# Megaflorestais presentation

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# Outline of Presentation (1)

What is REDD and where did it come from?

What is the current debate about REDD?

Climate finance for forests – going into Durban (COP17)

**Mitigation / Adaptation:**

Who does what?

# Outline of Presentation (2)

## REDD+ models: conventional approaches

- Fund or Market?
- National or Subnational?
- The 'Nested Approach' – just do it

## New approaches to REDD

- Norway's bilateral deals
- 'Bolsa Floresta'
- Global Tenure Fund
- Carbon / Green Bonds
- Multi-sector PES programs
- The 'Dryad Fund'

## 'Greening REDD' – REDD and Restoration

## Mitigation *AND* Adaptation:

Building Low-Emission, Climate Resilient Development Strategies (LECRDS)

# Where REDD+ came from

Deforestation and forest degradation identified as a major source of emissions (12-18% of GHG)

2007 Bali (COP-13), an agreement was reached on "the urgent need to take further meaningful action to reduce emissions from deforestation and forest degradation"

Compensating avoided emissions from DD identified as quick and cost-efficient way to reduce global emissions at scale (a low-hanging fruit)

Evolved to REDD+ (conservation, SFM and enhancement of stocks)

# Early focus on financing and MRV

Opportunity cost approach assumes money is major part of the solution

2006 Stern Review finds that *"the opportunity cost of forest protection in 8 countries responsible for 70 per cent of emissions from land use could be around $5 billion annually."* (p 537)

2008 Eliasch Review *"estimates that the finance required to halve emissions from the forest sector to 2030 could be around $17-33 billion per year if included in global carbon trading."* (p 42)

Dominant vision that the most efficient way to quickly raise adequate financing to make globally significant impact was through markets

Lots of technical work on creating MRV systems

# Early concerns

Opportunity cost approach misses the complete costs to forest-dwellers

Objections to commoditization of nature

Offsetting while continuing to emit

Local institutions to insecure/weak to reach scale

# But pledges mounted

Norway led the way for REDD with commitments to multi-lateral funds, Amazon Fund and Indonesia

FCPF and UNREDD began operations ~2007

$100 billion for climate change in Copenhagen
– REDD+ held up as an example in negotiations

Total commitments for quick-start REDD: $4-5 billion

# Lessons so far

Climate change is not relenting and emissions continue to rise.

No global cap results in little trade; market not emerging at speed or scale envisioned to have global impact

The 75MtCO2e contracted is roughly equivalent to 20 days of emissions from Indonesia (LULUCF emissions stood at 1459MtCO2e/year as of 2005) (WRI/CAIT, 2011)

# Lessons so far/2

Munden Project asserts "*that the current mechanism for engaging private capital under REDD – the so-called "market" approach – is highly likely to fail. Forest carbon trading is unworkable as currently constructed.*" (p 25)

The State of Forest Carbon Report notes that *"In circumstances where tenure or land rights remain unclear, project developers are likely to run into serious or insurmountable challenges to sustainably securing and marketing carbon offsets."* (p 50)

# COP 17 advance text on forest finance [still in brackets…!]

***Reaffirming that, in the context of the provision of adequate and predictable support to developing country Parties,*** **Parties should collectively aim to slow, halt and reverse forest cover and carbon loss, according to national circumstances, consistent with the ultimate objective of the Convention, as stated in its Article 2:**

1. ***[Different sources of finance, (indicative list of sources identified by Parties):***

   ***(a) Public funds;***

   ***(b) Specialized REDD-plus funds or funding windows established by the Green Climate Fund under the COP;***

   ***(c) Existing multilateral and bilateral channels;***

   ***(d) Market-based mechanisms;***

   ***(e) A flexible combination of funds and market-based sources;***

   ***(f) Any new financing options identified.]***

# Financing for CC mitigation efforts (1)

- Substantial North → South transfer of funds is 'required' under the UNFCCC

*But: public budgets in Annex I countries are stretched*

- Kyoto Protocol creates trading instruments, money will come from the carbon markets

*But: Some governments and many NGOs are opposed*
*Doubts about forest carbon as a legitimate 'asset class'*
*Doubts about the volume of $$$ that can flow*

# Financing for CC mitigation efforts (2)

**'Existing multilateral channels'**

- World Bank Forest Carbon Partnership Facility (FCPF)
- World Bank Forest Investment Program (FIP)
- UNREDD
- Regional efforts like Congo Basin Fund

*But: Disbursement has been very slow*

*Bureaucratic requirements are high*

*"We can't let REDD become like the CDM"*

# Revenue Projections for *all* climate finance

| Source of Finance: Public | Revenue Base | Climate Finance Allocation | Climate Finance Flows |
|---|---|---|---|
| Fossil Fuel Subsidy Reform | $50B | 20 - 30% | $10-15B |
| MBIs – Aviation + Shipping | $24B | 33 – 50% | $ 8-12B |
| Carbon Price - Rich C's ($25/t) | $250B | 10 – 20% | $25-50B |
| **Source of Finance: Private** | | | |
| MDB finance | | | $ 35B |
| Policy-leveraged private flows | | | $ 150B |
| Carbon Market Offset Flows | | | $ 1B to $ 100B |

# Adaptation Fund (1)

## *What is It?*

"One of several interconnected specialist climate finance mechanisms under UNFCCC, UN Agencies, and the Multilateral Development Banks"

## *Who created it?*

Established by parties to the Kyoto Protocol

## *How is it financed?*

2% of Certified Emission Reductions issued for Clean Development Mechanism (CDM) projects

# Adaptation Fund (2)

*What does it do?*

Adaptation Fund's 'Endorsed Concepts' include:

- water supply
- coastal protection
- food security
- 'resilience' (multi-sector)

*Who does it?*

Implementing entities include:

- UNDP
- World Food Program
- 'National Implementing Entities'

# REDD Models – conventional approaches

| Funding Mechanism | Depends on global deal? | Who Pays? | Effectiveness? | Likelihood? |
|---|---|---|---|---|
| National Crediting, under UNFCCC arrangement | Yes *REDD 1.0* | Polluters in Annex I via carbon credits | Medium | Durban picture looks bleak |
| Subnational/Project crediting under UNFCCC | Yes | Polluters in Annex I; decentralized markets? | Medium | Not yet teed up for negotiation |
| The Nested Approach | Yes/No | Polluters in Annex I | Higher | Emerging as the 'Just Do It' option |
| International fund, national payments | Yes | Public money; 'taxpayers' | It depends – low to high | Strong Annex I opposition |
| Voluntary markets | No | Polluters | Very low | On-going |

# New Approaches to REDD -- national

- Brazil: The Amazon Fund
- Brazil: *Bolsa Floresta*

- Indonesia: Ecosystem Restoration Concession

- Mexico: Multi-sector PES programs

- Brazil/Indonesia/Mexico: Provincial-level piloting

# New Approaches to REDD: World Bank's Forest Bond Concept

**WB finances a forestry project and then pays investors revenues from this project, including carbon credits.**

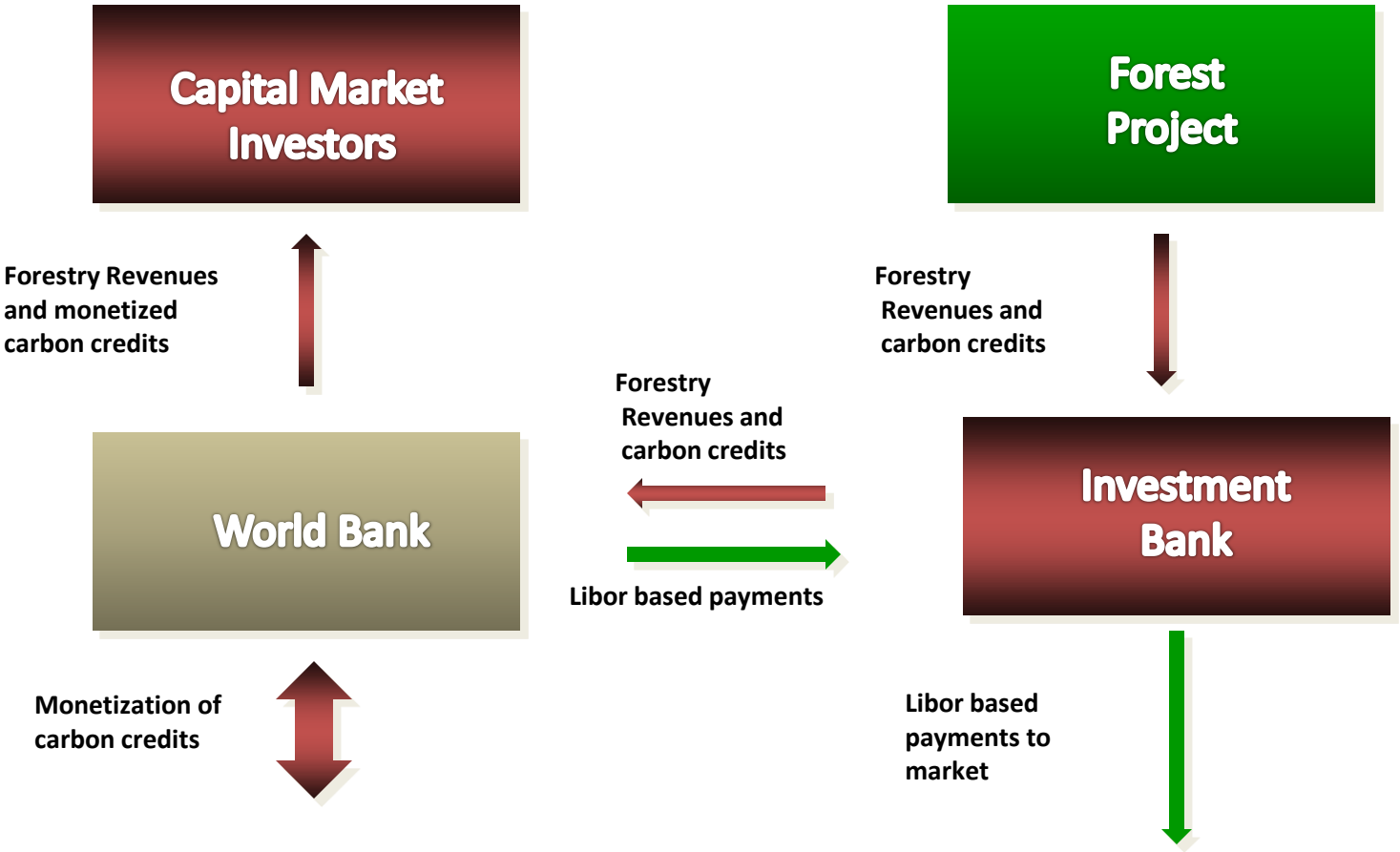
- Instead of the usual interest rate coupon, the investors receive a bond coupon based on the benefits generated by the management of a specific forest, including carbon credits.
- The bond is a AAA World Bank Bond, so the risk of the investors losing any of the principal (amount invested), is low.
- The risk taken by investors is that the forest projects fail to generate benefits or carbon credits, or carbon credits have no or a very low monetary value.

**World Bank argues that….**
**"there is a strong investor base for such products."**

# World Bank Forest Bond Concept

## Structure : Periodic Cash Flows

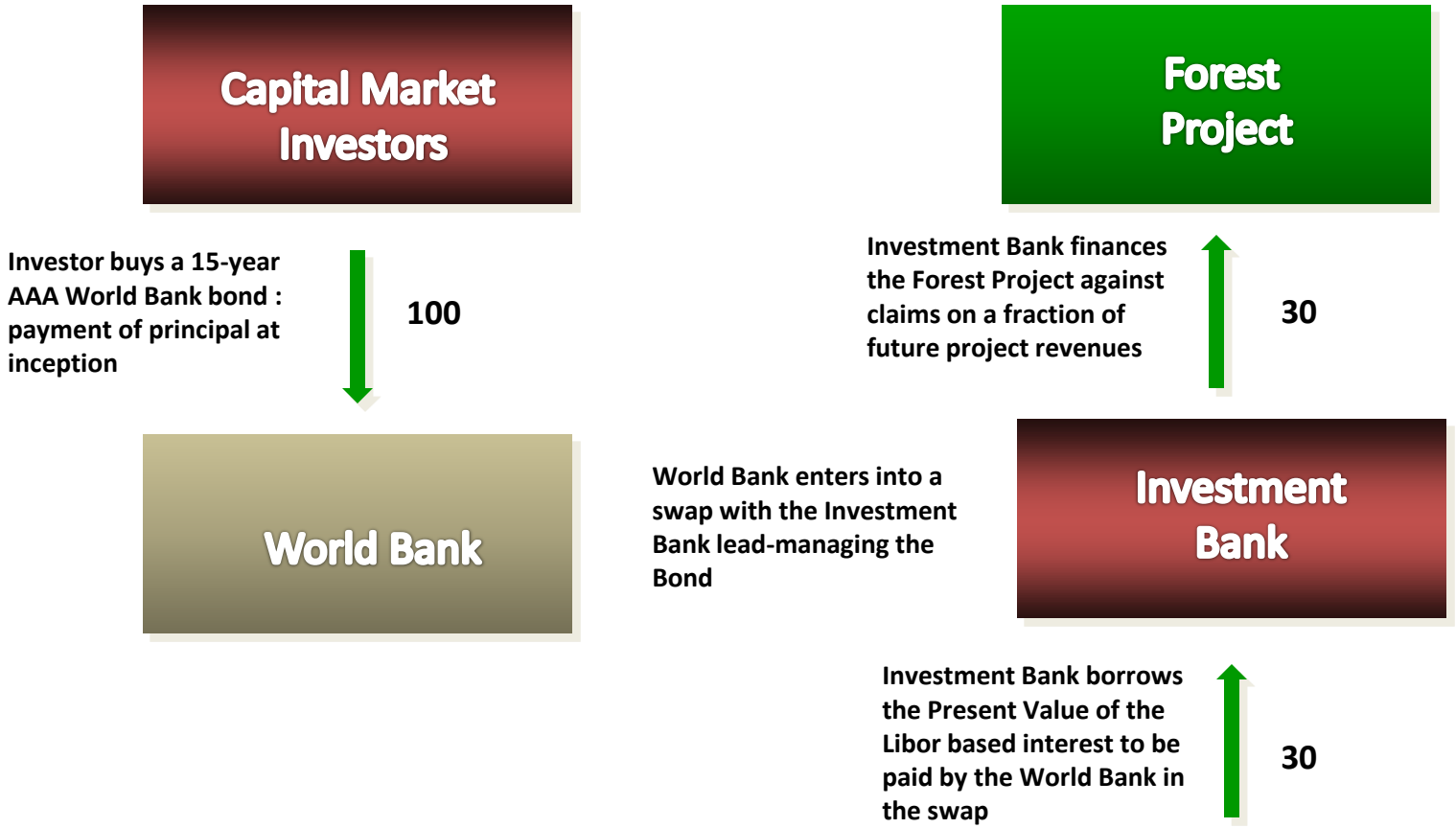
**Source:** The World Bank Treasury, Capital Markets Department



# World Bank Forest Bond Concept

## Structure: Cash Flows on issuance date

**Source:** The World Bank Treasury, Capital Markets Department



# New Approaches to REDD: New insights in reducing project risk

- **The Global Tenure Fund –**

  investing in key enabling conditions for forest protection

  'beyond safeguards'

- **The Dryad Fund – diversifying risk profiles**

  Portfolio approach – not just one forest project, but many

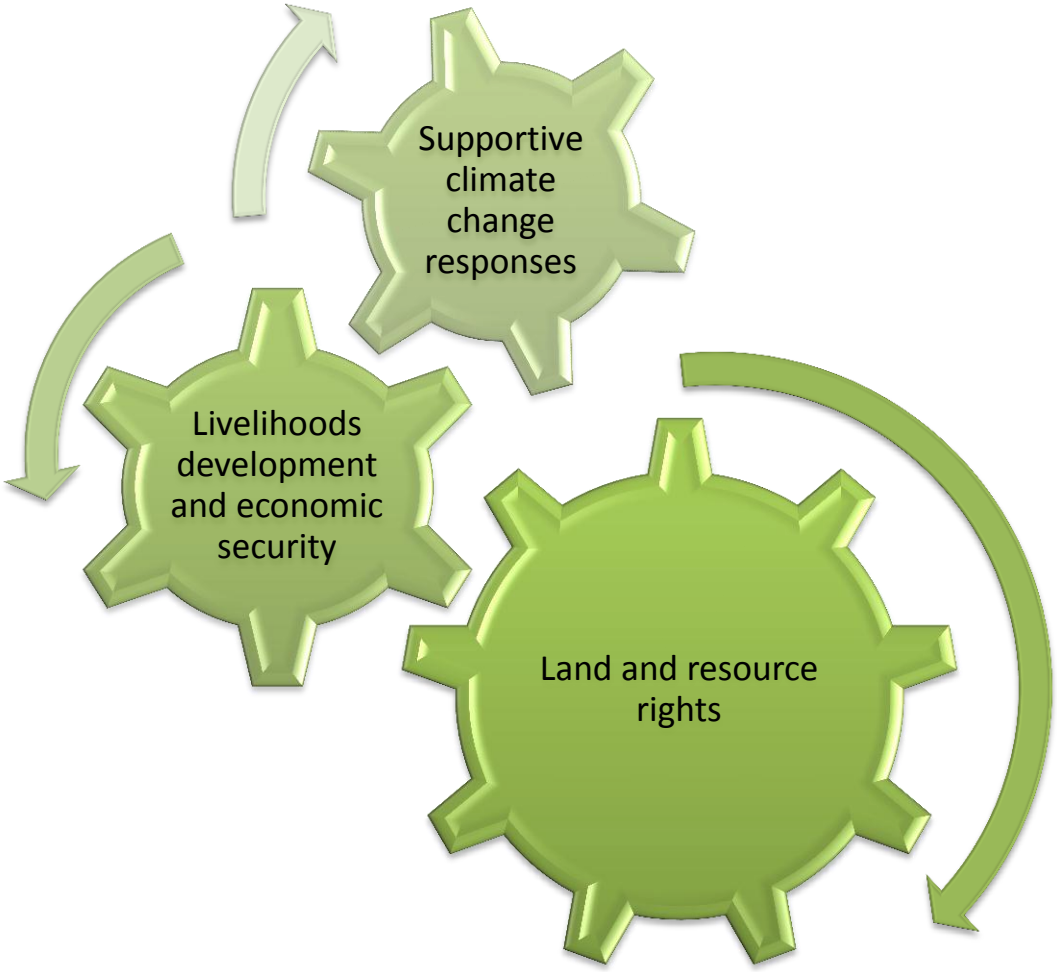
  Goods – supporting a range of productive activities

  Services – key ecosystem services, *and* carbon

  Community engagement –

  'smallholder's low-cost knowledge pool'

# NEW APPROACHES TO REDD: OUR THEORY OF CHANGE



# From forest losing to forest adding

1990-2010: 78 countries have increased or maintained net forest area... **62% emerging or developing countries** (FAO)

- **Case studies of China, India, Vietnam, Chile, S. Korea**
  - had concerted gov't programs to regrow forest area – **w/o carbon finance**
  - Large-scale public sector reforestation interventions
  - Focus on **institutions** and implemented **policies**, not economic and demographic drivers

# Lessons learned (1)

***Large-scale results stemmed from serious attitude changes in the government and support at highest levels***

- **Disaster-motivated:** In S. Korea, China and India, forestry became a top priority for central gov't following severe wood shortages in villages.
- **Industrial strategies:** In Vietnam and Chile, the will to invest national forest resources resulted from economic directives to develop wood product exports.
- In all cases, a **sense of urgency** ushered in drove more serious thinking, often after major failures of past policies

# Lessons learned (2)

***Reduction of forest loss and rebuilding of stocks relied on multi-faceted national policies***

- **Holisitic:** In S. Korea, China and Vietnam, gov't enacted synergetic policies that included decentralized management rights, watershed protection, afforestation, etc.
- **Involving local communities:** In S. Korea, India and China in particular, these reforms began with official recognition of need to focus on supporting village rather than industrial needs.
- Case study countries were able to roll out these plans due to **strong central gov't**

# Lessons learned (3)

***The centerpiece of these policies were major programs of afforestation, reforestation and restoration***

- **Focus on degraded lands:** In all countries public financing of restoration marginal public lands, and incentives for private landowners.
- **Plantations:** For both local fuelwood needs (S. Korea, India) and industrial roundwood and pulpwood (China, Vietnam, Chile)

# Mitigation & Adaptation –
## The Search for Synergies, and Why It's Difficult

Examples:

- "Adaptive Forest Management" (easier in plantations than natural forests)
- Use of watershed-level Payment for Ecosystem Services (PES)
- Agroforestry as resilient livelihoods option

Why it's hard to do:

- Very different actors involved in each
- Competitive use of funds
- Activities are at different implementation levels
- Adaptation is highly site-specific, and needs to be planned at local level

# "Low Emission, Climate Resilient Development Strategies" (LECRDS)

**A framework for types of investment:**

Overall goal is invest in resilience:

- Leveraging Adaptation Fund and donor (grant) support, backed by domestic investments in resilience
- Leveraging investor support for low carbon projects
- Success based on *combined* assessments of
  - emissions saved,
  - deforestation reduced,
  - employment generated
  - livelihoods sustained
  - disasters/damage avoided

**And it's hard to do because….**

Capacity building – it requires a high degree of cooperation within government:

- *horizontal* (inter-department)
- *vertical* (between central and local govts)

It *will* cost more than single-sector 'business as usual'

Donor funds must be gradually replaced with domestic resources

Jurisdictions will need to develop new progress indicators, and investors will need to accept them!