion over the next three years for mitigation, including REDD+, and for adaptation in developing countries.

Necessary UNFCCC REDD+ Finance Policy

The REDD+ objective should include ambitious quantitative emissions mitigation and finance goals. Parties should agree to flexible sources of finance for REDD+. Funding committed under the Copenhagen Accord should be deployed immediately to meet demand for REDD+ readiness and to engage in demonstration activities. Furthermore, the pledge from a few developed countries to provide \$3.5 billion in REDD+ funding should be fulfilled and built upon. It is critical that financing for REDD+ under the UNFCCC provide for both sufficient up-front funds to get REDD+ off the ground, and for financing for long-term implementation through a combination of non-market and market sources. Market access should be ensured such that countries can participate as soon as they have the capacity to generate additional, permanent, and verified compliance-grade emission reductions. Access to these flexible sources of finance for REDD+ should be integrated through work by the UNFCCC.

Figure References

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Union of Concerned Scientists ~ Wildlife Conservation Society ~ Woods Hole Research Center

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