



Seventh meeting of the Standing Committee on Finance Bonn, Germany, 16–18 June 2014

Background paper on coherence and coordination: the issue of financing for forests, taking into account different policy approaches

I. Background

- 1) The Conference of the Parties (COP), at its sixteenth session, decided to establish the SCF to assist the COP in exercising its functions with respect to the financial mechanism (FM), inter alia, in terms of improving coherence and coordination in the delivery of climate change financing¹.
- 2) At COP 19, by decision 7/CP.19, paragraph 11, Parties requested the SCF to consider, in its work on coherence and coordination, inter alia, the issue of financing for forests, taking into account different policy approaches.
- 3) Furthermore by decision 9/CP.19, paragraph 20, the COP also requested the SCF to focus its soonest possible forum on issues related to finance for forests, including the implementation of the activities referred to in decision 1/CP.16, paragraph 70² (hereinafter referred as REDD-plus³). Parties further requested the SCF to invite experts on the implementation of the activities referred to in decision 1/CP.16, paragraph 70, to the forum.

II. SCF workplan and its current work on improving coherence and coordination

- 4) The SCF, in its report to COP 18,⁴ included a work programme for 2013–2015. According to the work programme, in order to fulfill the function of improving coherence and coordination in the delivery of climate change financing, the SCF will provide recommendations to the COP as appropriate and facilitate exchanges through the forum as appropriate. The Committee presented a workplan for 2014–2015 to COP 19.⁵
- 5) The work programme mentioned in paragraph 6 above identifies five activities of the SCF to correspond to the function of improving coherence and coordination in the delivery of climate change financing. As suggested in section VII of this document, the SCF may wish to consider financing for forests, in its broader consideration of coherence and coordination in the delivery of climate finance. Based on this, the SCF may wish to identify follow-up work on this issue.

¹ Decision 2/CP.17 paragraph 121.

² The COP specified, among others, two specific issues to be discussed in the SCF Forum, which are namely: ways and means to transfer payments for results-based actions as referred to in decision 1/CP.18, paragraph 29; provision of financial resources for alternative approaches.

³ Activities referred to in decision 1/CP.16, paragraph 70, which are namely: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks.

⁴ Contained in FCCC/CP/2012/4.

⁵ Contained in FCCC/CP/2013/8.

III. Issues related to financing for forests for consideration by the SCF

6) This section outlines issues raised by Parties on coherence and coordination for financing for forests that could be considered by the SCF. The issues were compiled from various official reports, including: the COP decision on Warsaw Framework on REDD-plus; the report on the workshop on financing options for the full-implementation of results-based actions relating to REDD-plus;⁶ the technical paper on the submissions made by Parties.⁷ Further, a number of Parties expressed their views on coherence and coordination for financing for forests through official submissions, which include: submission to the COP in 2013 on guidance to the operating entities of the FM of the Convention;⁸ and submissions from Parties to the ADP.⁹ The SCF may also wish to take the views expressed in such submissions when identifying possible areas of work.

7) While reviewing this section, the SCF may also wish to take note of annex I, which includes decision 9/CP.19 and 10/CP.19 from Warsaw Framework for REDD-plus, as relevant information on coherence and coordination for financing for forests.

Improving coherence and coordination in the delivery of climate change financing

Issues raised by Parties on present state of financing for forests

- (a) Present financing situation is overly fragmented, with a number of multilateral financing institutions outside of the Convention and/or bilateral donors supporting the financing needs of developing countries in relation to REDD-plus. There is no common standard to guide eligibility for acquiring finance, nor is there any guidance on the equitable distribution of finance to developing countries implementing REDD-plus actions;¹⁰
- (b) Barriers to access to and/or the receipt of results-based payments for REDD-plus include the different requirements, processes and standards of different financing channels, which result in uncoordinated support for REDD-plus implementation and also lead to the inequitable allocation of funds.¹¹ Addressing these barriers will require all Parties to work in a partnership spirit;¹²
- (c) Further clarity on the role of the private sector in financing the full implementation of results-based REDD-plus activities is needed.¹³

Proposals by Parties on possible ways to improve coherence and coordination

- (a) Some Parties see a simplified, central and effective architecture for results-based payments at the international level is the best way to increase synergies between different sources of financing and to ensure coordination and coherence. Such architecture could be used as a 'hub' to strengthen regional cooperation;¹⁴

⁶ Contained in FCCC/CP/2013/5.

⁷ Contained in FCCC/TP/2012/3.

⁸ Available at <http://unfccc.int/5916.php>.

⁹ Available at <http://unfccc.int/6656.php> and <http://unfccc.int/7398.php>.

¹⁰ Document FCCC/CP/2013/5, paragraph 41.

¹¹ Ibid, paragraph 28.

¹² Ibid, paragraph 29.

¹³ Ibid, paragraph 47.

¹⁴ Ibid, paragraph 29.

- (b) It is important to coordinate finance that may be coming from other bilateral and multilateral financing institutions, such as the Forest Carbon Partnership Facility or the UN-REDD Programme, for results-based REDD-plus actions;¹⁵
- (c) Coordination at the international level is necessary for establishing dialogue between developed and developing countries to promote the flow of public funding, in respect to Joint Mitigation and Adaptation Mechanism.¹⁶

Providing draft guidance to the operating entities of the FM of the Convention,

Proposals on guidance to the GCF¹⁷

- (a) The COP should provide guidance to the GCF and such possible guidance could include:¹⁸
 - (i) Encourage the GCF to support financing for phase two¹⁹ of REDD-plus;²⁰
 - (ii) The GCF should provide results-based incentives and could coordinate other contributions from all Parties and from any other interested funding entity such as private sector entities, foundations and non-governmental organizations;²¹
 - In this regard, many Parties asked for the GCF to have a coordinating function for international and bilateral funding, and also for innovative sources such as carbon taxes and levies.²²
 - (iii) To consider a specific window for REDD-plus;^{23 24}
 - If a window under the GCF were to be created, it should not be specific to REDD-plus; rather it would need to provide for both mitigation and adaptation actions in the forest sector, broad enough to incorporate the range of financing approaches, including non-market-based approaches;²⁵
 - A REDD-plus window under the GCF should coordinate funding managed by international finance institutions, with a view to absorbing all public finance in the long run, and should also administer a share of the public finance generated by market-linked sources.²⁶

¹⁵ Document FCCC/CP/2013/5, paragraph 39.

¹⁶ Document FCCC/TP/2012/3, paragraph 92.

¹⁷ With regards to the proposals made on guidance to GCF and GEF, they should be considered in light of relevant COP decisions and the recent outcome of the GCF Board meeting, which are contained in this document under Annex I and section V, respectively.

¹⁸ Ibid, paragraph 22, 38.

¹⁹ Decision 1/CP.16, paragraph 73 states REDD plus activities should be implemented in phases, *beginning* with the development of national strategies or action plans, policies and measures and capacity building, *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* results-based actions that should be fully measured, reported and verified.

²⁰ Document FCCC/CP/2013/5, paragraph 22.

²¹ Document FCCC/TP/2012/3, paragraph 37.

²² Ibid, paragraph 37.

²³ Document FCCC/CP/2013/5, paragraph 22.

²⁴ Document FCCC/TP/2012/3, Table 1.

²⁵ Document FCCC/CP/2013/5, paragraph 72.

²⁶ Document FCCC/TP/2012/3, paragraph 37.

- (iv) A menu of options for payments (e.g. to ensure equitable distribution of resources and thresholds for payments) and ensuring support for ex ante financing for readiness actions and ex post financing for results-based actions;²⁷
- (b) A specific window for REDD-plus or forests may not be necessary under the GCF. In fact, it would only be counterproductive, as there would be delays in the creation of a window under the GCF and it would not necessarily result in actual financing for REDD-plus. Mitigation window of the GCF would suffice for REDD-plus related financing;²⁸
- (c) Liaising with colleagues working with the relevant external financing institutions or with the members of the Board of the GCF and updating them on the needs of REDD-plus countries could facilitate coherent decision-making on the provision of results-based finance.²⁹

Proposals on guidance to the GEF

- (a) Guidance could be provided to the GEF while waiting for the GCF to become operational;³⁰
- (b) Guidance on results-based finance for REDD-plus provided by the COP to the GCF and the GEF need not necessarily be the same.³¹

IV. Information related to fast-start finance and results-based finance database

8) From 2011 to 2013, developed country Parties have annually submitted information on the resources they provided to meet the collective commitment of providing new and additional resources, including forestry and investments, approaching USD 30 billion for the period 2010–2012, with balanced allocation between mitigation and adaptation, which is better known as ‘fast-start finance’ (FSF). The information submitted by developed country Parties on FSF has been compiled into three INF documents.³²

9) In three years’ FSF submissions, most developed country Parties provided examples of concrete mitigation and adaptation projects, including specific REDD-plus initiatives, and how they have provided resources for them. Many Parties also indicated the overall distribution of their funding in each sectors, for which several Parties also included information on designated funding schemes for REDD-plus.

10) Information provided by developed country Party on their respective contribution to REDD-plus activities in developing countries during the FSF period is presented in the FSF module³³ of the UNFCCC Finance Portal.

11) In addition to the Finance Portal, there are other databases that contain information on results-based finance on REDD-plus that the SCF may wish to consider. As a part of readiness activities for REDD-plus, a number of Parties have worked together in the REDD-plus Partnership, and, inter alia,

²⁷ Document FCCC/CP/2013/5, paragraph 38.

²⁸ Document FCCC/CP/2013/5, paragraph 72.

²⁹ Ibid, paragraph 49.

³⁰ Ibid, paragraph 49.

³¹ Ibid, paragraph 68.

³² Contained in FCCC/CP/2011/INF.1, FCCC/CP/2012/INF.1 and FCCC/CP/2013/INF.1.

³³ Available at <http://www3.unfccc.int/pls/apex/f?p=116:13:544485926370909>.

agreed to set up a Voluntary REDD-plus Database³⁴ on reported financial flows. The database is hosted by the Food and Agriculture Organization of the UN, and the data is reported both from donor and recipient countries, as well as from IGOs and NGOs. Although currently there is no agreed or coherent reporting system for results-based finance on REDD-plus, this incumbent database could potentially serve as one of the sources of information, in light of SCF function on MRV.

12) Although it is at its inception stage, the SCF may wish to take note of the information hub on results-based actions that Parties agreed to set up at COP 19. The information hub will carry corresponding information on results-based payments, once it is fully operational. Designing the information hub is still an on-going process and an expert meeting will be held in 2014 to discuss the structure of the information hub, the result of which will be subject to consideration by SBI 41 in Lima.

V. Support for financing for forests provided by operating entities of the FM

Global Environment Facility

13) The GEF is providing support for its Sustainable Forest Management (SFM)/REDD-plus strategy, which aims to develop synergies through multi-focal area programs and projects across climate change, biodiversity and land degradation focal areas. During fifth replenishment period of the GEF, the GEF SFM/REDD-plus Program has contributed over \$650 million toward forest projects, in comparison to \$470 million during GEF 4. This has encouraged a total of \$4.35 billion in co-financing so far during GEF 5³⁵.

14) For the sixth replenishment period of the GEF, which extends from July 2014 to June 2018, the GEF SFM strategy aims to generate global environmental benefits, addressing the emphasis placed by the UNFCCC, the UN Convention on Biodiversity, and the UN Convention to Combat Desertification. Four objectives of this strategy will drive the GEF SFM portfolio, which are namely: maintained forest resources; enhanced forest management; restored forest ecosystems; increased regional and global cooperation. A resource envelope of USD250 million has been proposed and approved, in order to meet the programming within the SFM Strategy in GEF 6. Table 1 below presents the proposed indicative breakdown of resources. More information on the GEF SFM Strategy can be found in the summary of the negotiations of the sixth replenishment of the GEF Trust Fund³⁶.

Table 1 – Programming Targets for SFM Strategy Resources in GEF-6³⁷

SFM Strategy Objective	GEF 6 Programming Targets (\$ million)
SFM 1 – Maintained forest resources	70
SFM 2 – Enhanced forest management	80
SFM 3 – Restored forest ecosystems	50
SFM 4 – Increased regional and global cooperation	30
Contribution to Integrated Approach Pilots	20
Total	250

³⁴ Available at <http://reddplusdatabase.org/>.

³⁵ GEF document GEF/C.46/07/Rev.01, page 161.

³⁶ Contained in GEF document GEF/C.46/07/Rev.01.

³⁷ GEF document GEF/C.46/07/Rev.01, page 174.

Green Climate Fund

15) The Governing Instrument for the GCF³⁸, in its paragraph 37–39, contains provisions on funding windows and fund structure as following:

- (a) The Fund will have thematic funding windows. Initially, the Fund will have windows for adaptation and mitigation. An integrated approach to funding mitigation and adaptation will be used to allow for cross-cutting projects and programmes.
- (b) The Board shall also ensure adequate resources for capacity-building and technology development and transfer. The Fund will also provide resources for innovative and replicable approaches.
- (c) The Board will consider the need for additional windows. The Board will have the authority to add, modify and remove additional windows and substructures or facilities as appropriate.

16) The GCF Board at its fifth meeting decided that the Fund will initially make allocations under adaptation, mitigation and the Private Sector Facility, and that there will be balance between adaptation and mitigation and the appropriate allocation of resources for other activities³⁹. At the same meeting the board also took a decision on the initial result areas for the Fund,⁴⁰ including the following areas related to forests: sustainable forest management to support mitigation and adaptation including afforestation and reduction of forest degradation; and REDD-plus implementation.

17) At its seventh meeting, the GCF Board requested the GCF Secretariat to develop a logic model and performance framework for ex-post REDD-plus results-based payments, for consideration of the Board at its next meeting in October 2014.

VI. On-going processes under the Convention related to mitigation actions in the forest sector by developing country Parties, in particular REDD-plus

18) The purpose of this section is to present a summary of currently on-going processes under the Convention related to mitigation actions in the forest sector by developing countries, in particular REDD-plus. This information may be useful for the SCF to gain an overview of currently on-going discussions related to forests under the Convention in order to consider possible avenues of communication and/or interaction with the relevant group chairs in light of taking up its work on enhancing coherence and coordination for financing for forests.

19) The following timeline provides a visual overview of on-going processes under the Convention:

³⁸ Contained in the Annex of Decision 3/CP.17.

³⁹ Contained in GCF document GCF/B.05/23.

⁴⁰ Contained in GCF document GCF/B.05/23.

Agenda items / Meetings	SBSTA 40	Intersessional period	SBSTA 41
Agenda item on methodological guidance for activities relating to REDD-plus <ul style="list-style-type: none"> Methodological guidance for non-market-based approaches Methodological issues related to non-carbon benefits resulting from the implementation of REDD-plus 	X		
Agenda item on market and non-market mechanisms under the Convention, with three sub-agenda items, namely: <ul style="list-style-type: none"> Framework for various approaches Non-market-based approaches New market-based mechanism 	X		
In-session expert meeting on matters relating to non-market-based approaches in order to prepare a report on the meeting for its consideration at its forty-first session.	X		
Expert meeting on the matters relating to the information hub on the results of the REDD-plus activities and corresponding results-based payments <i>(Tentatively scheduled for September, in Bonn, Germany)</i>		X	
Agenda items on methodological guidance for activities relating to REDD-plus <ul style="list-style-type: none"> Methodological guidance for non-market-based approaches Need for further guidance on the issues referred to in decision 12/CP.17, paragraph 6 			X
<i>(In conjunction with forty first session of the Subsidiary Bodies)</i> Voluntary meeting of national entities/focal points, Parties and relevant entities financing REDD-plus to discuss the needs and functions identified to address issues relating to coordination of support. This meeting will take place annually in conjunction with the first sessional period meetings of the subsidiary bodies.			X

VII. Proposed working modality and possible actions to be taken by the SCF at its seventh meeting

20) The SCF may wish to form a working group on coherence and coordination for financing for forests and considering the following:

- (a) Inter-sessionally identify elements for the 2015 SCF Forum programme, so that the SCF can agree on a draft outline at its eighth meeting in October 2014;
- (b) Extend invitation to SCF members and possibly external stakeholders to provide inputs on the possible elements for the 2015 SCF Forum;
- (c) Coordinate and liaise with the chairs of the Subsidiary Bodies as deemed necessary;
- (d) Consider financing for forests in light of the BA and other MRV activities of the SCF to identify relevant issues;
- (e) Identify possible elements to be included in the draft guidance to the OEs in 2014;
- (f) Prepare a draft preliminary SCF workplan for next year for consideration by the SCF at its eighth meeting and subsequent inclusion in the SCF report to COP 20.

Annex I
Relevant COP decisions on financing for forests

This table outlines relevant COP decisions from Cancun to Warsaw, on issues related to the financing of mitigation actions in the forest sector by developing country Parties, in particular REDD-plus. An overview of key decisions made by the COP on financing for forests will help the SCF understand the issues to be considered in order to further enhance coherence and coordination on the subject matter.

Session	Decisions
COP 16	<p>COP by decision 1/CP.16, encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking the five activities, specified in decision 1/CP.16, paragraph 70, which are namely: Reducing emissions from deforestation; Reducing emissions from forest degradation; Conservation of forest carbon stocks; Sustainable management of forests; Enhancement of forest carbon stocks (REDD-plus activities).</p> <p>In paragraph 73 of the same decision, COP decided that the REDD plus activities should be implemented in phases, <i>beginning with</i> the development of national strategies or action plans, policies and measures and capacity building, <i>followed by</i> 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 <i>evolving into</i> results-based actions that should be fully measured, reported and verified.</p>
COP 17	<p>By decision 2/CP.17, COP agreed that results-based finance provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources. COP also encouraged the operating entities of the financial mechanism of the Convention to provide results-based finance for the actions referred to in decision 1/CP.16, paragraph 73.</p> <p>By the same decision, COP considered that appropriate market-based approaches could be developed by the COP to support the results-based actions by developing country Parties referred to in decision 1/CP.16, paragraph 73 (para.66). COP also noted in paragraph 67 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 could be developed (para.67).</p>
COP 18	<p>COP by decision 1/CP.18, decided to undertake a work programme on results-based finance in 2013, to progress the full implementation of the REDD-plus activities. The work programme included two in-session workshops⁴¹, drawing upon relevant sources of information and taking into account lessons learned from other processes under the Convention and from fast-start finance.</p>

⁴¹ Report of the workshops can be found in FCCC/CP/2013/5.

	<p>The aim of the work programme was to contribute to the on-going efforts to scale up and improve the effectiveness of finance for the REDD-plus activities, taking into account decision 2/CP.17, paragraphs 66 and 67 (i.e. decision paragraphs on market based approach and non-market based approaches). The work programme was mandated to address options to achieve that objective, taking into account a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, including:</p> <ul style="list-style-type: none"> (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.
COP 19	<p>COP 19 adopted the Warsaw Framework for REDD-plus, consisting of seven decisions on REDD-plus. By decision 9/CP.19, COP encouraged entities financing REDD-plus activities, through a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, including the Green Climate Fund in a key role, to collectively channel adequate and predictable results-based finance in a fair and balanced manner, taking into account different policy approaches, while working with a view to increasing the number of countries that are in a position to obtain and receive payments for results-based actions.</p> <p>COP also encouraged entities financing REDD-plus activities and requested GCF, when providing results-based finance, to apply the methodological guidance consistent with decisions 4/CP.15, 1/CP.16, 2/CP.17, 12/CP.17 and 11/CP.19 to 15/CP.19, as well as this decision, in order to improve the effectiveness and coordination of results-based finance.</p> <p>Additionally, COP encouraged entities financing the REDD-plus activities, through a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, to continue to provide financial resources to alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests.</p> <p>In decision 10/CP.19, COP invited interested Parties to designate a national entity or focal point to serve as liaison with the secretariat and bodies under the Convention, on coordination of support and encouraged national entities/focal points, Parties and relevant entities financing REDD-plus to meet, on a voluntary basis, to discuss the needs and functions identified to address issues relating to coordination of support, with the first meeting to be held in conjunction with SBI 41 (December 2014) The outcomes of these meetings will be reviewed by SBI, at the latest, at its forty-seventh session (November-December 2017).</p>