Amazon Environmental Research Institute (IPAM) ~ Conservation International ~ Environmental Defense Fund
The Nature Conservancy ~ Woods Hole Research Center

Joint Position on Financing Options for REDD+
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Many developing countries continue to base decisions regarding the use of their forests on the revenues that can be provided through forest destruction. The simple economic reality is that logging or clearing forests can provide more consistent sources of funds than any revenue that can be generated from forest protection. This is because current market forces do not recognize the full value of standing forests, which provide carbon sequestration as well as a wide range of other ecosystem services. Deeper industrialized country commitments and strong domestic actions in the post-2012 phase together with strong REDD+[1] mitigation actions offer a powerful alternative that can start to change the economic incentives that drive forest destruction while also contributing to global emission reductions. Deforestation and degradation destroy more than 13 million hectares per year, releases 15-20% of global greenhouse gases[2], threaten the livelihoods of Indigenous Peoples and forest-dependent communities worldwide, and harm biodiversity, ecosystems and the services they provide. At current rates, the vast majority of the world's tropical forests will disappear in this century.

Attaching economic value to standing forests will likely provide the necessary long-term economic incentives for effectively protecting tropical forests and reducing emissions from deforestation and forest degradation (REDD) while contributing to improved livelihoods and sustainable development. Multiple and diverse funding streams are necessary to create robust REDD+ programs that recognize the value forests generate through carbon storage and sequestration. REDD+ will also have incremental benefits in other areas such as adaptation, the provision of ecosystem services and contribution to sustainable development. In order to realize these goals, both market and non-market sources of REDD+ funding will be required. Successful implementation of REDD+ will depend on a combination of funding sources, which may be tailored to these different but complementary purposes.

In particular, markets can provide a clear signal for developing countries to make the necessary investments, supported by developed countries, to implement the needed governance reforms, create efficient institutional structures, and effectively address the drivers of deforestation. In so doing, markets that include forest carbon will lead to greater overall global emissions reductions.

In the early phases of the process, public investment in building readiness will be needed to get REDD+ off the ground. These resources may be generated in various ways, including through new and additional ODA, taxes, and/or a dedicated portion of auction revenues from the sale of allowances within a cap-and-trade system. There is an urgent need for this type of initial dedicated funding stream to support readiness activities such as the development of robust and accurate monitoring networks, strengthening of national institutions, improvement of forest governance, and the development of programs to channel funds to actors at the local level who reduce deforestation and forest degradation. As countries increase their readiness and begin to implement emissions reduction activities at the local, sub-national and national levels, additional public funding will be needed to provide up-front financing, buffer the risk of early actions, facilitate market access for higher-risk countries, and catalyze private investment.

Once countries have the capacity to generate compliance grade emission reductions, market access offers the most promising source of funding. Market-based approaches to REDD+ offer the greatest potential, particularly in the long run, to provide the large-scale level of funding needed to significantly reduce deforestation and forest degradation globally. Market certainty is needed immediately to motivate countries to begin now to build up their

[1] We support a mechanism that encompasses reduced emissions from deforestation and forest degradation (REDD) as well as restoration, environmentally appropriate native afforestation and reforestation, sustainable management of native forests and conservation of carbon stocks of native forests from the start of the mechanism.
[2] Food and Agriculture Organization of the United Nations. 2009. State of the World's Forests.

capacity to deliver measurable, reportable, and verifiable emission (MRV) reductions. REDD+ credits generated through rigorous and verifiable methodologies should be fully fungible with emissions reductions from other sectors so that markets will be robust. Global reductions are needed and REDD+ can and should help industrialized countries take on deeper emission reduction targets - targets which cannot be delayed to 2020 or beyond.

Source	**Cost of reducing deforestation by 50% (billion USD/year)**[3]
Kindermann et al (PNAS, 2008)	$17.2-28.0
Eliasch Review (2008)	$17-33
OSIRIS (2009)	$12.0-$34.5
Meridian (2009)	$15-35

The most recent estimated costs of cutting deforestation by half range from $12 to $35 billion USD/year. While market mechanisms can generate a significant portion of this, financing from non-market sources will need to generate at least USD $11-19 billion per year.[4] This funding is needed to implement the readiness activities mentioned above and to provide up-front investment in order to implement early activities and 'prime the pump' for increasing private investment. This funding could be generated by public and private sources such as revenue from the auction of AAUs in industrialized countries, voluntary contributions (additional to ODA), and/or levies (such as on bunker fuels or CERs). Sufficient funding and resources should be applied consistent with the goal halving deforestation by 2020. This will require financing on the higher end of the ranges above.

How REDD Finance is Currently Treated in the LCA Text

The current LCA text recognizes the need for a variety of funding sources, including both market and non-market sources. The text divides the financing needs into two distinct components: finance for the development and implementation of national action plans, policies and measures, and capacity building (phases 1 and 2 as described in Para 7 of NP 39); and finance for results-based actions (phase 3), including early actions. Options for phase 1 and 2 financing may also be extended to activities implemented up to 2012, and are primarily defined as non-market or market-linked sources. Options for phase 3 range from exclusively fund-based mechanisms to a combination of markets and funds.

Where the Text Needs to Go

Parties should narrow the options on REDD+ finance within the text to define a flexible, phased approach to finance that will provide a range of funding sources to fit the various readiness stages . The readiness phase is currently well established within the LCA text, and should be considered an essential element of REDD+ finance. It is important that the sources of finance for this phase be clearly defined, with a strong role for new and additional ODA, including increased funds for existing mechanisms and dedicated revenue from the auction of allowances in industrialized countries. Existing mechanisms such as UN REDD and FCPF do not currently have sufficient funding to meet demand. Funding for these mechanisms should be increased and the text should allow for strengthened coordination between existing mechanisms. Language indicating the need for financing for "activities to be implemented up to 2012" has been dropped from the text and should be reinserted. It is critical that financing for the second phase in particular come from a combination of non-market and market sources and that it provide sufficient and up-front financing to get REDD+ implementation off the ground. The full implementation phase is established in the text, but should be narrowed and refined. Market access for this phase should be ensured such that countries can participate as soon as they have the capacity to generate verified compliance-grade emission reductions.

[3] Some of the figures cited here do not include readiness costs
[4] Eliasch 2008.