



ORGANISATION FOR ECONOMIC
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Financing Mechanisms to REDD: Issues in Design and Implementation

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

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

www.oecd.org/env/bio