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United Nations-convened coalition of financiers warns of huge costs of failure to protect forests beyond Kyoto

Geneva, 13 September 2011 – A coalition of the world's foremost financial institutions brought together by the United Nations warns in a report released Tuesday against the huge financial and environmental losses that could stem from a post-Kyoto climate change deal that fails to spur private sector investment into deforestation and forest degradation reduction efforts.

With the new report, *REDDy-Set-Grow Part II: Recommendations for international climate change negotiators*, over 200 leading actors of the financial sector united under a partnership with the United Nations Environment Programme Finance Initiative (UNEP FI) call on country negotiators at the United Nations Framework Convention on Climate Change (UNFCCC) to follow through with their previous commitment, incorporated into the 2010 Cancun Agreements, to an international policy architecture for deforestation and forest degradation reduction in developing countries (a scheme known as REDD+).

The new study asserts that any post-Kyoto climate convention negotiated in Durban and beyond must include text that clarifies the fundamental role of private engagement and investment in funding REDD+, as well as effective measures to tackle the fundamental drivers of deforestation by shifting behavior in the private sector towards sustainable land-use. A positive outcome in Durban would also send an encouraging signal to Rio+20 in June next year with one of its two key themes being the Green Economy in the context of sustainable development and poverty eradication.

The report highlights the huge costs for the world economy and the global environment of policy-makers coming short of fulfilling these criteria.

An ineffective climate change regime on forests would entail losses in the global economy of $1 trillion per year by 2100, and affect a good portion of the estimated 1 billion people who rely on forests for their livelihood, according to previous research (Eliasch Review, 2008).

In contrast, a healthy forestry-based carbon market could achieve to mobilise investment for the protection and rehabilitation of natural forests in the order of $10+ billion by 2020 (The Economics of Ecosystem and Biodiversity – TEEB, 2010).

“The fundamental reason for current levels of deforestation worldwide is that cleared forests translate into economic opportunity for farmers, local communities and governments while standing forests do not. There is a price for soybeans, palm oil, beef and other products grown on deforested lands, but not for the many critically important services provided by healthy forests, including the sequestration and storing of carbon,” said BNP Paribas’ Director – Environmental Markets & Forestry, Christian del Valle.

“With the possibility of a global funding mechanism for REDD+ we now have, at the global level, the unprecedented opportunity to address this imbalance. I hope we do not miss it so that natural forests are given the value they deserve,” he added.

Sufficient funding of REDD+ mechanisms, if achieved, could be a key boost to efforts to hold the global temperature rise below 2 Degrees Celsius – a target previously agreed by governments – by scaling up current efforts to protect carbon-absorbing forests.

The price tag associated with halving global deforestation and forest degradation at the required scale and speed to meet internationally agreed targets is steep, however, having previously been estimated to amount to a mammoth $17-$40 billion per year (Eliasch Review, 2008; UNEP Green Economy Report, 2010).

With total government pledges for REDD+ adding up to $7 billion, *REDDy-Set-Grow Part II* stresses that plugging this gaping funding hole will require the close involvement of private finance, which has so far been on the margins of the funding debate.

“The banks, insurers and investors that are members of the UNEP Finance Initiative are optimistic that governments, when meeting in Durban this December, will realise the importance of mobilising private capital to help reduce deforestation and forest degradation,” said Abyd Karmali, Managing Director and Global Head of Carbon Markets at Bank of America Merrill Lynch, a member institution of UNEP FI.

“Without the systematic involvement of the private sector, ranging from institutional investors to local forest cooperatives, the REDD+ mechanism agreed to in Cancun risks being rendered ineffectual.”

REDDy-Set-Grow Part II further articulates the features which the private financial sector would like policy-makers to include in a new climate change treaty to summon sufficient funds.

Recommendations

Among the specific policy recommendations formulated in the report are the details of a policy scenario, coined as the "nested approach," deemed most likely to close the REDD+ investment gap.

Under a nested approach, a future REDD+ funding mechanism would be:

- ***Inclusive:*** Private entities (such as forest concessionaries or forest cooperatives) as well as governments (at both the national and sub-national level; such as central governments or municipalities) would be eligible to develop and implement forest conservation, rehabilitation or reforestation activities and to receive payments based on performance for these initiatives, with the desired effects of both spurring the multiplication of REDD+ projects and reducing possible red tape and risks commonly associated with weak governments.

- ***Decentralised and reliable:*** Payments for REDD+ projects would come from the generation of REDD+ carbon credits and their trade on international carbon markets rather than from currently cash-strapped donor country budgets. In other words: the burden of reducing, halting and ultimately reversing deforestation would not be borne by tax payers in developed countries, but by carbon polluters (or emitters). In addition to increasing the reliability and potential volumes of performance-based payments, such a market-based system would provide a strong real-price signal.

- ***Leakage-proof:*** Risks that successful deforestation reduction efforts in a given region be used to justify increased deforestation in another one – a phenomenon commonly known as "leakage" – will be mitigated by the enforcement of a national baseline. The baseline will aggregate project-level performance indicators into a country-wide performance indicator.

The report also calls for reforms to forest-based projects under the Kyoto Protocol's Clean Development Mechanism (CDM), which the financial sector would like to see improved – namely with the creation of permanent carbon credits – in a post-Kyoto regulatory environment.

"Our position is simple: our involvement is direly needed, and we wish to get involved. But we cannot do so unless it makes basic commercial sense to us," said Armin Sandhövel, CEO of Allianz Climate Solutions, another member institution of UNEP FI.

"With this report, we wish to state with one voice, as an industry, that policy-makers must urgently put in place viable avenues and formats for upscaled private sector investment and involvement in REDD+ by, firstly, redoubling efforts to agree on a climate change deal that will replace the Kyoto Protocol, and secondly, making policy decisions that will make investments in the protection, rehabilitation and creation of natural forests more competitive against conventional, unsustainable options. This report says how that can be done," he added.

Part I of *REDDy-Set-Grow*, released earlier this year, cast a spotlight on the abundance of untapped opportunities in current and emerging forest-carbon markets.

Further Quotes

Paul Clements-Hunt, head of UNEP Finance Initiative: "The climate-change mitigation debate has not kept apace with the finance community's rapidly growing understanding of its critical role in enabling and driving the shift to the green and low-carbon economy, with the result that the views of one of the world's most economically influential sectors are currently largely unaccounted for in international climate change negotiations."

"Private banks and investment funds can contribute to the global struggle to mitigate climate change. Our detailed recommendations on financing forest-based mitigation hopefully bode the beginning of a new dialogue between the finance community and governments," he said.

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Notes to Editors: *REDDy – Set – Grow Part II: Recommendations for climate change negotiators* is available online at http://www.unepfi.org/publications/index.html.

About the United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique global partnership between the United Nations Environment Program (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions who are signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

www.unepfi.org

About the UN-REDD Programme

The UN-REDD Programme is the United Nations Collaborative initiative on Reducing Emissions from Deforestation and forest Degradation (REDD) in developing countries. The Programme was launched in September 2008 to assist developing countries prepare and implement national REDD+ strategies, and builds on the convening power and expertise of the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the United Nations Environment Programme.

www.un-redd.org

About the UNEP Green Economy Report

UNEP's Green Economy Report and subsequent, *Forests in a Green Economy: A Synthesis,* confirm the critical links between forests and the transition to a low-carbon, resource-efficient green economy. In particular, *Forests in a Green Economy,* shows that investing an additional US$40 billion a year in the forestry sector could halve deforestation rates by 2030, increase rates of tree planting by around 140 per cent by 2050, and catalyse the creation of millions of new jobs. Backed by the right kinds of enabling policies, an investment of about two-thirds more than is spent today could also sequester or remove an extra 28 per cent of carbon from the atmosphere, thus playing a key role in combating climate change.

http://www.unep.org/greeneconomy/Portals/88/documents/research_products/Forest%20final.pdf