



Investing in REDD-plus

Consensus on frameworks for the financing and implementation of REDD-plus

This submission represents the consensus of a range of forest leaders across the business, environmental, scientific, Indigenous Peoples and forest-based communities on financing for REDD-plus (as referenced in the Bali Action Plan).

Beginning in December 2007, The Forests Dialogue (TFD) has led an intensive multi-stakeholder dialogue process to understand, discuss and seek consensus on the most pressing issues related to the use of forests to mitigate climate change. TFD's findings have a bearing on both an eventual REDD finance mechanism within the UNFCCC and any interim finance arrangements that might complement such a mechanism.

A. FOUNDATIONS FOR REDD-PLUS: SOLID PRINCIPLES AND A FULL RANGE OF FOREST-LINKED OPTIONS

1. Base REDD-plus firmly on sustainability principles. REDD-plus finance mechanisms must be sufficiently robust to deal with both in-country and international leakage, must use credible baselines, and must achieve verifiable additionality. REDD-plus projects must demonstrate:

- A. Ecological integrity**—by enhancing levels of biodiversity and other forest ecosystem functions, such as the provision of water, food, fuel and fibre
- B. Social integrity**—by recognizing, protecting and respecting the rights of Indigenous Peoples and local communities and ensuring that they can develop their livelihoods and share the benefits of REDD-plus
- C. Atmospheric integrity**—by leading to real reductions of CO₂ emissions and to the stabilization of CO₂ in the atmosphere alongside deep emissions cuts in line with IPCC recommendations.

REDD-plus finance mechanisms must be:

- A. Effective**—contributing to tangible and independent third-party verifiable stabilizations of atmospheric concentrations of greenhouse gases
- B. Efficient**—resulting in 'value for money' and allowing both private-sector and public-sector institutions to participate on fair terms
- C. Equitable**—at a minimum, avoiding the exposure to greater risks of the poor and most marginal rural communities whose livelihoods depend on forests, averting the distortion of forest products markets and allowing broad participation on equitable terms at the national and international levels.

2. Plan for a full range of forest-based climate mitigation options. Consistent with current usage in the UNFCCC negotiations, REDD-plus must create incentives for the full range of forest-based mitigation activities, based on the principles and practices of Sustainable Forest Management. In addition to reducing emissions from deforestation and forest degradation REDD-plus finance mechanisms must also create incentives for additional actions in conservation, the sustainable management of forests, and the enhancement of carbon stocks, as envisioned in the Bali Action Plan.

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3. Priority for biodiversity under threat. Early investment must give priority to the conservation of areas under the greatest threat that have the highest levels of biodiversity.

B: REDD-PLUS PHASES

4. Phased approach with strong performance-based safeguards. A phased approach will enable REDD-plus to address the drivers of deforestation at a country level according to country-specific circumstances.

- A. Phase one:** The initial preparation and readiness phase involves the development of a REDD-plus strategy at the national level, including, inter alia, the identification and prioritization of key policy and institutional capacity-building measures for both state and non-state actors. This will pave the way for investments in phase two through the development of systems for monitoring, reporting and verification (MRV) and the identification of required protocols. Public sector, private sector, multilateral and bilateral grants and investment mechanisms such as the Forest Carbon Partnership Facility (FCPF), UN-REDD and the voluntary carbon market can support this phase.
- B. Phase two:** In an intermediate second phase, enabling policies and measures are put in place to allow the implementation of REDD-plus and, based on performance, encourage scaled-up public-sector and private-sector investments in the following areas:
 - a. Institutional capacity, forest governance and information
 - b. Land tenure reforms, forest management, the restoration of degraded forest landscapes, the strengthening of conservation in protected areas, and community-based fire management
 - c. Activities outside the forest sector necessary to reduce the pressure on forests, such as the promotion of certified sustainable agriculture, sustainable biomass energy supply and agroforestry, and the enhancement of small-scale agricultural productivity.

Financial sources should include voluntary contributions from governments, market-linked and transaction-linked international levies, and the auctioning of allowances. Multilateral concessional financing sources such as the Forest Investment Program (FIP), as well as bilateral funding, private funding and early market payments are also options but must be performance-based.

- C. Phase three:** Market mechanisms such as the carbon market and fund-based mechanisms should, by phase three, deliver performance-based payments based on third-party verifiable emission reductions and carbon stock enhancements. Market policies must be designed with the objectives of creating equitable distribution mechanisms, stabilizing prices, and developing risk-management and credit-management vehicles.

5. Triggers guiding the transition from one phase to the next. The eligibility of countries to move from one phase to the next should be based on triggers that are informed by a verification body and help to steer processes rather than block them. Safeguard policies and criteria for entering the compliance market apply to both forest nations and donor nations, and also to companies aspiring to enter into arrangements.

6. Matrix mapping key outcomes, safeguards, finance mechanisms and triggers. The following matrix highlights the key features of the three phases of the phased approach to REDD-plus:

	PHASE 1 Preparation and readiness	PHASE 2 Policies and measures	PHASE 3 Performance-based payments
Outcomes	<ul style="list-style-type: none"> · REDD-plus strategy · Issue identification · Preparation of protocols · Capacity building assessment · Institutional development · Demonstration activities · Co-relate national and regional development policies, including landscape land-use plans and forest plans 	<ul style="list-style-type: none"> · Capacity building · Development of national REDD-plus portfolios · Benefit sharing and equitable distribution · Pilot projects · Inclusion of small-scale projects · Carbon registry 	<ul style="list-style-type: none"> · CO₂ reduction · Verification · Social and environmental impact assessment
Safeguards	<ul style="list-style-type: none"> · Transparency · Participation and representation 	<ul style="list-style-type: none"> · Stakeholder platforms · Social and environmental audits · Governance and legality audits · Free prior and informed consent of Indigenous Peoples · MRV system · Transparency 	<ul style="list-style-type: none"> · MRV system · Free prior and informed consent of Indigenous Peoples · Social and environmental audit · Financial audit · Financial accounting guidance from the Financial Accounting Standards Board and the International Accounting Standards Board
Finance mechanisms	<ul style="list-style-type: none"> · Multilateral and bilateral grants · Proposed windows within the UNFCCC · Private funding · Public-sector funding 	<ul style="list-style-type: none"> · A portfolio of finance tools · Underwriting financial, livelihood and political risks · Rules for performance-based payments · Implementation of equitable distribution mechanisms 	<ul style="list-style-type: none"> · Compliance market · Non-market compliance fund · Underwriting risk · Equitable distribution mechanisms
Triggers/ eligibility criteria	<ul style="list-style-type: none"> · Multi-stakeholder endorsement · Plan for overcoming governance and policy gaps 	<ul style="list-style-type: none"> · Adequate legal rights and tenure systems · Endorsement of benefit distributions · National capacity to implement and audit · Carbon registry · Free prior and informed consent of Indigenous Peoples · MRV system · Proxy indicators 	<ul style="list-style-type: none"> · Forest carbon-pool buffer and forest carbon project insurance

C: FINANCIAL ARCHITECTURE

7. Financial stability through public and private funding and country commitments. Stable, reliable and long-term financial flows require strong coordination between public-sector and private-sector donors and investors and robust commitments from both developed and developing countries. Developed countries must be willing to guarantee support and long-term financing

arrangements that depart from business-as-usual models for north-south financial transfers. Developing countries need to commit to policy and institutional changes that focus on the transformation of land-use dynamics, forest governance, and the flow of resources to Indigenous Peoples and local communities.

8. A portfolio of finance mechanisms. Given the scale of the challenge involved and as part of a well-designed phased approach, there is a need to move beyond the 'markets versus funds' discussion and to accommodate a portfolio that makes optimal and coordinated use of both markets and funds, as well as other sources of finance. A broad coalition of public-sector and private-sector institutions will need to provide the necessary up-front investments for phases one and two according to the capacity of each individual institution; investments will need to include both bilateral and multi-lateral loans and grants.

9. Additionality of funds. REDD-plus funding must be additional to regular official development assistance funding.

D: MONITORING, REPORTING AND VERIFICATION, AND FINANCIAL ASSURANCE

10. Robust MRV. In all phases of a phased approach, REDD-plus must assure environmental, social and financial performance through robust MRV at the local, national and global levels.

11. Performance-based delivery and safeguards. REDD-plus finance must be predicated on performance-based delivery, including proxy-based performance in phase two, with appropriate safeguards in all phases. Phase-three performance must be underpinned by independent third-party verification of CO₂ emission reductions according to local circumstances in individual countries. During phase two, proxies of overall deforestation must be linked to key measures such as the implementation of policies and the strengthening, in practice, of the rights of local communities.

12. Social, environmental and financial assessment in addition to carbon monitoring. In all phases, performance of REDD-plus activities should incorporate social, environmental and financial indicators in addition to the assessment of changes in carbon stocks. Socially, environmentally and financially sound processes, based on adaptive management and learning and with full and effective community participation, will produce secure and tradable carbon assets that are appropriate to the market-oriented system that characterizes phase three.

13. Social, environmental and financial audits could be either part of or separate from MRV. Social, environmental and financial audits, whether incorporated into MRV or set up as separate instruments, must:

- A. Be equal in status to other aspects of REDD-plus monitoring
- B. Simultaneously maintain independence and the possibility of ceding social and environmental audits to a third party
- C. Be part of improved coordination between relevant government departments
- D. Be subject to only limited government control
- E. Prevent higher transaction costs due to complex intra-agency coordination
- F. Build on existing methodologies
- G. Encourage engagement with the private sector.

14. Verification of performance on issues of livelihoods, rights, benefit sharing and consultation. Social auditing must include:

- A. Provisions for men, women and youth in local communities and Indigenous Peoples to engage in REDD-plus design and participate in REDD-plus activities

- B. Clarity on benefit-sharing arrangements with a view to promoting equity between stakeholders within communities; this does not mean prescribing the benefits but, rather, assuring an adequate distributional mechanism
- C. The monitoring of negative impacts with respect to forest-dependent livelihoods
- D. Respect for free prior and informed consent by Indigenous Peoples and local communities
- E. Independent third-party verification.

15. Biodiversity and ecosystem services. Environmental auditing must include:

- A. the delivery of ecosystem and biodiversity co-benefits
- B. Priority for high-biodiversity areas, including early action on forest landscape restoration
- C. Independent third-party verification.

16. Free prior and informed consent as a rights issue and as a procedure. The concept of free prior and informed consent is a right for Indigenous Peoples. It is also a consultative process and a requirement that applies to other stakeholders, such as local communities and forest owners.

E: INSTITUTIONAL ARRANGEMENTS

17. Building governance through adaptive management, piloting and learning. The strengthening of governance arrangements and institution building need to incorporate learning through piloting, adaptive management and knowledge transfer, and focus on progress in key areas such as carbon rights, tenure rights and distribution mechanisms.

18. REDD-plus oversight body under the auspices of the Conference of the Parties to the UNFCCC (COP). To ensure viable REDD-plus financing in the long run, a REDD-plus oversight body with technical, financial and administrative responsibilities should be set up under the COP with representation based on United Nations regions. The Nine Major Groups' structure under the ECOSOC framework—as found within the United Nations Forum on Forests and the United Nations Commission on Sustainable Development—can be a model for inclusive stakeholder participation through legitimate representation.

19. Mandate of the international oversight body and the COP. The REDD-plus oversight body must be endowed with the authority to evaluate eligibility for countries to move from one phase of REDD-plus to the next. The COP could set the priorities, such as caps on the proportion of CO₂ emissions that Annex-1 countries may offset. A project-by-project approach could be taken in phase one and phase two, with grants and early action generated by the private sector.

20. Cross-sector approach for national REDD-plus bodies. National REDD-plus coordination bodies must work across public and private sectors and have a multi-stakeholder membership.

21. Building on experience of existing certification, monitoring and verification schemes. REDD-plus mechanisms have to build on the important experiences gained in the existing voluntary carbon market, particularly with regards to carbon market accounting and credible standards and certifications. At the national level, REDD-plus provisions should make use of existing government regulations and structures and capitalize on existing monitoring and independent third-party verification mechanisms, such as forest certification systems.

22. Standards for accounting and tax codes based on existing practices. Tax code and financial accounting standards for carbon transactions and investments in the public and private sectors should be established and be compliant with existing practices and institutions. Where existing practices and institutions are inadequate, new mechanisms need to be created. Another required instrument is the International Transaction Log.

23. Complaint and grievance structures. REDD-plus governance structures at both the national and international levels must include independent complaint and grievance mechanisms.

24. Increased coordination and utilization of existing instruments. In order to minimize transaction costs, existing forest-based instruments (e.g. Forest Law Enforcement and Governance—FLEG—processes, Voluntary Partnership Agreements, UN-REDD, FIP and FCPF) should be used in preference to setting up a new global mechanism. Efforts should be made to strengthen coordination and collaboration between such instruments.

25. Inclusive and accountable forest management through strong partnerships and active participation. REDD-plus must be underpinned by transparent, inclusive and accountable forest management based on local processes. This demands strong partnerships founded on respect for the rights and active participation of Indigenous Peoples and local communities, consistent with international obligations and standards such as the United Nations Declaration on the Rights of Indigenous Peoples and locally defined measures and legal systems. Key areas of concern are the clarification and strengthening of tenure, property and carbon rights.

26. Effective and efficient interventions through multi-stakeholder platforms. Where possible, the engagement of stakeholders should build on the many national experiences of stakeholder involvement in FLEG processes. Multi-stakeholder platforms in the REDD-plus planning process not only contribute to equitable participation and representation, they are also more effective and generate more efficient interventions. They promote better understanding of the role of each stakeholder group and improved communication between groups and can therefore help to avoid or diminish potential conflicts.

CONCLUDING COMMENT

The Forests Dialogue's initiative on frameworks of REDD-plus finance and implementation recognizes that REDD-plus will only achieve lasting results if it is able to be adapted to the individual circumstances of countries AND if countries have the political will to adapt policies and methods to meet the needs of REDD-plus implementation. The nature of the finance mechanism that underpins REDD-plus is critical for determining whether and how these pre-conditions for success are met.

ABOUT THE FORESTS DIALOGUE

In the last two years, TFD has held seven international dialogues that have engaged over 375 leaders from a range of stakeholder groups, including Indigenous Peoples, family forest owners, investors, academia, intergovernmental organizations, environmental non-governmental organizations, trade unions, social non-governmental organizations, forest industry, forest and carbon investors, retailers, and government representatives. In October 2008 TFD produced the Beyond REDD consensus statement; since then it has focused its dialogue process on the elements of a framework for REDD financing and implementation. The process reached a consensus that has given rise to the recommendations put forward in this document.