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5 **SUMMARY OF THE PRELIMINARY**
6 **REPORT OF THE INFORMAL WORKING**
7 **GROUP ON INTERIM FINANCE FOR**
8 **REDD (IWG-IFR)**

9 SEPTEMBER 23, 2009

10 DISCUSSION DRAFT

11

12 THIS REPORT IS INTENDED TO INFORM AND BE INFORMED
13 BY THE INTERNATIONAL CLIMATE CHANGE
14 NEGOTIATIONS UNDER THE UNFCCC, AND IN NO WAY TO
15 PREEMPT THOSE NEGOTIATIONS. IT DOES NOT FORMALLY
16 REPRESENT THE VIEWS OF THE MEMBER COUNTRIES OF
17 THE WORKING GROUP, NOR OF THE WORKING GROUP
18 SECRETARIAT. THE IWG IFR DRAFT REPORT IS A LIVING
19 DOCUMENT. THIS SUMMARY SHOULD BE READ TO
20 EXPRESS CURRENT STATUS OF THE EFFORTS ONLY

1 **PREAMBLE**

2 At the invitation of His Royal Highness the Prince of Wales, world leaders met in
3 London on April 1, 2009.¹ On this occasion they acknowledged the great
4 importance of tropical forests in addressing climate change and providing broader
5 benefits for the world, emphasised the urgency of greatly scaling up funding for
6 this purpose, and on that basis established the Informal Working Group – Interim
7 Finance for REDD (IWG-IFR)², which has been responsible for producing this
8 report. The work of the IWG-IFR builds on the principles set out in the 2008
9 Poznan Statement³ on the importance of achieving progress on Reducing
10 Emissions from Deforestation and Forest Degradation, and was recognized and
11 supported in the G8 Summit declaration on forests and land degradation on July 8,
12 2009.⁴

13 The Terms of Reference for this group underline that the IWG-IFR should not
14 pre-empt, but rather ‘inform and be informed by’ the ongoing negotiations on
15 REDD+ under the United Nations Framework Convention on Climate Change
16 (UNFCCC).

1 Minister of External Relations of Brazil Ambassador Celso Amorim, Prime Minister of Japan Taro Aso, President of the European Commission Jose Manuel Barroso, Prime Minister of Italy Silvio Berlusconi, US Secretary of State Hillary Clinton, Canadian Minister of Finance James Flaherty, Prime Minister of Guyana Samuel Hinds, Secretary-General United Nations Ban Ki-Moon, Chairman of Lloyds of London and representative of ClimateWise Lord Levene of Portsoken, Chancellor of Germany Dr Angela Merkel, Gabon Minister of Defence Ali Bongo Ondimba, Prime Minister of Australia Kevin Rudd, President of France Nicolas Sarkozy, Prime Minister of Norway Jens Stoltenberg, Prince Saud Al’Faisal of Saudi Arabia, President of Indonesia Dr H Susilo Bambang Yudhoyono, World Bank President Robert Zoellick.

2 Argentina, Australia, Brazil, Cameroon, Canada, Columbia, Congo (DR), Costa Rica, Denmark, Ecuador, European Commission, France, Gabon, Germany, Ghana, Guatemala, Guyana, Indonesia, Italy, Japan, Madagascar, Malaysia, Mexico, Netherlands, New Zealand, Norway, Panama, Papua New Guinea, Peru, Suriname, Sweden, Thailand, Uganda, UK, and USA.

3 Supporting the statement in Poznan were Australia, Belgium, Brazil, Cameroon, Costa Rica, D.R.Congo, the EU Commission, France, Germany, Ghana, Guatemala, Guyana, Indonesia, Japan, Madagascar, Netherlands, Norway, Panama, Peru, PNG, Singapore, Suriname, Thailand, Uganda and United Kingdom. Italy and Ecuador have signed subsequently.

4 http://www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final,0.pdf. The declaration supports the development of initiatives and measures to promote REDD and recognizes the crucial role of early action initiatives to tackle drivers of deforestation.

1 **SUMMARY**

2 The struggle against climate change is one of the defining challenges of our time.
3 To achieve the ultimate goal of the United Nations Framework Convention on
4 Climate Change (UNFCCC) and avoid dangerous interference with the climate
5 system, global emissions must peak in the near future and be followed by
6 sustained, deep cuts, as provided by the assessments of the IPCC.

7 Efforts towards Reducing Emissions from Deforestation and Forest Degradation,
8 enhancement of carbon stocks, conservation, and sustainable management of
9 forests in developing countries (REDD+) will be crucial. Today, economic
10 undervaluation of standing forests drives deforestation and forest degradation. For
11 REDD+ to succeed, therefore, the economic incentive structure must be changed.
12 Concerted global, national and local action will be critical to achieve this.

13 The UNFCCC constitutes the global framework for countries' efforts against
14 climate change, and should provide the long-term basis for a REDD+ partnership
15 through an agreement on REDD+. The results of the upcoming COP 15 in
16 December should be the starting point for further global action on REDD+.
17 Potential "interim action" on REDD+ should complement and inform and not pre-
18 empt the Copenhagen agreement and the UNFCCC process.

19 The importance and urgency of extensive action on REDD+ can hardly be
20 overstated. According to the Food and Agricultural Organization of the United
21 Nations, some 13 million hectares of forest – an area the size of England – are
22 destroyed annually. With land-use change, this causes about 17 per cent of global
23 greenhouse gas emissions as estimated by the IPCC. Stopping deforestation, and
24 promoting afforestation and reforestation, may on some analyses provide up to
25 thirty per cent the cost-effective abatement potential.

26 Without REDD+, the goal of limiting the rise in global temperatures to 2C above
27 preindustrial levels will be much harder, and substantially more expensive, to
28 achieve. With REDD+, we may significantly reduce, remove and avoid global
29 emissions at a reasonable cost, while also taking due account of the rights and
30 livelihoods of indigenous peoples and local communities, protecting biodiversity,
31 rainfall patterns and soil quality, and helping developing forest countries adapt to
32 climate change.

33 Important voluntary efforts are already being made by developing forest countries
34 on REDD +, unilaterally and in partnership with each other, with developed
35 countries, and with multilateral institutions. These efforts should be supported and

1 advanced to accelerate significant short and long term reductions in greenhouse
2 gas emissions.

3 Results-based incentives could greatly enhance the effectiveness of these
4 partnership efforts, complemented by grants for building enabling capabilities.
5 The incentive structure or structures should be simple and flexible to facilitate
6 innovative modes of cooperation consistent with diverse national circumstances.
7 A central element would be a reliable framework for demonstrating the
8 environmental integrity and transparency of forest related emission reductions,
9 removals and the conservation of existing stocks. A robust and predictable system
10 for mobilizing financial resources from various sources, led by developed
11 countries, would also be needed to stimulate and pay for early action at scale.

12 Enhanced REDD+ partnerships should accommodate developing forest countries
13 through a phased approach, reflecting their different circumstances. All
14 developing forest countries, whether they currently have high or low deforestation
15 rates, should be incentivized to participate to maximize the impact and to
16 minimize the risk of leakage (i.e., so that emissions avoided in one country do not
17 simply reappear in another). Special consideration should be given to the
18 protection of intact natural forest, given its higher carbon density. In the first
19 phase developing forest countries would receive grants to develop a REDD+
20 strategy. In the second phase, the REDD+ strategy *implementation* phase, grant
21 support would be provided to build capacity, while large-scale payments would be
22 provided for demonstrated results in reducing emissions relative to an agreed
23 reference level, as estimated by proxies for greenhouse gas emissions. In the third
24 phase, countries would receive payments for verified emission reductions and
25 removals, as measured by compliance grade and transparent measurements of
26 environmental integrity, and for the conservation of existing stocks.

27 At its core, the phased approach would provide an economic incentive structure
28 that alters the economic balance currently favoring deforestation and forest
29 degradation and disfavoring reforestation and conservation efforts. It would also
30 accommodate nationally owned and developed REDD+ strategies.

31 Supporting the incentive system, opportunities could also be sought for public and
32 private finance and investment to work together to finance actions addressing the
33 drivers of deforestation. This could take the form of credit enhancement,
34 debt/nature swaps, and the use of bonds and other innovative instruments to
35 complement public financing. Upfront financing and investment are needed for a
36 REDD+ arrangement to work. Forest countries would obviously be free to choose
37 which, if any, of the financing instruments they would choose to deploy.

1 This report estimates that if financing of €15-25 billion were made available for
2 the 2010-15 period for results based incentives and capability building,
3 complementing other REDD+ efforts, a 25 per cent reduction in annual global
4 deforestation rates is achievable by 2015. These costs cover €13–23⁵ billion for
5 payments for emission reductions and €2 billion to invest in preparatory activities.
6 The financing need is highly sensitive to the agreed level of payments to
7 developing forest countries per tonne of reduced or avoided emissions. Efforts on
8 this scale could if effective reduce annual deforestation by about 3 million
9 hectares per year, for an accumulated total emission reduction of 7 gigatonnes for
10 the period. They could also generate economic benefits for developing countries,
11 including their indigenous peoples and local communities, conserve bio-diversity,
12 protect water supplies, and provide the long-term UNFCCC REDD+ process with
13 vital information and experience.

14 Immediate action on REDD+ is a crucial part of the climate change solution. A
15 global partnership for the interim period could have the following key features:

- 16 • It should build on principles agreed under the UNFCCC, and be integrated
17 into or incorporated by the UNFCCC agreement on REDD+ when and as
18 appropriate, by determination of the COP.
- 19 • It should be fair, simple, and environmentally effective. There could be
20 appropriate incentives for developing forest countries each step of the way,
21 increasing with results achieved and including incentives to improve the
22 environmental integrity and transparency of results over time. When
23 meeting the relevant requirements, including agreement by the parties
24 involved in the transaction, there could be linkage to carbon markets,
25 either domestic, or, if appropriate under UNFCCC guidance, international
26 markets.
- 27 • Its keystone could be a results based incentive structure to alter the
28 economic logic to favour REDD+. Most payments could be based on
29 achieved reductions of emissions relative to an agreed reference level. As
30 monitoring capacity develops, one option would be to calculate emission
31 reductions on the basis of proxy indicators and simple formulas, in line
32 with IPCC guidance. Some support is already being provided to
33 developing forest countries developing their strategies and building key
34 capabilities. The full range of developing forest countries should be

⁵ For both reduction of emissions from deforestation on forest and peat lands.

- 1 covered. Developed countries could commit to financing this arrangement
2 through sufficient, sustainable, and predictable contributions.
- 3 • While many countries may find the *post facto* incentive payments
4 sufficient to finance their REDD+ efforts, others will need up-front
5 support for REDD+ strategy implementation going beyond REDD+
6 “readiness” activities. One option to address this would be to provide some
7 of the anticipated results-based payments in advance and then adjusting
8 payments – up or down – once the actual results are known.
 - 9 • Supporting the incentive system, opportunities could also be sought for
10 public and private finance and investment to work together to finance the
11 actions addressing the drivers of deforestation. This could take the form of
12 credit enhancement, debt/nature swaps and the use of bonds and other
13 innovative instruments, as a complement to public financing. Forest
14 countries would obviously be free to choose which if any of the financing
15 instruments they would choose to deploy.
 - 16 • National leadership and political will are central preconditions for
17 successful implementation of a REDD+ strategy. All partnerships should
18 be designed to achieve genuine results in an economically, politically,
19 socially, and environmentally sustainable way. They should ensure that
20 financial flows are deployed in a transparent manner towards REDD+ and
21 other low carbon development objectives. National REDD+ strategies
22 should be developed in a participative and transparent process, and in
23 particular take due account of the rights and interests of indigenous
24 peoples and local communities. REDD+ should support the maintenance
25 of intact natural forests while developing alternative options for the
26 economic development.
 - 27 • Cooperation and coordination should be strengthened to make approaches
28 and standards more consistent across bilateral and multilateral REDD+
29 efforts and to streamline processes. This could be supported by a light-
30 touch function that lays out a set of globally shared standards and
31 coordinates efforts. This function might also support implementation,
32 verify performance, and resolve conflicts to ensure the environmental
33 integrity of results, fiduciary transparency, and appropriate social and
34 environmental safeguards. Advantage could be taken of existing
35 partnerships – including South-South cooperation – as well as established
36 arrangements such as the Forest Carbon Partnership Facility, the UN-
37 REDD Programme, the Global Environment Facility, the ITTO, the
38 facilities offered by the Regional Development Banks, and the Forest

1 Investment Program. Crucial gaps in the existing institutional landscape
2 would need to be filled. Institutional arrangements need to be coherent to
3 increase efficiency and reduce costs. Procedures and institutions should to
4 the extent possible be forward compatible with a UNFCCC mechanism.

- 5 • Developed and developing countries need to work together to address all
6 significant causes of REDD+, including those on the demand side, by for
7 example persecuting the trade of illegally logged timber and developing
8 supportive markets for sustainably produced forest products.
- 9 • Recognition of financial contributions in the interim period as well as any
10 inclusion of credit for early action by the UNFCCC would support
11 immediate action. Any such arrangement will be determined by the Parties
12 within the UNFCCC negotiations.

13 Immediate action on REDD+ could contribute tremendously to countries' joint
14 efforts to address climate change. The key elements of a simple, effective,
15 efficient, and equitable mechanism could be set up by the end of the first quarter
16 of 2010, based on the agreed outcome of COP15 in Copenhagen. The IWG-IFR
17 might, if deemed useful by countries in the light of results at Copenhagen,
18 reconvene in early 2010 to consider further steps to facilitate immediate action on
19 REDD+.

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