formation may be critical in clarifying the costs of REDD-plus.

Likely political development

In Copenhagen, UNFCCC negotiators made progress on REDD-plus. In particular, attention was given to ensuring that actions to achieve reduced deforestation and degradation are undertaken in a socially responsible and environmentally sound way. This requires that those communities (particularly indigenous communities) that rely on forests for their livelihoods are involved in the decision-making process. Such inclusion will require that transparent and effective governance structures are in place.

In May 2010, representatives of 50 countries met in Oslo, Norway, to agree a framework that could guide the early implementation of REDD-plus activities. Industrialised countries pledged almost $4 billion for quick-start implementation between 2010 and 2012. The meeting's Declaration describes the intent of governments to provide a voluntary, non-legally binding framework for an interim REDD-plus partnership whilst a future mechanism under the UNFCCC is negotiated and implemented. More recently, a pre-Cancun conference on the future of REDD-plus was held in Cancun in September that focused on the necessity of including indigenous populations in the negotiations. The clear challenge for Cancun is to overcome the political opposition and clarify participation and benefit-sharing issues that continues to hold back a consensus on REDD-plus and then to ensure that the international financial pledges in support of REDD-plus are realised.

References and useful link

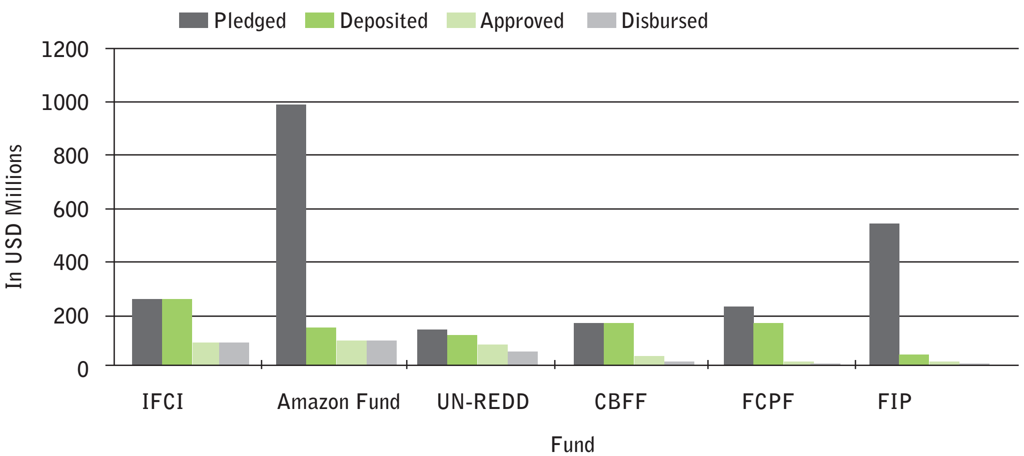
Report of the Informal Working Group on Interim Finance for REDD+ (IWR-IFR) (2009)

Olsen, N. and Bishop, J. (2009) 'The Financial Costs of REDD: Evidence from Brazil and Indonesia' IUCN, Gland, Switzerland

The Forests Dialogue (2009) Dialogue on REDD Finance Mechanisms.

Climate Funds Update: http://www.climatefundsupdate.org/

Funding for REDD-plus



Source: www.climatefundsupdate.org; accessed on November 18, 2010.

HEINRICH BÖLL STIFTUNG
NORTH AMERICA

FINANCE

Overseas Development Institute

Climate Finance Fundamentals

Written by **Alice Caravani** and **Neil Bird**, Overseas Development Institute and **Liane Schalatek**, Heinrich Böll Stiftung North America

BRIEF 5

November 2010

REDD-plus Finance

Seven major bilateral and multilateral funding initiatives have recently been created to support the new concept of Reducing Emissions from Deforestation and Forest Degradation. This has been proposed as a major international mitigation strategy, seen by many to also hold considerable promise for forest conservation in developing countries. The total financing needed for REDD-plus is highly sensitive to the agreed level of payments to developing forest countries per tonne of reduced or avoided emissions, yet this has yet to be determined at international, national or local scales. Both public and private sector finance are seen to play potentially complementary roles in delivering REDD finance. Public sources are expected to play the dominant role in the initial stages of preparation for REDD-plus. However, in the implementation phase a combination of public and private sources will likely be required. Concerns over the scope of REDD-plus financing, benefit sharing, effective stakeholder participation and the need for safeguards hamper a quick advance of this proposed strategy. Some progress was made in Copenhagen last year, but a more comprehensive and decisive agreement is required at Cancun.

The concept of REDD-plus

Reducing Emissions from Deforestation and Forest Degradation, and enhancing forest carbon stocks in developing countries (REDD-plus) is a new international initiative that aims to create a financial value for the carbon stored in forests. REDD-plus offers incentives for developing countries to reduce their carbon emissions from forested lands by slowing down deforestation, and through forest conservation, invest in low-carbon paths to sustainable development. REDD-plus has come into prominence since the recognition that changing land use – principally deforestation – is responsible for more than 15% of current global emissions.

There is growing awareness that REDD-plus may offer a large pool of relatively low-cost emission reductions, which could significantly reduce the costs of meeting emission reduction targets by developed countries through 'offsetting', whereby developed country targets are met, in part, from emission reduction efforts in developing countries. However, proponents of REDD-plus are still struggling to win political endorsement for this approach as a compliance mechanism. And despite its emissions-reduction potential, opponents of REDD-plus remain concerned that REDD implementation could do harm to communities dependent on forests for their survival.

One reason why the potential of REDD-plus remains uncertain is the lack of information on the probable costs associated with such programmes. There is a large degree of variation both within and between countries with regard to the opportunity costs of forest land, depending on the direct and indirect drivers of deforestation, and the carbon content of forests. IUCN suggests that the costs of REDD-plus lie in the range of $2–10 per ton CO2e, including implementation and transaction costs. For comparison, the price of emission allowances in the EU Emission Trading Scheme in November 2010 was approximately $20 per ton CO2e, and the cost of cutting industrial emissions can exceed $50 per ton CO2e.

Roles of public and private sector in REDD-plus

Both public and private sector finance will likely play important roles in delivering REDD-plus. Forms of public finance may include: (i) domestic self-financed actions; (ii) direct government-to-government transfers or transactions; (iii) the use of national or international dedicated taxes or levies, such as taxes on fuels or commodities; and (iv) the use of national or international sources of funds linked to carbon markets, for example from the auction of emission allowances under a cap-and-trade system. Potential private sources of funds include: (i) carbon credits from national or regional emissions trading schemes; (ii) through a dedicated REDD fund mechanism; and (iii) funding from private sources such as voluntary carbon markets and philanthropy. Since the bulk of the payments envisaged under a REDD-plus partnership will be performance-based (demonstrating the permanent retention of forest cover), there is need for early, up-front finance to secure effective national systems, which is more likely to be provided at scale by public funding.

There is general agreement on the need for countries to have time and resources to prepare and build capacity for REDD-plus implementation. A phased approach model is now being followed that will allow countries with different circumstances to pilot and mainstream REDD-plus actions. This will create the necessary flexibility for countries to develop portfolios that combine fund-based (public) and market-based (private) sources of funding.

REDD-plus finance instruments

The three main instruments to fund REDD-plus activities in developing countries are:

(i) Funds operating at the national or international level that raise finance from public and private sources;

(ii) A direct market mechanism for credits from existing certified (or verified) emissions reductions (CERs), used by private sector companies in both developed and developing countries;

(iii) A hybrid/market-linked mechanism that can generate finances through either an auction process or by establishing a dual-market in which REDD-plus credits are linked to, but are not fungible with, existing CERs. Norway's proposal to auction Assigned Amount Units is an example of such a market-linked mechanism.

Over the last three years there has been considerable activity with numerous initiatives starting up to support international finance flows in support of REDD-plus. To-date, the main multilateral and bilateral funds that have disbursed funding are:

The International Forest Carbon Initiative (IFCI) is a bilateral initiative implemented by Australia that has disbursed $66 million, working in partnership with Indonesia and Papua New Guinea (described in Brief 2 of this series).

The Amazon Fund is a Brazilian initiative that aims to prevent, monitor and combat deforestation, and to promote the preservation and sustainable use of forests in the Amazon Biome. Almost $60 million has been disbursed to-date, with eight forestry projects being supported (see Brief 6).

The UN REDD Programme is a multi-donor trust fund that aims to help reduce global emissions from deforestation and forest degradation in developing countries. It was established in 2008 by three UN Agencies: UNEP, UNDP and FAO. Through its initial country programmes in Africa, Asia and Latin America, it is supporting national governments prepare and implement national REDD-plus strategies. By September 2010, $38 million has been disbursed for project implementation, within a total approved budget of $60 million.

In 2009, the Programme drafted and built consensus for the *UN-REDD Operational Guidance on the Engagement of Indigenous Peoples and other Forest Dependent Communities*, and supported national UN-REDD programmes to engage with all stakeholders.

The Congo Basin Forest Fund (CBFF) is a multi-donor fund set up in 2008 to protect the forests in the Congo Basin region. It aims to support the people and institutions of the Congo Basin countries in managing their forests and in helping local communities find livelihoods that are consistent with the conservation of forests and reduced rates of deforestation. As of September 2010, 15 projects have been approved worth a total of $17 million.

The Forest Carbon Partnership Facility (FCPF) is a World Bank programme also created in 2008, which has the dual objectives of building capacity for REDD-plus in developing countries, and testing a programme of performance-based incentive payments in a small number of pilot countries. $4 million has been disbursed to date. It supports the Readiness Mechanism, which is designed to assist developing countries reach a capacity level at which they will be ready to participate in a future system for positive incentives for REDD-plus.

The Forest Investment Program (FIP) is a programme within the World Bank administered Climate Investment Funds (CIFs). It became operational in 2009 with the objective of mobilizing significantly increased funds to reduce deforestation and forest degradation and to promote sustainable forest management, leading to emission reductions and the protection of carbon terrestrial sinks. As of August 2010, $2 million has been disbursed under this programme.

The Indonesia Climate Change Trust Fund (ICCTF) created by the Government of Indonesia in 2009 (see Brief 2) aligns international finance sources with national investment strategies within Indonesia. REDD-plus is among the main priorities of the initiative. As of November 2010, a budget of $1.25 million has been approved for a forestry project to enhance carbon sequestration and mitigation of greenhouse gas emissions.

Shortcomings, concerns and innovations

As REDD-plus finance is not based on a compliance mechanism, but is supported by voluntary efforts, its financial mechanisms exhibit a number of shortcomings in ensuring effective delivery of REDD-plus projects. Among the main obstacles are the trade-offs between the necessity to prevent deforestation at a global and national level on one side, with the need to ensure that REDD-plus activities are tailored to the characteristics of different areas both between and within countries. There are both challenges and opportunities. More specifically, the main concerns raised so far are:

The scope of REDD-plus financing - Should the REDD-plus financing mechanism be developed primarily to incentivize national or sub-national (project-based) initiatives? One innovative mechanism is the 'nested approach', which allows countries to start REDD-plus efforts through projects and gradually move onto a national basis. This would offer a system where REDD-plus credits are generated by projects and governments, thus maximising the potential of both approaches. However, the nested approach presents the challenge of harmonisation between the two levels.

Benefit sharing – An estimated 1.6 billion people worldwide, many among the poorest, depend on forests. Ensuring that benefits (in this case financial benefits) are shared equitably among countries, within countries, and within communities is therefore a major issue. Safeguards will be necessary to prevent negative social impacts. It has not yet been determined how forest-dependent communities who live mostly outside the market economy and often hold only traditional ownership rights might benefit from REDD-plus schemes. Clarification of rights over carbon tenure and traditional uses of forests, including the consideration of the gender dynamics of forest management, will be necessary in developing equitable benefit sharing schemes.

Valuation and effective stakeholder participation – One of the reasons holding back the delivery of REDD-plus finance is a lack of analysis of the value that forest owners and users place on forests in many developing countries. Determining their willingness to accept compensation for benefits foregone could be a useful way forward that would at the same time enhance meaningful and broad stakeholder participation. Obtaining this in-