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REDD-plus workshop discusses results-based finance

London, 11 July (Kate Dooley) – The Conference of the Parties (COP), at its 18th session, decided to undertake a work programme on results-based finance in 2013, with the aim being to contribute to the ongoing efforts to scale up and improve the effectiveness of finance for reducing emissions from deforestation and forest degradation and other forest related activities called REDD-plus (REDD+), through two in-session workshops, a workshop report to be presented to the COP, and coordination of activities with the relevant work under the Subsidiary Body for Scientific and Technological Advice (SBSTA). The COP asked the work programme to address 3 options to achieve this objective:

(a) Ways and means to transfer payments for results-based actions;

(b) Ways to incentivize non-carbon benefits;

(c) Ways to improve the coordination of results-based finance;

The COP work programme is co-chaired by Mr. Agus P. Sari (Indonesia), and Ms. Christina Voigt (Norway) who conducted informal consultations with Parties and observers prior to the first in-session workshop which was held in Bonn on June 10th, 2013, during the climate talks of the subsidiary bodies.

Based on these consultations, the Co-chairs provided specific questions to guide Parties in the work programme, in an information note prior to the first workshop, available here: http://unfccc.int/methods/redd/redd_finance/items/7376.php

The Co-chairs opened the workshop, saying the aim of this first workshop was to focus on the first item – ways and means to transfer payments. The Co-chairs reminded Parties that this is not a negotiating session and encouraged engagement, and keeping to the discussions focused on results based finance.

Yaw Osafo of **Ghana** presented an update of the previous REDD+ finance workshop held in Bangkok in August 2012. He said that a number of Parties pointed out the need for scaled up finance in phases 1 and 2 of REDD+, with many countries indicating the primacy of public funds for these phases and the need for UNFCCC coordination for this funding. There was a call for the Green Climate Fund (GCF) to establish a Joint Adaptation and Mechanism (JAM) window.

Discussion of the role of private sector expressed that conditions for private sector participation includes a realistic price for carbon, which is linked to demand and higher ambition from Annex 1 countries. There was a request from some countries to speed up development of the New Market Mechanism (NMM).

Issues identified for further discussion included the scope of results based action (carbon and non- carbon), clarity on the inclusion of afforestation/reforestation (A/R) in REDD+, different finance modalities for different REDD+ actions, registry establishment and elaboration on institutional arrangements. Many of these identified issues are included in the agenda for this year.

A panel, consisting of Germany, Ghana, Indonesia, Australia and Costa Rica then presented their views on the 5 questions posed by the workshop (as outlined in the information note).

Germany responded to the first question – on the unique features of results based finance for REDD+ as compared to other mitigation sectors, Germany said that REDD+ is a land-based issue, covering large areas and affecting the livelihoods of many people, in particular local communities and indigenous peoples. In addition, land tenure and land rights are a central issue, where REDD+ should have positive rather than negative impact. It stated that the drivers of deforestation are more complex than in other sectors, and addressing agricultural expansion may impact on global and local food security, and that the risk of reversals is different to other sectors –potentially requiring a portion of verified emissions reductions (VERs). Germany also pointed to the REDD+ safeguards, as agreed in Cancun, including full and effective participation of relevant stakeholders, as a unique feature of REDD+. Finally, Germany emphasised that REDD+ is about ex-post payment for results.

Germany outlined that units for results based payment are defined as a tonne of carbon with performance assessed against a reference level using a common concept of Measurement, Reporting and Verifying (MRV), and explained that its REDD+ early mover programme (REM) was designed to support ex-post payments and capacity building support for readiness, with Euro 44 million for carbon finance and capacity building. Germany also has a forest governance programme to assist countries to become an early mover.

Ghana presented on question two – the challenges or barriers countries are facing in access to results based finance. The presentation covered the barriers for mobilising finance in Ghana, where the policy environment is composed of the Readiness Package Proposal (RPP) to the World Bank (the roadmap for implementing REDD+), and further resources leveraged under the Forest Investment Programme (FIP).

Ghana suggested that modalities for transfer of payments for REDD+ finance must include enabling conditions, support for activities, and governance mechanisms to drive these payments. Ghana outlined a range of financial sources available, including multilateral and bilateral, NGOs and the private sector as well as market and non-market sources. It said a key requirement is that finance should be new, adequate and predictable. Finance can be in the form of grants, forest bonds, Emission Reduction Programs with the World Bank, concessional loans and interest free loans.

Ghana outlined that the challenges to accessing finance include the uncoordinated nature of financial support, inadequate financing to make REDD+ projects viable, multiple sets of standards, criteria and project proposals which differ between financial institutions, creating additional burdens for REDD+ countries, and inequity in the allocation of funds. It recommended the need to balance finance with needs, and the need for a system for matching finance with support, as well as simplified architecture for results based payments at the national level.

Indonesia addressed question three - how can bilateral and multilateral initiatives address some of the barriers that developing countries are facing? It said that the methodological and technical requirements related to reference levels, national forest monitoring systems and MRV are challenges for developing countries which must be addressed. It also suggested that the requirements of decision 1/CP.16, paragraph 72, on addressing drivers, safeguards and land tenure before accessing results-based finance is also a challenge to developing countries, with regulatory and institutional barriers existing at the national level.

Support from bilateral and multilateral initiatives should be focused on filling gaps, as well as addressing non-technical barriers such as strengthening the ability of stakeholders to engage. Support should also facilitate REDD+ countries to transform from readiness activities to results-based action, including demonstration activities at subnational (jurisdictional) level.

Australia addressed the fourth question, on the limitations of public finance compared to private sector investment flows. Australia suggested that all countries were responsible for making REDD+ an attractive investment opportunity – for national governments, for development banks and for the broader private sector. It said there was a need to create the right enabling environment, and to reduce real and perceived risk.

Australia thought there were differences in expectations as to what results-based finance is, which requires more discussion and clarity. For Australia, results-based means payment for delivery of a product. REDD+ countries need to have the capacity to set up the necessary institutions to do this. Those implementing the activity need sufficient access to capital to allow the activity to happen. And finally, a system, or overall architecture, is needed to verify the results.

Australia pointed to many outstanding questions, such as how do we ensure permanence? Who should deal with the transfers of funding, and how are funds channeled back to the entities that are asked to change their behavior? How much of this is for the UNFCCC to decide, and how much is a sovereign issue? It pointed out that the GCF has indicated it is also interested in results-based finance, and that systems will need to be flexible to accommodate Parties who wish to sell reductions on the open market, or under the UNFCCC. Australia said this work programme should explore a range of approaches, but that it was important to continue to invest in the institutional environment that is needed for results-based payments, and for this system to attract private sector investment.

Costa Rica addressed the fifth question – that Payments for Ecosystem Services (PES) is a package, not just carbon. Costa Rica defined results-based payment as PES. It said that REDD+ is an opportunity to upscale current PES systems to the national level. Costa Rica has identified five environmental services, and is identifying appropriate funding sources for each of them.

In response to a question from **Co-chair Voigt**, panelists gave one key recommendation to scale up and improve the effectiveness of results based finance for REDD+:

Germany, Ghana and **Indonesia** all stated that the most important element is good governance – with Germany saying everything else follows from this, and Ghana saying that the lack of a central governing body makes it difficult to access REDD+ finance for projects on the ground. Indonesia said that good governance is needed at all levels – national, international and local.

Australia said that incentives are the most important aspect of REDD+, in the context of results based payments. It said REDD+ is about positive incentives to reduce emissions. **Costa Rica** said that governments need enough information to make decisions based on clarity as to the full costs of implementation.

Co-chair Sari then opened the workshop to the floor to address the question of architecture, coordination and certainty, which he said are key elements for REDD+ finance.

Bolivia said there must be ways and means to ensure linkages between results based payments and safeguards and drivers, and suggested that the Joint Adaptation and Mitigation (JAM) mechanism is an example of best practice for this, specifically in relation to the finance modality of ex-ante sustained finance. Bolivia observed that REDD+ finance seems to consist of ex-ante payments for readiness and ex-post payments for results based action – it suggested the JAM is a third approach which allows a better use of the idea of results based action, to consider additional modalities and procedures for sustained ex-ante finance which focuses on forest governance as the key issue.

Guyana agreed with Australia that results based payments are for reduced emissions, saying it would like to add and / or avoided emissions, to avoid perverse incentives to deforest in order to reduce emissions from deforestation. It said the uniqueness of results in REDD+ was that by focusing on carbon, REDD+ actions also result in non-carbon benefits – payments should be made to cover all of these things. Guyana suggested that public financing must be primary, because private financing is reliant on increasing targets, which we don't know the timeline for. Guyana also agreed with Ghana that a more centralized architecture is needed to deal with uncoordinated support, burdensome requirements, etc.

Thailand also emphasized the need to decide on incentives for non-carbon benefits.

China said that this workshop should follow the Doha mandate – ways and means to transfer payments. Existing finance is limited, not new and not additional to ODA, and not predictable. Predictability of finance is important to developing countries, particularly to finance local communities to take real action. It stated the most important thing is to scale up finance from public finance sources - private finance sources should only be supplementary to this.

Papua New Guinea (PNG) agreed that clarity that finance will be there in a sustainable way for countries to embark on changed development pathways. It said that everybody agrees that we need good governance – but this needs to be on both sides, there needs to be good governance under the UNFCCC as to how resources are deployed. It called for an institutional arrangement that provides coherent and effective governance on the provision of finance.

Switzerland, on behalf of the **Environmental Integrity Group (EIG),** said it had hoped to have conclusions on finance issue in Doha, and it now thinks it is important to go back to previous work, building on the workshop and language developed last year. It suggested that COP guidance should not create additional burdens to REDD+ finance compared to other forms of mitigation finance, and we must prioritise establishing enabling conditions for REDD+.

Switzerland said the best way to harmonise guidance is to complete the UNFCCC methodological package under the SBSTA, and utilize the REDD+ partnership voluntary database to harmonise finance. In order to make forests an attractive investment opportunity, Switzerland said it was important to think about reducing risk.

Columbia said it expects an architecture emerging on REDD+ results based finance, establishing links to finance and to other bodies and entities of the Convention such as the Green Climate Fund (GCF). It referred to its own Doha submission on results based finance where it put forth modalities for sub-national implementation of REDD+. Colombia also said they share Bolivia's concern that ex-ante financing is needed for delivering results and a clear recognition of that must be incorporated in the finance decision.

Brazil agreed with Australia that Parties are talking about positive incentives, and pointed out that its submission, and presentation from the workshop of Friday June 7, reflect its views in this matter. It said that questions for discussion include what happens after the results have been fully MRVd? Where do the results go, and what are the ways and means for payment? If the GCF is to have a role – what guidance will Parties need to provide to the GCF in Warsaw? How will the GCF pay - through grants and other modalities, or as a direct transfer? Can results be appropriated?

Norway said that sustainable and scaled up finance is critical to continue progress on REDD+, making it necessary to establish significant demand for VERs before 2020. Norway said it was engaged in several results based partnerships, as well as supporting the Carbon Fund, which – will help to create a large scale approach to results based payments. Norway said that it was ready to explore setting up a results based mechanism through the GCF, bearing in mind that payments are for tonnes of carbon, conditional on safeguards.

The **EU** agreed that good governance is critical and it hopes the methodological guidance will help to improve governance. It noted that good governance goes beyond REDD+ and is related to addressing the drivers. Attracting finance from the private sector can also be linked to drivers, such as the sustainability of supply chains. It said that finance should come from a variety of sources and it would be good to make clear links to the New Market Mechanism (NMM) as a potential source of finance for REDD+

Panama said that the work programme for results based finance must take consideration of specific modalities to transfer payments for all 5 REDD+ activities. It said there was a need to address technical and capacity building needs of developing countries.

Dominica agreed with Ghana on the barriers faced, and said there was a need for a transparent and equitable distribution of finance and technology assistance, especially to smaller countries and LDCs who are unable to begin any phase in REDD+ due to financial and capacity constraints.

The Chairs then opened the floor to interventions from civil society:

The **International Indigenous Peoples Caucus on Climate Change** (the IP Caucus) said that results should be assessed in terms of recognition of land rights and land tenure. It said activities were needed in order to ensure recognition of rights and effective mitigation of results. It said that carbon markets not likely to fulfill these recommendations, so there was a need therefore to focus on no regret activities such as land tenure reform. It said that priorities were to identify gaps in implementation of safeguards, and system that includes rights to free, prior and informed consent (FPIC).

The **Accra Caucus on Forests and Climate** said that forests are unique as 1.6 billion people depend on forests for their livelihoods. Focusing on recognition of customary rights and secure land tenure is therefore the best way to protect forests. It said that lack of secure tenure poses the greatest challenge to implementing REDD+ - without secure tenure, forest dependent communities are not able to protect their forests, meaning that financial incentives are not the best way to address the long term challenges. It said that ongoing ex-ante payments were needed as part of results based payments.

The **Union of Concerned Scientists** and aligned US conservation organisations made an intervention to say that various forms of REDD+ could share common elements, such as registries and timely and reliable flow of payments.

The **Safeguards Working Group (SWG)** said that fundamental requirements must be met to facilitate access to results based finance, meaning that the Cancun safeguards should be fully implemented, with comprehensive information submitted. It said that Safeguards Information Systems (SIS) summaries must be revised through a participatory process at the national level, observing that not all countries have active civil society movements, so an international level process is also needed, along with effective mechanisms for dispute resolution. It said that the lack of progress on drivers posed risks to the effectiveness of REDD+, emphasizing that all countries must address drivers, nationally and internationally. It also said that results based finance must provide support for non carbon benefits.

Climate Justice Now! (CJN!) said that governments have highlighted the need for predictable finance – carbon offsets are unpredictable, unsustainable and unreliable. It supported country proposals in the NMM discussions that a profound in-depth evaluation of existing markets is needed before further discussions on new markets. It said that recognizing territories and areas conserved by indigenous peoples and local communities is a proven way to protect forests.

The **Climate Action Network (CAN)** said that Parties should focus on establishing modalities for results based finance, and should provide adequate incentives for countries with less capacity and those with lower deforestation rates. It said the aim should be for transparency and efficiency.

Co-chair Sari sumarised that views expressed in the workshop had explored various modalities for results based finance. He said predictability has been mentioned as important, as well as equitability in terms of both access and disbursement. He said that architecture is a common concern, with many Parties saying that REDD+ is unique and therefore the financial architecture needs to be unique. He reflected that coordination with other finance processes is important, and referred to Bolivia, who said that REDD+ is an opportunity to re-define development - it is not only about carbon, not only forests, but also livelihoods and well-being of people. He sees REDD+ as a way to increase resilience, and said that we need to see how REDD+ impacts communities and how the benefits of REDD+ is felt on the lives of so many people.

Informal exchange of views with the co-chairs of the COP work programme on results-based finance for the full implementation of REDD+ activities held on June 11

Parties met again on June 11 for a 1 hour session to further exchange views on the results-based finance work programme.

Japan said it was important to look how the FCPF (Forest Carbon Partnership Facility), the FIP and others can provide input to the results based finance process, and again emphasized the importance of governance.

Malaysia suggested that a possible way to address barriers is through private public partnerships (PPP) at the national level. It said that access to funds should be transparent and equitable and every country should have the possibility to access these funds. Malaysia said that modalities for results-based payments should allow for improvements as national circumstances and experience vary.

India said that REDD+ finance is not easily available, and India has not been able to access any funding for phase 1 or 2. At the same time, it said, Parties are working hard on establishing methodologies, tackling safeguards and drivers – what is next in terms of results based payments?

(Parties in Cancun agreed that activities in relation to REDD+ should be implemented in phases, (1) beginning with the development of national strategies or action plans, policies and measures, and capacity-building, (2) followed by the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results-based demonstration activities, and evolving into (3) results-based actions that should be fully measured, reported and verified).

Brazil said it was a bit frustrated by the focus on phases 1 and 2, which are not any different from traditional ODA, saying that the barriers which have been raised are the same as always mentioned when discussing barriers to access ODA finance. Brazil expressed frustration that we are doing all this work on MRV, but we still don't know what for, as we don't know what phase 3 is going to look like. Brazil said we need a meaningful decision in Warsaw, saying what is going to happen after countries have everything in place.

Thailand, PNG and Mexico supported Brazil, saying that the addressing the questions raised by Brazil could be a way to move forward. Thailand asked, once we have everything in place, how will the finance flow? Market or non-market? How will it be channeled? PNG said we need to understand what developing countries are getting organized for.

China asked what would be the financial architecture for the full implementation of REDD+ actions? **Colombia** agreed that we need to focus on architecture.

Guyana said we need to reflect on why we exist as a work programme - we need to keep a focus on the fact that we are looking at ways and means of scaling up finance and ways and means to transfer these payments. It asked what kind of architecture we need to deliver on this expectation, and suggested that we need to come out of the workshop not just with a workshop report, but also with a list of commonalities, to take to the COP in November.

Cameroon said that while it is good to think about the future, due to a number of difficulties, many countries that are still at phase 1. It said the questions of how do we receive payment, who is paying, when, and through which channels, are important. It said that non-carbon benefits are also important, and can be measured through indicators and so on, but there is still a question of who will pay for those.

Indonesia said that to be able to move to phase 3, Parties need to have requirements from decision 1/CP.16, paragraph 71 and 72 in place. It noted that different countries are in different phases, making it difficult to see what action would be relevant to all of us.

Norway agreed that next workshop should focus on mobilising and scaling up finance for phase 3.

Australia said that while it might be difficult to separate phases 1 and 2 from phase 3, we really should be focusing on results-based payments. It suggested a substantive set of questions was needed to guide the discussion and agreed that it would be valuable to bring in experts from other areas.

The **Democratic Republic of Congo** said that the situation in Central African Forest Commission (COMIFAC) countries highlights that reducing emissions from deforestation requires additional investment. It said there was a need to include non-carbon benefits in finance for REDD+, and that when we talk about private finance, we also need to think about technology transfer. It said commitments should come from public sources and can be complemented by private finance – but the latter should not replace the former.

Ghana said that it wants see a decision in Warsaw, and noted that Brazil raised very helpful questions. It also noted that Indonesia made an interesting point about the different phases that different countries are in, and there is need for equitable access to support.

Brazil said that the priority is to establish a clear process that leads to the transfer of payments, and it thought calling for submissions would be a great opportunity to narrow down the ways and means to transfer payment.

Co-chair Voigt wrapped up the workshop by saying that the next workshop would be held sometime at the end of August. She noted that this is the latest the workshop can take place, due to the need to have the workshop report translated into UN languages before the COP, and it would most likely be held in Bonn. She said they were looking to hold an extended workshop of 2 days, and an information note will be forthcoming. She noted that submissions are welcome any time. An invitation was sent in March or so and it is still valid.

Voigt outlined that the content of second workshop would still dedicate time to ways and means to transfer payments, but would also look at ways to incentivise non-carbon benefits, and the coordination of support. She noted that this is the whole package of items that the work programme was asked to discuss, and expected different options to emerge from the discussions.

She warned Parties there was still a lot of work to do, and closed the session.