UN-REDD Programme - Fifth Executive Board Meeting (EB5)

Session 3: Strategic Dialogue on financing large-scale forests conservation and restoration
16 September 2021 14:00-16:00 CET

Agenda and Background

1. Objective of the session:

This two-hour strategic dialogue will explore latest thinking and discuss potential options on how to scale up financing for REDD+ commensurate with the 2030 mitigation goals. The session aims to discuss opportunities to catalize action on two main finance areas:

1. Upfront (ex-ante) finance, or financial flows to forest countries prior to accessing REDD+ results-based payments
2. Results-based (ex-post) finance, or payments received for verified and validated reductions in emissions from REDD+ as well as payments for forest restoration

Executive Board members will be the primary participants, but the session will also include other country representatives and selected experts. The session is aimed to provide guidance to the UN-REDD Programme on potential actions to catalize large scale funding to forest countries.

This session aims to stimulate discussion within Executive Board and selected observers around two sets of questions:

- How to scale up upfront finance for 'readiness' improvements and for investments in REDD+ actions? What roles the public and private sectors could play? How could ex-post payments be used to increase upfront finance? What role could UN-REDD play?
- How to scale up results-based finance? What are the respective roles of public and private sector? What are the key issues that forest countries, donors and private sector may need to agree on in order to increase ambitions and finance? Could UN-REDD help in reaching this consensus?

For both issues, the important question of what is UN-REDD's role in consensus building for scaled up financing will be explored with Board members.

2. Agenda

30 mins	Logging in (starts at 13:30 CET). Official start of the meeting is 14:00 CET.
5 mins	Welcome and introduction from the Chair of the Board (Mette Wilkie)
Part 1	Scaling up REDD+ finance
5 mins	Opening remarks – Frances Seymour, Distinguished Senior Fellow, World Resource Institute
10 mins	REDD+ finance: a perspective from the field – Joe Malassi, Senior Climate Advisor to the Vice Prime Minister, DRC
15 mins	Scaling up ex-ante and ex-post REDD+ finance – Rupert Edwards, Senior Advisor, Forest Trends
10 mins	The GCF and REDD+ finance: what can we expect? – Veronica Galmez, Senior Specialist for Ecosystems Management, Green Climate Fund
20 mins	Q&A

Part 2	Scaling up finance: how could UN-REDD help?
10 mins	Reaching consensus: challenges and opportunities – Juan Chang, former Lead Forest & Land Use specialist at the GCF; Independent Senior Consultant
7 mins	A perspective from civil society – Gustavo Sanchez, CSO representative at the UN-REDD Executive Board
25 mins	Brainstorming and discussion
5 mins	Summary and concluding remarks from the Chair of the Board (Mette Wilkie)

3. Introduction

All IPCC pathways to keep global warming below 1.5°C and even 2°C are fully dependent on AFOLU emissions coming to zero by 2030 and becoming strongly negative after that.[1] For this to happen, deforestation should fall to net zero by end of the decade, and other natural carbon sinks must also be protected. It also means that carbon removal by forest ecosystem restoration is a key action post 2030.

The magnitude of the challenge is significant, and so are the potential benefits. Bringing deforestation and forest degradation down to zero could avoid releasing about 3 gigatons (Gt) of CO_2 per year. Forest ecosystem restoration could remove an additional 2 Gt CO_2 for a combined mitigation potential of 5 Gt/year[2]. For comparison purposes, the total annual GHG emissions of the European Union in 2017 were slightly less than 5 Gt. This implies preventing some 10 million hectares per year from being converted primarily to agriculture, while taking into account increasing demand for food[3].

International collaboration will be essential to achieve net zero emissions from forests by 2030 because the costs will be substantial. A review of REDD+ costs suggested an average of about $25 to achieve a ton of emission reductions[4]. Others have estimated aggregated costs to be as high as 5.5% of national GDP for tropical countries[5].

The scale of international co-funding required in REDD+ will amount to several tens of $ billions between now and 2030[6]. While REDD+ readiness will continue to be necessary in a number of places, the bulk of finance will support the implementation of actions that result in reduced emissions and increased carbon capture from forests. For REDD+ to succeed, domestic policies and incentives in forest countries are what ultimately will drive change on the ground.

Development finance in the forms of grants for specific projects and programs will still play a role in supporting implementation of REDD+ and will help to some extent to overcome upfront finance challenges. However, it is unlikely that this approach will provide the multiple tens of $ billions that are required. The bottleneck of due diligence process accompanying input-based aid has limited potential of giving forest countries fiscal resources at real scale, which is what most will need to meet ambitious targets. The bulk of REDD+ finance will likely come from results-based payments. Transforming these payments into upfront finance will be a key condition for success.

4. Scaling-up REDD+ results-based payments

The most important source of finance for REDD+ in the last decade has been the government of Norway. Through its flagship initiative, Norway has committed since 2008 up to 3 billion NOK a year

[1] IPCC, 2018: Summary for Policymakers.
[2] Emission Gap Report 2017. See also Griscom et al, 2020.
[3] FAO (2020) Forest Resource Assessment
[4] Rakatama et al (2017)
[5] Griscom et al. 2020. For comparison purposes, the fall of global GDP due to COVID in 2020 was 3.3%.
[6] It could range between $40 and 150 billion depending on the cost of the emission reduction and forest mitigation potential. These are just the costs of bringing deforestation down to zero and do not include the costs of keeping it there. UNEP´s State of Finance for Nature report estimates these costs to grow to $203 billion per year by 2050.

for both readiness and results-based payments. NICFI has been a key source of support for multilateral initiatives - it is the main funder of the UN-REDD Programme - and has also signed bilateral agreements with a number of countries. Some of the interventions it supported have been clear successes, for example, the support to Brazil, which in the period between 2004-2012 reduced deforestation by 80%. Norway has also partnered with the UK and Germany in providing support to countries for both readiness and results-based payments, for example in Colombia and Peru.

The UN-REDD Programme has mobilized about $1 billion since inception, including $350 million in results-based payments. The World Bank´s FCPF, through its readiness and Carbon Fund, has made contributions totaling $1.3 billion. The Green Climate Fund has also played an important role and disbursed $500 million through its pilot programme on results-based payments. The voluntary carbon market, through project-based REDD+, has mobilized about $400 million in transactions since 2017.

Predictability and volume of financing have been key factors in supporting the push for decarbonization in different sectors of the economy.[7] However, these conditions have not been present in REDD+ up to date. The sources of finance described previously have been very important to catalyze and support REDD+; yet, the total volume fell way short of needs. The payments for emission reductions have been a fraction of the total achieved[8]. Even the $2 billion provided to Brazil through the Amazon Fund over 11 years was a small sum in the context of ending deforestation in the Amazon basin, especially when compared to agricultural loan subsidies offered annually without any environmental conditions. While recognizing the generosity of a too-limited group of donors, and being genuinely grateful for these contributions, they are not enough to sustain and extend progress, and must be paired with significant policy and finance reforms.

Scaling up results-based payments will require the participation of a broad range of donor governments and a growing group of private companies (driven by the momentum for net zero).

The GGC and LEAF (see Box 1) as well as the on-going consideration of a second phase of the Green Cimate Fund's REDD results-based payment programme have revitalised discussions among developing countries, donors, civil society organisations (CSOs) and private sector on the potential mechanisms and conditionalities associated with scaling-up REDD+ finance. However, diverging views remain on a number of substantive issues. These include, among others, the price of forest carbon, the volume of financing made available, participation of private sector in REDD+ and the use of standards to validate and verify emission reductions among others. These differences, however, can and should be reconciled soon. The political momentum built up by the World Environment Day, CBD COP-15, UNFCCC COP-26, UNEA-5 and Stockholm+50 can provide an opportunity to reach consensus on how to scale up funding and ambitions for forest conservation and restoration.

Box 1: The Green Gigaton Challenge and LEAF Coalition

The Green Gigaton Challenge (GGC), launched in November 2020, represented a renewed effort to secure public and private commitments to finance one gigaton of REDD+ emissions reductions before 2025, and anually after that as an aspirational goal. As a first step in that direction, the LEAF Coalition, which was announced on Earth Day 2021, represents a key milestone in public-private-sector participation in jurisdictional REDD+. With the initial support of the governments of the US, UK, Norway, and private sector companies, the LEAF Coalition has an initial $1 billion commitment to pay for 100 million tons at a minimum price of $10 per ton.

While the volume of funding provided by LEAF is significant, it is still a fraction of what is needed. Assuming a forest mitigation potential of 5 gigatons, LEAF amounts to 1/50th of total needs.

[7] For example, in the electricity and other energy sectors, through the combined effect of carbon prices and predictable demand (such as feed-in tariffs or other subsidized revenue streams for renewable energy).
[8] As reflected in the UNFCCC Lima Hub.

5. Scaling up upfront (ex-ante) finance

In order to achieve and receive rewards for forest based mitigation at the scale required to meet the Paris Agreement goals, forest countries will have to undertake significant actions and investments[9]. Current levels of investments in nature based solutions will have to increase threefold by 2030[10]. The economics of forest conservation and restoration will have to be made overwhelmingly compelling[11].

Large scale support for REDD+ in the form of results-based finance could catalize a quantum leap in domestic and private investment on forest conservation and restoration. A key challenge will be to find mechanisms by which ex-post payments can leverage/incentivize ex-ante finance[12].

Private sector will play a key role. In 2018, private finance supportive of development goals – including climate, was estimated at $48.4 billion, showing a constant and significant increase over the last decade[13]. The most important instruments being guarantees, loans and direct investment. Its dynamism makes it a valuable potential source to scale up finance. Tapping onto these volumes towards halting deforestation would be critical.

While there are limited experiences in transforming REDD+ payments into upfront finance, some appear promising. Below there is a summary of options for background information purposes[14]:

- **Linking jurisdictional REDD+ purchase agreements with the provision of additional financing facilities**. Multilateral institutions like the Green Climate Fund and multilateral banks appear well-placed to establish dedicated, fast-tracked, support lines for those jurisdictions that have entered into purchase agreements. For example, a jurisdiction with a signed ERPA could expect preferential access to grants and loans to support REDD+ implementation actions. These can materially scale up grants and concessional lending to forest country governments once commitments for large volumes of jurisdictional credits have been contracted. Public banks, within forest countries could also increase lending programs for pro-forest outcomes.
- **Enhanced bond structures**. Bonds that are explicitly linked to REDD+ results-based finance, in which use of proceeds are directed to pro-forest programs, have been proposed to attract lower cost capital to support Nationally Determined Contributions (NDC) and REDD+ activities in Brazil and elsewhere[15]. These structures are designed to address the upfront funding gap by lowering the cost of capital for forest countries undertaking forest-based NDC and REDD+ activities.
- **REDD+ projects with nesting in jurisdictional REDD+.** Projects that are nested into jurisdictional accounting systems are good candidates to attract upfront financing in the expectation of future payments. In this case, nesting provides the bridge between the innovation and targeted finance that projects can deliver and the scale needed from jurisdictional REDD+. Between 2017 and 2019, there were about $400 million generated in voluntary carbon market transactions from forestry and land use. This amount could grow several times before 2030.

[9] To this end, UN-REDD is in dialogue with the Green Climate Fund on the concept of a transformative 'REDD+ Accelerator Programme' to crowd in diverse finance sources and revenue streams, at scale, for all three phases of REDD+.
[10] UNEP2021. State of Finance for Nature.
[11] This will entail a complex set of actions including increasing the return on private investments from forest conservation and restoration and to capitalize on multiple non-carbon benefits, among others.
[12] The challenge to mobilize upfront finance is not just that payments occur after results. Capital expenditure financing generally can take a long time to generate revenue in other sectors, such as energy production. Achieving jurisdictional reduced deforestation outcomes and associated revenues can appear to potential financiers (including forest country governments) as less proven and much more uncertain.
[13] OECD 2020. Amounts mobilised from the private sector by development finance interventions. Presented at the 2020 Private finance for sustainable development conference.
[14] Edwards R. 2021. Using future jurisdictional REDD+ revenue stream to drive upfront finance. Forthcoming.
[15] World Bank. 2017. The Potential Role of Enhanced Bond Structures in Forest Climate Finance. Washington, D.C.: World Bank

- **Payments for jurisdictional REDD+ credits in relation to historical emission reductions.** Donor governments could agree to make payments for historical credits, including on a basis that is less conservative than under methodologies for future credits. For example the agreement of September 2019 between Gabon and the Central African Forest Initiative (CAFI) included payments for past performance from 2016. The Amazon Fund also recognized some historical emission reductions in Brazil.
- **Increased donor support for Phase 1 and 2 of REDD+.** It has been proposed that donors consider opening up results-based finance for results achieved in the first two phases of REDD+, such as completion of a national REDD+ strategy, MRV systems and verified pilots, while continuing to provide upfront grants to build capacity in some countries.[16] Upfront grants could be especially effective in building capacity for effective participation of Indigenous Peoples and local communities in equitable benefit sharing mechanisms, thus operationalizing the Cancun Safeguards.

6. The way forward: a strategic discussion on contributions from UN-REDD Programme

The objective of this Strategic Session is to discuss opportunities to scale up finance, and deliver the full mitigation, adaptation, and biodiversity potential of forest ecosystems by 2030, and how the UN-REDD Programme can support countries to seize these opportunities. The UN-REDD Result Framework 2021-2025 aims to support the delivery of a gigaton in REDD+ results through a tailor-made combination of support depending on the need of the countries[17].

However, scaling up funding for REDD+ at the level required to achieve the medium-term milestone of a gigaton of REDD+ results appears unlikely in the absence of consensus on issues related to conditionalities and mechanisms. These issues include, among others, the price of forest carbon, the volume of public financing made available, the participation of private sector in the purchase of emission reductions from REDD+, the quality of emission reductions and delivery mechanism among others.

The different positions on these issues, however, are not unbridgeable and should be reconciled soon. Through thought leadership and convening efforts, the UN-REDD Programme could help in facilitating a process of advocacy, dialogue and consensus building that, if successful, would close more than half of the annual gap in the Paris Agreement pledge. A process of this type would require the coordinated efforts of the UN-REDD partner agencies (FAO, UNDP and UNEP) and the presence of "champions" in the form of forest and donor countries that take a leading role in fostering discussions and dialogue. Through collaborative efforts with CSOs and private sector partners, these discussions can ensure the participation of a wider audience.

An immediate opportunity to advance in this consensus-building process may exist at the Green Climate Fund, which is currently exploring a second phase of results-based payments for REDD+, building upon the success of the initial pilot programme. UN-REDD may also consider the opportunity brought by UNFCCC COP-26 to advance these discussions and continue working in 2022 with UNEA-5, Stockholm+50 and COP-27 as targets for an agreement.

The political momentum built up by the "decade of action" provides an opportunity to scale up funding and ambitions for forest conservation and restoration. Success in unlocking large scale REDD+ finance would be a key contribution to SDG15, constitute a concrete follow up to the Secretary General Climate Action Summit in 2019, and deliver on an issue that is of critical importance to both developing and developed countries.

---

[16] Angelsen A, Martius C, De Sy V, Duchelle AE, Larson AM and Pham TT (eds). 2018. Transforming REDD+: Lessons and new directions. Bogor, Indonesia: CIFOR

[17] Failure to achieve 1 Gt by 2025 would call into serious question the greater goal of achieving the full mitigation potential of forest by 2030 (4-6 Gt) let alone that of nature based solutions (10-12 Gt).

7. Particpants

Region/ Constituency	EB Member	EB Alternate
Africa	Madagascar: Ms. Lovakanto Ravelomanana	Ghana: Ms. Roselyn Fosuah Adjei
Asia-Pacific	Nepal: Mr. Yajnamurti Khanal	Indonesia: Ms. Laksmi Dhewanthi
LAC	Colombia: Mr. David Felipe Olarte	Chile: Mr. Luis Gianelli
Programme Donors	European Commission: Mr. Patrice Moussy, Ms. Lucile Broussolle	Denmark: Mr. Flemming Poul Winther Olsen
	Norway: Mr. Leif-John Fosse, Ms. Vania Dietrichson	Luxembourg: Ms Virginie Gilbert
	Switzerland: Mr. Keith Anderson, Mr. Pierre-André Cordey	Japan: Mr. Takayuki Ishikawa
		Spain: Ms. Maite Martín-Crespo
	Permanent Obsever	**Alternate**
IPs	IP-LAC: Ms. Dolores (Lola) Cabnal, RMIB-LAC	IP Africa: Mr. Joseph Itongwa, REPALEF
CSOs	LAC: Mr. Gustavo Sánchez Valle, Red MOCAF	Asia-Pacific: Mr. David Ganz, RECOFTC
	Other Observer and Resource Persons	
TBC		