



Ad Hoc Working Group on Long-term Cooperative Action under the Convention

Fifteenth session, part two

Doha, 27 November 2012–*

Agenda item 3(b)(iii)

Policy approaches and positive incentives on issues relating 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

Report on the workshop on financing options for the full implementation of results-based actions relating to REDD-plus, including modalities and procedures for financing these results-based actions

Note by the chair of the workshop

Summary

The Conference of the Parties (COP), at its seventeenth session, requested the secretariat to organize a workshop on financing options for the full implementation of results-based actions relating to REDD-plus,¹ including modalities and procedures for financing such actions, before the session of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to be held in conjunction with COP 18. The workshop was held during the informal additional session of the ad hoc working groups, in Bangkok, Thailand, on 30 August 2012. Technical presentations made by Parties set the scene for in-depth discussions on three thematic areas, relating to: financing options and enabling conditions; private-sector participation; and a framework for financing the full implementation of results-based actions relating to REDD-plus. Workshop participants engaged in a rich interactive exchange of views, shared ideas, experiences and lessons learned in relation to relevant issues and identified key elements relating to financing the full implementation of results-based actions relating to REDD-plus, including modalities and procedures.

* The second part of the session will be held in conjunction with the eighteenth session of the Conference of the Parties. The opening date of the fifteenth session, part two, of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention will be Tuesday, 27 November 2012. The closing date will be determined in due course.

¹ Policy approaches and positive incentives on issues relating 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.

Contents

	<i>Paragraphs</i>	<i>Page</i>
I. Introduction.....	1–7	3
A. Mandate.....	1–5	3
B. Scope of the note.....	6	4
C. Possible action by the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.....	7	4
II. Proceedings.....	8–12	4
III. Summary of presentations.....	13–23	5
A. Summary of the overview presentations.....	14–15	5
B. Summary of the technical presentations.....	16–23	6
IV. Main outcomes of the discussions on the thematic areas.....	24–69	8
A. Scope of the discussions.....	24–26	8
B. Thematic area 1: Financing options, sources and related enabling considerations.....	27–40	8
C. Thematic area 2: The role of the private sector in REDD-plus investments...	41–51	11
D. Thematic area 3: A framework for financing the full implementation of results-based REDD-plus actions: key elements and issues to be addressed, including policy aspects, governance and institutional arrangements, methodological aspects, conditions for payments, and addressing multiple benefits, drivers of deforestation and safeguards.....	52–69	13
V. Other issues raised during the discussions on the thematic areas.....	70–71	16

I. Introduction

A. Mandate

1. The Conference of the Parties (COP), by decision 1/CP.16 (the Cancun Agreements), adopted policy approaches and positive incentives on issues relating 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.² That same decision encourages developing country Parties to contribute to mitigation actions in the forest sector by undertaking the following activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks (hereinafter referred to as REDD-plus).³

2. The COP, also by decision 1/CP.16, requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA) to explore financing options for the full implementation of the results-based actions referred to in paragraph 73 of that decision, and to report on progress made, including any recommendations for draft decisions on the matter, to the COP at its seventeenth session.⁴ The outcomes of the consideration of that request by the AWG-LCA, at its fourteenth session, are reflected in decision 2/CP.17.⁵

3. In decision 2/CP.17, the COP invited⁶ Parties and admitted observer organizations⁷ to submit to the secretariat their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72. The submitted views of Parties are contained in document FCCC/AWGLCA/2012/MISC.3 and Add.1–3 and were considered by the AWG-LCA at its fifteenth session.

4. The COP, by that same decision, requested⁸ the secretariat to prepare, subject to the availability of supplementary resources, a technical paper,⁹ based on the submissions of Parties and admitted observer organizations referred to in paragraph 3 above, as input to the workshop referred to in paragraph 5 below.

5. The COP also requested¹⁰ the secretariat to organize, subject to the availability of supplementary resources, a workshop taking into account the submissions of Parties and admitted observer organizations referred to in paragraph 3 above, the technical paper referred to in paragraph 4 above and the relevant conclusions of the AWG-LCA at the first part of its fifteenth session, before the second part of AWG-LCA 15, to be held in conjunction with COP 18.

² Decision 1/CP.16, paragraphs 68–79.

³ Decision 1/CP.16, paragraph 70.

⁴ Decision 1/CP.16, paragraph 77.

⁵ Decision 2/CP.17, paragraphs 63–73.

⁶ Decision 2/CP.17, paragraph 69.

⁷ Submissions from intergovernmental organizations are available on the UNFCCC website at <<http://unfccc.int/3714>>. Submissions from non-governmental organizations are available on the UNFCCC website at <<http://unfccc.int/3689>>.

⁸ Decision 2/CP.17, paragraph 71.

⁹ FCCC/TP/2012/3.

¹⁰ Decision 2/CP.17, paragraph 72.

B. Scope of the note

6. This document contains a description of the proceedings of the workshop, referred to in paragraph 5 above, on financing options for the full implementation of results-based actions relating to REDD-plus, including modalities and procedures (chapter II), as well as a summary of the presentations that were made (chapter III) and of the main points and outcomes of the in-depth thematic discussions (chapter IV). It also summarizes several other issues raised during said discussions (chapter V).

C. Possible action by the Ad Hoc Working Group on Long-term Cooperative Action under the Convention

7. The AWG-LCA, at the second part of its fifteenth session, to be held in conjunction with COP 18, may wish to consider the information contained in this document as part of its continuing consideration of financing options for the full implementation of the results-based actions referred to in paragraph 73 of decision 1/CP.16, including modalities and procedures for financing such actions and considering activities related to paragraphs 68–70 and 72 of that same decision.¹¹

II. Proceedings

8. The one-day workshop on financing options for the full implementation of results-based actions relating to REDD-plus, including modalities and procedures for financing such actions, took place at the United Nations Conference Centre of the United Nations Economic and Social Commission for Asia and the Pacific, in Bangkok, Thailand, on 30 August 2012. Financial support for the meeting was provided by the Governments of Australia, New Zealand, Norway, Spain, Switzerland and the United Kingdom of Great Britain and Northern Ireland.

9. The workshop was open to all Parties and admitted observer organizations attending the informal additional session of the ad hoc working groups in Bangkok. It was opened by the Chair of the AWG-LCA, Mr. Aysar Ahmed Al Tayeb (Saudi Arabia), and Mr. Yaw Osafo (Ghana) chaired the workshop. The chair of the workshop introduced the mandate and objectives of the workshop and presented the approach to the day's work.

10. The workshop was divided into three sessions:

(a) Session I: Overview presentations. A representative of the secretariat presented an overview of the substantive elements of the technical paper referred to in paragraph 4 above. This was followed by a brief update on the outcomes of the work of the AWG-LCA under agenda sub-item 3(b)(v), "Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries",¹² presented by the facilitator of that agenda sub-item, Ms. Alexa Kleysteuber (Chile);

(b) Session II: Technical presentations made by Parties. This session covered ideas, proposals and key elements in relation to financing for the full implementation of results-based actions relating to REDD-plus, such as principles and guidance for effective

¹¹ After the workshop, Parties continued their discussions on issues and key elements identified at the workshop in informal groups from 31 August to 4 September 2012. Their views were further elaborated and are contained in the informal overview note by the Chair of the AWG-LCA, available at <http://unfccc.int/files/adaptation/application/pdf/informal_overview_note5sep12.pdf>.

¹² Decision 1/CP.13, paragraph 1(b)(v).

and efficient financing, institutional arrangements, governance structures, technical requirements and lessons learned from existing initiatives;

(c) Session III: In-depth discussions on three thematic areas. The discussions in this session focused on three thematic areas and were guided by a set of specific questions, building upon the technical presentations made by Parties during session II and the key elements of financing for the full implementation of results-based actions relating to REDD-plus identified in the technical paper referred to in paragraph 4 above.

11. Mr. Osafo chaired sessions I and II of the workshop. He appointed four moderators to chair the thematic discussions in session III. Ms. Teena Browning (Australia) and Mr. Robert Bamfo (Ghana) moderated the discussions in relation to thematic areas 1 and 2, while Ms. Nur Masripatin (Indonesia) and Mr. Keith Anderson (Switzerland) moderated the discussions relating to thematic area 3. In addition, Mr. Osafo appointed two rapporteurs, Mr. Stephen Cornelius (United Kingdom) and Mr. Leonardo Massai (Papua New Guinea), to assist him and the moderators in summarizing the main points of the thematic discussions.

12. The workshop agenda, the information note on the workshop, the presentations made by the secretariat and representatives of Parties and the chair's informal summary of the workshop are available on the UNFCCC website.¹³

III. Summary of presentations

13. This chapter summarizes the presentations made at the workshop. The workshop started with two overview presentations, which were followed by several presentations made by representatives of Parties covering their views on financing the full implementation of results-based actions relating to REDD-plus and relevant proposals.

A. Summary of the overview presentations

14. A representative of the secretariat presented an overview of the key points covered in the technical paper referred to in paragraph 4 above, which is based on views submitted by 22 Parties and 10 admitted observer organizations. It was prepared by the secretariat as input to the workshop and covers several issues raised by Parties and observer organizations, including options for results-based financing, policy elements, institutional arrangements and methodological elements. The representative of the secretariat also provided an overview of views submitted regarding linkages with other issues under consideration by the AWG-LCA and areas of work that may require further exploration and clarification in order to facilitate the development of modalities and procedures for financing results-based actions relating to REDD-plus.

15. The facilitator of AWG-LCA agenda sub-item 3(b)(v), "Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries", gave a short oral report on the current status of the discussions under that agenda sub-item, because several submissions of Parties had mentioned a possible link between said agenda sub-item and the financing of results-based actions relating to REDD-plus. The facilitator introduced two issues that are being discussed under the agenda sub-item: various approaches and a new market mechanism. She invited the workshop participants to take part in the two upcoming half-day workshops on each of those issues, since many of the subjects under discussion there might also be informative for the

¹³ All information on the workshop and the chair's informal summary of the workshop are available at <<http://unfccc.int/7028>>.

discussions on REDD-plus (e.g. verification of results, avoiding double counting and deciding on a reference point for mitigation).

B. Summary of the technical presentations¹⁴

16. Session II of the workshop consisted of eight focused technical presentations made by Parties and was opened by a presentation given by the Coalition for Rainforest Nations. The presentation covered financing for phase 3 of REDD-plus. In the view of the Coalition, financing for phase 3 should be new, additional, adequate, predictable, sustainable over time and come from a flexible combination of sources, including public, market-linked and market-based finance. The presentation elaborated on key elements of and principles and institutional arrangements for financing REDD-plus activities through a new market-based mechanism. The Coalition stated that this new market-based mechanism should deliver emission reductions that are additional and that demand for REDD-plus units should be secured through the increased emission reduction ambition of Parties included in Annex I to the Convention. The importance of the environmental integrity of REDD-plus was emphasized, as well as the fact that all relevant decisions of the COP must be respected, including those relating to robust and transparent measurement, reporting and verification at the national level.

17. Brazil presented its views on a non-discriminatory approach to results-based finance for REDD-plus within the UNFCCC and the meaning of an 'appropriate market-based approach'. It also shared its experience of setting modalities and procedures for results-based finance in relation to the Amazon Fund. The representative of Brazil emphasized the importance of national approaches for ensuring environmental integrity and of strengthening the role of the UNFCCC in supporting appropriate results-based initiatives to facilitate the broad participation of developing countries. In Brazil's view, guidance from the COP should not create additional burdens and conditions in relation to financing for REDD-plus in comparison with financing for other forms of mitigation. Also, Brazil stated that public sources should play the main role in REDD-plus financing, without excluding private sources, and that, in its opinion, 'appropriate market-based approaches' do not include offset mechanisms.

18. The Plurinational State of Bolivia made a presentation on the Joint Mitigation and Adaptation Mechanism for the integral and sustainable management of forests (JMA Mechanism). The representative expressed the view that REDD-plus has been centred on mitigation and on methodologies towards a market-based approach, while the JMA Mechanism, as a non-market-based approach, would be better suited to addressing the issues of mitigation and adaptation jointly. According to the representative, the JMA Mechanism should be oriented towards generating co-benefits from adaptation and mitigation, namely reducing deforestation, halting the loss of biodiversity in forests, maintaining environmental functions, reducing the degradation of land and resources, and facilitating the transition to better land-use through the development of more sustainable production systems (linking agriculture and forestry). The Plurinational State of Bolivia proposed the creation of a JMA Mechanism window under the Green Climate Fund (GCF) in order to ensure new, additional and reliable public funding to support the implementation of the JMA Mechanism. It also proposed the establishment of a consultative group of experts under the guidance of the Subsidiary Body for Scientific and Technological Advice (SBSTA) to develop modalities and procedures, and a standing committee to assess and support the needs identified by developing countries in terms of implementing the JMA Mechanism.

¹⁴ All presentations are available at <<http://unfccc.int/7028>>.

19. Sudan made a presentation on behalf of the least developed countries (LDCs), in which it stressed the importance of rural livelihood systems for this group of countries. To address the main drivers of deforestation in the LDCs, REDD-plus should provide opportunities for reducing poverty and improving livelihoods, as well as offering alternative energy sources and ensuring food security. The representative of Sudan stated that public funding should be the major source of funding for REDD-plus, because it is the most clearly established source, can ensure adequate funding and the delivery of co-benefits, and can also ensure that funding and benefits are distributed equitably among all developing countries. The LDCs believe that REDD-plus is best addressed in the context of development and they are concerned that they would lack the capacity to access market-based funding for REDD-plus. In addition, their experience gained from forest-related clean development mechanism (CDM) projects with lengthy and costly procedures adds concerns about the ineffectiveness of a market-based mechanism.

20. A representative of Indonesia presented the Party's views on financing options, private-sector participation and a framework for financing the full implementation of results-based actions relating to REDD-plus. She pointed to the need to develop different options for financing REDD-plus at different phases of its implementation and to fill the gap between fast-start and long-term financing. In Indonesia's view, early actions need to be financed and existing bilateral and multilateral cooperation as well as emerging regional cooperation should be strengthened. The representative stressed the need for further capacity-building and technology development for the full implementation of REDD-plus. Indonesia expressed the view that the role of the private sector in financing REDD-plus is essential, but that more clarity is needed on what role the private sector is expected to play in which phase of implementation. The UNFCCC could consider developing a mechanism for public-private partnership in relation to the financing of results-based actions relating to REDD-plus.

21. In its presentation, the United States of America emphasized the need to use all available tools to attract additional finance and to be creative in attracting financing for REDD-plus. The representative stated that each Party will be able to choose the financing approach which best fits its needs, while keeping in mind that public financing is finite and that REDD-plus must compete against other uses of both public- and private-sector funds. She also stated that there are market options for financing results-based actions relating to REDD-plus beyond offset carbon markets, including non-offset carbon markets and other markets such as financial or commodity markets. The representative emphasized the potential of different approaches for financing different elements of a REDD-plus strategy and the possible roles of different financing options in different phases of REDD-plus, as well as the scale of the potential funding options available. In the view of the United States, it is important not to eliminate possible financing tools and approaches. The representative emphasized that the success of REDD-plus will be determined by the ability to reduce risk and make REDD-plus more attractive than other investments.

22. A representative of Mexico gave a presentation on a proposal for results-based finance for REDD-plus on behalf of Colombia, Costa Rica, Honduras and Mexico. In the view of those countries, the participation requirements for accessing sources of incentives include the measurement, reporting and verification of actions, the establishment of reference levels or reference emission levels, an information system on safeguards and the establishment of a REDD-plus registry. The representative stated that results since the end of COP 13 should be eligible in REDD-plus. In addition, the representative outlined the role of different national and international institutions and institutional arrangements, including domestic REDD-plus registries and guarantee mechanisms, a UNFCCC review body that approves the crediting of REDD-plus units on the basis of a national REDD-plus report and following guidance provided by the SBSTA, and a UNFCCC REDD-plus registry under the general guidance of the SBSTA but with additional guidance on the pricing of REDD-plus units from the Subsidiary Body for Implementation (SBI). In the

view of the aforementioned four countries, there is a missing link between the early phases and the implementation and scaling up of REDD-plus activities, in particular in terms of sufficient funding.

23. Representatives of the Philippines and Switzerland jointly presented their countries' views on a governance framework for REDD-plus financing. In their view, the international community should catalyse adequate REDD-plus financing at all phases of REDD-plus. They stated that unlocking private finance requires demand for REDD-plus credits and incentives for sustainable investments. They stated that REDD-plus finance should cover the implementation and monitoring of environmental, social and governance safeguards, and that the governments of REDD-plus countries should ensure balanced investments in the forestry and other sectors in order to address the drivers of deforestation and forest degradation. In the opinion of the Philippines and Switzerland, the next step is to develop a clear idea of how to secure finance post-2012 and to gain more clarity both on how REDD-plus relates to financial and other institutions and on the need for a REDD-plus registry. Further, they suggested exploring the issues of whether and how to integrate REDD-plus into the GCF, as well as the issue of ensuring demand for REDD-plus credits under the Convention. In addition, the need to recognize working and sustainable models for financing REDD-plus was emphasized (e.g. payments for environmental services).

IV. Main outcomes of the discussions on the thematic areas

A. Scope of the discussions

24. Session III of the workshop allowed Parties to have focused in-depth discussions on three thematic areas, which were drawn from the views submitted by Parties referred to in paragraph 3 above and the views expressed by Parties during the first part of AWG-LCA 15 in May 2012. The three thematic areas were:

- (a) Financing options, sources and related enabling considerations;
- (b) The role of the private sector in REDD-plus investments;
- (c) A framework for financing the full implementation of results-based REDD-plus actions: key elements and issues to be addressed, including policy aspects, governance and institutional arrangements, methodological aspects, conditions for payments, and addressing multiple benefits, drivers of deforestation and safeguards.

25. The discussions in relation to each thematic area were guided by a set of specific questions, which were drawn from the submissions made by Parties referred to in paragraph 3 above, the technical paper referred to in paragraph 4 above and the technical presentations summarized in chapter II above.

26. This chapter summarizes the key points made in the discussions on the three thematic areas referred to in paragraph 24 above (see also the chair's informal summary of the workshop¹⁵).

B. Thematic area 1: Financing options, sources and related enabling considerations

27. The following specific questions guided the discussions on this thematic area:

¹⁵ The informal summary of the workshop can be found at <<http://unfccc.int/7028>>.

(a) What are the key enabling conditions and considerations necessary for scaling up and facilitating financing for the full implementation of the results-based actions relating to REDD-plus as referred to in decision 1/CP.16, paragraphs 73 and 77, and decision 2/CP.17, paragraph 64 (hereinafter referred to as results-based REDD-plus actions)?

(b) What can be done within the UNFCCC process to guide and facilitate the creation of such key enabling conditions for scaling up and facilitating financing for results-based REDD-plus actions?

28. During this thematic discussion, Parties identified some key enabling actions and conditions that would be required to attract financing for and investments in results-based REDD-plus actions. In addition, they highlighted possible guidance that could be provided within the UNFCCC process to guide and facilitate such enabling actions and conditions. In the course of their discussions, Parties shared experiences and lessons learned from ongoing REDD-plus actions and activities and identified several issues that will require further exploration or clarification.

1. Key enabling conditions and considerations

29. Many Parties considered adequate and scaled-up financing for the early (readiness) phases of REDD-plus implementation (otherwise referred to as phases 1 and 2) as the main enabling condition for developing countries to move towards the full implementation of results-based actions relating to REDD-plus and to ensure the development of an enabling environment for the full implementation phase (otherwise referred to as phase 3).¹⁶ Many Parties noted that public funds should be the primary source of financing for the early phases of REDD-plus implementation. In addition, Parties mentioned the need for a flexible combination of market and non-market sources of financing and for the full development of a non-market-based approach. On this point, some Parties made reference to the report of the United Nations Secretary-General's High-Level Advisory Group on Climate Change Financing and the financing sources and instruments identified therein.¹⁷

30. Another key enabling condition highlighted by Parties is having in place transparent governance and legal frameworks. Such frameworks are necessary for governing REDD-plus actions and enforcing policies, including the appropriate management and distribution of funds. In addition, such frameworks could support inter-agency coordination, as this can be a complex task. Therefore, some Parties emphasized the importance of financing for the readiness phases of REDD-plus implementation to allow implementing developing countries, as part of their national strategies, to build the necessary policy and institutional frameworks and human resource capacity to enable them to undertake transparent governance and fund management. Countries could also learn from existing projects with regard to what worked and where improvements would be required (e.g. experience gained from implementing the Amazon Fund and the Congo Basin Fund and from projects financed by the private sector). Furthermore, it was noted that all phases of the implementation of REDD-plus actions, including the management and distribution of funds, will have to involve the relevant local communities. A top-down approach alone, without the involvement of relevant local communities, will not work.

31. A further enabling condition identified by one Party is the implementation of structural reforms, which should be undertaken as early as the readiness phases of REDD-plus implementation. Investments in on-the-ground actions will be needed (e.g. promoting sustainable management, enhancing forest carbon stocks), as well as implementing land-use

¹⁶ The phases of REDD-plus implementation are elaborated in decision 1/CP.16, paragraph 73.

¹⁷ The report is available at

<http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf>.

management at the grassroots level. However, it was noted that there is a need to reduce the high risks faced by investors, in order to ensure the flow of private investments to actions on the ground. Additional resources will be required to reduce the risks involved in investments.

32. Another component of enabling conditions must be the addressing of risks. Some Parties mentioned the need to address risks related to leakage and non-permanence in the full implementation phase of REDD-plus activities. They were of the view that a robust national-level measurement, reporting and verification system would facilitate the addressing of such risks and ensure the environmental integrity of actions. Several Parties added that another key element is addressing the drivers of deforestation and forest degradation. They affirmed the importance of further engaging the private sector in more sustainable activities as a way of addressing the drivers of deforestation and forest degradation.

33. Several Parties were of the view that a key enabling condition involves putting a price on carbon, which is currently lacking. A carbon price would come from ensuring predictable demand for verified emission reductions. They were of the view that an increase in demand for verified emission reductions must result from higher mitigation ambitions of developed country Parties.

34. Some Parties noted that the provisions in decisions 1/CP.16 and 2/CP.17 already provide for the core elements needed for guiding the financing of the full implementation of results-based REDD-plus actions. Such Parties were of the view that developing such elements, particularly those noted in decision 1/CP.16, paragraph 71, should suffice as an enabling condition for financing the full implementation of results-based REDD-plus actions. Some other Parties stressed the urgency for the SBSTA to complete the methodological work identified in appendix II to decision 1/CP.16 and to develop guidance to ensure easy access to finance for the full implementation phase of REDD-plus.

35. A few Parties pointed out that the creation of enabling conditions should be considered not only by developing countries but also by developed countries. In particular, developed countries need to increase political willingness to provide more public funds, although such funds are nevertheless limited. Developed countries will need to shift their policies towards providing incentives for the participation of the private sector in REDD-plus related investments. On this point, one Party recommended that there should be enhanced coordination between public and private financing. In addition, another Party noted that enabling conditions are needed at both the international and the national level to facilitate the financing of the full implementation of results-based REDD-plus actions.

36. One Party proposed that one of the outstanding enabling conditions is related to the full development of an alternative non-market-based mechanism, in the form of the JMA Mechanism for the integral and sustainable management of forests.¹⁸ It stressed the importance of moving forward with the design of the modalities, methodologies, procedures and institutional architecture for the JMA Mechanism, taking into account national experiences of developing countries and following a bottom-up process.

37. Some Parties summarized that a total package of enabling conditions will be required in order to scale up and facilitate the financing of the full implementation of results-based REDD-plus actions.

2. Guidance provided within the UNFCCC process

38. A number of Parties expressed their disappointment at the financing instruments available for the implementation of phases 1 and 2 of REDD-plus, indicating that the funds available are not enabling actions to be moved forward. They proposed that the UNFCCC

¹⁸ Decision 2/CP.17, paragraph 67.

should coordinate the different sources of funding, particularly at the grassroots level, for the readiness phases of REDD-plus, in order to ensure that implementing countries reach phase 3 of REDD-plus. One Party proposed that the UNFCCC process provide guidance to developing countries to ensure their completion of the implementation of phases 1 and 2 and their progression towards the implementation of phase 3.

39. Many Parties, particularly developing country Parties, called for the creation of a REDD-plus window under the GCF and said that this specific window should be fully functional by the end of 2012. The window should cover and coordinate financing for all phases of REDD-plus implementation. In relation to this, one Party noted that accessing the current financing available through channels such as the Forest Carbon Partnership Facility and the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries is too cumbersome for small countries. Another Party highlighted that more clarity is needed on the value of a REDD-plus window under the GCF. It proposed that modalities for the financing of REDD-plus would be needed to guide the GCF in its decisions and noted that such modalities should be simple and transparent. Another proposal relating to the GCF was made by a Party calling for the creation of a JMA Mechanism window under the GCF. One Party stressed that before the GCF becomes operational other sources of financing will need to be made available.

40. As part of its proposal for a JMA Mechanism, the relevant Party proposed that a link be established with the work of the adaptation group under the Nairobi work programme on impacts, vulnerability and adaptation to climate change.

C. Thematic area 2: The role of the private sector in REDD-plus investments

41. The discussions on thematic area 2 centred on the role of the private sector in actions and investments relating to REDD-plus. The specific questions that guided the discussions on this thematic area were:

(a) What are the lessons learned thus far from existing voluntary schemes with the involvement of the private sector relevant to the implementation of REDD-plus actions and related investments?

(b) What role could the private sector play in results-based REDD-plus actions and financing?

(c) What are the broad conditions that could be developed under the UNFCCC to facilitate private-sector participation in results-based REDD-plus actions and financing?

42. The objectives of this thematic discussion were to advance the understanding of the role of the private sector in scaling up financing for results-based REDD-plus actions and to identify the conditions necessary for the further involvement of the private sector in the financing of REDD-plus. In their discussions, Parties highlighted several key roles of the private sector in investing in REDD-plus and some critical signals that would need to be sent out to incentivize private-sector participation in the implementation and financing of REDD-plus. They also shared some lessons learned from ongoing work.

1. Possible roles of the private sector in relation to REDD-plus

43. Most Parties were of the view that the private sector has an important role to play in the financing of REDD-plus actions. As public financing is limited and would be more focused on the readiness phases of REDD-plus actions, their view was that the private sector should play a larger role in the financing of the full implementation of REDD-plus actions. However, many of the Parties also stated that public funds should remain the

primary source of financing for REDD-plus actions and that private financing cannot replace public financing for REDD-plus. In addition, a few Parties noted that it is essential to scale up public financing as a means to encourage and facilitate private-sector financing for the full implementation phase of REDD-plus.

44. A few Parties noted that the private sector is already involved in investing in REDD-plus, particularly in the voluntary carbon markets. In this regard, many Parties highlighted that the private sector often looks at investments from a profitability angle and seeks to minimize the risks of its investments. However, such Parties also noted that the risks of private-sector investments in REDD-plus remain high, as there are no rules or modalities to guide them. One Party suggested a potential role for the domestic private sector in the country implementing REDD-plus actions. It proposed that the involvement of the domestic private sector could be realised in stages, in a strategic and programmatic manner. In addition, public-private partnerships could facilitate the distribution of responsibilities for and reduce the risks of investments in REDD-plus.

45. In identifying how and where the private sector could be involved in the implementation of REDD-plus, a number of Parties were of the view that, at the moment, there is too much focus on the involvement of the private sector in the carbon markets. Some of those Parties suggested that it would be worthwhile exploring the involvement of the private sector outside the carbon markets. For example, they noted that the private sector has an important role to play in addressing the drivers of deforestation and forest degradation. It was indicated that the private sector is already involved in addressing the drivers of deforestation, for example, through certification standards that address illegal logging. Another proposal was made to explore the role of private-sector investments in market-linked options. A few Parties added that the private sector has more than a financing role to play; it could play a role in technology transfer as well.

2. Broad conditions necessary to facilitate private-sector participation in REDD-plus

46. Most Parties were of the view that a clear signal needs to be sent out and several broad conditions need to be in place to incentivize private-sector involvement in the implementation of REDD-plus actions. Many Parties stressed the need to raise the level of emission reduction ambition of developed country Parties, thereby sending an important signal to the private sector. Private-sector involvement and investments are dependent upon large-scale demand for verified emission reductions for compliance. Another important signal could be sent to the private sector by having a realistic price for carbon in place (see also para. 33 above).

47. Several Parties highlighted the importance of the strong implementation of safeguards for REDD-plus when incentivizing private-sector investments. It was noted that the private sector is interested in verified emission reductions that are backed up by safeguards that have been addressed and respected by the implementing developing country. One Party noted that verified emission reductions that are generated following higher monitoring and verification standards and with the implementation of safeguards are likely to fetch higher carbon prices. The Party added that public policies can ensure that such higher standards are set in order to encourage private-sector involvement. A few Parties noted that another precondition for private-sector involvement in REDD-plus is a clear enabling policy and regulatory framework to ensure investment security and to reduce risks (see also paras. 32 and 34 above).

48. One Party suggested that the UNFCCC could develop guidance to encourage private-sector participation in REDD-plus on a voluntary basis. Another Party noted that the SBSTA is already working on developing guidance on addressing and respecting safeguards, drivers of deforestation, and measurement, reporting and verification, and that Party emphasized that clarity on those issues is critical. The idea was also raised by a

number of Parties that the UNFCCC should develop the new market mechanism as soon as possible, which could serve as a market-based financing option for REDD-plus activities.

3. Lessons learned from private-sector investments

49. A number of Parties noted the involvement of the private sector in the voluntary carbon markets and REDD-plus projects and the relevant experience gained thus far. One Party highlighted that market-based approaches are not always successful and should not be seen as a panacea for resolving all forest-related issues. Another Party added that the project-based approach to the implementation of REDD-plus is flawed as projects cannot adequately address the issue of displacement of emissions (leakage). In addition, the voluntary carbon markets would need to grow much more to be able to meet the increasing financing needs of REDD-plus actions. However, it was suggested that the positive lessons learned from the voluntary carbon markets should be taken on board when considering the role of the private sector in the implementation of REDD-plus.

50. In addition, Parties brought up lessons learned from the CDM and the involvement of the private sector therein. Several Parties were of the view that the involvement of the private sector in investing in CDM projects has in a number of cases not been successful, instead creating risks to the local communities. In addition, there are the issues of bottlenecks in investments in CDM projects and the inequitable geographical distribution of CDM projects.

51. A number of Parties voiced their concerns about the involvement of the private sector and the carbon markets in the implementation of REDD-plus, as not all REDD-plus activities generate carbon credits. They were concerned as to whether such a focus would put the generation of non-carbon benefits at risk.

D. Thematic area 3: A framework for financing the full implementation of results-based REDD-plus actions: key elements and issues to be addressed, including policy aspects, governance and institutional arrangements, methodological aspects, conditions for payments, and addressing multiple benefits, drivers of deforestation and safeguards

52. Building upon the presentations made by Parties, the views expressed in the submissions referred to in paragraph 3 above, the key elements highlighted in the technical paper referred to in paragraph 4 above and the views expressed in the discussions on thematic areas 1 and 2, in the third thematic discussion Parties identified and discussed the key elements that should be considered in the design of modalities and procedures for financing the full implementation of results-based REDD-plus actions. They also identified linkages with other finance-related issues under consideration by the AWG-LCA. Furthermore, they identified issues requiring further elaboration and/or work.

53. The specific questions guiding the discussion on this thematic area were as follows:

(a) What are the specific policy-related elements that should be covered by the modalities and procedures for financing the full implementation of results-based REDD-plus actions?

(b) What governance and institutional arrangements will need to be in place in order to implement the modalities and procedures and to adhere to the principles of financing for results-based REDD-plus actions?

(c) Will different financing modes or payments be required for the results achieved in the full implementation of REDD-plus actions and activities that go beyond verified emission reductions?

(d) What guidance should be provided by the COP on financing for REDD-plus actions in order to ensure that linkages with other financing options and institutions are properly addressed, including linkages to long-term finance, the new market mechanism, the GCF and a potential REDD-plus window under the GCF?

1. Key elements: Policy-related aspects and governance and institutional requirements

54. Most Parties shared the view that strong and transparent governance is one of the key elements required to ensure financing for the full implementation of results-based REDD-plus actions. Alongside strong governance, it was noted that political commitment is also needed across the different economic sectors and different institutions in the countries (see also para. 30 above). On the other hand, many Parties stressed that national sovereignty, national policies and national legislation should be respected.

55. In addition, Parties proposed several institutional arrangements that would be required to support a transparent governance framework. Some Parties proposed the setting up of a regulatory body, under the guidance and authority of the COP, to ensure environmental integrity, coordinate existing and new market mechanisms and settle any dispute that may arise in the implementation phase of REDD-plus. Other Parties proposed the establishment of national and international registries to keep track of REDD-plus units issued and transferred (see also paras. 16 and 22 above).

56. One Party noted the need to learn from the Executive Board of the CDM. A strong governing body for REDD-plus should be an improved version that operates with less bureaucracy than the Executive Board.

57. Another key element noted by Parties was the implementation of safeguards for REDD-plus and the generation of co-benefits in addition to actions on reducing emissions and/or enhancing removals. Some Parties added that verified emission reductions generated by REDD-plus activities that are backed by safeguards implemented according to higher standards are more likely to fetch higher prices. In other words, the Parties explained that investors are willing to pay a higher price for verified emission reductions in order to encourage the strong implementation of safeguards (see also para. 47 above). On this point, one Party cautioned that safeguards for REDD-plus should not be used to gain a 'premium' in terms of payments for credits. It was of the view that adding a quality-related criterion to the implementation of REDD-plus actions could lead to a 'race to the bottom' among the countries that do the minimum to gain payments. The Party added that, in addition to the safeguards agreed in appendix I to decision 1/CP.16, fiduciary safeguards are also required.

58. A number of Parties referred to the need for national-level implementation of REDD-plus that is supported by national-level institutions. In addition, a number of other Parties stated that cross-sectoral approaches involving different ministries and addressing national-level issues such as clarity on land tenure and stakeholder involvement are among the reasons why national-level implementation is necessary.

59. Several Parties expressed the view that the risks of displacement of emissions (leakage) and non-permanence (reversals) should also be addressed. They proposed the setting up of REDD-plus unit reserves or reserve accounts to address these risks (see also para. 32 above).

60. Other key elements to be considered with regard to a framework for financing the full implementation of results-based REDD-plus actions include the provision of credits for early action and the setting of a price floor for REDD-plus units generated. Several Parties noted that the financing of REDD-plus actions should cover all forested developing countries, including high-forest-cover, low-deforestation countries.

61. One Party noted that the JMA Mechanism comprises the necessary elements for a non-market-based financing framework. The mechanism provides a different approach to

financing, as it focuses on facilitating the transition to better land-use and sustainable production and promoting sustainable development. It takes into account strengthening forest governance and respecting national sovereignty. Furthermore, it calls for voluntary and simplified performance and reporting (see also paras. 18 and 36 above).

62. A group of Parties proposed the development of a quantifiable baseline for the provision of finance for results-based REDD-plus actions. They explained that such a baseline, which would set the incentive level, would differ from the forest reference emission levels and/or forest reference levels, which are technically set by the implementing countries. This additional threshold is required to assess the international support needed for actions relating to REDD-plus carried out by developing countries on top of national efforts carried out without international support.

2. Financing modes or payments for results of REDD-plus actions beyond verified emission reductions

63. A number of Parties emphasized that forests should be recognized for both their carbon and non-carbon services. In many instances, the value of the non-carbon benefits far exceeds the value of the carbon benefits. Hence, the non-carbon benefits gained from forests cannot be unbundled from the carbon benefits and payments should be for the whole package of benefits.

64. This discussion raised the question of how countries can address the benefits that are generated beyond preserving forest carbon stocks. A number of Parties noted that carbon stocks can be measured with known certainty using the methodologies available. Hence, payment for verified emission reductions resulting from results-based REDD-plus actions should be the focus of the work to ensure an outcome at COP 18.

65. In addition, such Parties cautioned that measuring non-carbon benefits can be very difficult and resource-intensive. Another issue raised by one Party was the question of what is being referred to when speaking of 'results beyond verified emission reductions'. It felt that there were different interpretations as to whether going beyond verified emission reductions referred to non-carbon benefits or to the 'plus' side of REDD-plus activities, such as the enhancement of forest carbon stocks. It cautioned that this difference in interpretation could open up a Pandora's Box of complex issues. A few Parties remarked that a discussion on the valuation of non-carbon benefits would be welcomed, but should be considered after COP 18.

3. Linkages with other finance-related issues under the Convention

66. Many Parties highlighted the linkages between the consideration of financing for the full implementation of results-based actions relating to REDD-plus and other finance- and mitigation-related issues being discussed simultaneously under the Convention.

67. Many Parties reiterated their views on the need for a specific REDD-plus window under the GCF (see also para. 39 above) during the discussion on this thematic area. A specific REDD-plus window under the GCF would replace the fragmented funding currently available. In addition, it was proposed that REDD-plus financing channelled through the specific REDD-plus window should be administered by a REDD-plus Board operating within the Board of the GCF and under the authority of the COP.

68. In addition to the linkage with the GCF, Parties noted other linkages between financing for results-based REDD-plus actions and other finance-related issues being discussed, either under the COP, the AWG-LCA or the subsidiary bodies, including the following:

- (a) Long-term finance beyond 2012;¹⁹
- (b) Various approaches and a new market mechanism;²⁰
- (c) Nationally appropriate mitigation actions (NAMAs) by developing country Parties and a corresponding registry (NAMAs registry) (and how a REDD-plus registry would work alongside said registry).²¹

69. Parties were of the view that REDD-plus should be included in the discussions on the above issues.

V. Other issues raised during the discussions on the thematic areas

70. Parties raised a few supplementary issues in their discussions on the enabling conditions for scaling up and facilitating financing for REDD-plus, indicating that such issues will require further clarification or exploration, including the following:

- (a) What is the scope of results-based payments and do these payments cover both carbon and non-carbon benefits? Is payment restricted to verified carbon emission reductions, regardless of the source of financing?
- (b) Further clarity is needed on what REDD-plus activities, particularly the 'plus' activities, such as the enhancement of forest carbon stocks, entail. Does the enhancement of forest carbon stocks include activities such as afforestation and reforestation?

71. As part of their discussions on the key elements of a framework for financing the full implementation of results-based REDD-plus actions, Parties raised several issues that would require further exploration or further work, including the following:

- (a) What is the understanding of results-based REDD-plus actions? Will different financing modes be required for different results achieved through REDD-plus actions?
- (b) What is meant by 'projects' and is there a different way of considering projects compared with the current implementation of projects (e.g. under the CDM)?
- (c) What guidance can be given by the Parties considering AWG-LCA agenda sub-item 3(b)(iii) on REDD-plus to the Board of the GCF in the consideration of a specific REDD-plus window under the GCF?
- (d) The need to develop guidance on reporting verified emission reductions generated by results-based REDD-plus actions and guidance on establishing a registry for REDD-plus units;
- (e) How is the quantifiable or incentive baseline estimated?
- (f) The need for the COP to request the SBI to elaborate some of the institutional arrangements for REDD-plus proposed by Parties. The proposal on the need for a coordinating body may be worth exploring further;
- (g) The consideration of the possibility of joint meetings under the AWG-LCA between the group considering agenda sub-item 3(b)(iii) on REDD-plus and the groups

¹⁹ Item 11(a) of the provisional agenda for COP 18 (document FCCC/CP/2012/1).

²⁰ Sub-item 3(b)(v) of the agenda for the second part of AWG-LCA 15 (document AWGLCA/2012/AGENDA).

²¹ Item 5(a) of the provisional agenda for SBI 37 (document FCCC/SBI/2012/16).

considering other finance-related items, such as agenda sub-item 3(b)(v) on various approaches and a new market mechanism and on finance under the AWG-LCA.
