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Submission to the UNFCCC-LCA on behalf of the Amazon Environmental Research Institute, Conservation International, Environmental Defense Fund, Natural Resources Defense Council, Rainforest Alliance, The Nature Conservancy, Union of Concerned Scientists, Wildlife Conservation Society, Woods Hole Research Center, World Vision International.

Views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72.

We welcome the opportunity to present views from accredited observers **on modalities and procedures for financing results-based actions** and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72. Our organizations have previously submitted our joint views on REDD+ finance and on a possible new market mechanism for REDD+ in a post-2012 global agreement. It is clear that REDD+ finance is linked to the overall finance negotiations that will continue this year. This larger discussion will determine overall modalities for all finance flows under the UNFCCC. Here, we would like to highlight several REDD+ specific elements for which further guidance and/or modalities are needed to augment any future decisions on finance under the broader climate mechanism. We understand modalities and procedures to be defined as rules for the REDD+ mechanism and the processes through which those rules are implemented. We encourage the LCA to lay out principles for financing REDD+ consistent with environmental integrity. This submission will provide our joint views on fundamental elements necessary for a successful global REDD+ system to achieve the goal to slow, halt, and reverse forest cover and carbon loss.

REDD+ FINANCING GAP

A number of developed countries have made pledges to provide "fast start" REDD+ finance totaling $30B through 2012. They have also committed to mobilize $100B/year by 2020, a portion of which would fund REDD+. While the fast start finance has been slow to materialize[1] and increased efforts are needed to ensure that the fast start finance commitments are respected, an even greater concern is what will happen after 2012. The Durban decision, which calls for negotiations under the Durban Platform to be concluded by 2015, does not resolve this question. **Countries need to identify and commit financing for the 2013-2020 timeframe, as soon as possible, especially for phase 1 and 2 activities.** Unless sufficient financing is provided for phases 1 and 2, REDD+ countries will not be able to enter phase 3 and produce emissions reductions at a sufficient level of ambition. Where countries have achieved a suitable level of readiness, phase 3 activities should be financed in the 2013-2020 timeframe.

[1] Although $32.9B has been pledged, less than $9.5B has been deposited, $5.3B approved, and $2.14B disbursed. [Source: Climate Funds Update, accessed 2/7/2012.]

It is important to ensure that results-based financing for phase 3 REDD+ will be available beyond 2020. Without this certainty, REDD+ countries will find it more challenging to maintain momentum between now and 2020. Decisions under this negotiating stream are an important element to ensure that results-based financing will be available, but work in other areas is also required. In the case of market-based finance, agreement on ambitious emissions reductions targets will be necessary, not just to achieve our climate goals, but also to create sufficient demand for REDD+ results-based action. Work is also required under the Finance agenda item to identify scaled-up sources of finance beginning in 2020. Public and innovative sources of finance will play an important role in complementing market finance, but work needs to be done now to make sure those sources of finance are available. REDD+ will only be successful if financing is available to support action at scale.

DEFINING RESULTS-BASED ACTIONS

The past few years have seen the development and early implementation of REDD+ programs around the globe. However, most of these efforts have focused on phases 1 and 2, with phase 3 results-based actions still in their infancy. Countries still do not know exactly what types of results-based actions will be eligible for phase 3 finance flows from the UNFCCC, as well as from other fora including the World Bank, UN-REDD, and FIP, public sources of funding such as the Norway-sponsored Amazon Fund, and general private sector actors. Clarity from the UNFCCC-LCA on the definition of results-based actions is urgently needed so that countries can plan and structure their engagement in REDD+. We believe that verified emission reductions, subject to all safeguards, are the key to eligibility for phase 3 financing, and therefore a list of eligible actions is not required. That is to say, the output of REDD+ determines phase 3, not the input.

Both the Cancun and Durban decisions clarify that results-based actions should be "fully measured, reported and verified." This helpfully distinguishes results-based payments from payments for activities, programs, or policies. Thus, results-based payments would be payments for a measurable result. However, further definition by the LCA is needed to clarify exactly what results would be paid for. For some time, many have assumed that payments for results-based actions would be provided for emissions reductions. We suggest that **payments for REDD+ results should be clearly defined as payments only for emission reductions (tons of GHGs reduced per year), and that actions to reduce those emissions must meet environmental and social safeguards, as required by 1/CP.16.**

Our view is that REDD+ safeguards are not meant to be results in and of themselves, but enabling conditions necessary if REDD+ is to achieve its goal to "slow, halt and reverse forest cover and carbon loss." Thus, addressing and respecting the safeguards is not a "result" but a prior condition necessary for *all* REDD+ actions. Decision -/CP.17 reiterates this and "agrees that, regardless of the source or type of financing, the activities referred to in decision 1/CP.16, paragraph 70, should be consistent with the relevant provisions included in decision 1/CP.16, including the safeguards in its appendix I."

While phase 3 financing will consist of payments for emission reductions, these payments can subsequently be used to support a variety of actions. For example, a country could decide to use revenues from results-based financing to support activities related to the safeguards, to address drivers, to design and implement policies, or to implement activities on the ground. Each country should have the flexibility to decide how to allocate funds from results-based payments according to its individual REDD+ priorities and needs, while maintaining consistency with principles, criteria, and standards under which such financing is provided.

Our view is that countries will best be served by allocating funds to a variety of activities and beneficiaries, including those in support of the safeguards or that might result in co-benefits. These and other on-the-ground activities and policies and measures will, in turn, contribute to achieving further emission reductions. The mix of activities and policies that will produce results will vary from country to country; REDD+ countries will be in a position to identify nationally-appropriate actions after developing their REDD+ strategies and fully implementing phases 1 and 2. **Therefore, we believe the UNFCCC should not be prescriptive in determining what on-the-ground activities can be undertaken by countries to achieve REDD+ outcomes under phase 3; it is the outcomes that matter.**

Co-benefits will naturally occur from REDD+ activities and policies taken to reduce emissions. A focus on maximizing co-benefits through activities and policies will most likely generate more emissions reductions and reduce the risk of non-permanence and can also help countries to achieve other goals, such as sustainable development. Although results-based payments should be made based on the reduction of carbon emissions, achievement of co-benefits may allow countries to access funding beyond carbon funding, including adaptation or biodiversity financing, to complement carbon payments.

An important point is that financing for results-based actions will be disbursed only after a country has demonstrated it has reduced emissions at the national or approved subnational jurisdictional levels. This will create both challenges and opportunities for countries. Funding for initial activities may come from phase 1 and 2 financing. Some countries may find additional sources to fund their REDD+ actions until they are able to receive phase 3 financing. Once the first set of emissions reductions is verified, countries may be able to use a sequential approach to funding emission reductions. The first set of results-based payments can be used to support actions that can produce another set of results, which can then garner additional results-based payments, etc. in a cycle where each set of result-based payments funds the next set of actions. Countries will likely need to develop a REDD+ finance strategy in order to determine how they will manage ex-post financing.

RELATING FINANCE TO REFERENCE LEVELS

The LCA should establish a transparent and inclusive review process for integrating both RLs and the technical assessments into a process to translate RLs into compensation. We envision an expert group that conducts two different types of reviews. First, it should assess each individual country's reference level (as recommended by SBSTA and agreed at COP 17) to ensure it complies with agreed upon criteria and principles, including accuracy, completeness, and transparency. Second, in order to assess REDD+ performance with regard to slowing, halting, and reversing forest cover and carbon loss, it will be necessary to evaluate the global additionality of REDD+ emission reductions. A periodic aggregate review of all of the RLs to assess their ability to meet the REDD+ goal (e.g., whether they significantly over- or underestimate global historical deforestation emission rates) should be conducted by an expert group to reveal the extent to which RLs are able to provide a benchmark to assess REDD+ performance in reducing global emissions.

A key point here is that even if individual RL adjustments are valid according to the eventual RL rules and justifiable on policy grounds, the aggregate of all the RLs could over-estimate projected emissions compared to historical levels. The aggregate review of RLs should provide clear quantitative information to the negotiation process for compensation levels and finance, such that the final structure of the REDD+ mechanism is credible and meets the goal of slowing, stopping and reversing deforestation.

Since results-based payments will be provided for demonstrated emissions reductions, financing will be linked to a country's performance against its reference level or reference emissions level (for simplicity, we will refer broadly to reference levels, or RLs). Thus, countries will need to calculate robust RLs to use as their benchmarks for environmental performance. The Durban decision took an important first step by agreeing to basic RL principles, limiting the scope for adjustments, and establishing the need for a technical assessment of RLs. The negotiation of compensation will be an ongoing political discussion and one that is important for the LCA as it develops modalities and procedures for financing results-based actions.

The LCA should clarify the relationship between RLs and compensation, and establish a process and modalities for providing compensation with RLs as a starting point (e.g., recommending the length of an accounting period, establishing a process for technical input from RL assessments to inform negotiation of compensation levels). Such a process should be based on the principles underlying both reference levels and the REDD+ mechanism, including environmental integrity, transparency, accuracy, conservativeness, and inclusiveness. The LCA should take into account the results of the technical assessments of countries' proposed reference levels when determining the basis for compensation.

A robust, transparent RL is critical not only because it is the basis for determining the environmental performance of REDD+, but also because it will be tied to the level of financing a country receives. Reference levels need to be credible if financers are to have confidence that their payments are for real, additional emission reductions. The Durban decision on RLs provides basic guidance on how reference levels should be constructed and clarifies that the information and methods used to construct the reference levels should be provided transparently. However, since each country could potentially make adjustments to its reference level, it will be challenging to determine if payments are being made for results under the principle of global additionality. For this reason, adjustments should be made only for limited reasons and should improve the ability of the RL to maintain environmental integrity.

REGISTRY: AN ESSENTIAL TOOL

A GHG and finance registry is a fundamental piece of the REDD+ system as envisioned in the Cancun Agreement and further defined in the Durban REDD+ decisions. In tandem with a well-designed inventory system, a registry enforces fungibility by using clear standards. **The main purpose of an emissions registry is to provide an independent record of emissions reduction performance and financial flows.** In effect a registry serves as the official "repository" for all reported emissions and associated reductions, as well as the sources and destinations of financial flows, regardless of the source. The UNFCCC could ensure the quality of measurements, consistency of approaches, comparability of tons, and overall integrity of the mechanism by establishing an international REDD+ registry with strict, transparent standards for all registered tons and by reviewing or requiring auditing of all reported data.

A registry also provides participating entities with credibility and accountability to stakeholders – including both stakeholders on the ground (local communities, program participants) and international stakeholders (investors, regulators, the international community at large). By giving participants and stakeholders access to information about both process and data, the registry maximizes the transparency of the emission reduction program. In any emerging GHG market, the value of emission reductions is highly dependent on participant confidence that the reductions will be redeemable for allowances in future regulated systems. Similarly, investment of non-markets sources of finance will also be dependent on confidence that those investments pay for real results.

In the absence of a registry, the origin of emissions reductions is obscured, making it practically impossible to identify double counting or double selling of reductions. In contrast, under a well-designed registry system, not only are all tons accounted equally, but the system also establishes a clear ownership record, ensuring that reductions exist only in one account at any given time and that a given ton is not claimed by more than one registry participant. The UNFCCC has registry systems under the Kyoto Protocol and the CDM, and the EU ETS has had one operating registry since 2005.

A well-designed registry uses clear standards for the quality of the tons it accepts and the financing it reports, defines transparent and reliable methods for measuring progress, and ensures the credibility of the trading system by employing best-practice data management practices. These three goals are achieved through clear delineation of required measurement and estimation practices, accurate representation of progress toward allowances and/or emission targets, and consistent application of a strict accounting framework. In **the case of REDD+, a registry will be important if we are to achieve these goals whether or not all REDD+ financing flows through the UNFCCC.** In the case where some financing may flow through other vehicles, even in the third phase of REDD+, it will be particularly important to establish a registry that can track finance flows from all sources. In designing such a registry, it is also important for the UNFCCC to review current and nascent REDD+/terrestrial carbon registry designs in order to take advantage of lessons learned, and maximize opportunities to facilitate linkages among these systems where appropriate, in support of a unified market signal, as other registries and systems may develop more quickly than one within the UNFCCC.

REDD+ AFTER COP18-WHERE DOES IT GO?

Another crucial issue is what happens to the REDD+ agenda item in the LCA after COP 18. In Durban, it was agreed that the LCA would wrap-up in December 2012 at COP 18. It is unclear what will happen in the case of issues that have not been fully defined or where sufficient guidance is lacking, once LCA ends. **Our assumption is that unresolved REDD+ issues, such as REDD+ finance and REDD+ MRV, as well as REDD+ specific issues that have already received some additional guidance including reference levels and safeguards, will be shifted into the Durban Platform for Enhanced Action (DPEA).**

We thank you for the opportunity to submit our views. For additional questions, please contact the following organizational representatives.

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About this NGO coalition

The organizations represented here are members of an informal coalition of non-governmental organizations that work together in support of REDD+ under the UNFCCC and other processes. To this end, we work with local communities on conservation and sustainable development strategies; advise governments and decision-makers on designing policies, and building the technical capacity, legal frameworks, and financial mechanisms for successful implementation of REDD+; and conduct scientific research on the role of tropical forests in the global carbon cycle and climate change.