Insights from German development cooperation

Panel on mobilizing finance for all types of forests at the international level
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Overview

- Germany`s contribution to financing forests
- New and special funding for forests
- REDD+ financing options
  - The REDD+ finance reality check
  - Incentive architectures for REDD+
- Open questions
Germany's contribution

Multilateral:
FCPF → EUR 84 Mio.

International Climate Initiative (ICI)
EUR 188 Mio.*

*from 2008 to 2012
Energy and Climate Fund

- Germany`s innovative financing mechanism (largely financed from the proceeds generated by the auction of CO₂ certificates – EU ETS.)
- Financing for: Clean technology, adaptation & mitigation activities, biodiversity & forests: total funding of **505 Mio. € for 2011** for 6 years - about **20%** for biodiversity / forests
- Strong focus on Reducing Emissions from Deforestation and Forest Degradation (**REDD⁺**) and Ecosystem-based Adaptation (**EbA**)
REDD+ financing options

- Market-options
  - Carbon markets / offsetting
- Non-market options
  - Public funding (e.g. bilateral ODA)
  - Dedicated funds (e.g. Green climate fund)
- Combination of market and non-market options
- Innovative financing options
  - Taxes (e.g. financial transaction, carbon, natural capital), redirected subsidies, forest or REDD+ bonds, advanced market commitment (e.g. contractual obligation to purchase – FPAs)
The REDD+ finance reality check


Size of global compliance carbon market
141.9 Billion US$ (Mainly EU-ETS)

Public pledges for REDD+
~ 6 Billion US$

Size of voluntary carbon market
424 Million US$

Size of Forests carbon market
177.6 Million US$
total 29 MtCO2e (REDD = 19.5 MtCO2e)

California (2013-15) estimated demand: 4.3 MtCO2e

Australia (2015?)
Japan, Korea, …?

Sources: Peters-Stanley et al., 2011; Linacre et al., 2011; Hamilton et al., 2011; http://reddplusdatabase.org/
Incentive architectures for REDD+

- **Global market-based mechanism** (e.g. government to government trading)
- **Project based** (e.g. project to company trading)
- **Centralized funding scheme** (e.g. International fund to compensate governments for reductions against a baseline)
- **Investment instrument** (e.g. International fund to invest in policies and programmes)
- …

*Source: Financing options to support REDD+ activities – CIRAD – 2012:*
Open questions

- How much finance do we really need?
  - REDD+ finance gaps (e.g. Simula, 2010)
- How much money is spent for what?
  - Mostly REDD+ finance for Phase 1 (Readiness)
- Public- and private finance → potential, division of tasks, scope?
  - FDI in the forest sector considerably exceeds ODA!
  - What about the investments related to drivers of deforestation (e.g. agriculture)?
  - Promotion of highly innovative companies with good concepts → e.g. risk mitigation, access to credit…
Thank you for your attention