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Submission of the governments of the Philippines and Switzerland

Financing Options for REDD-plus (AWG-LCA)

November 18, 2011

Paragraph 77 of decision 1/CP.16 requested the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to explore financing options for the full implementation of the results-based actions including any recommendations for draft decisions to the COP 17, from which the governments of the Philippines and Switzerland strongly support the development of a COP 17 decision.

This submission has been developed by the Philippines and Switzerland and draws on the inputs of participating Parties and stakeholders, including the private sector, within an ongoing bilateral initiative "Towards Building a Governance Framework for REDD+ Financing", which has led an electronic consultation, workshop and report carried out during the second half of 2011.

We promote the idea of framing the REDD+ mechanism within effective governance conditions that ensure changes in forests are accurately measured, reported, and verified, safeguards are respected, benefits are equally distributed, and relevant stakeholders participate in this process. Results-based actions regarding GHG emission reductions from REDD+ will have to be measurable, reportable, and verifiable. To achieve full MRV, additional resources from a variety of sources are needed, addressing at all times risk and permanence.

As REDD+ nations continue to build readiness and experiences, momentum towards results-based actions will have to be met with support in terms of finance and governance. Durban urgently needs to provide a decision on how the results-based phase will be financed. The decision should provide countries the freedom to utilize a broad range of financing sources as appropriate, on a voluntary basis, including public and private finance for Phase 3 and for nested approaches in Phase 2. REDD+ activities, irrespective of the source of financing, must be accountable against agreed environmental and social standards. It must therefore be ensured REDD+ finance operates within a broader governance framework which addresses and respects the safeguards agreed in Cancun within the overall country-specific development objectives.

In Panama during the October, 2011 AWG-LCA 14.3, the facilitator of the REDD+ contact group requested written submissions from Parties and provided elements that could serve as guidance for submission of views by Parties as follows:

1. *Different sources of finance*
    a. *Public funds*
    b. *Specialized REDD-plus funds or funding windows established by the Green Climate fund under the COP*
    c. *Existing mulitlateral and bilateral channels*
    d. *Market-based mechanisms*
    e. *A flexible combination of funds and market-based sources*
    f. *Any new financing options identified*
2. *Mitigation actions in the forest sector being implemented by developing country Parties as referred to in decision 1/CP.16, paragraph 70, and the role of different sources of financing*
3. *Linkages with modalities relating to the SBSTA work programme*
4. *Links with other financial instruments under the Convention and/or being developed by the AWG-LCA*
5. *Any other relevant elements*

1a. Public funds

- Public funding is essential for readiness
- Public funding for REDD+ must be linked closely to the provision of basic services, implementing safeguards, and should orient other REDD+ finance towards achievement of country-specific REDD+ objectives across all phases and including all relevant sectors
- Public sector funds cannot work alone in lieu of the scale of resources required to implement REDD+
- Domestic public funds are limited and would recommend as part of Readiness to have these be spent towards creating an enabling policy environment to incentivize and leverage other sources of REDD+ finance for Phase 3
- Public funds for REDD+, starting with structured readiness activities, including development of REDD+ national plans and strategies, demonstration activities, capacity building, enabling effective MRV, and strengthening of governance structures should receive and distribute immediate, new and additional, adequate, and predictable funding in an equitable, transparent, participatory and coordinated way.
- Funding for REDD+ readiness should continue to be delivered through existing and additional public multilateral and bilateral channels with increasing contributions from new sources, particularly the private sector as countries approach Phase 3 or results-based implementation
- There is a continued role for public international funding, particularly complementing investments in key public goods aimed at removing further barriers to investments to effectively tackle drivers of deforestation, including the incentives for private investment.
- Even if delivery has been slow under the existing funds, it should be recognized that a learning process for both the countries and the institutions involved has been needed. These institutions and a large number of countries have now put in place capacity and adopted frameworks for use in the future, and offer lessons learned for REDD+ going forward. Nonetheless most countries will need time to fulfill phase I and phase II requirements.
- There needs to be appropriate matching of public funds to stakeholders possessing the capacity for implementation of REDD+. We encourage national entities to demonstrate optimum use of existing budgetary resources for REDD+ activities and develop further domestic financing schemes particularly for readiness activities.

b. Specialized REDD-plus funds or funding windows established by the Green Climate Fund under the COP

- The scale of funding needed for REDD+ and how countries are to access such funding should be prioritized in the design of the Green Climate Fund.
- REDD+ window vis-à-vis other activities to be financed through the GCF should complement and work toward similar goals of national, bilateral, and multilateral efforts to conserve and sustainably manage forests and enhancing forest carbon stocks, and be sensitive to existing livelihood patterns of and promote improved livelihoods of forest-dependent people, particularly indigenous peoples and local tenured communities;
- Relation between ODA support and public funding from developed countries for REDD+ needs to be clarified
- The REDD+ window of the GCF should build on existing institutions and learn lessons from the FCPF, FIP, UNREDD, GEF, REDDES, CBFF, FLEGT, PROFOR and national multi-stakeholder, bottom-up approaches that are evolving. The REDD+ window of the GCF should take into account the work of the Interim REDD+ Partnership, in particular recommendations regarding scaling-up of aid and the principles of aid effectiveness;
- This fund could provide seed funding, and thus could also assume some of the risk and liability otherwise shouldered by developing countries.

c. Existing multilateral and bilateral channels

- There is a need to continue to work on developing better data sources regarding financial flows as they relate to REDD+ and/or the forest sector - particularly bilateral flows, domestic budget support and private sector investment flows.
- The costs and benefits of achieving REDD+ at national level on the basis needs to be estimated based on progress so far. Assessment of the transaction costs as well as costs to the differential benefits and costs to different stakeholder groups should be assessed and used to assist planning and decision making at national and international levels.

- Existing multilateral and bilateral channels (including eg. FCPF or REDDES) are currently collecting important information on the costs of implementing safeguards (both at national and local levels). This information should be included in the quantification of REDD+ costs which should be covered by REDD+ finance.
- Not only do we need harmonisation of multilateral and bilateral standards used for determining when to release REDD+ finance, we also need greater coherence in sequencing between initiatives.

d. *Market-based mechanisms*

- In lieu of the scale required to implement the results-based phase of REDD+, the role of complementary sources such as the private sector should be explored further
- Private capital, as well as market-based mechanisms, have the potential to shift current investments away from destructive activities that address drivers of deforestation and forest degradation. It has the potential to strengthen a market for goods and services that protect forests, including the carbon market and ecosystem markets, and create a local economy that values ecosystem protection and forest peoples' rights
- However, it is currently difficult to justify the entry of new market-based mechanisms in the context of low levels of mitigation ambition by developed country Parties.
- The involvement of the private sector in readiness and demonstration activities indicate willingness to contribute to the international REDD+ mechanism and increasingly recognizes and accepts the need for safeguards.
- Governance conditions for the engagement of the private sector should be duly established

e. *A flexible combination of funds and market-based sources*

- Countries should have the flexibility to choose funding sources for Phase 3 or the results-based implementation of REDD+, recognizing national sovereignty and circumstances, and the enabling role of a flexible combination public and market based sources to complement and support country-driven REDD+ objectives and strategies.
- Financing for GHG emissions reductions from forests under REDD+ that are measured, reported, and verified, also referred to as results-based actions, will need **finance additional to public sources,** from a variety of sources, including innovative sources of finance
- Whether the international community wants to use carbon markets or other incentives to harness private sector investment for sustainable forest use, the critical requirements are to provide some level of policy certainty of the type of incentive, the timing of its deployment and the commitment to retain it over a reasonable investment timeframe.
- Private investment should be considered, not just from international sources, but also from national ones.
- The role of a host country government is to establish the governance framework in the corresponding sectors for REDD+ and then allow, among other actors, the private sector, which is not limited to financial actors, to identify and take forward opportunities under the REDD+ strategy.
- Public-private partnerships that work in the context of a broader policy framework towards meeting country specific objectives should be promoted; where public funding is used to create an enabling environment and ensure safeguards are implemented, and private-sector-based sources facilitate innovative financing for REDD+ as appropriate in line with country strategies.

f. *Any new financing options identified*

- Other potentially large sources of private investment in REDD+ might include specialized forest investment funds and timberland investment management organizations (TIMOs).

2. *Mitigation actions in the forest sector being implemented by developing country Parties as referred to in decision 1/CP.16, paragraph 70, and the role of different sources of financing*

- Public sources of REDD+ finance should be closely linked to provision of basic services, the implementation of safeguards and create an enabling policy environment to orient REDD+ finance to national REDD+ strategies and objectives.
- REDD+ finance should incentivize both public and private sector investments away from drivers of deforestation and forest degradation.

- Addressing drivers of deforestation and forest degradation, as well as promoting enhancement and conservation of carbon stocks, and sustainable management of forests should facilitate investment opportunities towards the protection and enhancement of ecosystem services and the wellbeing of communities. The agricultural sector, energy sector and commodity roundtables are key in this process.
- A broader definition of results-based performance and payments should be developed. Such a definition should reflect how REDD+ results and impacts are not only limited to the reduction of greenhouse gas emissions but also to include the multiple functions of forests in line with the sustainable management of forests, the provision of ecosystem services and other co-benefits.

3. *Linkages with modalities relating to the SBSTA work programme*

- REDD+ finance should support the implementation of safeguards and the provision of information on how safeguards are being addressed.
- REDD+ finance should support the establishment of reference levels and MRV systems
- Clarity towards modalities for the establishment of reference levels, MRV, and provision of information on safeguards implementation can facilitate generation of REDD+ finance
- The promotion of the **safeguards** contained in 1/CMP.16, Annex 1 should be favored and reinforced within the financing requirements for REDD+ activities. Respect for safeguards will, on the one hand incentivize the financing of REDD+, while on the other will require financial incentives and rewards to ensure their promotion. Carbon objectives must be embedded into local circumstances and realities, guided by safeguards and harmonized with development objectives for REDD+ to be successful.
- Emission reductions must be assessed against independently reviewed, verified and periodically updated **national reference levels** which will probably be established on the basis of historical trends, projections based on drivers, and a collective ambition. A clear process for the periodic revision of reference levels and the periodicity should be defined as early as possible.
- **MRV** of REDD+ should be integrated into developing country national reporting efforts and must be linked to developed country financial reporting and monitoring/evaluation/assessment systems of support provided to fast start funds and the Green Climate Fund. A flexible funding mechanism with a central reporting system is needed for avoiding potential double accounting both in investments and in credits for emission reductions.

4. *Links with other financial instruments under the Convention and/or being developed by the AWG-LCA*

- Specific market-based mechanisms need to be discussed, in particular crediting and trading based instruments, since these instruments should ensure net environmental, social and governance benefits and scaled-up mitigation actions and should be built efficiently based on existing experiences.