



## Finance for Forests and Climate Change

### The significance of forests in combating climate change

In addition to providing multiple services and goods, forests can play a key role in tackling climate change. Forestry, as defined by the IPCC accounts for around 17.4 per cent of global GHG emissions, the third largest source of anthropogenic GHG emissions after energy supply and industrial activity. Loss of tropical forest results annually in emissions which are comparable to the total annual CO<sub>2</sub> emissions from the United States or China. Emissions from deforestation alone could increase atmospheric carbon stock by around 30 parts per million (ppm) by 2100. In order to stabilize the current CO<sub>2</sub> level of 433 ppm at a targeted 445-490 ppm, forests will need to form a central part of any global climate change deal.

### Financial needs for reducing deforestation

The Stern Review, among other studies, considers curbing deforestation as a highly cost-effective way of reducing greenhouse gas emissions which could offer significant reductions fairly quickly. Comparing the reduction in damage costs and the costs of halving forest emissions between 2010 and 2200 the Stern Review estimates a mean net benefit of around \$3.7 trillion. The resources required to halve emissions from the forest sector till 2030 could be between \$17 billion and \$33 billion per year if forests are included in global carbon trading. If the international community does nothing to bring deforestation to a halt, the global economic cost of climate change caused by the degradation and losses of forests could reach \$1 trillion a year by 2100. This is additional to the cost of the impact of industrial emissions. At present, only a very small share of the existing investment in the forest sector is allocated to address climate change and less than 25 percent of that share is invested in developing countries and economies in transition. Fortunately, the importance of limiting deforestation and forest degradation has been recognized by climate change negotiators as reflected in the final outcome of the COP-13 in Bali.

### Forest related financing mechanisms

To fully realize the potential of reducing emissions from deforestation and forest degradation (REDD), several new financing initiatives have been launched recently. By far the

most significant is Norway's commitment to provide \$600 million annually towards efforts to reduce carbon emissions from deforestation and forest degradation in developing countries. Other donors including Australia, Finland, Spain, Japan, Switzerland, the United Kingdom, and the United States have contributed or signalled their intent to contribute funds to climate change and forests programmes.

The World Bank has established the Forest Carbon Partnership Facility (FCPF) to help reduce emissions from deforestation and degradation and to help build capacity for REDD activities in 25 pilot developing countries. The target capitalization is at least \$300 million. The World Bank is also currently developing the Forest Investment Programme (FIP) to support developing countries' REDD-efforts, providing up-front bridge financing for readiness reforms and investments identified through national REDD strategies. The targeted level of funding for the proposed FIP is \$500 million.

FAO, UNDP and UNEP have launched a joint UN-REDD Programme with a portfolio of \$52 million (to be financed by Norway), to provide assistance in REDD capacity building to pilot developing countries. The immediate goal is to assess whether carefully designed payment structures and capacity support can create the incentives for emission reductions while maintaining and improving the other ecosystem services forests provide. To be successful, this initiative warrants the wider participation of UN bodies involved in climate change and forests.

### Financing for sustainable forest management is the right approach

The experience of financing forest projects under the Clean Development Mechanism (CDM) of the UNFCCC as well as the current issues under negotiation within the context of REDD clearly signal the complexities of the forest-climate change relationship. While afforestation and reforestation qualify for funding under the CDM, only one project was funded in the period between 2001 and 2008, pointing to the complexities of the sector, and the absence of a more comprehensive framework which defines the role of forests in the climate change regime.

The Bali decision to develop a road map towards constructively engaging forests in the climate change regime is a major step towards reducing emissions from deforestation and forest degradation in developing countries. However, to

maximize the contribution of forests to addressing climate change, REDD should be defined and elaborated within an appropriate framework. The Bali Action Plan emphasizes that sustainable management of forests is essential. But, thus far the broader aspects of the sustainable forest management framework beyond REDD only have been cursorily addressed in the lead up to COP-15 in Copenhagen.

Negotiators should not only consider the potential of forests to contribute to climate change mitigation (as seems to be the emphasis in the negotiations of REDD), but also to adaptation. COP-15 should address all components of the Bali Action Plan in an integral way. The Strategic Framework on Forests and Climate Change, prepared by the Collaborative Partnership on Forests (CPF), elaborates how sustainable forest management can contribute to both climate change mitigation and adaptation.

Financing sustainable forest management is key to the full realization of forests' potential for mitigating GHGs as well as addressing other forest sector challenges. The non-legally binding instrument on all types of forests ("forest instrument"), agreed to by the UNFF and adopted by the General Assembly in 2007, provides a comprehensive framework to achieve sustainable forest management and aims at achieving four Global Objectives on Forests (GOFs): reducing deforestation and forest degradation; enhancing forest-based economic, social and environmental benefits, increasing the area of forests under sustainable management; and enhancing financing for sustainable forest management.

UNFF8 (April 2009) will consider two major issues relevant to the climate change negotiation process: forests and climate change and financing sustainable forest management including for implementation of forest instrument. Sustainable forest management comprises the complete suite of concerns related to forests: from protection and conservation of forests, at one end of the spectrum, to sustainable use at the other. The UNFF8 will need to decide on financing arrangements to support sustainable forest management and consider the establishment of a mechanism, to be managed by the UNFF, to facilitate and catalyze the implementation of the forest instrument with dedicated funds.

When properly designed, this mechanism should provide critically needed financing for sustainably managed forests to those countries with the most acute problems of deforestation and forest degradation. This will enhance the reduction of carbon emissions, while providing better livelihoods for the poor and preserving sustained supply of non-carbon ecosystem services such as biodiversity and water. The facilitative mechanism, if adopted, would include key actions focused on financing sustainable forest management and climate change, including enhanced coordination and cooperation among the relevant financial mechanisms. Initial actions may give priority to small island developing States, low

forest-cover countries, high-forest cover, low-deforestation countries, and other countries identified as having declining or non-existent funding for sustainable forest management. These countries currently do not have access to existing financing initiatives for climate and forests. At present, only 15 to 20 countries appear to be qualified for financing of forest pilot projects and programmes through other existing financial mechanisms.

## Conclusions and recommendations

- The global climate change agreement should include actions on deforestation and forest degradation within the wider context of sustainable forest management.
- Current funding for sustainable forests management is far short of what is needed. The funding should be provided from various public and private sources including those mobilized through carbon trading. In the short to medium term, international public funding for sustainable forests management must be substantially scaled up.
- International action is urgently required to support developing countries in building capacity and preparing for forest carbon programmes. Substantial capacity building will be needed in three key areas: research, analysis and knowledge sharing; policy and institutional reform; and demonstration activities.
- To be effective, any forest-based response measure to climate change has to be defined and addressed within its proper context. To this end, negotiations on REDD as well as its financing have to be based on the broader and comprehensive framework of sustainable forest management. The forest instrument represents a unique road map for sustainable forest management, as it integrates climate change considerations. The international community should aim to support financing the implementation of the forest instrument and the achievement of the Global Objectives on Forests, as the effective tool to fight climate change, and thereby promote sustainable forest management. ■

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