Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA)

Informal summary of the in-session 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

Thursday, 30 August 2012, 10:00-13:00, 15:00-18:00
UNESCAP, Bangkok, Thailand

Summary by the chair of the workshop on issues raised by participants

Session I (Opening session) and session II (Technical presentations):

Presentations were made by representatives of: (i) Bolivia (Plurinational State of); (ii) Brazil; (iii) Coalition for Rainforest Nations; (iv) Colombia, Costa Rica, Honduras and Mexico; (v) Indonesia; (vi) Philippines and Switzerland; (vii) Sudan on behalf of the least developed countries; (viii) United States of America; and (ix) the secretariat on the key elements of the technical paper on financing options for the full implementation of results-based actions relating to the activities referred to in decision 1/CP.16, paragraph 70, including related modalities and procedures (FCCC/TP/2012/3).[1]

Ms. Alexa Kleysteuber presented a brief update on the work of the group discussing various approaches and the new market mechanism under the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

The following is a summary of the substantive points raised by Parties in discussions during session III (In-depth discussions):

In relation to **thematic area 1 (Financing options, sources and related enabling considerations),** Parties provided the following opinions, inter alia:

1. Some Parties were of the view that the basic provisions needed for the financing of results-based actions are already contained in decisions 1/CP.16 and 2/CP.17. They also felt that the completion of work on those basic elements is a way of financing the full implementation of phase 3 of REDD-plus;[2]

2. Many Parties were of the view that public finance should be the primary source of financing for phases 1 and 2 of REDD-plus activities and that all REDD countries should have equal access to REDD-plus finance. A number of Parties proposed the idea of direct access to the Green Climate Fund (GCF) as is applied in the case of the Adaptation Fund. Parties also mentioned the need for a flexible combination of market and non-market sources and for the full development of a non-market approach;

3. Many Parties considered funding for phases 1and 2 as the main enabling condition for the financing of phase 3 and that this funding should be scaled up in order to meet the needs of REDD countries. A number of Parties proposed that the funding should cover the capacity-building, and development and application of the necessary policy, legislative and institutional framing to facilitate REDD-plus activities;

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[1] All presentations and the technical paper are available on the UNFCCC website <http://unfccc.int/meetings/bangkok_aug_2012/workshop/7028.php

[2] 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'

4. Some Parties felt that the financing for phases 1 and 2 is currently not working. They proposed that the GCF with a REDD-plus window to finance phases 1, 2 and 3 be fully functional by the end of the year. Several Parties mentioned that more clarity on the role of the GCF is needed. Others mentioned that the secretariat should coordinate different sources of funding and provide guidance on how to complete phases 1 and 2 and how to proceed to phase 3. A Party proposed the assessment of needs and enhanced coordination between public and private sources to enable more investment;

5. Several Parties mentioned the insufficiency of financial support to implement REDD-plus actions on the ground. Private investments in particular are scarce partly because of the high risk involved. Additional international resources are deemed necessary to reduce the risk of loss for private sector;

6. A number of Parties supported the view that Parties included in Annex I to the Convention (Annex I Parties) should increase their political willingness to provide support and to incentivize, on the national level, the private sector to engage in REDD financing;

7. Many Parties noted that a key enabling condition, which is missing currently, is the price of carbon that would come from a predictable demand. Many were also of the opinion that this increase in demand must come from higher emission reduction ambitions by Annex I Parties;

8. Several Parties felt that an important enabling condition would be to have a national governance framework in place that would enable inter-agency coordination, distribution of funds and would support a legal framework for enforcement. They also affirmed the importance of changing the behaviour of the private sector so that it would engage in more sustainable activities as a way of addressing the drivers of deforestation;

9. A Party was of the opinion that the enabling condition for REDD-plus finance is the full development of a non-market based approach in the form of the joint mitigation and adaptation mechanism for the integral and sustainable management of forests (JMA). They stressed the importance of moving forward with the design of the architecture, modalities, and procedures and institutional mechanisms for a JMA. They proposed the creation of a JMA window in the GCF and the creation of a link to the work of the adaptation group in the Nairobi work programme on impacts, vulnerability and adaptation to climate change.

In relation to **thematic area 2 (The role of the private sector in REDD-plus investments),** Parties provided the following opinions, inter alia:

10. Several Parties mentioned that increased engagement of the private sector could lead to significant investments in REDD-plus. These investments would be key factors in addressing the drivers of deforestation. A Party added that the private sector is already involved in REDD-plus. Parties observed that the role of the private sector could be enhanced by an increase in the level of ambition/commitment by developed countries. Several Parties mentioned that the private sector is willing to invest in REDD-plus if there are strong safeguards, profitability, security for investments and a right price set for carbon, and emphasized the role of public–private partnership in the sharing of benefits and risks;

11. A number of other Parties were of the view that the private sector should not replace the public sector in its role of providing funds for REDD-plus activities. A Party suggested that the role of the public sector in all phases of REDD-plus implementation is to leverage involvement from the private sector;

12. Several Parties noted that the private sector is broadly diversified in Annex I Parties and may play many roles in the context of REDD-plus. Parties mentioned that the private sector may also invest beyond the carbon market, for example in sustainable land-use planning, and that the private sector can provide large scale demand for REDD units if proper incentives are put in place. A Party noted that many of the conditions for full engagement of the private sector needed to be created by Parties not included in Annex I to the Convention (non-Annex I Parties);

13. A number of Parties proposed that policies in non-Annex I Parties that create a secure investment environment, for example by addressing safeguards and land tenure, would be an important enabling condition for the engagement of the private sector. Parties further added that clarity on finance is needed in order to incentivize REDD-plus countries' governments to work towards adapting their respective domestic private sectors for REDD-plus financing and proposed that the domestic private sector in developing countries may play a role in REDD-plus if it was involved in a strategic/programmatic manner;

14. Several Parties noted the need to provide clear rules and guidance to decrease the exposure to risk of private investors;

15. A Party noted that strong emphasis should be on the national implementation of safeguards and that the price of carbon increases the availability of private investment;

16. A Party mentioned that the REDD market mechanism should be included in any new market mechanism that may be implemented under decisions adopted by the Conference of the Parties (COP) and that this must be done at COP 18;

17. A number of Parties noted that not all REDD-plus activities generate credits and since the private sector prefers under market conditions, not all REDD-plus activities may be attractive to private investors;

18. Some Parties proposed that lessons from voluntary and clean development mechanism markets should be considered. A Party highlighted some of the flaws with the project approach under REDD-plus and the limitations of the voluntary market.

In relation to **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)**, Parties provided the following opinions, inter alia:

19. Many Parties mentioned that the framework for financing the full implementation of REDD-plus actions should be characterized by: national sovereignty, respect for national laws, national approach to Measurement, Reporting and Verification (MRV), accountability and transparency;

20. Parties noted the need for the definition of a number of concepts and terms used in the context of REDD-plus, such as actions, results and programmatic projects;

21. A number of Parties proposed several institutional arrangements that would be needed for phase 3 of REDD-plus. The proposals included a board for the REDD-plus window in the GCF, a registry/registries, a reserve bank, a regulatory body to administer and coordinate all new market mechanisms and a coordinating body under the secretariat. Some Parties suggested that the Subsidiary Body for Scientific and Technological Advice provide guidance on the registry, reporting and review of information under the Convention;

22. Parties observed that some of the institutional arrangements that needed to be in place at the national level required political commitment to ensure a cross-sectoral approach. These and other such arrangements did not need to be contained in a COP decision;

23. Many Parties proposed that a REDD-plus window under the GCF should replace the current fragmented public financing for REDD-plus. On the other hand, a Party while not convinced about the proposal considered that the better option might be the provision of special guidance for the GCF;

24. Some Parties proposed that REDD-plus results should cover results that go beyond carbon, including adaptation measures, the performance of capacity-building measures, and ecosystem services. Most Parties were of the opinion that REDD-plus payments should cover verified carbon reductions only. The Parties acknowledged that methodologies for the assessment of non-carbon

benefits are not yet available. Some Parties proposed that, for the purpose of making progress in Doha, Qatar, REDD-plus payments may be based on carbon estimates but should cover elements beyond it. A Party cautioned that basing the assessment of payments for non-carbon benefits on carbon estimates may not properly reflect the value of these benefits;

25. A number of Parties mentioned that higher standards in addressing safeguards may lead to higher payments for carbon benefits;

26. Many Parties were of the opinion that a price floor for REDD-plus carbon units should be established and some Parties suggested that the Subsidiary Body for Implementation develop guidance on pricing;

27. A number of Parties mentioned that there is a need for an incentive baseline that may be different from reference emission levels/reference levels as this may allow for a distinction to be drawn between action performed domestically and international support;

28. Many Parties supported the idea of crediting Parties to reward early action;

29. A Party elaborated on the concept of a non-market based approach, such as a JMA mechanism for the integral and sustainable management of forests. It emphasized the adaptation and mitigation co-benefits that would be generated under this approach. It noted that a specific new institutional architecture was needed to develop this new approach, which would allow for sustained ex-ante funding (conditional to the future performance of joint mitigation and adaptation indicators), simplified reporting, and respect for national sovereignty;

30. Several Parties supported the idea of having a combined or informal session with the groups, which were discussing the agenda items on long-term finance, a new market mechanism and the GCF;

31. Many Parties were of the opinion that they should not leave Bangkok, Thailand, without an informal negotiating text.