Norway's Submission to the UNFCCC on Views on Results-Based Finance for REDD+ (March 2012)

Norway appreciates this opportunity to provide views on results-based finance for REDD+. We look forward to work with other Parties to bring REDD+ to the next level and deliver on its potential.

Significant progress has been made on REDD+. However, as with mitigation in general, we are behind schedule. If we are to achieve the 2 degree target and the agreed goal to slow, halt and reverse forest cover and carbon loss in developing countries, we must intensify our efforts without delay.

In the text below, Norway respectfully submits some perspectives and proposals on how this could be done.

I. The Importance of REDD+ in the 2 degree Scenario

It is increasingly clear that without REDD+ delivering at or near its near full potential, we will not reduce emissions to the levels needed by 2020 to reach the two degree target. While global deforestation rates fell in the period 2005-10, in large part due to cuts in Brazil, large additional cuts are needed by 2020. According to some sources, REDD+ could provide as much as one third of the cost-effective emission reductions required by 2020 to put us on a credible two-degree path. Demand for verified REDD+ emission reductions is essential both to realize the upper ranges of current mitigation pledges, and to increase the ambition level and thereby close the mitigation gap.

Many developing forest countries are committed to do their part. Indonesia, for example, has pledged to reduce emissions relative to the business-as-usual scenario by 26% by 2020, increasing to 41% with appropriate international support. Up to 89% of the cuts will come from REDD+ and peat. As of now, there is no globally agreed mechanism in place to help developing forest countries like Indonesia to reach their existing pledges.

The lack of a credible demand, however, is the most critical barrier to increasing REDD+ actions and results. This was widely recognized by the Parties at the recent meeting of the REDD+ Partnership in February 2012. If we are serious about the 2 degree target, ensuring a prize on carbon and establishing a credible demand is urgent.

II. The Economic Case for a Global Incentive Structure for REDD+

The economics behind deforestation and forest degradation is simple. Global demand for agricultural and forest products is driving deforestation and forest degradation in developing countries. “Commodification of nature” is already happening, with disastrous consequences for the world’s forests and its inhabitants. Currently, the societal (global) cost of forest emissions is not taken into account in rational private and public land-use decisions.

Putting an adequate value on carbon can help align the societal (global) and private (local) costs. Overall, a value on carbon can provide incentives, for example, to move the expansion of agriculture from high carbon/conservation value forests to relatively degraded lands, and provide an impetus for increased efficiency in forestry, or intensification of agriculture, to reduce the overall pressure on forests.

Predictable demand is one of many tools needed to reach the objective of reduced emissions at a global scale. Other elements– such as governance and tenure reforms, multi-stakeholder participation, responsible trade policies, and investments in sustainable supply chains – are indeed *also* crucial to success. However, an incentive structure that creates a demand for emission reductions with strong safeguards (as agreed in Cancun), seems to be the best way to motivate all these other elements needed to reduce emissions. In essence: A sustainable rationale for doing all these things at scale is needed. Putting a price on forest carbon through predictable demand is the best option available.

Introducing incentive payments will also help create transparency around the effective implementation of safeguards. Results-based payments need to be introduced gradually but swiftly, in the context of robust, participatory and transparent national systems that provide information, nationally and internationally, on how safeguards are being fully addressed and respected throughout the preparation and implementation of REDD+.

Forests, of course, are about more than carbon. However, the phase 3 incentive payments for emission reductions, combined with full national and international transparency around strong social and environmental safeguards, will be most likely to meet not only our climate goals, but also to preserve forests for all the various services they provide, including for biodiversity and for the livelihoods, rights and cultural and spiritual values of local communities and indigenous peoples depending on the forests. There is currently no other option on the table with a comparable potential to alter the dynamic towards conserving these local and global public goods at scale; on the contrary, current trends are that without large-scale action, all of these goods will continue to lose out on the path to short-term unsustainable development. It should also be noted that while the metric for incentive payments should be for emission reductions, payments can (and will) still be spent on activities that maximize other benefits.

Other natural capital such as biodiversity could be priced in a similar way. Norway would be open to consider ways to promote payment schemes for other ecosystem services than carbon - structured through the appropriate international frameworks and/or legal bodies. This would require methods to monitor such natural capital combined with a global awareness and willingness to pay for it. In lieu of such a system being in place, payments based on carbon remain the best lever for preserving forest biodiversity at scale (and to promote social justice and development).

III. The Political Case for a Global Incentive Structure for REDD+

Cancun and Durban established the broad global framework for REDD+. A phased approach to REDD+ has been agreed upon, which allows developing countries to advance according to national circumstances and to access development assistance funds for capacity building support and policy reforms while gradually preparing for full implementation of national REDD+ strategies and financing from payments for verified emission reductions and removals.

The "3-phased approach" agreed in Cancun reflects the fact that reducing forest emissions in developing countries will require a coordinated set of actions on multiple fronts. Thorough readiness preparations are critical to ensure effective, efficient, just and sustainable outcomes from REDD+ implementation. Inclusive consultation processes are time-consuming and require resources. Countries must undertake the appropriate analysis to assess the direct drivers and underlying causes of forest carbon loss and develop a national strategy addressing both market and governance failures. New institutional set-ups, and strong educational efforts will often be required to effectively address an issue that cuts across ministerial or departmental responsibilities and national and local jurisdictions. Systems to ensure that REDD+ actions contribute to rural development, benefit broad stakeholder groups, reduce poverty and protect the local environment should be established. And, crucially, transparent national system must be put in place to show how safeguards are being fully addressed and respected throughout REDD+ implementation in order to reduce risk, provide confidence to investors and ensure effective outcomes.

All this preparatory work carries significant short term costs - economic and political - for developing countries. Strong vested interests stand to lose significant income and power. With no visibility on demand for the results of their efforts, and no clarity that income from REDD+ can provide at least partial short- and medium term compensation for loss of income from more resource-intensive development approaches, many countries are understandably reluctant to scale up implementation.

To succeed in sustainably reducing or avoiding forest emissions, REDD+ must be perceived to be - as it is - in developing countries' long term self interest. Sustainable use of forest resources, rational land use planning and clarity over land use rights and concessions are good for business and communities alike. The local and national benefits from preserving forests are sometimes greater than the global benefits rewarded through carbon payments. Countries must look at REDD+ as part of a broader sustainable development strategy that considers synergies and potential trade-offs between various important goals, such as economic development, food security and climate mitigation and adaptation.

However, the economic and political costs of REDD+ in the short term can be significant. Therefore, to motivate developing countries to take on vested interests to reduce emissions, they should be offered a partnership of equals. Developing countries must be fully in charge, and provided incentives for verified results *ex post* rather than up-front earmarked support for specific elements of the total effort.

IV. The importance of providing payments for verified REDD+ emission reductions and removals

By REDD+ "results" we mean reduced emissions, avoided emissions and/or enhanced removals that are fully measured, reported and verified (t CO2eq per year), based on Decision 1/CP.16 and Decision -/CP.17. Thus, "financing of results-based actions" means payments for verified emission reductions relative to an agreed incentives level1. Decision 1/CP.16 paragraph 73 refer to "results based actions that should be fully measured, reported and verified" in the full implementation phase of REDD+ ('phase 3'). Decision -/CP.17 refers results-based actions back to the definition (scope) of REDD+ activities, most of which are themselves results rather than actual actions. Also, the

1 Emission 'reductions' relative to the incentive level does not necessarily mean absolute reductions. E.g., for countries with high forest cover and low deforestation, payments could be made to maintain that low level (as per definition of REDD+ from Cancun. While reference levels should attempt to measure the results of actions, incentives levels should be created to allow for self-finance, at a varying proportion based on national circumstance.

Durban decision in SBSTA defined reference levels as a way to measure the performance for those same activities; "forest reference emission levels and/or forest reference levels expressed in tons of carbon dioxide equivalent per year, are benchmarks for assessing each country's performance in implementing the activities referred to in decision 1/CP.16, paragraph 70".

Ex-post payments **for verified emission reductions is the best way to** ***incentivize*** **emission reductions in any sector, including REDD+**. Such incentives would motivate improvements in the enabling environment. Regardless, strong provisions on safeguards must be a requirement for such payments, and up-front support may be needed to ensure the effective application of safeguards.

Payments for "performance" measures other than carbon - such as policy and institutional reform as well as development and implementation of safeguards - may be useful when providing bilateral or multilateral support in the early phases of REDD+. (This is already being done, including through Norway's country-to-country REDD+ partnerships.) Such performance-based support can be provided as countries prepare to deliver verified emission reductions at scale. They are not, however, a substitute for actual financial demand for such reductions. Moreover, such measures will necessarily be quite country-specific, and it would be counter-productive to try to agree on appropriate indicators for "progress" in the context of the UNFCCC.

V. Funding the Incentive Structure

Continued and scaled up donor support will be absolutely critical to allow for continued progress on readiness (phase 1) and reforms and early incentive payments in phase 2 of REDD+. However, generating adequate and predictable demand for the full implementation phase with payments for verified emission reductions at scale will require far more substantial, sustainable and predictable financing. The Durban decision on finance was useful in this regard. Paragraph 65 reads; "*Agrees* that results-based finance provided to developing country Parties that is new, additional and predictable may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources". Further, paragraph 66 reads; "*Considers* that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support results-based actions by developing country Parties referred to in paragraph 73 of 1/CP.16, ensuring that environmental integrity is preserved, and the provisions of appendix I and II to Decision 1/CP.16 are fully respected and should be consistent with relevant provisions of decision 1/CP.16, decision -/CP.17 (SBSTA) and any future decision by the COP on these matters." Paragraph 67; *"Notes* that non market based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests as a non-market alternative that supports and strengthens governance, the application of safeguards as referred to in decision 1/CP.16, appendix I, paragraph 2(c.e), and the multiple functions of forests, could be developed". The decision was, however, inadequate to provide a clear signal to developing country governments and the private sector that the short-term risks and liabilities of taking REDD+actions are worth accepting.

We now need to make decisions on how each of the various sources identified in Durban can be mobilized for the phase 3 incentive mechanism. Norway is prepared to consider all the sources called for in the AGF report - and would in particular emphasis the potential of innovative sources of finance - as well as those listed in the REDD+ decision from Durban. However, we recognize that these sources need further negotiation. In the absence of agreement on these sources, public finance and emerging carbon markets – as long as they contribute to increased overall ambition levels and ensure adherence to agreed safeguards as well as environmental integrity (as agreed in Durban) – must be tapped to generate demand for emission reductions from REDD+.

To this end, immediate and coordinated action should be taken by committed countries, in particular developed countries, to ensure adequate, predictable, and sustainable demand for verified emission reductions in the 2016-2020 period before full inclusion in a global regime beyond 2020. While guided by relevant UNFCCC decisions and closely coordinated, countries could channel resources bilaterally before innovative sources or markets reach scale. This would also allow a "race to the top", if selection criteria included highly sustainable programs that place carbon finance as part of a credible green growth strategy, and required full transparency around implementation and compliance with safeguards.

Such "bridge demand" over the next couple of years would build momentum and confidence as well as provide learning and mitigation results. Various forms of finance – public sources, innovative sources, market- or market-linked sources – would be put effectively to play and leverage and re-direct private finance. Such an effort would effectively create a price signal even now, as the commodity markets would factor in the expectation of a future value on forest carbon. Increased predictability of demand in the future will affect land-use decisions today. A sector-wide price signal is a more effective way to mobilize and re-direct private investments than co-financing specific interventions in the pursuit of visible and seemingly more targeted 'leverage'.

An international mechanism for incentive payments is needed. The international incentive structure could develop in many different ways, with a variety of channels providing payments for emission reductions from a variety of sources of finance. Over time an international mechanism under the Convention should be available to ensure environmental integrity, transparency, market fungibility, and predictability of demand for all developing forest countries. Such a design, however, does not necessarily imply a unitary, consolidated system. Rather, the sum of decentralized transactions could be combined to provide sufficient demand. Full transparency would be essential for such a regime to work.

A REDD+ Window under the Green Climate Fund could be created for this purpose. The Cancun Agreements established that phase 1 and 2 will be financed by existing channels. It thus seems reasonable to focus a Green Climate Fund window on *ex post* payments per ton of verified emission reductions or removals relative to an agreed incentive level. In addition to ensuring value-for-money and making decision-making and program cycle procedures of the fund easier, it could also provide valuable learning for the Fund’s broader agenda as it moves – on the mitigation side – towards an increasing focus on incentivizing verified emission reductions.

VI. Rules and Modalities for Incentive Payments

Priority should be given to clarify how reference levels translate into incentive payments. Results-based payments should be provided for verified emission reductions measured in tCO2eq/yr relative to an agreed ‘incentive level'. 'Incentive levels' should equal reference levels subtracted for nationally appropriate self-financing, provided that a robust approach to setting reference levels (see below) is established.

A periodic review of reference levels would contribute to ensuring global environmental integrity. Further progress is needed on reference levels, especially if reference levels are the point of departure for calculating or negotiating incentive levels. It will be necessary to establish a periodic cumulative review of all approved reference levels and incentive levels to avoid a situation where results-based finance would be provided without a reduction in global deforestation rates. We understand that developing countries cannot be held liable for lack of progress in other countries. However, the pressure on forests in one developing country will also be affected by actions in other developing countries. We believe the best way to ensure that the incentive structure is effective, efficient and equitable is to instigate a periodic review process to guide future reference level and incentives level setting.

To get access to incentive payments developing countries will need to:

- Have developed a national REDD+ strategy or action plan in accordance with Decision 1/CP.16 paragraph 72 outlining how the drivers of forest emissions are addressed;
- Have in place a national forest monitoring system in accordance with the guidance by the COP;
- Have in place a forest reference emission levels and/or forest reference level that is independently assessed according to guidance by the COP.
- Have in place a transparent system for providing information on how safeguards are fully addressed and respected throughout the implementation of REDD+;
- Have provided a summary of the information confirming that all safeguards are fully addressed and respected for the period for which they are to receive incentive payments, provided as part of the National Communications and biennial update reports at a minimum;
- Have in place national or international fiduciary arrangements to receive and manage payments according to international standards.
- Channel REDD+ revenues towards the implementation of their publicly available national climate compatible development strategies formulated through inclusive, transparent, multi-stakeholder strategies and preferably anchored in national legislatures.
- Deliver verified emission reductions, avoided emissions or removals from their forest sector, recorded in the international registry (see below).

Conservative estimates of emission reductions could be used in an interim period before more accurate measurements are possible. This would incentivize broad participation among developing countries, maximize near term mitigation potential and learning for future scale-up, increasing and improving global environmental integrity by reducing international leakage, increase cost-effectiveness (paying for fewer tons than you get) and lower transaction cost. By using default values subtracted for the full confidence interval to discount for uncertainty, this would allow early access to results-based payments while also incentivizing continuous improvement over time. Norway does not see any reason why these cannot qualify, to enter compliance markets in the future, on equal terms with "fully MRVed" reductions, given that the appropriate discounts more than ensure full environmental integrity.

An international registry – potentially supplemented by national registries – is urgently needed to record transactions of emission reductions from REDD+. In a situation of multiple channels for incentive payments, it is crucial that additional elements be agreed and coordinated internationally. In particular, it is crucial that a registry of all transacted volumes be put in place in order to avoid double-counting (i.e., that a ton of emission reductions is sold twice). This applies both to ERs used as offsets under national and regional regimes and those paid for in order to 'cancel' emission reductions (i.e., not to be used for any sort of compliance or re-selling). An effective registry will also provide transparency over flows, and ensure quality and comparability of emission reductions. Please refer to Norway's submission on "A common accounting system under the Convention", November 2011, for details.

International agreement on a verification process is needed. For emission reductions to be counted against UNFCCC commitments, verification should be standardized. Verification could either be done centrally by the UNFCCC (similar to national reviews), decentralized as with the DOEs used in CDM or through 3rd party independent verification based on agreed standards. Procedures for accreditation could potentially also be agreed under the UNFCCC. Full agreement on verification, however, can be achieved only over time. It should not be a precondition for establishing near and medium term demand for REDD+ results.

VII: Summary of arguments

Significant progress has been made on REDD+. However, as with mitigation in general, we are behind schedule. If we are to achieve the 2 degree target and the agreed goal to slow, halt and reverse forest cover and carbon loss in developing countries, we must intensify our efforts without delay.

For this purpose, continued and scaled up funding for 2013-15 must be ensured. More important, however, is to send a credible signal in the near future that there will be substantial and predictable demand for REDD+ results (verified forest sector emission reductions) in the 2016-20 period and beyond. If REDD+ is to fulfill its potential, we must collectively and in the near future start to correct the fundamental market failure that drives deforestation (benefits from forests, including carbon sequestration, often have no market value and emissions no cost) by putting a price on forest carbon. Predictable, scaled-up payments for verified emission reductions and removals from REDD+ can be one of the quickest ways to meet our collective climate goals—as well as to protect the world's standing forests.

Though not in itself sufficient to ensure the success of REDD+, **creating such demand is the best available tool for the international community** to help trigger essential governance reforms, incentivize effective application of safeguards, mobilize and redirect private finance towards sustainable conservation and management of forests, and create sustainable commodity supply chainsIt would also serve to effectively and efficiently promote the other social, environmental, economic and cultural services tropical forests provide. This is true irrespective of preferences regarding sources of funding and modes of transaction constituting such demand.

With this in mind, **Norway suggests efforts along three parallel tracks** with the aim of achieving:

(1) A substantial increase in REDD+ funding for 2013-2015 compared to the USD 4bn pledged for 2010-12. Funding should, in addition to readiness work, incentivize transformational policies and measures in developing forest countries and increasingly pay for verified emission reductions.

(2) Urgently providing a signal that predictable and significant demand will be available for verified emission reductions in the period 2016-20, and become part of a 2020 agreement under the UNFCCC. The 2016-2020 period is crucial. Eight years of 'capacity building' support for 'readiness' alone would lose out on the critical mitigation potential in that period and endanger future large scale mitigation action. If developing countries have to wait for the still-to-be negotiated post-2020 agreement, there is a real risk that REDD+ opportunities would be lost. To achieve this, a broad range of financial sources – including scaled up public funding – would be needed. Potential ways to make "early" action (e.g., 2015-20) count in the post-2020 agreement should be explored, in order to avoid delaying near term action. A REDD+ window under the Green Climate Fund could also be considered. Given that the Cancun decision establishes that Phase I and II should be financed through existing mechanisms, such a window could usefully focus on payments for verified emission reductions.

(3) Progress on the architecture of REDD+ payments. It is a realistic assumption that REDD+ demand in the near term may come from a variety of sources. Experimentation should be promoted, but based on UNFCCC guidance. This underscores the importance of progressing in the negotiations on further modalities related to MRV, reference levels, and guidance on safeguards information systems. Finally, we must ensure environmental integrity, and this could require creating such elements as a common registry – supplemented by national registries – to avoid double-counting and/or -selling, and promote comparable standards across sources of demand.