EXPANDING REDD+ FINANCE

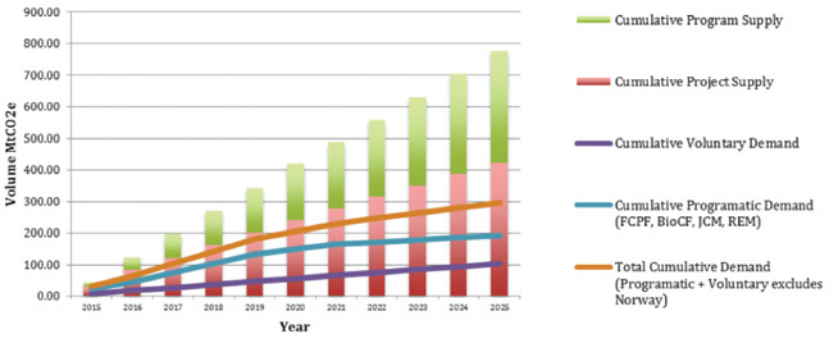
A combination of approaches is needed to finance REDD+ and sustainable land use. Developing countries must demonstrate political commitment to create and enforce sound policy and reform broken ones. This must be met by flexible sources of international finance and market mechanisms that mitigates economic costs and engages the private sector, writes Robert Sullivan

The climate crisis cannot be addressed without changing how we use forests and other lands. Emissions from forests and land use accounted for approximately one-third of anthropogenic CO_2 emissions from 1750-2011.[1] In addition to storing and releasing carbon, forests also harbour significant terrestrial biodiversity, help control flooding[2], and play an important role in people's livelihoods.[3] Forest dependent communities must benefit from efforts to protect and restore forests. But addressing the root causes of forest loss – demands for fuel, agricultural land, commodities and wood products – and the circumstances that promote unsustainable use, such as poor governance, is not simple.

A number of different approaches have been taken to financing forest conservation and restoration over the years. Early experiments in carbon finance in the 1990s demonstrated that carbon credit markets can effectively engage private sector emitters and investors to finance forest conservation projects. These early experiments have been refined and tested again and again over the last 20+ years and proven to be a potentially viable source of finance – albeit not without some controversy and limitations.

Emissions trading markets, however, fall short of financing REDD+ on their own due to insufficient demand for credits. Recent analysis of potential supply and demand for REDD+ credits from 2015-25 shows that supply from existing REDD+ projects and programmes far exceeds current demand (918 million tCO_2e of supply versus 207-739 million tCO_2e of potential demand over the same period).[4]

FIGURE 1: POTENTIAL SUPPLY AND DEMAND FOR REDD+ CREDITS 2015 – 2025 BASED ON EXISTING (STATUS QUO) ESTIMATES OF SUPPLY AND DEMAND[5]



This imbalance continues when supply and demand estimates are increased to take into account potential new sources of supply and demand, such as domestic regulations in a number of developed and developing countries. The feasible supply of emission reductions from deforestation has been estimated to be 1.8 billion tCO_2e per year at a cost of less than $20 per tCO_2e, with significantly higher estimates of theoretical supply (4.3 billion tCO_2e per year).[6] However the maximum amount of market driven demand is calculated to be only 18% of this estimated annual feasible supply.[7]

What is needed to advance REDD+ – along with a more comprehensive suite of low emission land use activities such as climate smart agriculture and restoration of degraded lands – is a combination of policy approaches to better manage and incentivise sustainable land use. Key to this is better governance and regulation of land use, including controls on clearing and unwinding of agricultural and other subsidies that drive deforestation and land degradation.

Cultivating forest conservation over other uses can be politically challenging if it is seen to threaten economic development. There are a number of policy options to create new incentives that engage the private sector and catalyse private finance for sustainable land use,[8] along with a wide range of existing financial tools and resources to support government action.[9] Domestic policy options include adding climate impacts and mitigation or offset requirements into environmental impact assessments, along with carbon taxes and domestic emission trading systems in more advanced developing countries where these tools are already becoming more common.[10]

A number of developing countries are exploring the simpler environmental impact assessment type approach. For example, Gabon passed a new law on Sustainable

Development in 2014 that allows "negative impacts" to be offset using tradable sustainable development credits, which can include "carbon, biodiversity, eco-system services and community capital credits". Malawi is also currently evaluating its options for attracting domestic and international finance to support REDD+, including new domestic policy. Moving any of these policy options forward requires strong political will and long term commitment by developing country governments. Someone also needs to cover the cost.

Developing country governments should not bear the cost of mitigation alone. This is particularly important in least developed countries where economic development is a priority. The private sector needs to be engaged, but passing costs onto the domestic private sectorcan affect development and competitiveness. Flexible sources of international support are needed from industrialised countries and multilateral funds to help encourage political leadership and mitigate the costs of domestic action. This is particularly true in least-developed countries.

WHAT IS NEEDED TO FINANCE REDD+ IS A COMBINATION OF POLICY APPROACHES TO BETTER MANAGE AND INCENTIVISE SUSTAINABLE LAND USE

What does this mean for UNFCCC negotiators struggling to refine the scope and content of a new agreement?

First, a new agreement should allow diverse approaches to financing REDD+ and low-emission development for land use. This should include domestic and international emissions trading for countries that choose to pursue it, coupled with strong market demand signals from industrialised countries. Developing countries that show the political commitment to low-emission development must be given adequate financial support to build a suite of policies to help make this a reality and mitigate the costs to their economy.

Second, any financial or accounting approaches should be transparent and consistent wherever possible – not only to facilitate emissions trading markets, but also to understand relative contributions from all parties irrespective of the approach taken.

All of this and more can and hopefully will be achieved in Paris. But this is just a start. As we move beyond Paris and our memories of Parisian culinary and architectural landmarks fade, we should not forget the words of the French intellectual landmark Jean-Paul Sartre who said "Commitment is an act, not a word."

Robert O'Sullivan *is Deputy Senior Director, Environment, Winrock International. Robert helps manage Winrock International's Environment group, which includes a $30 million portfolio of forestry and natural resource management projects, ecosystem services consulting, and the American Carbon Registry. Prior to joining Winrock, Robert led the Finance and Carbon Markets portfolio of the Forest Carbon Markets and Communities programme, was Executive Director at Climate Focus and legal counsel in the World Bank.*

(1) IPCC. (2014). "Climate Change 2014: Mitigation of climate change. IPCC Working Group III Contribution to AR5. Chapter 11 - Agriculture, Forestry and Other Land Use (AFOLU)." Retrieved from http://report.mitigation2014.org/report/ipcc_wg3_ar5_chapter11.pdf (2) Lambrechts C. et al (eds) (2009) "Vital Forest Graphics", UNEP, FAO, UNFF (3) Chao S., (2012) "Forest Peoples; Numbers across the world" Forest Peoples Program (4) Linacre, N.; O'Sullivan R.; Ross, D.; and L. Durschinger. (2015). "REDD+ Supply and Demand 2015-2025", United Stated Agency for International Development Forest Carbon, Markets and Communities Program, Washington, D.C., USA. (5) Ibid. (6) Coren, M.; Streck, C.; and Myers Madeira. M. (2011). "Estimated supply of RED credits 2011-2035". Climate Policy, 11:6, 1272-1288 (7) Linacre, N.; O'Sullivan R.; Ross, D.; and L. Durschinger. (2015). "REDD+ Supply and Demand 2015-2025", United Stated Agency for International Development Forest Carbon, Markets and Communities Program, Washington, D.C., USA. (8) Linacre, N.; O'Sullivan R.; Rocha M., Greenhalgh S., and D. Ross. (2015). "Supporting REDD+ in Developing Countries: A Review of Policy Options", United Stated Agency for International Development Forest Carbon, Markets and Communities Program: Washington, D.C., USA. (9) For a thorough review see Streck. C., Murray, B., Aquino, A., Durschinger, L., Estrada, M., Parker C., and Zeleke, A (2015) "Financing Land Use Mitigation: A Practical Guide for Decision-Makers" Prepared with support from cooperative agreement # S-LMAQM-13-CA-1128 with U.S. Department of State. (10) Linacre, N.; O'Sullivan R.; Rocha M., Greenhalgh S., and D. Ross. (2015). "Supporting REDD+ in Developing Countries: A Review of Policy Options", United Stated Agency for International Development Forest Carbon, Markets and Communities Program: Washington, D.C., USA.

WINROCK INTERNATIONAL
Putting Ideas to Work