


Piloting a System of Positive Incentives for Reducing Emissions from Deforestation and Degradation (REDD)

The Forest Carbon Partnership Facility (FCPF)

Asia-Pacific Forestry Week
Hanoi; April 23, 2008

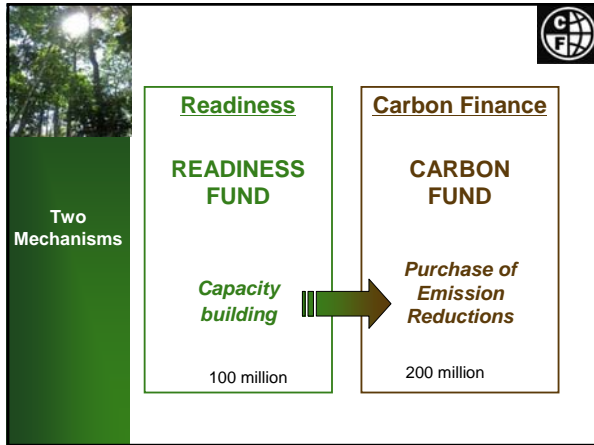


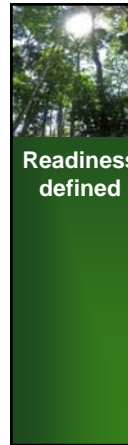
A Partnership to ...




... Make REDD Happen



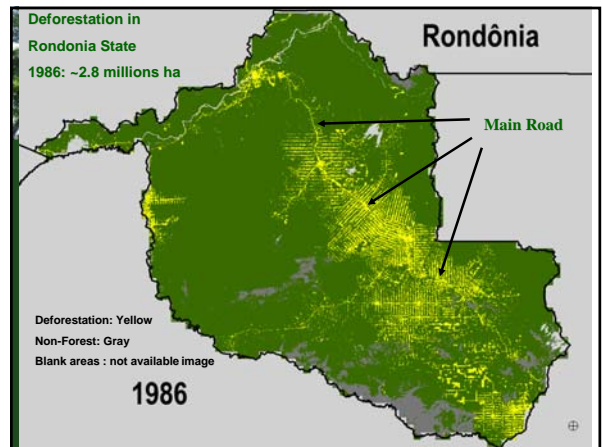
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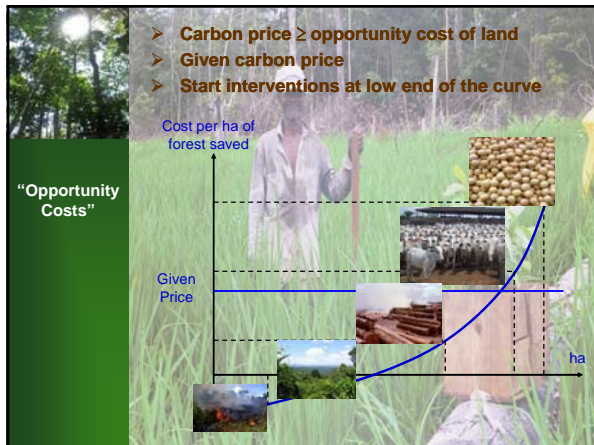
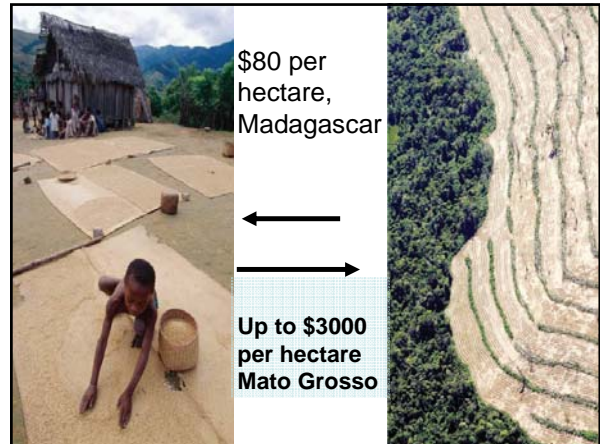
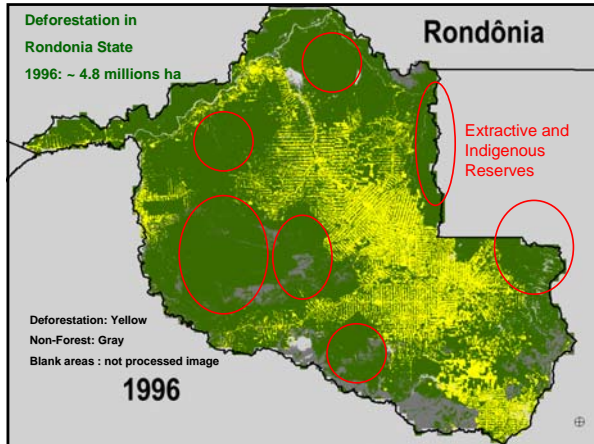
Readiness defined

- A reference scenario on REDD is established. Based on historic emissions and on modeling. Ideally following guidance from the UNFCCC
 - An economically effective, efficient and socially equitable REDD strategy has been formulated. Including a broad stakeholder consultation process – Credibility will be key
 - A monitoring and verification system has been designed and implemented
 - A legal framework for the implementation of the strategy was designed capable to reach out to the drivers of deforestation
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What questions have to be answered?

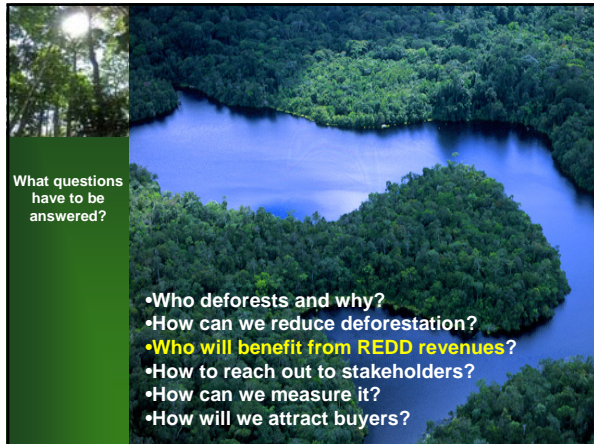
- Who deforests and why?
- How can we reduce deforestation?
- Who will benefit from REDD revenues?
- How to reach out to stakeholders?
- How can we measure it?
- How will we attract buyers?





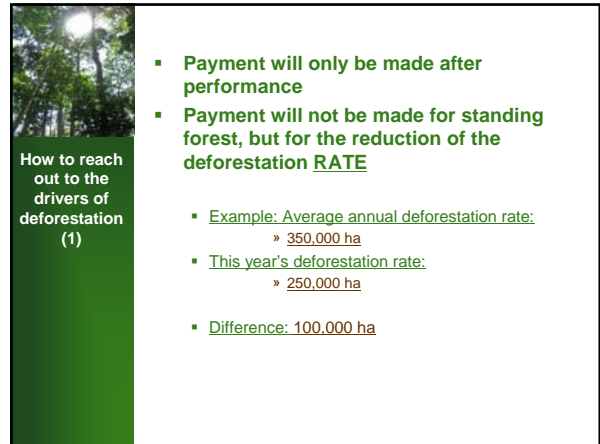
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- REDD Strategies**
- Strategies might include:
 - Policy changes and regulations
 - Taxation
 - Stumpage fees
 - Conservation concessions
 - Certification requirements
 - Subsidies for alternative land uses
 - Strengthening of forest governance and law enforcement, institutional strengthening
 - Creation or strengthening of parks and reserves
 - Infra-structure
 - Development programs aiming at
 - Land tenure/use regulations
 - Community development
 - Community forestry
 - Environmental education
 - Indigenous land rights and demarcation
 - Payments for environmental services

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- What would be financed under the FCPF?
- Evaluation of environmental and social impacts of proposed activities.
 - Evaluation of costs and risks of proposed action
 - Set up of REDD infra-structure
 - Capacity building and institutional strengthening
 - Stakeholder consultation
- but actual implementation of the strategy will not be financed



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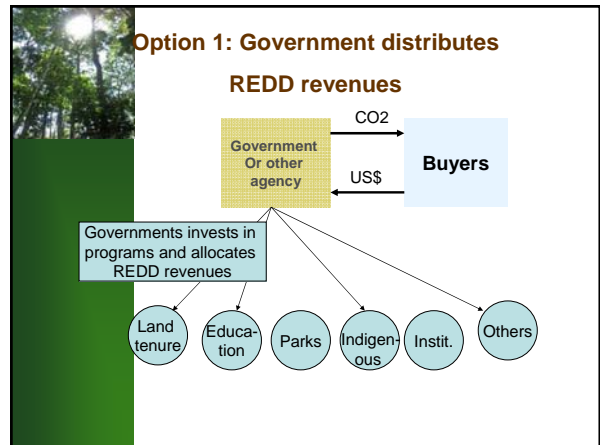
How to reach out to the drivers of deforestation (1)

- Payment will only be made after performance
- Payment will not be made for standing forest, but for the reduction of the deforestation RATE
 - Example: Average annual deforestation rate:
 - » 350,000 ha
 - This year's deforestation rate:
 - » 250,000 ha
 - Difference: 100,000 ha



How to reach out to the drivers of deforestation (1)

- How to use REDD revenues?
 - Principle: Money need to go where they are needed
- Beneficiaries can be different from drivers of deforestation
- Options:
 - Option 1: Government signs contract and receives revenues in case the program is successful
 - Option 2: Sub-national entity signs contract and receives revenues in case
 - Needs national coordination
 - "Leakage"



Option 1: Government distributes REDD revenues

REDD revenues

Government Or other agency

CO2

Buyers

US\$

Governments invests in programs and allocates REDD revenues

Land tenure

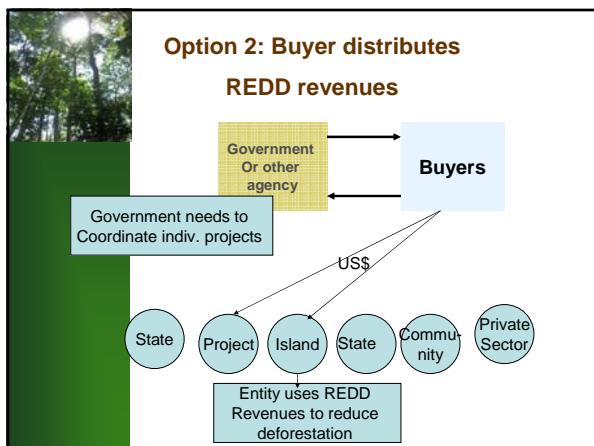
Education

Parks

Indigenous

Instit.

Others



Option 2: Buyer distributes REDD revenues

REDD revenues

Government Or other agency

Buyers

Government needs to Coordinate indiv. projects

US\$

State

Project


Island

State

Community

Private Sector

Entity uses REDD Revenues to reduce deforestation



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Carbon Infrastructure

- **Reliable Monitoring system**
- **National Registry:**
 - To avoid double counting
- **Legal framework for implementation**
 - Ownership of Emission Reductions
 - Guarantees for permanence
 - Control of leakage
- **Effective National Management Unit**
 - Steers consultation processes
 - Coordinate Government activities
- **Reference Scenario**

Questions that could guide national work

- Are forest property rights and those dependent on forests for their well-being secure?
- Do forest dwellers and indigenous groups have a formal role in forest zoning decisions?
- How effective is implementation of consultative processes in practice?
- Are adequate transparency and accountability mechanisms in place to disburse potential payments for REDD?
- Does the government have the technical capacity to monitor forests and land use change?
- Is information on the management of forests publicly available and do civil society organizations have the capacity to independently verify it?

How does the buyer evaluate REDD quality

- **Program is more attractive when:**
 - There are no disputes regarding the ownership of carbon
 - Broad stakeholder consultation took place and broad agreement is achieved
 - Clear Reference Scenario established
 - Long term strategy is in place or likely to be implemented
 - Good Governance
 - And revenues go where they are needed

REDD – Value Chain

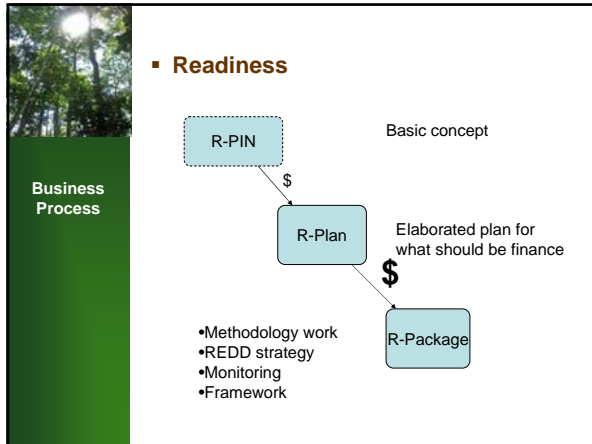
The diagram illustrates the REDD Value Chain as a sequence of five steps: 1. Baseline, 2. Strategy, 3. Monitoring, 4. Market, and 5. Distribution. Above the steps are icons for a tree, CO₂, a dollar sign, and a person. Below the steps are two large gears labeled 'Reduce deforestation' and 'Governance'.

Process

Readiness Process

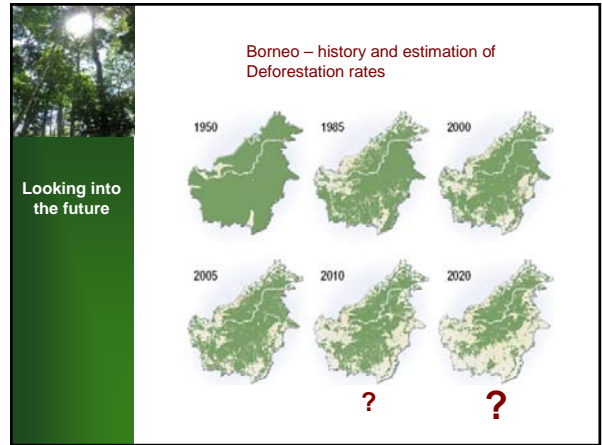
Business Process

The flowchart details the business process: 1. Eligible REDD Country submits Readiness Plan Idea Note (R-PIN) to the Fund Management Unit (FMU). 2. The FMU reviews the R-PIN and consults the Technical Advisory Panel (TAP). 3. The Participants Committee reviews and approves the R-PIN. 4. The FMU allocates budget from the Readiness Fund. 5. External resources assist the country in formulating its Readiness Plan. 6. The country enters into a Participation Agreement with the Trustee. 7. The country formulates its Readiness Plan, which is then reviewed and approved by the Participants Committee. 8. The country implements its Readiness Package with support from external resources. 9. The country submits periodic reports to the TAP and the Bank. 10. The Bank manages knowledge gained through the Readiness mechanism. 11. The Participants Committee endorses the Reference Scenario and the Monitoring System for the REDD Strategy, with UNFCCC approval.



- 39 Requests for Participation & 7 R-PINs**
- Argentina
 - Bolivia
 - Cameroon
 - Central African Republic
 - Colombia
 - Costa Rica
 - Dem. Republic of Congo
 - Ecuador
 - El Salvador
 - Ethiopia
 - Gabon
 - Ghana
 - Guatemala
 - Guyana
 - Honduras
 - Indonesia
 - Kenya
 - Lao PDR
 - Liberia
 - Madagascar
 - Malaysia
 - Mexico
 - Nepal
 - Nicaragua
 - Pakistan
 - Panama
 - Papua New Guinea
 - Paraguay
 - Peru
 - Philippines
 - Republic of Congo
 - Senegal
 - Sierra Leone
 - Sudan
 - Tanzania
 - Thailand
 - Uganda
 - Vanuatu
 - Vietnam
- + 3 Brazilian states (Acre, Amazonas, Mato Grosso)

THANK YOU!




- Phased Approach**
- Phase 1: Initial Orientation to Country:**
 - Information and orientation
 - Stakeholder consultation plan
 - Phase 2: Design and Studies:**
 - Assessment of historic emission reductions
 - Projection of future emissions
 - Discussion of cost effective strategies to REDD and institutional options
 - Design of monitoring and verification system
 - Phase 3: Towards Readiness:**
 - Implementation of monitoring and verification system
 - Internal and external consultation on reference scenario
 - Finalize strategy and framework

- Guiding Principles 2**
- Testing**
 - Different methods for setting reference scenario
 - Various incentive payments
 - Different regions
 - Deforestation and degradation
 - But
 - Align with UNFCCC modalities as they emerge
 - Application of IPCC guidelines
 - Inform UNFCCC process
 - National approach**
 - National accounting framework
 - Room for sub-national project implementation
 - Integration in the existing set of policies and measures in the forest sector**




Additional Benefits from REDD

- An important area of emphasis will be creating opportunities for additional benefits beyond REDD and climate change
- The most likely additional benefits will be social (e.g., community development) and/or environmental (e.g., biodiversity)
- Application of World Bank environment and social safeguards will require – at a minimum – that affected local communities are meaningfully consulted and biodiversity is protected in Carbon Fund transactions
 - ✓ the FCPF will seek to achieve more

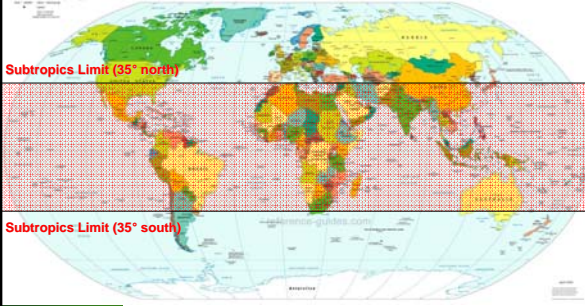


Role of Indigenous Peoples and Other Forest Dwellers

- Guiding Principle:** Incentives have to go where they are needed to ensure sustainable emission reductions
- Hence, considerable opportunity for indigenous peoples and other forest dwellers in many countries, as conservers and traditional protectors of the forests
- An official observer role has been added for indigenous peoples and other forest dwellers (on par with the international organizations and non-contributing private sector)
- Experts on indigenous issues to be included in Technical Advisory Panels
- Consultations with indigenous peoples' leaders in Asia, Africa and Latin America underway in Feb./March




Country Eligibility



Subtropics Limit (35° north)

Subtropics Limit (35° south)



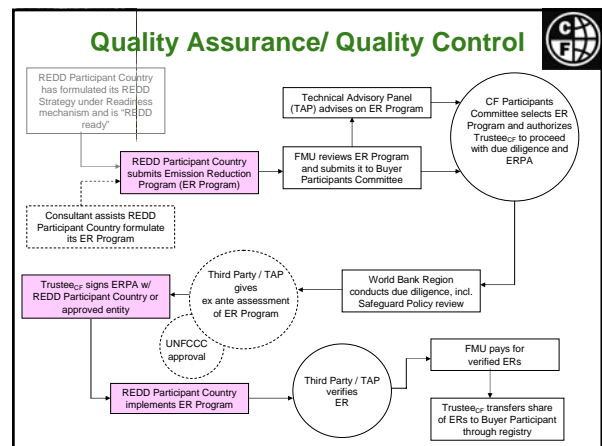
Carbon Asset Definition


- Emission Reduction (ER) generated by reducing deforestation and/or degradation
- ER = all rights, titles, and interests attached to a ton of CO₂e of emission reduced
- ER delivered to the FCPF when verification report is received
- ERs distributed to Carbon Fund Participants through registry



Carbon Asset Creation



- Highest quality standards, set in accordance with
 - IPCC Guidance
 - Emerging UNFCCC modalities
 - Guidelines from Participants Committee
- Quality control & enhancement
 - ER Program based on REDD Strategy from "ready" country
 - Selection among competing ER Programs by Carbon Fund Participants Committee, aided by Technical Advisory Panel
 - World Bank's due diligence
 - Ex ante assessment by third party
 - Ex post verification by third party








Risks & Risk Mitigants for Carbon Fund Participants

- Financial risk:
 - Payment mostly on delivery
- Delivery risk:
 - Tight selection procedures
 - Conservative ER potential estimates
 - Purchase only fraction of total ER potential
- Permanence risk (loss of carbon after delivery & payment):
 - Reserves: ERs set aside (not sold) in a ratio to total ERs commensurate with risk
- Regulatory risk (ER but no credit):
 - In the face of uncertainty on REDD, FCPF partnership offers forum to mitigate risk and shape the future (close link to UNFCCC through Parties and Observers)
 - Bali decision increases chances of REDD eligibility in post-2012 regime
 - If all else fails, there is still a growing voluntary market

Value Proposition

- Pro rata share of ERs delivered by portfolio of ER Programs
- Early-mover advantage
 - Learning by doing: head-start in REDD practice
- Pricing
 - Method(s) to be determined by Participants Committee
- Carbon Fund Participants are important part of the FCPF governance structure (Participants Assembly; Participants Committee; Carbon Fund Participants Committee)
 - Selection of R-PINs into Readiness Fund
 - Pricing method(s)
 - Selection of ER Programs into Carbon Fund

If Interested

1. Request *Expression of Interest* for Carbon Fund
2. Access and review the Information Memorandum * + confidential addendum
3. Review the Carbon Fund Participation Agreement
4. Inform the FCPF team of the selected terms of participation
 - Amount ≥ US\$ 5 million
 - Upfront payment or drawdowns
5. Sign Participation Agreement + Promissory Note

* http://carbonfinance.org/docs/FCPF_Draft_Info_Memo_12-03-07rev.lan17.pdf




Timeline (2006-2007)

- Summer 2006:
 - Early concept
 - Start of consultations
 - UNFCCC Rome workshop
- January 2007: C4RN Costa Rica workshop
- February 2007: Bonn design workshop
- March 2007: UNFCCC Cairns workshop
- April 2007: Berlin design workshop
- May 2007: SBSTA 26
- July-September 2007:
 - Paris design workshop, meeting of service providers
 - Sydney presentation & consultation
 - Indonesia
 - Carbon Forum, Lima
- September 25, 2007: World Bank Board approval
- November 8-9, 2007: Consultations with NGOs and IOs
- November 12-13, 2007: Washington design workshop
- December 11, 2007: CoP13 Bali launch




Tentative Timeline (2008)

- February-April:
 - Consultations with Indigenous Peoples
 - Consultations on pricing
 - Finalize FCPF documentation
- May:
 - Declare FCPF open for contributions
 - Declare FCPF operational
- June:
 - First Technical Advisory Panel meeting
- July:
 - First Steering Committee meeting (selection of R-PINs)




Contributions that have been announced to date

▪ Germany	US\$57 m.
▪ United Kingdom	US\$30 m.
▪ The Netherlands	US\$22 m.
▪ Australia	US\$10 m.
▪ Japan	US\$10 m.
▪ France	US\$7 m.
▪ Switzerland	US\$7 m.
▪ Denmark	US\$5 m.
▪ Finland	US\$5 m.
▪ Norway	US\$5 m.
▪ The Nature Conservancy	US\$5 m.