



# **An Emergency Package for Tropical Forests**

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Paul McMahon  
Jack Gibbs

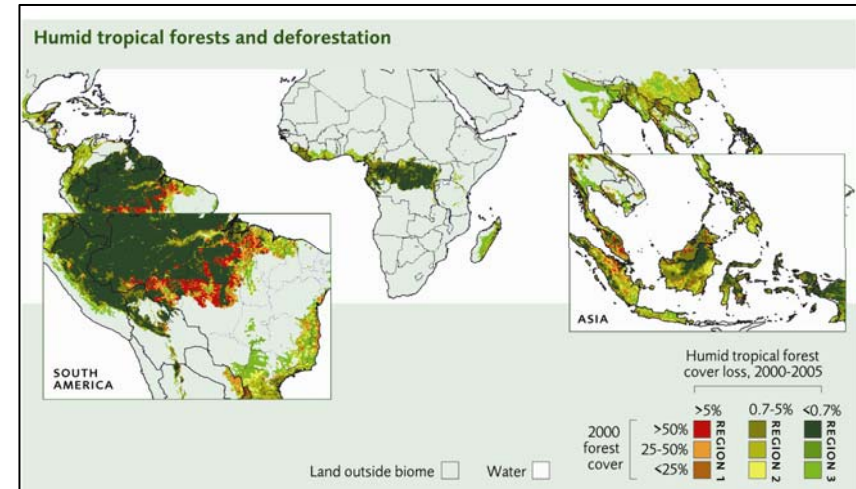
# The Prince's Rainforests Project

- Established in late 2007 by The Prince of Wales
- Working as a catalyst with governments, the private sector and NGOs
- Published report on 'An Emergency Package for Tropical Forests' in March 2009
- The Prince of Wales hosted meeting of world leaders in London on 1 April, at which it was decided to establish International Working Group
- Italian Prime Minister and World Bank President offered for Working Group to report into G8 leaders summit (July '09) and to World Bank Annual Meeting (Oct '09)

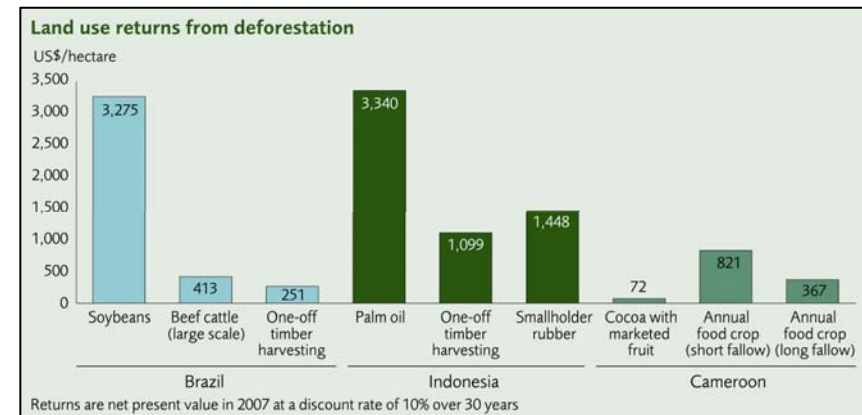


# Why tropical deforestation occurs

- Historically, main drivers of deforestation were subsistence activities such as shifting cultivation and fuelwood collection
- But now, commercial agriculture and logging for global markets are becoming more important
  - Key commodities are beef, soya, palm oil, timber, etc.
- Deforestation occurs because there are **strong financial incentives** for individuals and nations – the forests are worth more dead than alive



Source: Hansen et al, *PNAS* (2008)



Source: Grieg-Gran study (2008)

# The need for a new approach

- Multiple donor programmes have tried to slow tropical deforestation over past 30 years – but overall results have been disappointing
- Our research shows that historical approaches had limitations:
  - Lacked sufficient funding to ‘out-compete’ drivers of deforestation (average ODA for tropical forests less than US\$1 billion per year)
  - Focused on forestry sector rather than wider economy
  - Lacked political buy-in within Rainforest Nations
  - Fragmented and uncoordinated, project-focused
- UNFCCC REDD scheme will ultimately deliver solution but may take 5-10 years to generate finance at scale
- An emergency, interim package is needed to address the funding gap and deliver an immediate reduction in tropical deforestation

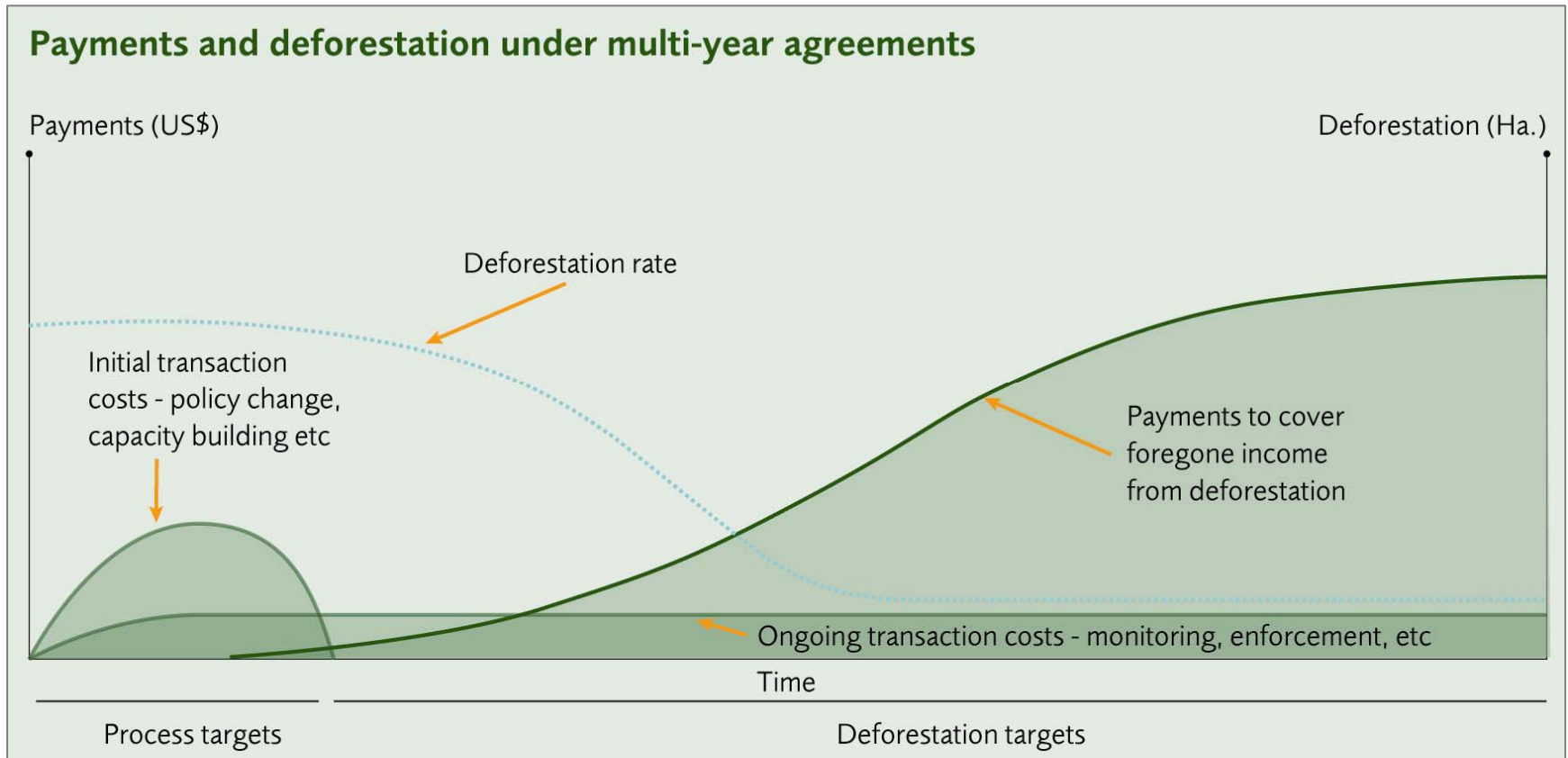
# Principles behind our proposal

- 1 Provide sufficiently strong financial incentive to change behaviour in Rainforest Nations – make the forests worth more alive than dead
- 2 Pay for performance at a national-level – amount of avoided deforestation per year
- 3 Respect national sovereignty of Rainforest Nations – assist them to develop and fund their own low carbon development plans
- 4 Developed countries finance the mechanism, drawing on combined strength of public and private sectors
- 5 Create a light, temporary global institutional framework that acts as a bridge to a long-term UNFCCC solution
- 6 Coordinate multiple existing initiatives, providing single point of contact for Rainforest Nations and facilitating more efficient use of donor dollars
- 7 Deliver significant reduction in deforestation quickly (i.e. within 2-3 years)

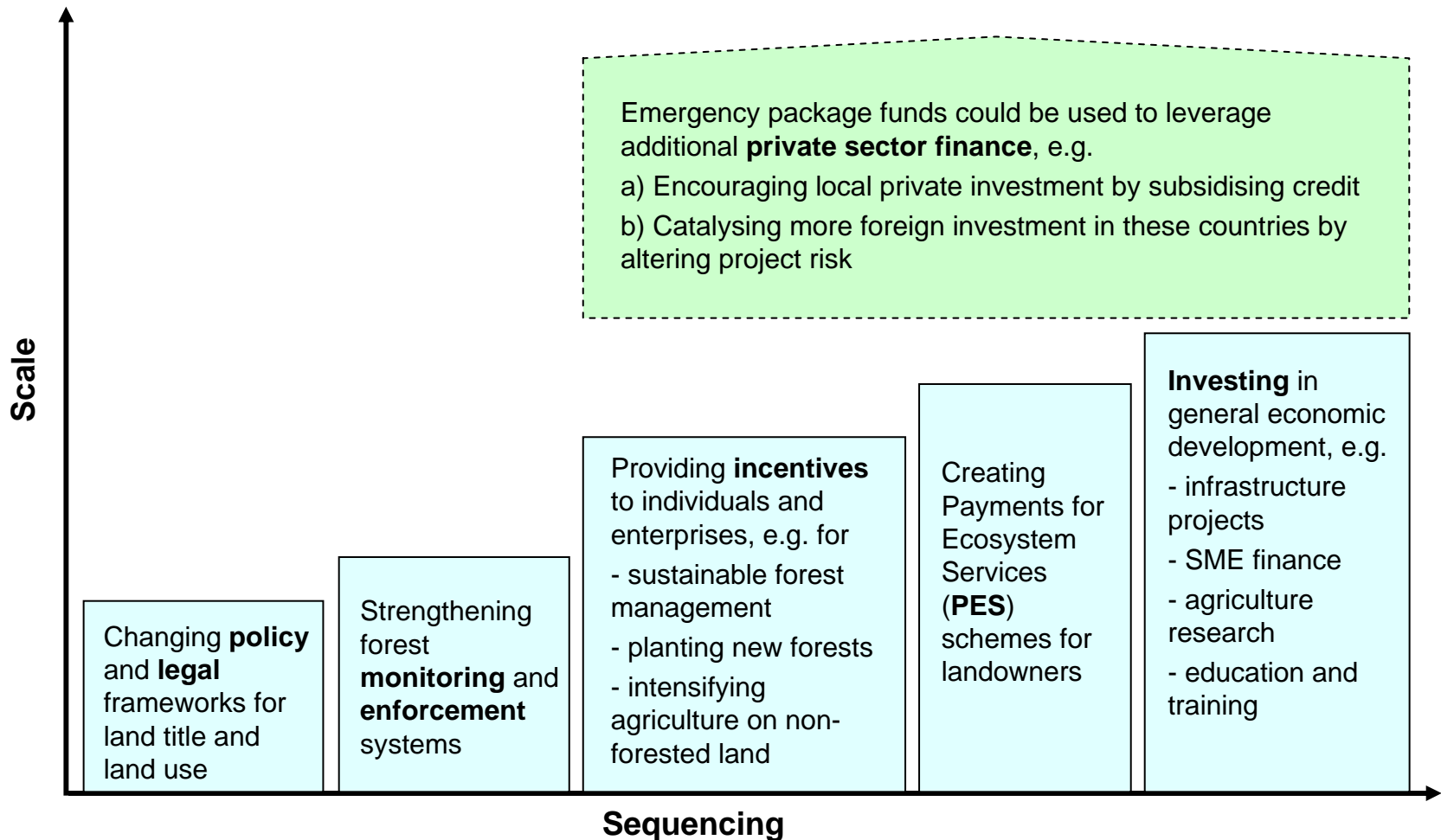
# Payments to Rainforest Nations

- Rainforest Nations are paid for the costs of switching to an alternative, low deforestation development path
- Some upfront payments are made for capacity-building and transaction costs, but bulk of payments are for performance – they are made *post facto*, after agreed targets for avoided deforestation have been achieved
- Countries use payments to fund alternative, low-carbon, cross-sectoral economic development plans
- Payment for a service, not loan or equity finance – although Rainforest Nations may use funds to set up local debt / equity schemes for the private sector and to reduce project risks for private investors
- Ultimate price will be determined by negotiation between Rainforest Nations and global institutions

# Annual payments increase over time



# Use of funds by Rainforest Nations



# Funding from developed countries

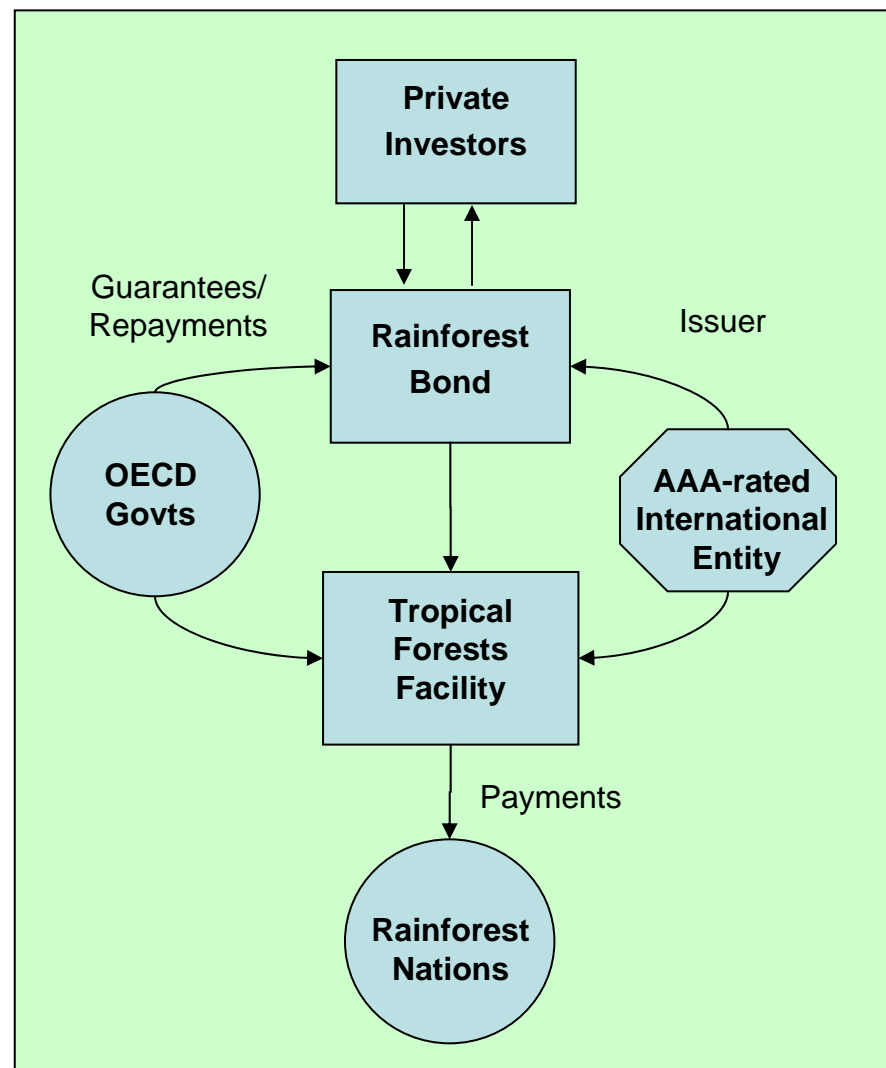
- Developed, industrialised countries are responsible for financing needs of emergency package
- Countries are free to decide on most appropriate way of generating necessary revenue
- Exact funding needs will be determined by negotiation with each Rainforest Nation but studies indicate that US\$10-\$15 billion per year may be required
- Represents good value for money for up to 17% of annual GHG emissions
  - Stern Review estimates that \$650bn per annum is needed to stabilize CO2 levels

## Funding options

1. **Existing climate/forest initiatives, e.g.**
  - Forest Investment Programme
  - Forest Carbon Partnership Facility
  - Bi-lateral programmes
2. **Global or regional levies, e.g.**
  - Levy on aviation or shipping fuel
  - Tobin tax on currency trades
3. **Direct 'ODA' transfers from govts funded by national schemes, e.g.**
  - Auctioning CO2 emission permits
  - Normal taxation
  - Insurance premium levy
4. **Private sector bonds**

# Proposed Rainforest Bond

- AAA-rated bonds issued with backing of developed country governments and/or multilateral institutions, offering fixed coupon and 10-30 year maturities
- Significant demand likely from institutional investors – market of >\$400 billion per year for these types of bonds
- Proceeds used to fund payments to Rainforest Nations
- Developed country governments commit to annual transfers over 15-30 years to cover Bond repayments
- Bond allows government to raise substantial finance at low cost and gives them time to generate revenues from carbon markets or other domestic sources



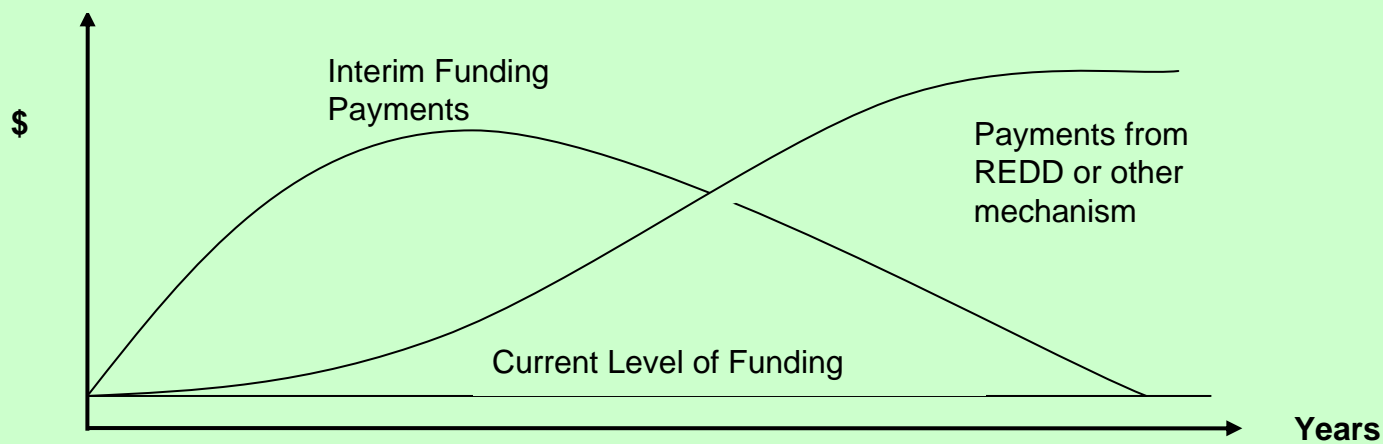
# Institutional arrangements

- Global architecture will need to carry out the following functions:
  - Negotiating agreements with Rainforest Nations
  - Raising finance
  - Disbursing annual payments
  - Coordinating monitoring, capacity-building and other activities
- A light, temporary ‘Tropical Forests Facility’ could be created to carry out these functions, either part of an existing institution or a new entity created by governments
- National monitoring systems should be established, complemented by global satellite-base verification system
  - Technology now exists and PRP has commissioned research on funding gaps
- Disbursement mechanisms in Rainforest Nations would conform to core criteria
  - Multi-stakeholder involvement (including indigenous peoples)
  - Full transparency on use of funds
  - Effective governance mechanisms

# Transition to long-term REDD mechanism

- Payments from Interim Finance mechanism will decrease as payments from UNFCCC REDD schemes ramp up
- Interim Finance mechanism facilitates and accelerate transition to long-term REDD
  - Demonstrates REDD results through early actions
  - Assists Rainforest Nations to strengthen capacities, create low carbon development plans and develop understanding of REDD approach
  - Establishes national and global monitoring systems
  - Builds global institutional framework that could be used for long-term REDD

Trajectory of Emergency Funding Payments and Potential REDD Payments



# The challenge

- Focus on interim financing mechanism that can deliver rapid results, accepting that MRV methodologies may be imperfect
- Deliver sufficient funding to provide real incentive to Rainforest Nations – not just capacity-building or project-level finance
- Focus first on Rainforest Nations that have capacity to implement deforestation reduction programmes, building capacities of other nations as necessary through existing donor programmes
- Embrace opportunities for effective partnerships with private sector, both for raising money and deploying it on low carbon development
- Suggested goals: political commitment to the agreed solution by **Oct 2009** and first \$2 billion be deployed in **Spring 2010**