Joint Submission of the Philippines and Switzerland

REDD+ AWG-LCA: views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72

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Introduction

The secretariat has invited submissions under the AWG-LCA on *views on modalities and procedures for financing results-based actions* and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72. The content of paragraph 72 includes addressing drivers, land tenure, forest governance, gender, safeguards and effective participation. Further, three key elements of the Durban decision 1/CP.17 that guide further work are:

- paragraph 65, which states that financing may come from a variety of sources, public, private, and alternative, and
- paragraph 66, which states that, based on demonstration activities, appropriate market-based approaches could be developed to support results-based actions.
- Paragraph 67, concerning non market-based approaches, such as joint mitigation and adaptation

This submission is organized around the following concepts:

- the conceptual foundation developed in the Philippine-Swiss initiative "towards building a governance framework for REDD+ financing"
- market and non-market based approaches to REDD+ implementation
- engaging and attracting investments for REDD+
- revenue generation for REDD+ investments
- fund management and governance

The Philippine-Swiss Initiative "Towards Building a Governance Framework for REDD+ financing"

The Philippine-Swiss initiative has been facilitating dialogue with several Parties toward a common vision of a feasible, practical, yet robust and verifiable, performance-based REDD+ and REDD+ financing. The initiative's efforts continue to involve the private sector since private capital, as well as market-based approaches, have the potential to shift current investments away from destructive activities that drive deforestation and forest degradation. It is the vision of the initiative that public funds, private investment, and a market for goods and services that protect forests, including carbon and ecosystem services can be established, ultimately creating local economies that value environmental protection and forest peoples' livelihoods.

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The forest sector has characteristics, such as governance issues and technical difficulties relating to estimating emission reductions that make it challenging to identify and secure attractive investments. A "governance framework for REDD+ financing"[1] shall facilitate confidence and steer capacity towards generating and securing REDD+ financing:

1. The international community should catalyze adequate financing for REDD+ in all phases of implementation
2. Unlocking private finance requires demand for REDD+ credits and incentives for sustainable investments
3. Planning for REDD+ financing should be part of a broader policy approach, which orients investments toward specific country strategies and objectives
4. REDD+ investments should cover the implementation of results-based actions defined as emissions reductions (tons of GHGs reduced per year), should meet environmental, social, and governance safeguards, and should be "fully measured, reported and verified," distinguishing them from payments for support activities, programs, or policies, as decided in Cancun and Durban.
5. Governments in REDD+ countries should ensure balanced investments within and outside the forest sector in order to address drivers of deforestation and forest degradation

Market and non-market based approaches to REDD+ finance

More will be needed (USD 100 billion per year by 2020) in REDD+ than the amount pledged to date in public finance. Market and non-market based approaches must be used to address the delay and uncertainty about the supply and demand for REDD+ credits and the REDD+ mechanism as a whole in the fast-start finance period and more so under mid-term and long-term financing.

Until a regulatory market for forests is established, REDD+ will be in a phase of trial and innovation regarding finance mechanisms that will necessitate market and non-market based approaches with cooperation from both the private and public sectors to raise REDD+ finance to an adequate level, while pushing for an international framework that includes forests in conjunction with stringent targets, adequate financing that also provide support for addressing social and environmental safeguards and governance, and robust MRV[2].

Assuming that REDD+ finance may come from both market and non-market sources, emphasis should be put on the question of how it can evolve into a performance-based system that enables the fulfillment of multiple objectives for ecosystems, livelihoods and governance.

Engaging and attracting investments for REDD+

There exist numerous experiences and diverse options for engaging and attracting private and public sector financing.[3] From the private sector, "patient capital" (long-term capital), including "green" investors, also referred to as *impact investors*, provides one source which can be tapped for upfront REDD+ financing. With the capacity in providing returns and absorbing resources, traditional conventional or institutional investors can be considered for REDD+ financing.

In 2010, the total market value for REDD+ credits was estimated at only $95 million (Ecosystem Marketplace, 2011). Juxtapose this against the total value of private sector assets under management in 2008 - $99.3 trillion (IFSL, 2009). According to feedback from interested investors, in order to unlock finance, REDD+ projects must be seen to be competitive with other types of investment in terms of risk and return, which is still not

[1] http://www.cmia.net/Portals/0/Repository/REDDPlus.8caf0c39-01c1-48b4-bcfe-6edafa5c9012.pdf
[2] http://www.unep.fr/energy/pdf/pathwaysimplementingreddplus.pdf
[3] http://www.odi.org.uk/resources/docs/5640.pdf

currently the case. Forests are regarded as a generally challenging environment with regulatory uncertainty, lack of rules to show compliance with safeguards, and perverse incentives for unsustainable practices.

On behalf of developing country governments implementing their REDD+ strategies, successfully managing investment in the sector has diverse implications. A government that has received private capital to enable emissions reductions is responsible for underwriting and guaranteeing that the principal on investments is paid back when maturity is reached and for a fixed rate of return. Forest owners cannot assume full responsibility for producing returns. This could be an ideal place for public funds, multilateral and bilateral funds, climate insurance, and eventually the Green Climate Fund, to assist developing country governments build capacity, leverage private finance, and address default risk. The GCF could channel finance from a variety of sources such as levies, taxes, and auctioning that are non-market based. Similarly, developing countries can also source counterpart public funds from levies, taxes, and other non-market based approaches.

Revenue generation for REDD+ investments

Generating revenue to pay returns on forest investment may come both from the forest sector and outside of it. Forest bonds[4] are an example of a mechanism in which governments underwrite the investment and offer a fixed rate of return. Revenues can be supplied partly by financial markets, including a prospective carbon market for REDD+, but also through the sale of certified timber, non-timber forest products, ecosystem service payments, environment-related taxes, levies and others.

Payment for Environmental Services (PES) programs, currently functioning or being established in about 60 countries, when provided with adequate funding, eventually evolve from sub-national to nationally institutionalized environmental and social programs. Thus in effect PES programs follow a “nested approach” in implementation, investments and revenue generation.

Revenues obtained from PES activities are “ring-fenced” and plowed back into similar activities. It is encouraged that both public and private financing contribute toward the implementation of nested approaches in REDD+ so as to develop national level capacities to participate in any possible international regulatory market, minimize leakage, as well as generate funds that can be invested and plowed back into REDD+.

Fund management and governance

Regardless of source, both market and non-market based approaches can succeed and complement each other towards common goals only through sound fund management and governance.

Sound fund management includes (ring fencing, etc) and the ability to pool different financial resources towards desirable and sustainable outcomes. In the context of sound fund management, the principles of good governance should be applied, i.e. transparency, accountability, equity, participation, effectiveness and efficiency[5].

Governance of these funds should also demonstrate compliance with social, environmental and governance safeguards so as to attract and sustain investment. Credit ratings should ostensibly be related to how effectively safeguards are being addressed and respected and the manner in which robust and transparent measurement, reporting, and verification is conducted.

[4] http://www.globalcanopy.org/sites/default/files/UnderstandingForestBonds.pdf

[5] http://www.unredd.net/index.php?option=com_docman&task=doc_download&gid=5336&Itemid=53

Some guidance towards sound fund management and governance in REDD+ from both the public and private sectors may include:

1. Government incentives, whether providing demand for REDD+ credits or enforcing standards for sustainable investments, with public funds underwriting risk and addressing concerns of the private sector to attract private investment
2. The pooling of public funds for REDD+, as regularly collected from taxes, levies and others which may be related to forests and carbon, though not exclusively
3. Establishment of a policy framework for REDD+ that facilitates revenue generation from a variety of sources such as forest/livelihood-related products, PES and carbon markets.

Conclusions

- Governments have primary responsibility to build the enabling environment that is needed for REDD+ implementation, in closest cooperation with stakeholders, guided by multilateral (UNFCCC) rules to:
    - manage and disburse financial resources capably, fairly, and across land-use sectors
    - guarantee that safeguards are addressed and respected, provide capacity building, and institutional strengthening,
    - work together with the private sector to find ways to generate and secure investments
- REDD+ investment begins with confidence in regulation and governance. Once the value of one ecosystem service is recognized, i.e. forest carbon, other benefits of forests such as biodiversity, water, marketable products and the ecosystems contribution to human livelihoods cannot be separated. Thus, investment in REDD+ has a potentially catalytic effect that extends to other land-use sectors and eventually the green development plans of nations.
- The private sector currently has potential to become a major source of financial capital for REDD+ provided the principles of good governance are applied, i.e. transparency, accountability, equity, participation, effectiveness and efficiency.