

Forest finance should be public, include “non-carbon” benefits, says South

Bangkok, 31 August (Hilary Chiew) – Developing countries continue to stress that forest-related activities under the UN Framework Convention on Climate Change (UNFCCC) must primarily be publicly funded, with many expressing doubts over market-based approaches.

A significant number of developing countries also called for non-carbon benefits of forests to be included for financing under the proposed forest-related emission reduction mechanism and a departure from the emphasis placed on the carbon market as a source.

At the one-day workshop on 30 August on financing options for the full implementation of results-based actions relating to REDD+, including modalities and procedures for financing these results-based actions, those developing country Parties argued that financing for Reducing Emissions from Deforestation and Forest Degradation (REDD); actions on conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks should lead to the recognition of the full range of forest functions.

(REDD+ includes Reducing Emissions from Deforestation and Forest Degradation in Developing Countries; and the role of Conservation, Sustainable Management of Forests and Enhancement of Forest Carbon Stocks.)

They said payment for non-carbon benefits of REDD+ actions are essential to the integral management of forests and is the basis to promote public funding and to further develop the non-market based approach.

Sudan speaking on behalf of the Least Developed Countries (LDC) said LDCs considered public funding to be the major source of funding and

viewed financing through private sector as a complementary source.

It said public fund is the most clearly established type of funding source, can ensure adequacy and delivering co-benefits, and ensure that benefits are distributed equitably among all developing countries.

It said in LDCs where more than 70% of its population or 580 million people depend on rural livelihood system where forests provides energy, food, livestock fodder, and a host of other environmental services, REDD+ actions should provide opportunity for poverty reduction and improving livelihood.

It further said the principles behind financing results-based actions should include additionality, adequacy, equal distribution, predictability and sustainability in addition to accommodating the different national capabilities and circumstances.

Rejecting the market-based proposal, it said LDCs disagree with transferring developed countries commitment to developing countries, referring to the offset element of a carbon market where countries with emission reduction targets can offset their commitment with credits from mitigation efforts in developing countries.

It said LDCs believed that REDD+ is best addressed under the development context rather than market-based, adding that LDCs do not have the capacity to access market-based funding for REDD+.

Citing the weaknesses of the offset mechanism under the UNFCCC's Clean Development Mechanism (CDM), it dismissed the effectiveness of such approach as illustrated by the failure of afforestation and reforestation under the CDM where procedures to access funds were difficult, costly and lengthy.

It warned that market-based finance will result in overlooking of the “low carbon credit” REDD+ activities such as biodiversity conservation and protection of natural forests with low greenhouse gas mitigation potential, and that the protection of existing high carbon stock forests does not always lead to the protection of the biodiversity.

It also pointed out that there is no comprehensive attempt to quantify risks for national REDD+ actions, despite these being long term investments, from the socio-economic, environmental integrity and potential perverse outcome such as incentivising monoculture plantation with low biodiversity value.

Bolivia reminded Parties of paragraph 67 of Decision 2/CP.17 which was supported by a significant number of countries at the UNFCCC conference last November in Durban.

Paragraph 67 reads: *Notes that non-market-based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests as a non-market alternative that supports and strengthens governance, the application of safeguards as referred to in decision 1/CP.16, appendix I, paragraph 2(c-d), and the multiple functions of forests, could be developed;*

It said at the core of the non-market based approaches is the joint mitigation and adaptation approach which also recognises the non-carbon benefits of forests and provides for the promotion of public funding.

It added that joint mitigation and adaptation goes beyond REDD+ actions and is based on a second generation theory of collective actions, adding that the market-based approach does not take drivers of deforestation seriously, where the private sector can participate as both buyers and sellers of forest carbon.

Papua New Guinea said there are so many expectations on REDD+ actions but it is time to get moving and not to miss Doha (the venue of the 18th meeting of the Conference of Parties to the UNFCCC) and urged Parties to begin by incentivising on the agreed REDD+ activities.

Guyana said it recognises that forests offer both carbon and non-carbon services and that the value of the latter far exceeds the former. It welcomes the discussion but reminded Parties that the purpose of

the workshop is to allow Parties to get to a decision at Doha.

It said the REDD+ issue is already matured and discussion on non-carbon benefits can be discussed post-Doha.

Indonesia said non-carbon benefits of forests are of a different nature and serve different demands but is concerned that lumping all of them in one single payment system might be over-simplifying and render them ineffective.

In response to the European Union (see below) that addressing safeguards will give a premium to the carbon credit generated, it maintained that safeguards are to uphold environmental and social integrity and cautioned against a race to the bottom if there is a differentiation in the payment for REDD+ activities.

The **European Union** said the private sector plays an important role not only in terms of finance but it is also the key solution for REDD+ actions as drivers of deforestation, especially in terms of investment in sustainable land use. It said the United States’ presentation on ideas for private sector investment outside of carbon markets would be useful to explore.

Earlier in Session One of the workshop, the **United States** said public financing is finite especially given the current financial crisis and suggested the use of other forms of market besides carbon market, such as financial and commodity markets.

It said the financial tools would cover providing capital and reducing risks. The former could consist of grants, loans, debt swaps, bonds, equity and tax concession to purchase the output of REDD+ actions in the forms of credits, forwards, put options, call options and reverse auctions. It further said this would incentivise investors and producers by insuring against or minimising risks, thus ensuring environmental integrity.

Norway said one of the key enabling considerations for finance is putting a price on forest carbon without which countries would not have incentives in place to make the needed reform, adding that a REDD+ mechanism cannot wait until 2020 and progress must be made in Doha.

China said it agreed to a certain extent that public funding is limited but so are private sources, and

called for developed countries to change their domestic policies to incentivise the participation of the private sector.

Towards this end, **Brazil, Guyana, Papua New Guinea, Indonesia, India and the Democratic Republic of Congo** urged developed countries to increase their emissions reduction ambition in order to create room for the private sector to participate. Climate legislation and a realistic price of carbon are keys to incentivise the private sector.

Indonesia said Parties need to learn from past experiences in the CDM to address the issue of geographical distribution of projects.

The Dominican Republic said the private sector can play its role but it should not replace the obligation for public funding from Annex 1 countries especially now that the carbon prices are proven to be unattractive.

The Philippines stressed that social and environmental safeguards are conditions needed to attract private sector investors in REDD+ activities. It also pointed out that there should be clear institutional mechanism on the entity to receive REDD+ finance, and learning from past lessons of forestry governance and the distribution of REDD+ benefits must include the communities.

Earlier, it also questioned the notion of the role of market mechanisms in mitigation as a funding source, and the depth of discussion on the overall

obligation of developed countries in providing finance for forested-related emission reduction mechanism.

Parties spent the afternoon session of the workshop deliberating on three thematic areas - financing options, sources and enabling considerations; role of private sector; and the framework for financing the full implementation of results-based REDD+ actions.

Chair Yaw Osafo of Ghana summed up the key points on each thematic areas.

In response, the **United States** said it disagreed that public funds should be the main source while **Sudan representing the LDCs** asserted that without recognition of non-carbon benefits, REDD+ risked commercialising the forests along the line of CDM and it would compel Parties to redefine safeguards.

Bolivia speaking on behalf of the ALBA countries said it would also like to see the joint mitigation and adaptation approach included as part of the non-market based mechanism discussion.

Yaw acknowledged the concerns and said with the help of the secretariat, a short summary will be prepared to serve as a starting point for Parties' consideration in the REDD+ informal group meetings during this week in Bangkok, without prejudging the final outcome (in Doha).