The Forests Dialogue

Dialogue on REDD Finance Mechanisms

April 25th-26th New York, USA

Co-Chair's Summary Report

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Introduction

The success of REDD (Reducing Emissions from Deforestation and forest Degradation) in contributing to Climate Change mitigation in the post-Kyoto regime is contingent upon many factors. Primary among them is the design and implementation of a reliable, robust and predictable finance mechanism that is transparent, equitable and enjoys the support of key stakeholder groups. The design of such a mechanism is a fundamental determinant as to whether REDD will be able to bring more of the world's forests into the framework of Sustainable Forest Management (SFM). Building upon the consensus statement developed in 2008 (available at *theforestsdialogue.org*), which now enjoys a wide degree of support among leaders in the forest community, The Forests Dialogue (TFD) has initiated a series of three multi-stakeholder dialogues on REDD Finance with a view to:

- Define the challenges and opportunities of the financial mechanism options currently debated in the international community;
- Elaborate on the possible solutions for identified challenges;
- Develop a series of recommendations to be considered by leaders in the negotiations leading the COP-15 in Copenhagen.

The first dialogue in the series was convened on 25-26 April, 2009. It was hosted by the United Nations Forum on Forests Secretariat (UNFF-S) during its 8th Session in New York City, USA. The dialogue brought together over 50 leaders from a wide spectrum of stakeholders within the forest community. A summary of the dialogue along our conclusions and next steps are presented below.

Program

Prior to the dialogue, a background paper on REDD financing mechanisms and SFM had been distributed to the participants (available at *theforestsdialogue.org*). The paper presented a series of suggestions as to the key discussion points for the first dialogue, specifically;

- Should REDD financing be predicated on a fund or market-based approach?
- Should the REDD financing mechanism be developed primarily to incentivize national or sub-national (project-based) initiatives?
- Should the payment for REDD action (including necessary investments in REDD readiness, REDD policy and measure and REDD emissions avoidance be a priori or ex post.

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- To what degree should REDD be fungible with emissions reductions / avoidance in other sectors?
- To what degree should the allocation of REDD payments be contingent on the delivery of so-called co-benefits?

After preliminary discussion in plenary, the participants were asked to divide according to their main constituency affiliation, specifically: i) science, research & education; ii) industries & private investors; iii) international environmental NGO's; iv) intergovernmental agencies; v). governments; vi). indigenous peoples, local communities & labor (with the explicit inclusion of gender equity). The groups were requested to discuss among themselves the following broad topics:

- The scope of REDD financing;
- Revenue raising;
- Revenue disbursement;
- Benefit Sharing;
- Effective stakeholder participation.

During the second day of the dialogue, the six groups reported back in plenary and responded to questions from the other groups. Based on this interaction a number of consensus points and "fracture lines" were identified and further discussed.

Highlights of the Discussion

The concerns of Indigenous Peoples were highlighted with respect to the extent to which their interests will be represented in the Copenhagen negotiations and in subsequent implementation of post-2012 REDD arrangements. Whether and how REDD finance mechanisms could i) adequately address conflicts between de jure and de facto traditional land tenure arrangements and ii) accommodate the principle of Free, Prior and Informed Consent (FPIC) were two elements that were highlighted as being of particular concern. Dialogue participants noted the importance of acknowledging and addressing these issues within any REDD financing arrangement.

Concern was also voiced by some groups with respect to the prospect of ensuring fair distribution of REDD payments. It was brought to the meeting's attention that the majority of forest communities live in situations where at least some of their rights to benefit from forest land and resources are contested. It was also highlighted that the interests of these groups have to be taken into account not only for ethical reasons but also to avoid the types of future conflict that could jeopardize the potential contribution of forests to stabilizing atmospheric concentrations of greenhouse gases (GHGs).

In general, representatives from developing countries were concerned about the procedures for establishing REDD baselines and, by extension, the implications this held for associated finance mechanisms. They highlighted that this is not only due to the robustness of current methodological approaches but also due to the capacity requirements for defining national baselines and implementing credible and verifiable monitoring systems that would allow them to benefit from a future REDD financing system. Capacity building was identified as another necessary measure requiring up-front investment in preparation for the full implementation of REDD schemes.

Ben Vickers

Any REDD finance mechanism, be it market-based or fund-driven, needs to properly address the concepts of carbon stock and flow, uncertainty and discounting rates. Business representatives in the dialogue highlighted the importance of being clear with respect to these concepts as they constitute the basic decision-making rationale of any investor who will provide funding for REDD (be it an investor in the market, donor, or governmental institution). Based on this reality, the importance of investing in an adequate REDD Readiness phase was much discussed, particularly in helping to make countries competitive within the future REDD financing architecture and as a basis to gain full and informed acceptance of REDD by local communities.

Kanchan Lama

Specific groups reaffirmed a key message from TFD's "Beyond REDD" publication, stressing the need for governments to take a REDD plus approach and move forest carbon crediting actions beyond just avoided deforestation. They also noted that REDD plus funding will, in all likelihood, be a mix of public and private sector mechanisms, including Overseas Development Assistance (ODA) grants and soft loans, commercial loans, investments and trade associated with SFM, all of which could be accommodated within a "phased" approach. This raised the need for:

1. Better coordination and sequencing of bilateral and multi-lateral ODA to build effective and sustainable SFM capacity in developing countries;
2. REDD plus readiness safeguards based around clear land tenure, property rights and inclusive local forest processes to equitably address Indigenous Peoples' and local community issues;
3. REDD plus public policy programs to leverage the lessons from and principles of the voluntary carbon market with particular reference to measurement, reporting and verification systems e.g. VCS, CCBA, forest certification.

Co-Chair Jan McAlpine

The dialogue emphasized the urgency of beginning to stabilize atmospheric concentrations of GHGs as highlighted in the 4th Assessment Report of the Intergovernmental Panel on Climate Change, the necessity of including REDD plus in climate change mitigation strategies, if this is to be achieved, and the challenges that this posed for developing countries. With that in mind, it is imperative that the forest sector comes together in a coordinated manner to help shape proposals for REDD and REDD financing. It is also necessary that they take a lead in helping to clarify outstanding definitional issues so that REDD plus can not only be addressed properly within the UNFCCC negotiations but also so that subsequent implementation is effective, efficient and equitable.

Godwin Kowero

Points of Consensus and Fracture Lines

Perhaps the most resounding consensus reached in New York was the importance, from a climate mitigation perspective, of ensuring that REDD plus is properly integrated into post-2012 arrangements and the value of ensuring such measures are harmonized with policy frameworks that promote Sustainable Forest Management. This constitutes an opportunity for developing countries to advance or accelerate more coherent sectoral and cross-sectoral strategies as, for REDD policies to be effective, a series of institutional, legal and educational measures will have to be implemented. It also presents an opportunity to advance forest-related

Maria Sanz-Sanchez

consultation and decision-making processes to include key stakeholder groups, with particular emphasis on forest rights-holders (i.e. Indigenous Peoples, Forest Communities, individual family forest owners & small-holders as well as other categories of land-owners).

Consensus was also reached on the scope of activities for which REDD financing should be available. Dialogue participants agreed that the full spectrum of activities outlined in the Bali Action Plan, i.e. avoided deforestation and degradation, conservation, sustainable management of forests and enhancement of carbon stocks (i.e. restoration of degraded forest lands) should be included under the umbrella of REDD plus.

It was also generally agreed that a phased approach, as outlined in the Options Assessment Report commissioned by the Government of Norway, provided a useful framework to consider how funding could flow to REDD candidate countries and how different sources of funding (including fund-based and market-based) might be combined. While the dialogue did not have time to consider triggers for moving from one phase to another (and thus deploying different funding sources), it was recognized that countries would require space to develop their capabilities to implement credible and efficient REDD policies and that there could be no single blueprint for forest nations to move from REDD Readiness to REDD policy and measures and eventually to measurable, verifiable and credible emissions reductions.

Interestingly the recognition of "no one single blueprint" also exposed a fracture line among the different interest groups as to how resources (be they market or fund-based) for REDD should be allocated internationally. On the one hand participants were aware that funding must come from different sources that range from ODA to the carbon markets, but there were some divergences on whether the funds should be directed to countries based on demonstrated performance, mitigation potential or on need. There were important discussions over some kind of rating or certification system for the "quality" of the carbon emission reduced (linked to a country's institutional, legal and ethical standing), which should ultimately guide donors and investors in the provision of financial resources for REDD.

As for how the financial resources dedicated for REDD could be disbursed within a national context, there was general consensus among dialogue participants for the need to retain flexibility and the merits of a "nested approach", which provides for an overall national framework (thus dealing more effectively with permanence, leakage and additionality) while accommodating sub-national (project-based) approaches. However, no consensus was reached on the specificities of a nested approach for revenue disbursement, with the different groups presenting different proposals on how it should unfold. While there was widespread agreement on the need for effective and intense "on the ground" participation by key local stakeholders (and in particular rights-holders), there was little agreement on the specific role of national governments (i.e. the balance between facilitator, broker, regulator, arbitrator, direct beneficiary etc).

There was no consensus on the level of explicit social and environmental safeguards necessary to guide the implementation of REDD and the distribution of REDD benefits. Representatives of Indigenous Peoples highlighted the principle of Free, Prior and Informed Consent, and the fact that over 150 countries have now endorsed the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). Representatives from women's groups and forest-dependent communities also voiced their concern as to the extent to which the access and use rights of traditionally marginalized groups would be respected. There was also discussion but no resolution on how historical legacies of


Chimére Diaw

good stewardship might be addressed. This included whether and how community-based restoration activities undertaken before REDD was conceived could be "grandfathered" into the scheme and equally whether countries with high forest cover and historically low deforestation rates could be rewarded for responsible past actions. It was stressed that, in such cases, care would need to be taken not to compromise the integrity of Article 2 of the United Nations Framework Convention on Climate Change (UNFCCC). In other words, the focus of any action still has to be justified on the basis of its contribution towards stabilizing atmospheric concentrations of GHGs.


Marc Stuart and Colin McKenzie

Finally, dialogue participants agreed that REDD policies can only be implemented with effective multi-stakeholder involvement at the local and community level, where deforestation occurs. The need for a multi-stakeholder engagement strategy, with some form of independent oversight, was also identified although the specifics of such arrangements could not be agreed upon.

Next Steps for TFD REDD Financial Mechanisms Dialogue

The Background Paper that was prepared for the dialogue has been reviewed by the author and redistributed to participants for comment.

The challenges and opportunities outlined above will now be further addressed in the second dialogue to take place in Montreux, Switzerland 19-20 June 2009, with a view to advancing some of the points of consensus and beginning to bridge some of the points of disagreement. Based on stakeholder input in the first two dialogues, a third dialogue will develop a set of conclusions and recommendations, which will be reflected in a final document to be presented to decision-makers and UNFCCC negotiators. In addition, it is anticipated that the final document should be useful to individual REDD stakeholder groups as they contemplate their inputs for and approach to the COP 15 negotiations in Copenhagen.


Penny Davies

In December 2009, look for The Forests Dialogue in its "REDD Room" at the COP 15, where REDD stakeholders will have an opportunity of meeting one another and exchange updates around REDD Finance Mechanisms and other related issues.

Further Reading and Information

For further information, readings and referenced documentation on the REDD Finance Mechanisms Dialogue and on The Forests Dialogue, please visit our website at *www.theforestsdialogue.org* or contact our office at *info@theforestsdialogue.org*.


Hubertus Samangun

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