



REDD Plus Finance Framework (RFF)



BACKGROUND

Deforestation accounts for approximately 11-13% of the global carbon emissions, second only to the energy sector. It is impossible to achieve the global temperature goal without reducing emissions from the forest sector, in addition to other mitigation actions. To address this issue, the REDD Plus mechanism was developed under the United Nations Framework Convention on Climate Change (UNFCCC). It creates a financial value for the carbon stored in forests by offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon pathways to sustainable development. REDD Plus goes beyond simply deforestation and forest degradation and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks.

In line with the negotiation outcomes under the UNFCCC, Malaysia developed its National REDD Plus Strategy in 2017. The Strategy builds upon existing national and state policies, and is in line with Malaysia's Nationally Determined Contributions (NDC). The strategy focuses on harnessing the natural capital of the forest while delivering high impact outcomes on green growth. It will proportionately focus on the environment, economy and people.

The National REDD Plus Strategy provides the framework to conserve our forest sinks and biodiversity in light of the increasingly complex challenges faced, and is presented in three major parts:

1. Actions to build synergies and coherence between Federal and State governments in addressing climate change, biodiversity and forest policies;
2. Actions to reduce emissions and enhance sinks in forest and conservation of biological resources; and
3. Develop a sustainable financing mechanism.

*REDD Plus refers to reducing emissions from deforestation and forest degradation in developing countries, and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in developing countries

THE CHALLENGES

Fragmented forest

Due to agriculture, urban and infrastructure development, our forests have become highly fragmented. This has resulted in the loss of ecological connectivity, whereby natural movement and gene flow of animals and plants are reduced. Fragmentation also cuts off the animal populations from food and other resources. There is an urgent need to identify and protect important areas of forests.

Population Pressure

The increasing population of our nation (estimated to reach 40 million by 2040) puts pressure on land and biological resources. There is an ever increasing demand for food, water, houses, jobs, schools, healthcare, energy, transportation and infrastructures – all of which has significant impact on forest. With increasing levels of disposable incomes, the consumption patterns are also changing – Malaysians are consuming more than ever. The competition for land is fierce – every sector clamours for the ever-shrinking land base. Waste and pollution too are increasing. Although many sectors are now more sensitive to the issue, our rapid economic growth means that it requires more effort to sustainably manage and conserve our biodiversity.



Climate change

The threat of climate change is well-established although its actual impacts on forest are not easily predicted. Climatic change can have severe impacts - an increase in precipitation or extended dry periods can destroy habitats. It also affects the phenological patterns of tropical rain forests. The widespread mast flowering of forest species is often traced to a small dip of about 2° C below mean night-time temperature for 4

or 5 nights. Temperature changes may cause shifts in current ecosystems both latitudinal and altitudinal, meaning that species would have to migrate to climatise themselves with their optimal habitats – leading to changes in species distribution. In one well documented example, various species of moths native to Mount Kinabalu have been shown to be moving their ranges uphill, exactly as would be expected if they are following temperature zones that are also moving uphill due to climate change.

Assessment made on long-term forest ecological plots showed biomass accumulation was not consistent over the assessment periods. The 1997 strong *El Nino* was shown to have affected the productivity of the forest and increased mortality of large trees.



Achieving Malaysia's forest and biodiversity targets as well as its international commitments, will rely on the continuous supply and effective use of financial resources. The use of innovative and sustainable funding mechanisms beyond government sources to fund forests are not fully explored and are underdeveloped at the moment. It is therefore timely to expand existing resource dimensions and explore new, innovative and wider sources of funding to scale up ambition and enhance the forestry sector. These resources will also help in achieving the international goals under the UNFCCC and the Convention on Biological Diversity (CBD).

REDD PLUS FINANCE FRAMEWORK

Malaysia's National REDD Plus Strategy aims to ensure the forest resources and their ecosystem services are secured, and the benefits are shared fairly and equitably among all stakeholders. This is achieved by recognising the forests as natural capital. Implementing the National REDD Plus Strategy will facilitate transformational change in the forestry sector. The forest would not merely be regarded as a source of timber and non-forest products, but instead, their ecosystem services and rich biodiversity would be recognized, valued, accounted for and appreciated. It will also help increase carbon sequestration by up to 23 million tonnes CO₂ annually.

Accordingly, there is an urgent need to connect forest complexes; the Central Forest Spine in Peninsular Malaysia and the Heart of Borneo in Sabah and Sarawak. These will enhance the country's resilience to climate change, sustain its biodiversity and protect its ecosystem services. To achieve this and overcome the challenges identified, the REDD Plus Finance Framework (RFF) was developed as a finance mechanism to incentivize activities that help keep forests standing. It is designed to use funds for non-carbon benefits as well as for carbon credits. This will help deliver other environmental and socio-economic benefits in addition to the climate benefits. The RFF will in the long term contribute towards sustainable land use systems in the country.



The framework will promote consistency and synergies in the implementation of climate change, forest and biodiversity related policies between federal and state levels; while bringing together the many different actors involved (federal, states, private sector, NGOs etc). The RFF is a policy approach with positive incentive to forest owners and the private sector, and consists of two components:

1. Forest Conservation Certificate (FCC)

The FCC is a non market-based mechanism focusing on non-carbon benefits while ensuring the environmental integrity of the emissions reduction. It will act as an incentive for environmental and social contributions focusing on conservation of ecosystem services. The FCCs are generated following the REDD Plus requirements agreed under the UNFCCC.



2. Forest Carbon Offset (FCO)

The FCO is a mechanism that allows the transfer of emissions reduction from forests to the buyers, in the form of carbon offsets. Robust accounting will be applied to generate the carbon offsets, taking into consideration robust methodologies for GHG estimation, calculation, environmental integrity as well as transparent, complete and accurate reporting. The FCO will only be issued for domestic use, creating a domestic carbon offset scheme

Registration of activities

A registry will be maintained to ensure no double counting or double financing occurs when issuing the FCC or the FCO. The activity participants shall pay a registration fee, to cover the administrative expenses when submitting a request for registration.

Benefit Distribution System

The principles of benefit distribution system are as follows:

1. **Equity:** fairness in terms of the distribution of costs and benefits amongst stakeholders.
2. **Transparency:** availability of relevant information and the capacity for all stakeholders to comprehend how and why benefits are transferred.
3. **Performance relatedness:** action taken to reduce emissions actually occurs and results achieved.



PROPOSED ACTIVITIES

1. By 2025, at least 20% of terrestrial areas and inland waters, are conserved through a representative system of protected areas and other effective area-based conservation measures.

We must manage our protected areas more effectively. We need to expand the extent of the areas that are protected and ensure that the protected areas are representative of the various ecosystems present in the country. We also need to recognise and facilitate community conserved areas (CCAs) that would allow indigenous people and local communities to conserve and manage important sites.

Key actions:

- a. Expand the extent and representativeness of terrestrial Protected Area network
- b. Develop community conserved areas as an integral part of our Protected Area network
- c. Improve the effectiveness of Protected Area management.



2. By 2025, important terrestrial ecological corridors have been identified, restored and protected.

We need to ensure that all our protected areas are well-connected and integrated into the wider landscape and seascapes and are not managed in isolation. Ecological connectivity is an essential element in the long-term viability of protected areas and biodiversity because of the needs for sufficiently large gene pools. It is also critical in accommodating range shifts as species react and adapt to climate change. Malaysia has already made significant progress in landscape conservation initiatives such as the Central Forest Spine (CFS) and the tri-lateral Heart of Borneo (HoB) initiative, aim to integrate biodiversity protection and management across broad landscape.

Key actions:

- a. Strengthen the implementation of the CFS Master Plan in Peninsular Malaysia.
- b. Strengthen the implementation of terrestrial connectivity under the HoB initiative.



3. By 2025, our production forests are managed and harvested sustainably.

Forestry and agriculture are essential to the wellbeing of Malaysia's population, economy and environment. Forests and agriculture land cover more than 70% of our land area. While these sectors rely heavily on biodiversity, they also at the same time create multiple pressures towards it. We need to ensure that these sectors are planned and managed in a manner that will not impose undue pressures on our biological resources. Each sector has the responsibility to ensure that biodiversity conservation and sector-specific development go hand in hand. It is in their direct interest to do this to ensure that biodiversity continues to provide the resources that each sector needs.

Key actions:

- a. Strengthen sustainable forest management
- b. Rationalise incentives that are harmful to forest biodiversity
- c. Strengthen agricultural planning and improve practices



4. By 2025, vulnerable ecosystems and habitats particularly wetlands are restored

It is important to ensure that vulnerable ecosystems are conserved and utilised in a sustainable manner. Vulnerable ecosystems and habitats must be comprehensively identified and mapped, with threats and management priorities clearly elaborated. We have to ensure that our ecosystems are better managed and their resilience strengthened. Furthermore, in light of climate change, ecosystems that are resilient will provide better adaptation/mitigation capacities as compared to ecosystems that are degraded.

Key actions:

- a. Identify, map and protect all vulnerable ecosystems
- b. Improve management and rehabilitation of vulnerable ecosystems
- c. Support implementation of the National Action Plan on Peat-land





REDD Plus Unit

Ministry of Energy and Natural Resources Malaysia (KeTSA)

