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# **Cost-effectiveness in REDD finance distribution under fund and market-based approaches**

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# Background

- Examined key features pertinent to design and implementation of fund- and market-based mechanisms to REDD  
(I.e., environmentally-effective and economically-efficient)
- 4 key features:
  - Establish clear goals and objectives
  - Ensure sufficient and long-term sources of financing
  - Develop eligibility and prioritisation criteria
  - Ensure accurate and consistent monitoring and performance evaluation

# REDD financing for what?

- **Capacity building** (via funds)
- **Emission reductions** (via funds and/or market)





# Financing for capacity building

- **Clear goals and objectives**
  - Institutional framework needed to set up market or also to address land-tenure issues, enforcement capabilities, other government and market imperfections?
    - Development of inventories
    - National systems for monitoring, reporting and review
    - Legal issues (sufficient jurisdiction over geographic area, enforcement capabilities)
- **Sufficient/sustainable financing**
- **Eligibility and prioritisation criteria**



# Financing for emission reductions

- **Clear goals and objectives**
  - REDD (high vs low historic rates, enhance stocks, REDD+?)
- **Sufficient/sustainable financing**
- **Eligibility requirements**
  - Annual inventories
  - National system for estimating and reporting
  - Baseline/reference level
  - (National registry – if cap and trade)
- **Monitoring and review of performance**



# Payments to governments vs. forest owners/users

- Ideally, payments for REDD (fund or market) should be made to forest owners/users making the individual land use decisions
  - Aim is to compensate them directly for the global carbon benefits they provide
  - Requires monitoring and institutional capacities

NB: Ex-post performance-based payments made at the government level could also provide incentives to address government and domestic market imperfections that adversely affect deforestation

# Ownership of forest land 2000

Country	Total area (1000 ha)	Public (%)	Private (%)	Other (%)
Brazil	493213	-	80*	-
Indonesia	97852	100	-	-
Sudan	70491	97.7	2.3	-
Myanmar	34554	100	0	0
DR Congo	135207	100	0	0
Zambia	44676	100	-	-
Tanzania	37318	99.8	0.2	-
Nigeria	13137	100	0	0
Zimbabwe	19105	-	-	-
Venezuela	49151	-	-	-

Further data on Mexico, Peru, Bolivia, PNG, Cameroon, Chile, Panama, Costa Rica, Uruguay and Togo are available in Karousakis and Corfee-Morlot (2007). Source: FRA (2000); \*FAO(2006)



# Implications of national vs project-based approaches

- Choice of national vs project will affect whether payments for emission reductions are made directly to governments, individual forest owners/users, or both
  - If payments made only at national level, developing country governments may need to establish a financing mechanism to manage and allocate the funds (e.g. FONAFIFO - Costa Rican PES)
    - Could include policies and measures; payments based on deforestation risk (see PES); inverse auctions; or other



# Projects *within* a national approach?

- **Lessons from:**
  - JI in Annex I countries with national caps?
  - Sectoral crediting mechanisms (or no-lose targets) literature?
  - Private sector and insurance mechanisms?

**\_\_Would need to address liability issues**



# OECD work on REDD

- Initial Review of Policies and Incentives to Reduce GHG Emissions from Deforestation (November 2006)
- Incentives to Reduce GHG Emissions from Deforestation: Lessons Learned from PES Programmes in Costa Rica and Mexico (May 2007)
- Financing Mechanisms to Reduce Emissions from Deforestation: Issues in Design and Implementation (December 2007)

[www.oecd.org/env/cc/aixg](http://www.oecd.org/env/cc/aixg)

- OECD workshop on Incentives to Capture Carbon and Biodiversity Benefits from Reducing Deforestation (26 March 2008)

[www.oecd.org/env/bio](http://www.oecd.org/env/bio)