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## WWF Submission on Finance to AWG LCA

March 2012

WWF is making this submission in response to the invitation from the UNFCCC at COP17 in Durban for Parties and accredited observers to submit views on modalities and procedures for financing results-based actions, and on activities related to decision 1/CP.16, paragraphs 68–70 and 72.

### SUMMARY

For REDD+ to succeed, it is essential that Parties promptly address the uncertainty around near-term and long-term finance. At a minimum, the following actions should be addressed in the 2012 AWG LCA discussions and subsequently decided by COP18:

1. Clarify key language and terms used to describe REDD+ finance, including the definition of “results-based actions”.
2. Develop a common methodology for bottom-up, country-based estimates of actual REDD+ finance needs for all phases of REDD+.
3. Immediately identify and commit additional short-term finance beyond the existing fast start funding, and demonstrate how to meet the finance needs for all phases of REDD+.
4. Clarify the link of finance levels for Phase 3 and national RL/REs and clarify the link between the level of accuracy in deliverables of MRV systems and financial mechanisms.
5. Decide on principles and criteria for market-based mechanisms and the role of REDD+ credits and offsets that meet the objective of environmental integrity under a compliance scheme.
6. Establish a REDD+ window under the Green Climate Fund and adequate incentives for the full scope of REDD+ results.
7. Develop a REDD+ finance climate registry.
8. Develop a learning mechanism that will facilitate learning from non-REDD+ conservation finance mechanisms.

## 1. CLARIFY KEY LANGUAGE

WWF welcomes the opportunity to present views to the LCA on financing, as this is a key priority for moving REDD+ forward..

As negotiations progress on REDD+ finance, the LCA should clarify several related terms. WWF suggests the following definitions:

- Results-based actions are emissions reductions that are monitored, reported, and verified against national RL/REs (or against sub-national RL/REs nested in a national MRV accounting system), and meet all social and environmental safeguards.
- Results-based finance/payment is finance/payment provided after the completion of verified and measured results-based actions.
- Results-based demonstration activities are emissions reductions completed in Phase II before national baselines and MRV are fully operational.

## 2. ASSESS SCALE OF REDD+ FINANCE NEEDS – BOTTOM UP METHODOLOGY

Several important studies have approximated global needs for long-term REDD+ finance<sup>1</sup>, but none have been based on actual needs determined through country-based, bottom-up estimates. Looking ahead to the post-2015 period, a UNFCCC process should be established to develop a common methodology and set of assumptions to derive estimates of the scale of REDD+ finance needs. These estimates should be based on the intended emissions reductions (e.g., through translating a national target on deforestation and forest degradation into emission reductions). The estimates should also include the full range of direct and indirect incremental costs of policy measures, including the design and implementation of policies to address drivers of deforestation and environmental or social safeguards, to build capacity, and to clarify tenure and user rights (including strengthening governance and rights of indigenous peoples), as well as the opportunity costs, transaction costs, and the costs of monitoring, reporting, and verifying.<sup>2</sup>

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<sup>1</sup> According to a recent IIASA (International Institute for Applied Systems Analysis) analysis, new and additional, adequate and sustainable finance to achieve Zero Net Deforestation and Degradation by 2020 lies in the range of US\$30-53 billion per year (back-of the-envelope calculations)<sup>1</sup>. UNEP estimates a cost between US\$17-33 billion per year to achieve a 50 per cent reduction in deforestation by 2030 (“Reddy set grow: Opportunities and Roles for Financial Institutions in Forest Carbon Markets”, UNEP Finance Initiative, May 2011). The 2009 NGO treaty that WWF signed estimated REDD+ financing is at a minimum US\$42 billion per year by 2020 (NGO Treaty Narrative, p. 10). WWF stresses, however, that these numbers are likely to be a *minimum* as they focus mostly on opportunity costs of actual deforestation, but not the additional costs of keeping *existing forests* alive to avoid leakage or to enhance existing forests as carbon sinks. According to recent evidence<sup>1</sup>, these costs could be of the same magnitude as the opportunity costs.

<sup>2</sup> WWF also suggests that the Voluntary Database of the REDD+ Partnership be adapted to provide additional information on financing needs. While the Voluntary REDD+ Database provides information on REDD+ financing, actions and results that have been reported to the REDD+ Partnership, it is lacking bottom-up, long-term estimates of financing needs.

3. COMMIT ADDITIONAL SHORT-TERM FINANCE BEYOND THE EXISTING FAST START FUNDING AND IDENTIFY NEW AND INNOVATIVE SOURCES TO GENERATE REDD+ FINANCE FOR ALL PHASES OF REDD+

WWF has serious concerns about the immediate future of fast-start REDD+ finance commitments after 2013. Countries must urgently identify and commit additional short-term finance beyond the existing fast start financing, and demonstrate how to meet REDD+ finance needs for all phases.

WWF believes that several actions must urgently be undertaken in order to meet global short-term, medium-term, and long-term REDD+ finance needs. First, we support the generation of new, additional, predictable, long-term, adequate finance from multiple sources. Different finance sources are necessary to close the finance gap between current financial commitments and the resources needed for full implementation of REDD+. Because of this, WWF supports a basket approach to REDD+ financing coming from, for example, national budgets (domestic and ODA), new sources of finance (including financial transaction taxes and mechanisms to generate finance from the international aviation and shipping sectors<sup>3</sup>), as well as carbon markets that meet the objective of environmental integrity. It is, however, important that REDD+ financing is clearly defined and additional to existing ODA<sup>4</sup> commitments. Furthermore, any funding source for REDD+ must comply with the relevant provisions for safeguards, and adhere to the following criteria in particular:

- a) Support an increase in, and the maintenance of, existing forest carbon stocks that have a high level of long-term certainty and climate integrity;
- b) Ensure that perverse outcomes are avoided, such as the destruction of natural forests and the replacement of natural forests with commercial plantations (which are often monocultures);
- c) Ensure that any future supply of credits from REDD+ does not undermine or hinder the pace and scale of the needed transformation towards low-carbon economies;
- d) Incentivize reaching Phase 3, "results-based finance", as soon as possible;
- e) In order to manage the global risk of leakage, ensure that countries are treated equitably by providing adequate incentives for countries with either low capacity or high forest cover/low deforestation rates to reach Phase 3 as soon as possible;
- f) Maximize contributions to poverty alleviation and livelihoods, biodiversity conservation, and ecosystem resilience and adaptation.

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<sup>3</sup> For a discussion of pricing carbon in international transport sectors see WWF's 'Out of the Bunker' report for an example of how taxes on shipping emissions might contribute to climate finance. Online at: [http://www.wwf.org.uk/wwf\\_articles.cfm?unewsid=5224](http://www.wwf.org.uk/wwf_articles.cfm?unewsid=5224)

<sup>4</sup> Overseas Development Assistance

Second, WWF stresses the need for innovative sources of finance for REDD+. The reality of the current global economic climate, combined with the stretched state of global public finances, will make it difficult to generate sufficient and reliable financial flows using existing public sources alone. Therefore, there is a need to look beyond existing public finance sources to new and innovative sources and mechanisms, including using innovative climate adaptation and mitigation financing opportunities such as forest climate bonds<sup>5</sup>, measures to address emissions from international aviation and shipping<sup>6</sup>, or financial transaction taxes.

Third, WWF stresses the need to use limited public funds to leverage private sector investments at the scale necessary to achieve REDD+. Current public funds available for from donor countries fall far short of the financing needed for REDD+. Therefore, public investments must be scaled up and additional private sector investments in REDD+ must be mobilized. To do this, the private sector must be actively included in the design process for the REDD+ finance mechanism, and means of minimizing political, regulatory, and financial risk must be explored so that REDD+ becomes appealing for the private sector.

Finally, given the current volume of emission reductions generated on the voluntary market compared with the scale of the global climate change challenge, WWF does not envision voluntary markets as a significant source of new, additional, predictable, and adequate financing for REDD+. Furthermore, WWF strongly feels that in the absence of a legally binding global climate agreement until 2020, REDD+ credits should only be used as offsets in developed countries' compliance markets if these countries have a national target of reducing emissions of 40% by 2020.

#### 4. LINK FINANCE LEVELS FOR PHASE 3 WITH NATIONAL RL/RELS AND CLARIFY THE LINK BETWEEN THE LEVEL OF ACCURACY IN DELIVERABLES OF MRV SYSTEMS AND FINANCIAL MECHANISMS

At this point in the development of the REDD+ mechanism, WWF urges Parties to bring the REDD+ finance and REDD+ RL/RELS discussions together. The Durban decision indicated that RL/RELS should be established and invited submissions, on a voluntary basis, along with information and rationale on methodologies for calculating RL/RELS. The Durban decision further indicated that RL/RELS would be the benchmarks for assessing countries' performance in implementing REDD+ activities. At the same time, the Durban decision allowed for adjustments (taking into account national circumstances) in countries' proposed RL/RELS, thereby creating the real risk of "hot air" under the REDD+ mechanism if, for example, reductions are measured against over-adjusted baselines. For this reason, an effective technical assessment is essential to ensuring that robust and credible RL/RELS are established, both as a means of ensuring climate integrity in the implementation of

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<sup>5</sup> Cranford, M., Henderson, I.R., Mitchell, A.W., Kidney, S. and Kanak, D.P., "Unlocking Forest Bonds – A High-Level Workshop on Innovative Finance for Tropical Forests", Workshop Report. WWF Forest & Climate Initiative, Global Canopy Programme and Climate Bonds Initiative.

<sup>6</sup> "International Transport: Turning an Emission Problem into a Finance Opportunity", WWF Recommendation Paper, June 2011

REDD+, and of generating the confidence necessary to mobilize continuing, long-term, and adequate financial support for REDD+.

The Durban decision asked SBSTA 36 to provide guidance on the newly established process for technical assessment of proposed RL/RELS. To meet the goals described above, it is important that RL/RELS are reviewed at a national level (or, as an interim measure, at a subnational level) to ensure that RL/RELS meet the guidelines laid out in the Durban decision. Consistent with the ultimate objective of the Convention (as stated in Article 2), RL/RELS must also be reviewed at an aggregate, or global level, to ensure overall climate integrity. Specifically, the technical assessment should clarify the following:

- Who will facilitate the assessment? Presumably, this is the role of the secretariat, but this must be explicitly stated.
- Who will assess the proposed RL/RELS and how will they be selected?
- What criteria should be used in the assessment?
- What format should the assessments use to report findings?
- Do assessors have the option to provide comment, express concerns, request additional information, or endorse certain RL/RELS?
- What is the timing for the assessments?
- Who should pay for the assessments?
- Where on the UNFCCC website will the assessments be available? These should preferably be on the UNFCCC REDD+ Web Platform, under “country specific information”.
- Will the public be able to provide comment on submissions and if so, where will public comments be recorded?

WWF also stresses the need for Parties to clarify the link between the level of accuracy in deliverables of MRV systems and financial mechanisms. Accuracy in carbon emissions and deforestation rate estimates are at the core of RL/REL levels. However, no clarity exists on the implications that different accuracy levels will have in terms of the recognition of credits values. Almost half of startup funds are currently being invested into the development of countries' MRV systems (FCPF 2010) but it remains unclear whether the level of accuracy will correlate with finance. Questions remain about the minimum level of accuracy in monitoring and reporting required and whether increased accuracy guarantees increased finance flow. WWF believes that these important questions must be addressed in SBSTA. The use of a precautionary approach (e.g., by using the lowest end of the confidence interval of emission reductions) can be implemented at any accuracy level as a means to avoid “hot air” in the establishment of RL/REL levels, as well as in emissions reductions reporting.

While discussions on RL/RELS have been underway since COP11, the Durban decision at COP17 started the RL/REL assessment process by specifically requesting that SBSTA 36 develop guidance for the RL/REL assessment. RL/RELS, and their assessment, are fundamentally important to the overall integrity of future REDD+ finance and to the coordination of REDD+ activities among various agencies and bodies (such as multilateral

and bilateral agreements). Because of this, SBSTA 36 should urgently develop guidance for the RL/REL assessment and not defer these discussions to future meetings.

WWF supports broad stakeholder involvement in the development and assessment of proposed RL/RELS, and urges Parties to insist that public comments on proposed RL/RELS be encouraged as part of the assessment process.

#### 5. ADHERE TO PRINCIPLES AND CRITERIA FOR COMPLIANCE CARBON MARKETS, REDD+ CREDITS AND OFFSETS

As REDD+ moves to Phase 3, WWF believes that compliance carbon markets<sup>7</sup> can play an increasing role in securing adequate funding for REDD+. However, these markets must:

- Maintain the integrity and overall functioning of the market;
- Ensure that developed countries have sufficient incentives to transform their domestic economies, and to reduce emissions by 80% by 2050;
- Maximize funding for REDD+;
- Be perceived as fair in terms of the effort demanded of different countries to reduce their emissions;
- Allow offsetting only if it meets the following conditions<sup>8</sup>:
  - a) It is additional, maintains market integrity, and avoids double-counting;
  - b) Offsets are issued against real emission reductions (i.e., below historical emission figures), not against emission avoidance;
  - c) It is limited to REDD+ countries that have reached Phase 3;
  - d) It is limited to developed countries that have committed to a 40% emissions reduction by 2020, as compared to 1990 levels, with the vast majority of emissions reductions achieved domestically through transforming critical sectors such as energy.

Furthermore, WWF believes that REDD+ credits should be included in compliance market-based mechanisms during Phase 3 only if they:

1. Represent performance-based results that are quantified against a national forest RL/REL, or a sub-national RL/REL that is incorporated into a national accounting system; and
2. Are fully monitored, reported, and verified at the national level in a way that accounts for emissions leakage or displacement.

It is also important that REDD+ credits are incorporated into compliance market-based mechanisms in a way that promotes greater overall ambition by contributing to closing the gap between existing country emissions reduction commitments and the long-term, global

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<sup>7</sup> A compliance market is one where a credit can count against an emissions reduction commitment

<sup>8</sup> Based on "WWF Position on Forests and Climate Change Mitigation", 2009

emissions reduction goal needed. This will ensure that double counting of emissions reductions in both developed and developing countries is avoided. WWF strongly advocates for discounting as a method for achieving the additionality of emissions reductions in future Phase 3 compliance markets.

## 6. CREATE A REDD+ WINDOW UNDER THE GREEN CLIMATE FUND

In terms of the REDD+ financial architecture, WWF acknowledges that there may be multiple financing channels for REDD+. WWF fully supports a REDD+ window under the Green Climate Fund (GCF). If possible, WWF asks the Board of the Green Climate Fund to establish a new, dedicated REDD+ window under the GCF at their first meeting in order to secure a flow of new, additional, predictable, and adequate finance for REDD+.

## 7. DEVELOP A CLIMATE REGISTRY

WWF strongly supports the immediate development of a REDD+ Finance Climate Registry as part of the Climate Registry endorsed both in Cancun (1/CP. 16. paragraphs 53-67) and in Durban (1/CP.17 paragraph 45). A registry would help foster a scale-up of REDD+ financing by:

- Facilitating the matching of supply and demand of funds;
- Adding transparency to REDD+ financial flows;
- Promoting the adoption of comparable standards and best practices;
- Collecting the basic information needed to assess and guide the operation of a global REDD+ system.

## 8. PRIORITIZE LEARNING

As the modalities and procedures for REDD+ finance develop, WWF stresses the importance of learning from non-REDD+ forest conservation finance activities – including such activities as payments for forest ecosystem services (in particular watershed services and biodiversity), conservation trust funds, debt for nature swaps, and others – to inform REDD+ activities. Furthermore, WWF calls on the UNFCCC Secretariat to put in place a knowledge management mechanism that will facilitate this learning. Many lessons have been learned from non-REDD+ forest conservation finance activities that are directly applicable to the design and implementation of REDD+ finance mechanisms. Many organizations, including WWF, have extensive experience in these forest conservation finance activities that could be drawn upon to help inform REDD+ activities if a functioning knowledge management mechanism were put in place.

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