

**SUMMARY OF REPORT OF THE
INFORMAL WORKING GROUP ON
INTERIM FINANCE FOR REDD+ (IWG-
IFR)**

OCTOBER 27, 2009

DISCUSSION DOCUMENT

THIS REPORT IS INTENDED TO INFORM AND BE INFORMED BY THE INTERNATIONAL CLIMATE CHANGE NEGOTIATIONS UNDER THE UNFCCC, AND IN NO WAY TO PRE-EMPT THOSE NEGOTIATIONS. IT DOES NOT FORMALLY REPRESENT THE VIEWS OF THE MEMBER COUNTRIES OF THE WORKING GROUP, NOR OF THE WORKING GROUP SECRETARIAT.

PREAMBLE

At the invitation of His Royal Highness the Prince of Wales, world leaders met in London on April 1, 2009.¹ On this occasion they acknowledged the great importance of tropical forests in addressing climate change and providing broader benefits for the world, emphasised the urgency of greatly scaling up funding for this purpose, and on that basis established the Informal Working Group – Interim Finance for REDD (IWG-IFR)², which has been responsible for producing this report. The work of the IWG-IFR builds on the principles set out in the 2008 Poznan Statement³ on the importance of achieving progress on Reducing Emissions from Deforestation and Forest Degradation, and was recognized and supported in the G8 Summit declaration on forests and land degradation on July 8, 2009.⁴ At the UN Secretary-General’s high-level REDD+ event on the margins of the 64th General Assembly of the United Nations in New York City on September 23rd 2009, several heads of state made favourable references to the group’s efforts and analysis.

The Terms of Reference (Appendix A) for this group underlines that the IWG-IFR should not pre-empt, but rather ‘inform and be informed by’ the ongoing negotiations on REDD+ under the United Nations Framework Convention on Climate Change (UNFCCC).

- 1 Minister of External Relations of Brazil Ambassador Celso Amorim, Prime Minister of Japan Taro Aso, President of the European Commission Jose Manuel Barroso, Prime Minister of Italy Silvio Berlusconi, US Secretary of State Hillary Clinton, Canadian Minister of Finance James Flaherty, Prime Minister of Guyana Samuel Hinds, Secretary-General United Nations Ban Ki-Moon, Chairman of Lloyds of London and representative of ClimateWise Lord Levene of Portsoken, Chancellor of Germany Dr Angela Merkel, Gabon Minister of Defence Ali Bongo Ondimba, Prime Minister of Australia Kevin Rudd, President of France Nicolas Sarkozy, Prime Minister of Norway Jens Stoltenberg, Prince Saud Al’Faisal of Saudi Arabia, President of Indonesia Dr H Susilo Bambang Yudhoyono, World Bank President Robert Zoellick.
- 2 The IWG IFR member countries are Argentina, Australia, Brazil, Cameroon, Canada, Colombia, Democratic Republic of Congo , Costa Rica, Denmark, Ecuador, European Commission, France, Gabon, Germany, Ghana, Guatemala, Guyana, Indonesia, Italy, Japan, Madagascar, Malaysia, Mexico, Netherlands, New Zealand, Norway, Panama, Papua New Guinea, Peru, Suriname, Sweden, Thailand, Uganda, UK, and USA.
- 3 Supporting the statement in Poznan were Australia, Belgium, Brazil, Cameroon, Costa Rica, D.R.Congo, the EU Commission, France, Germany, Ghana, Guatemala, Guyana, Indonesia, Japan, Madagascar, Netherlands, Norway, Panama, Peru, PNG, Singapore, Suriname, Thailand, Uganda and United Kingdom. Italy and Ecuador have signed subsequently.
- 4 See http://www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final,0.pdf. The declaration supports the development of initiatives and measures to promote REDD and recognizes the crucial role of early action initiatives to tackle drivers of deforestation.

SUMMARY

The struggle against climate change is one of the defining challenges of our time. To achieve the ultimate goal of the United Nations Framework Convention on Climate Change (UNFCCC) and avoid dangerous interference with the climate system, global emissions must peak in the near future and be followed by sustained, deep cuts, as provided by the assessments of the IPCC.

Efforts towards Reducing Emissions from Deforestation and Forest Degradation, enhancement of carbon stocks, conservation, and sustainable management of forests in developing countries (REDD+) will be crucial. Today, economic undervaluation of standing forests drives deforestation and forest degradation. For REDD+ to succeed, therefore, the economic incentive structure must be changed. Concerted global, national and local action will be critical to achieve this.

The UNFCCC constitutes the global framework for countries' efforts against climate change, and should provide the long-term basis for a REDD+ partnership through an agreement on REDD+. The results of the upcoming COP 15 in December should be the starting point for further global action on REDD+. Potential 'interim action' on REDD+ should complement and inform and not pre-empt the Copenhagen agreement and the UNFCCC process.

The importance and urgency of extensive action on REDD+ can hardly be overstated. According to the Food and Agricultural Organization of the United Nations, some 13 million hectares of forest – an area the size of England – are destroyed annually. With land-use change, this causes about 17 per cent of global greenhouse gas emissions as estimated by the IPCC. Stopping deforestation, and promoting afforestation and reforestation, may on some analyses provide up to thirty per cent of the cost-effective global mitigation potential.

Without REDD+, the goal of limiting the rise in global temperatures to 2°C above preindustrial levels will be much harder, and substantially more expensive, to achieve. With REDD+, we may significantly reduce, remove and avoid global emissions at a reasonable cost, while also taking due account of the rights and livelihoods of indigenous peoples and local communities, protecting biodiversity, rainfall patterns and soil quality, and helping developing forest countries adapt to climate change.

Important voluntary efforts are already being made by developing forest countries on REDD+, unilaterally and in partnership with each other, with developed countries, and with multilateral institutions. These efforts should be scaled up, supported and advanced to accelerate significant short- and long-term reductions in greenhouse gas emissions.

Results-based incentives could greatly enhance the effectiveness of these partnership efforts, complemented by grants for building enabling capabilities. The incentive structure or structures should be simple and flexible. A central element would be a reliable framework for demonstrating the environmental integrity and transparency of forest related emission reductions, removal enhancement and the conservation of existing stocks. A robust and predictable system for mobilizing financial resources from various sources, led by developed countries, would also be needed to stimulate and pay for early action at scale.

Enhanced REDD+ partnerships should accommodate developing forest countries through a phased approach, reflecting their different circumstances. All developing forest countries, whether they currently have high or low deforestation rates, should be incentivized to participate to maximize the impact and to minimize the risk of leakage (i.e., so that emissions avoided in one country do not simply reappear in another). In the first phase developing forest countries would receive grants to develop a REDD+ strategy. In the second phase, the REDD+ strategy *implementation* phase, grant support would be provided to build capacity, while large-scale payments would be provided for demonstrated results in reducing emissions relative to an agreed reference level, as estimated by proxies for greenhouse gas emissions. In the third phase, countries would receive payments for verified emission reductions and removals, as measured by compliance grade and transparent measurements of environmental integrity, and for the conservation of existing stocks.

At its core, the phased approach would provide an economic incentive structure that alters the economic balance currently favoring deforestation and forest degradation and disfavoring reforestation and conservation efforts. It would also accommodate ambitious nationally owned and developed REDD+ strategies.

Supporting the incentive system, opportunities could also be sought for public and private finance and investment to work together to finance actions addressing the drivers of deforestation. This could take the form of credit enhancement, debt/nature swaps, and the use of bonds and other innovative instruments to complement public financing. Although the bulk of the payments envisaged in the interim REDD+ partnership will be based on results, there will be a need for up-front financing to start the virtuous circle of REDD+ payments being re-invested in the REDD+ strategy leading to yet higher REDD+ payments. This report estimates that if financing of €15-25 billion were made available for the 2010-15 period for results based incentives and capability building, complementing other REDD+ efforts, a 25 per cent reduction in annual global deforestation rates may be achievable by 2015. These costs are made up of €13-23 billion for payments for emission reductions (of which €3 billion would go towards reduced peat-

related emissions) and €2 billion to invest in preparatory activities. The financing need is highly sensitive to the agreed level of payments to developing forest countries per tonne of reduced or avoided emissions. Efforts on this scale could, if effective, reduce annual deforestation by about 3 million hectares per year, for an accumulated total emission reduction of 7 Gt CO₂e for the period (including reductions of peat-related emissions).⁵ They could also generate economic benefits for developing countries, including their indigenous peoples and local communities, conserve bio-diversity, protect water supplies, and provide the longer-term UNFCCC REDD+ process with vital information and experience.

Immediate action on REDD+ is a crucial part of the climate change solution. A global partnership for the interim period could have the following key features:

- It should build on principles agreed under the UNFCCC, and be integrated into or incorporated by the UNFCCC agreement on REDD+ when and as appropriate, by determination of the COP.
- It should be fair, simple, and environmentally effective. There could be appropriate incentives for developing forest countries each step of the way, increasing with results achieved and including incentives to improve the environmental integrity and transparency of results over time. When meeting the relevant requirements, including agreement by the parties involved in the transaction, there could be linkage to carbon markets, either domestic, or, if appropriate under UNFCCC guidance, international markets.
- Its keystone could be a results based incentive structure to alter the economic logic to favour REDD+. Most payments could be based on achieved reductions of emissions relative to an agreed reference level. As monitoring capacity develops, one option would be to calculate emission reductions on the basis of proxy indicators and simple formulas, in line with IPCC guidance. Some support to the development of REDD+ strategies and the building of key capabilities is already being provided to developing forest countries. The full range of developing forest countries should be covered. In addition to those voluntary resources contributed by developing forested countries, developed countries could commit to financing for this arrangement through sufficient, sustainable, and predictable contributions.

⁵ Of the €13-23 billion, about €3 billion would go towards reduced emissions from degradation and burning of tropical peatlands. Of the resulting 7Gt in emission reductions, about 5.5Gt would come from REDD+ while the remaining 1.5Gt from peat-related emission reductions.

- While many countries may find the *post facto* incentive payments sufficient to finance their REDD+ efforts, others will need up-front support for REDD+ strategy implementation going beyond REDD+ ‘readiness’ activities. One option to address this would be to provide some of the anticipated results-based payments in advance and then adjusting payments – up or down – once the actual results are known.
- National leadership and political will are preconditions for successful implementation of a REDD+ strategy. All partnerships should be designed to achieve genuine results in an economically, politically, socially, and environmentally sustainable way. They should ensure that financial flows are deployed in a transparent manner towards REDD+ and other low carbon development objectives. Ambitious national REDD+ strategies should be developed in a participative and transparent process, and in particular take due account of the rights and interests of indigenous peoples and local communities. REDD+ activities should safeguard the conservation of biological diversity and support sustainable economic development.
- Cooperation and coordination should be strengthened to make approaches and standards more consistent across bilateral and multilateral REDD+ efforts and to streamline processes. This could be supported by a light-touch function that lays out a set of globally shared standards and coordinates efforts. This function might also support implementation, create guidelines for ensuring the environmental integrity of results, fiduciary transparency, and appropriate social and environmental safeguards. Advantage could be taken of existing partnerships – including South-South cooperation – as well as established arrangements such as the Forest Carbon Partnership Facility, the UN-REDD Programme, the Global Environment Facility, the ITTO, the facilities offered by the Regional Development Banks, and the Forest Investment Program. Crucial gaps in the existing institutional landscape would need to be filled. Institutional arrangements need to be coherent to increase efficiency and reduce costs. Procedures and institutions should be designed for forward compatibility with a UNFCCC mechanism.
- Developed and developing countries need to work together to address all significant causes of REDD+, by for example taking measures to tackle the trade of illegally logged timber and developing supportive markets for legal and sustainable forest products.

- Recognition of financial contributions in the interim period as well as any inclusion of credit for early action by the UNFCCC would support immediate action. Any such arrangement will be determined by the Parties within the UNFCCC negotiations.

Immediate action on REDD+ could contribute tremendously to countries' joint efforts to address climate change. The key elements of a simple, effective, efficient, and equitable mechanism could be set up by the end of the first quarter of 2010, based on the agreed outcome of COP 15 in Copenhagen. The IWG-IFR might, if deemed useful by countries in the light of results at Copenhagen, reconvene in early 2010 to consider further steps to facilitate immediate action on REDD+.