



THE FORESTS DIALOGUE

TFD STEERING COMMITTEE 2009

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2nd Dialogue on REDD Finance Mechanisms

19-20 July 2009 - Montreux, Switzerland

Co-chair's Summary Report

Daniel Birchmeier, James Griffiths, Stewart Maginnis and James Mayers

Introduction

Building upon the consensus statement developed in 2008¹, which now enjoys a wide degree of support among leaders in the forest community, The Forests Dialogue (TFD) has initiated a series of multi-stakeholder dialogues on REDD (Reducing Emissions from Deforestation and Forest Degradation) Finance Mechanisms 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 multi-stakeholder supported recommendations on REDD Finance Mechanisms for discussion with negotiators in the lead up to, and during, COP-15 in Copenhagen, Denmark.

The first dialogue in the series was convened on 25-26 April 2009. It was hosted by the United Nations Forum on Forests (UNFF) Secretariat, during its 8th Session in New York City, USA. The dialogue engaged over 50 leaders from a wide spectrum of stakeholders in a constructive discussion about the current leading options for REDD finance mechanisms and the challenges for successful implementation.

This, the second dialogue under the initiative was co-hosted by the Swiss State Secretariat for Economic Affairs (SECO) and Intercooperation on 19-20 June 2009, in Montreux, Switzerland. It brought together 37 participants from different key stakeholder groups. A summary of the dialogue along with its key outputs and next steps are presented below.

Program

The task for the Montreux dialogue was to review progress on REDD financing on the Climate Change Negotiation front, to integrate new developments into the discussion, to reinforce some of the points of consensus and begin to bridge some of the points of disagreement that arose during the first dialogue in New York City.

Prior to the dialogue, in order to build the ground for the discussion in Montreux, a background/working paper² on REDD financing along with the Co-Chair summary of the first REDD Finance Mechanisms Dialogue were distributed to the participants. (Both documents are available at www.theforestsdialogue.org). The background/working paper built on the discussions in New York as well as on the expert meetings, submissions and discussions within the different negotiation

processes under UNFCCC. It focuses on financing mechanisms for REDD-plus and aims to facilitate the next steps in TFD's REDD Finance Mechanisms Dialogue stream towards Copenhagen. The key points of both the background/working paper and the co-chair summary of New York dialogue were presented to participants at the beginning of Montreux Dialogue.

After being familiarized with the key outcomes of New York Dialogue and important information carried in the background paper, participants were divided into three breakout groups according to their main constituency affiliation. The groups were divided into the following affiliations i) science, research and education; ii) industries and private investors; iii) environmental NGOs; iv) government and intergovernmental agencies and ; or v) indigenous peoples, local communities and labor. The groups were first given the task to comment on the stakeholder perceptions from the New York Dialogue, then to further discuss the generally endorsed need for safeguards and a phased approach for financing REDD more specifically as follows:

- Discussed criteria for social and environmental safeguards in respect to REDD;
- Discussed phased approaches in light of the UNFCCC AWG-LCA negotiation.

After preliminary discussions, the three working groups were given Table 1 as a guiding structure to frame their discussions, which were presented in plenary on the second day.

Table 1: Working Group Discussion Framework^{*3}

Phased Approach Time Line				
<i>Refer to: Background Paper((P.21-22,24) &Meridian Report Handout</i>				
Preparation	Readiness	Policy & Measures	Implementation...	
Safe Guards Background Paper p. 8-9:2.3.2;2.3.3;2.3.4				
Financing Mechanisms & Practicality p.19-21				
Key Characteristics				
Main Capacity Building Needs				

* The result of the deliberations of the working groups according to this framework are presented in Annex 3



Robert Bamfo

Extension of New York City Dialogue

Participants generally endorsed the main issues raised by stakeholders at the first dialogue. It was felt by some that most of the statements were rather broad and that the next steps should be to develop and unpack them and make them more specific. Some new issues were also raised in Montreux and summarized as below.

It was emphasized by some that REDD is a tool for Sustainable Forest Management (SFM), in other words, SFM is the fundamental objective, not financing REDD as an end itself. On the other hand, we must focus on the latter while keeping the former in mind to serve negotiations, which will help us keep the focus on REDD plus.

Some participants stressed the importance of including biodiversity, non-timber forest products and other relevant social issues in the REDD finance schemes. While some suggested that caution is needed not to overload REDD, or to expect miraculous results from an arrangement that is primarily emissions driven.

The governance issue was one of the most debated challenges for financing REDD. It was pointed out by some that it is looking increasingly unlikely that there would be financial support for REDD in contexts where basic governance conditions are not in place but perhaps need REDD the most. This discussion thus gave birth to the “governance paradox” which deserves greater attention in the debate on financing REDD.

The potential of channeling cross-sectoral cooperation through REDD was also highlighted in the discussions. REDD finance strategy should be part of the broader mitigation blueprint instead of being a stand-alone effort. Integrating payments for ecosystem services (PES) into REDD finance framework (as implemented for example by ITTO through its REDDES funds⁴) can help generate more cooperation between sectors and even make implementing REDD cheaper (i.e. if the ecosystem services offered by forests are taken into consideration, the opportunity cost of forests will be lower than the estimated \$12.2 billion as the minimum amount⁵, which was calculated under the assumption that forests are worth nothing standing).

Participants also pointed to the already existing voluntary market, A/R CDM projects and other functional financial systems for PES as great resources to draw lessons from when designing the current REDD finance mechanisms. It was echoed among many that financing REDD will be a learning process on its own and the management system within a REDD finance framework will need to be iterative, transparent and adaptive.

Some interesting financial tools were suggested as potential safeguard instruments, including accounting principles that are accredited by current financial accounting standards bodies, a forest carbon credit insurance mechanism and an auditing system for REDD credits. There was not time during the Montreux Dialogue to discuss the specifics of each instrument and how they can best fit into the whole REDD finance mechanism framework.



Benoit Bosquet



Co-Chair James Griffiths' Breakout Group



Facilitator Jürgen Blaser

Social and Environmental Safeguards

Consensus was reached that safeguard policies are important and should be designed within a phased approach framework; in other words, REDD readiness, policy measures and implementation phases should all be equipped with safeguard instruments and different phases should adopt different focuses on safeguards. (Refer to Table 2 in the next section)



Anita Felicia Tzec

Participants identified an array of key issues under safeguard considerations, including transparency, ownership, legality, governance, MRV and FPIC. It was agreed that one critical safeguard consideration is to guarantee that stakeholder groups, notably those commonly marginalized groups such as indigenous peoples, small forest owners, community groups and small forest enterprises, have the capacity to organize and represent themselves in the decision-making processes. It was suggested that, in the REDD readiness phase, key stakeholder groups should already be mapped out and a participation mechanism should be designed to facilitate information flow among those stakeholders throughout different phases. It was agreed that FPIC should be implemented throughout different phases of REDD with different focuses in each phase.

While there were many safeguard issues raised, there was also a general concern that overloading safeguards may compromise the innovation of the market and forest ownership. Some participants cautioned about safeguarding private sector investments to guarantee that governments will respect the legality of the contracts thus attracting more investment flow from the private sector in the long run.

Phased Approach

There was general endorsement of the phased approach for financing REDD. Participants pointed out that the phased approach should not be a mechanical process and there should not be a single blueprint for every country. Countries should be given enough space of their own to move from one phase to the next.

Participants suggested a long list of issues to be considered under the REDD readiness phases and cautioned that, if we do not get the instruments right, some short-term efforts may lead to negative long-term effects. There was also a commonly felt “urgency” among stakeholders and it was generally accepted that the preparatory phases should not go on for too long at the expense of performance-based deals. Participants suggested that pilot projects are important to start off the process of learning from the ground and TFD can play a key role in facilitating the learning process and creating a feedback loop between international and local levels throughout the process.

The phased approach is flexible and adaptive but, at the same time, it should be guided by some long-term rules. Participants worked in their groups to develop a framework with respect to safeguards, financing mechanisms and practicality, key characteristics as well as main capacity building needs. Their conclusions are summarized in Annex 1.

Next Steps for TFD's REDD Financial Mechanisms Dialogue

The Background Paper prepared by Carmenza Robledo and Jürgen Blaser will be further edited according to the inputs from the Montreux Dialogue and distributed to participants prior to the third dialogue.

Built on the momentum of the first two dialogues, the third REDD Finance Mechanism Dialogue will take place in Gland, Switzerland on 5-6 August 2009 with a view to further reinforce points of consensus, address some key issues of contention and begin to develop concrete suggestions for a viable REDD finance mechanism(s) based on stakeholder inputs in the first two dialogues. Below are the main questions that will be addressed in Gland REDD Finance Mechanism Dialogue:

- ➔ How are the REDD financing instruments developing? How can we guarantee that the instruments have the flexibility to stay viable in the long term?
- ➔ What are the triggers for moving through different phases in the phased approach framework?
- ➔ What is the REDD strategy? What should be the commitment? Should there be a right to “opt-out” by Non-Annex 1 (NAI) countries? If so, in which phase?
- ➔ How to bring FPIC in relation to REDD Finance Mechanisms to the next level?



Co-Chair Daniel Birchmeier

- ➔ How can safeguards be carried out in the next steps of the negotiations?
- ➔ What degree of confidence do stakeholders have that REDD Finance Mechanisms under the UNFCCC will significantly enhance sustainable forest management practices in targeted countries and deliver on important development and biodiversity objectives?

The background paper will be further edited, finalized and ready for distribution by the end of September 2009.

A forth REDD Finance Dialogue is scheduled for the first week of September in Guatemala in conjunction with the first TFD REDD Readiness Field Dialogue, where a small group will work together to develop a set of recommendations based on the outcomes of the previous REDD Finance Mechanism Dialogues. The recommendations along with a final document developed from the background paper will be presented to decision-makers and UNFCCC negotiators. It is anticipated that both documents should be useful to individual REDD stakeholder groups as they contemplate their inputs for and approaches to the Copenhagen negotiations.

At COP-15 in December 2009 The Forests Dialogue intends to host the “REDD Room”, where stakeholders interested in REDD will have an opportunity to meet one another, get negotiation updates and share coordination around REDD Finance Mechanisms and other related issues.



Xiaoting Hou

Further Reading and Information

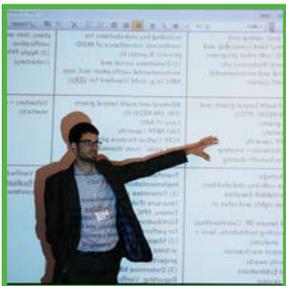
For further information, readings and referenced documentation on the REDD Finance Mechanisms Dialogue and on The Forests Dialogue, please visit our website at www.theforestdialogue.org or contact our office at info@theforestdialogue.org.

Acknowledgements

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Carlos Chex and Co-Chair Stewart Maginnis



Carl Ulrich Gminder

References

- ¹ “Beyond REDD: The Role of Forests in Climate Change: A Statement from The Forests Dialogue”
- ² The Background/Working paper is prepared by Carmenza Robledo and Jürgen Blaser from Intercooperation
- ³ Timetable references: Blaser and Robledo, Financing Mechanism for Forest Mitigation Options: a background/working paper for TFD Dialogue in Montreux, Switzerland; Angelsen et al. Reducing Emissions from Deforestation and Forest Degradation (REDD): An Options Assessment Report.
- ⁴ Thematic Programme on Reducing Deforestation and Forest Degradation and Enhancing Environmental Services in Tropical Forests
- ⁵ Blaser and Robledo, Financing mechanism for forest mitigation options, a background/working paper for TFD Dialogue in Montreux, Switzerland, 18-19, June, 2009



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ANNEX 1: Activities for the “phased approach”, (summarized from the work of the 3 working groups)

Summarized by Jürgen Blazer and Eric Chevallier, Intercooperation

General observation: Performance reached in each phase (Preparation, Policy, and Implementation) is conditional to the following one

Safe Guards (Reference to the Background Paper p.8-9:2.3.2;2.3.3;2.3.4)		
Preparation and Readiness	Policy and Measures (PAM)	Implementation
<p>Use experience on safeguards from other multilateral organisations, international treaties, conventions and codes of conduct as lessons learnt to develop the social and socio-economic components of REDD</p> <p>Secure country ownership of REDD:</p> <ul style="list-style-type: none"> ▪ Strategy is integrated in national economic and development programs and linked with plans and strategies of other sectors (tourism, agriculture, forestry [FLEG...], natural resources, energy...) as well as the overall strategy in respect to Climate Change ▪ Incorporate REDD into existing governance structures and governmental functions ▪ Stakeholders' mapping and strengthening participation mechanisms, with information flow among science, local communities, government and business ▪ Early involvement of Indigenous populations in deciding about their participation in REDD ▪ It is important not to overload the preparation and readiness phase with experiments; it should be accepted to rapidly come to certain standards and then to move forward to the next stage <p>Clearly identify co-benefits and threats; develop a social and environmental audit</p> <p>Overlap carbon accounting, carbon quality and forestry certification standards mechanisms</p> <p>Develop those elements that are crucial for the entire process of REDD:</p>	<p>National mechanism/ platform/ for PAMs have to secure the participation of a broad range of stakeholders</p> <p>Indigenous populations participate in policy formulation</p> <p>Assessment system include environmental and social criteria; UNFF NLBI agreement and ITTO Criteria and Indicators (C&I) can be used as references:</p> <ul style="list-style-type: none"> ▪ Safeguards are installed on environmental and biodiversity integrity ▪ Reports exist on the drivers of deforestation and degradation and their results are taken into account in safeguard policies 	<p>Safeguards are implemented, with emphasis on internationally agreed frameworks</p> <p>According to the principles of the Free, Prior and Informed Consent (FPIC), REDD (financial) benefits flow, in an equitable way to land owners who guarantee permanence of carbon stocks over time</p>

<ul style="list-style-type: none"> ▪ Define the property rights associated with carbon under different property rights models, develop the basis for “the non-conventional public good commodity of carbon” ▪ Integrate REDD into the national forest policy framework and the C&I for SFM ▪ Develop accounting principles for forestry carbon credits (by Financial Accounting Standards Board...) and engage Certified Financial Accounting Institute to develop financial analysis and portfolio management metrics and capacity ▪ Standardize legal contracts, and develop forestry carbon credit insurance mechanisms <p>Questions: Need for transparency about the relation between different readiness options:</p> <ul style="list-style-type: none"> ▪ Should participation in FCPF be a pre-condition for participation in FIP or others in Phase 2? ▪ Equivalence between FCPF and UN-REDD? Country self-supported processes? 	<ul style="list-style-type: none"> ▪ Policies are in line with land tenure and management, REDD is an integral element of an agreed land-use concept at landscape level ▪ Livelihoods guaranties and organizational rights are secured ▪ A system for Monitoring, Reporting and Verification (MRV) is agreed upon by all stakeholders 	
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Financing Mechanisms & Practicality (Reference to the Background Paper p.19-21)

Preparation and Readiness	Policy and Measures (PAM)	Implementation
<p>Develop biodiversity offsets and nation-wide Climate, Community, Biodiversity standards; Reward conservation of existing forests and develop mechanisms to prevent degradation</p> <p>Make efforts to decrease the existing biases towards particular well-organised country groups; strike a practical balance between planning for emissions gain and country capabilities/likelihood of delivery.</p> <p>Develop different and separate additional targets of decrease emissions by 2030 based on REDD (proposal of 11 % to 32 % as a mean between best results and worst case scenario)</p>	<p>Implement mixed instruments, such as grants, loans, concessional loans</p> <p>Secure diverse financial flows:</p> <ul style="list-style-type: none"> ▪ Domestic funding from national budgets ▪ Public funds and voluntary contributions ▪ Bilateral and multi lateral public and private sector flows 	<p>Manage payments according to performance of carbon storage at large scale</p> <p>Secure viability through clear standards, transparency and low enough transaction costs</p>

<p>For financing mechanisms, learn from:</p> <ul style="list-style-type: none"> ▪ the difficulties of CDM , where lower transaction costs have to be traded off with certainty of emission reductions ▪ the positive lessons in forestry best practice, with long-term and flexible finances (SWAPs with targeted, diverse, small and accountable mechanisms) ▪ the experiences of the voluntary carbon market, and secure links with it <p>Consider from an early stage the relationship between funding going into the process and the value of eventual emissions reduction coming out</p> <p>Develop sustainable bottom-up cost accounting models that reflect real project performance measures</p> <p>Develop concepts to secure transparency on mtCO₂ pricing and development, validation and verification costs</p> <p>Recognise the importance of bilateral and multilateral grants, as well as their current insufficient funding level:</p> <ul style="list-style-type: none"> ▪ Establish national forest financing plans, with financial strategies and flows from National Treasury ▪ Obtain funding from private sector out of CSR concerns ▪ Develop forestry carbon bond financing mechanisms ▪ Prepare small number of pilot works ▪ Levy on in-country voluntary market projects to assist paying for in-country capacity building <p>Question: Northern NGOs as a channel for funds, capacity builders and service providers?</p>	<ul style="list-style-type: none"> ▪ Pilot performance based payments <p>Build finance systems based on national and local funding mechanisms that work:</p> <ul style="list-style-type: none"> ▪ Levy of AAU (Assigned Amount Units of Annex-B parties) ▪ National Forest Programmes <p>Establish predictions of amounts needed over defined periods</p> <p>(Consider in this respect the provisions of the US Waxman-Markey bill, (otherwise known as the Clean Energy and Security Act)</p> <p>Mobilise the FCPF Carbon Finance/ FIP for developing policies and measures that secure REDD at country level</p>	<p>Secure funds from:</p> <ul style="list-style-type: none"> ▪ Voluntary and Regulated carbon markets ▪ Government Funds (taxes)
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Key Characteristics		
Preparation and Readiness	Policy and Measures (PAM)	Implementation
<p>Existing real political will, with integration of REDD in PRSPs (Poverty Reduction Strategy Programs) or other development thinking, and with collaborations built between national REDD processes (e.g. at regional level)</p> <p>Existing dialogue and broad consultations "to get the house in order" on processes, stakeholder involvement and technical issues:</p> <ul style="list-style-type: none"> ▪ Agreement on scope of REDD and its applicability (locations and stakeholders) ▪ Agreements among land users, land beneficiary, and land owners, and on fiduciary control mechanisms ▪ Identification of opportunity costs, both within and outside the forest sector <p>REDDiness corresponds to new model and no longer business-as-usual:</p> <ul style="list-style-type: none"> ▪ Preparation on demand side, with importation of credits within the taxation and policy issues ▪ Verification will be under UNFCCC ▪ Existence of accountable financial system <p>Identification of obstacles and opportunities for benefit sharing arrangements and legislations:</p> <ul style="list-style-type: none"> ▪ Preparation rooted in forests and livelihoods ▪ Inclusion of biodiversity into REDD definition ▪ Definition of assumptions and map hot-spots at national level ▪ Analysis of gaps on existing institutions, laws and measures ▪ Identification of pilot project locations ▪ Mapping on rights and capabilities such as on shared community property right, with recognition on legal and legitimate owners and of carbon rights ▪ Clarity on the role of the range of actors (private sector, NGOs, Government, etc.) 	<p>Implementing activities in pilot projects, as well as capacity building, with safeguards in place</p> <p>Monitoring of carbon stocks, and accounting costs beyond the forest sector (and based on research findings)</p> <p>Organisation and empowerment of stakeholders with clear rules on:</p> <ul style="list-style-type: none"> ▪ Policies on indigenous populations and local communities lands ▪ Distribution mechanisms and clarification of its implementation ▪ Rules for performance-based payments <p>Filling the identified gaps and aiming for no contradictions in key policies:</p> <ul style="list-style-type: none"> ▪ Forest governance reforms and legislation reforms ▪ Policies to address drivers of deforestation and forest degradation <p>In this phase, it is important to address the major power imbalances that might exist in a country to make</p>	<p>Realization of Annex I countries commitments (and possible voluntary commitments of Non-Annex-1 countries)</p> <p>Effective emission reduction through REDD</p> <p>Fully applied MRV system</p> <p>Questions:</p> <p>Fungible carbon market?</p> <p>Plus funds?</p>

<p>The draft template for the Readiness Preparation Project (RPP) attached in Appendix 2 could be a model what is needed as a readiness framework.</p> <p>Questions:</p> <p>Global baseline and national target? What is the baseline and what proportion of change over baseline will be compensated? Relate to global baseline – but who gets what piece of the pie?</p>	<p>REDD a permanent land-use option. The PAM phase should develop all elements to increase credibility of permanence and smooth implementation of REDD</p> <p>Sustainable forest management concepts need to include the REDD concepts</p>	
<p>Main Capacity Building Needs</p>		
<p>Preparation and Readiness</p>	<p>Policy and Measures (PAM)</p>	<p>Implementation</p>
<p>Develop actual “REDD case studies” that include community, technical, market, financial, policy and carbon analysis</p> <p>Build national and sub-national awareness on REDD, through multi-stakeholders dialogue</p> <p>Develop south-south cooperation initiatives as well as regional approach for mobilisation of capacities</p> <p>Perform cross sectoral, analysis and review, and research and development on REDD methodologies, in order to gain clear understanding of needs around themes such as:</p> <ul style="list-style-type: none"> ▪ Governance an social auditing ▪ Recognition of tenure and other local legal rights ▪ Understand carbon markets supply chain, life cycle analysis, legal contracts and cash flows ▪ Interactions between voluntary and compliance markets ▪ MRV System development and implementation 	<p>Developing tools and strengthening of competences in:</p> <ul style="list-style-type: none"> ▪ Government reporting, research and development on REDD methodologies ▪ MRV participation among communities ▪ Incentives (tax, etc.) for organisation ▪ Local institutions and national guarantor institutions <p>Raise subnational awareness in REDD pilot areas and awareness on the value and use of forest</p>	<p>Government reporting according to high MRV standards</p> <p>Research and development on REDD implementation schemes</p>

ANNEX 2: What is REDD Preparation and Readiness Phase

Possible RPP template

(Draft from Technical Advisory Panel – TAP of the Forest Carbon Partnership Facility)

No	Component	Element
1	National Land-use and Forest Policy and Governance	<ul style="list-style-type: none"> • Description of the existing relevant policies • Brief analysis to what extent the existing laws/regulation support REDD implementation • What is needed to enhance national REDD policy and strategy for effective REDD implementation • Capacity building needed
2	Institutional Arrangement	<ul style="list-style-type: none"> • Roles and responsibilities of institution involved at both national and sub national levels • How REDD readiness will be managed and coordinated? • How local institution and community are engaged? • How the consultation processes are designed and what would be the expected outputs? • Capacity building needed
3	Reference level and Monitoring	<ul style="list-style-type: none"> • Description of national infrastructure (capacity, technology) re data acquisition, analysis and interpretation • Scenarios of reference emission level setting • Identification of MRV capacities and gaps • Capacity building needed
4	REDD strategy	<ul style="list-style-type: none"> • The design reflecting roles and responsibility of stakeholders • REDD implementation framework • Social and environmental impact assessment • Capacity building needed