SCF Workprogram on Financing for Forests
Submission on experiences with the use of resources/ transfer of payments for results-based approaches, and the provision of resources for alternate approaches

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United States

The United States is pleased to provide this submission in response to the invitation from the Standing Committee on Finance to its members and interested observers "to submit relevant information/case studies to inform the working paper on coherence and coordination for financing for forests. This might include:

a. Experience with use of resources/the transfer of payments for results-based approaches;
b. Experience with the provision of financial resources for alternative approaches."

Experience with use of resources/the transfer of payments for results-based approaches

The use of results-based payments for REDD+ is in its infancy; experience will be gained over the coming years as bilateral programs and multilateral initiatives such as the Forest Carbon Partnership Facility Carbon Fund and BioCarbon Fund Initiative for Sustainable Forest Landscapes progress. However, the United States and other stakeholders have substantial experience with other results-based approaches for forest conservation and other environmental services, and in other sectors.

Results-based approaches have been applied domestically in the United States in a number of sectors including energy, air quality, water quality and education. In the land sector, the Conservation Reserve Program and Conservation Stewardship Program are payment for environmental services program which cover private and tribal lands in the United States. There are also a number of examples of results-based approaches in U.S. bilateral assistance in the health and governance sectors, and through mechanisms such as Fixed Amount Reimbursement Agreements. Additional information on USAID's experience with results-based approaches can be found here:
http://www.fcmcglobal.org/documents/Results_Based_Finance.pdf.

These experiences, and those of other programs we have observed, have generated points which are germane to the question of results-based approaches and the related transfers of payments. These include:

Results-based approaches

- Results-based approaches should be designed with the ultimate objective in mind, and structured in such a way as to make that objective attractive to all participants.
- Results-based approaches must be attractive enough to influence behavior change by the recipient (and associated stakeholders); they also must be attractive to potential financers.
- "Results" should be mutually agreed, clearly defined, easily measurable, and verifiable by third parties;
- Timelines and formats for reporting on results should be agreed in advance;
- Payment or disbursement triggers should be agreed upon in advance;
- Greater transparency on reported results, and the data/ information behind these results, leads to greater confidence. This may eventually lead to streamlined reporting and payment processes;

- Results-based approaches usually work best when available finance has been identified up front, and committed to payments for the specified results once they are achieved. We know of few examples of payments that retroactively recognize results achieved before agreements were put into place.
- Results-based approaches need not be market-based. Both market-based and non-market-based approaches have been successful.
- Successful results-based finance approaches include strategies to sustain results after results-based finance ends. This often includes a transition to domestic finance, or incorporation of innovative practices into business-as-usual action.

Transfer of payments

- Results-based financing does not necessarily involve "payments." Results-based financing includes not only "payment" in cash, but also other resources or benefits disbursed on the basis of results.
- Under results-based financing, the processes and conditions required for provision results based finance (including potential transfer of payments) should be agreed in advance.
- The mechanism for managing any payments received, and further disbursing funding, should be appropriate to the context of the recipient country.
- Confidence in the fiduciary capacity of the recipient organization is required. This may mean meeting guidelines established by the payer.
- Types of funding that have specific restrictions on use (for example those set through a company or organization's ethics policy, or by governments) may require clarity on the planned use of funds after transfer, though the information required is usually far less than for other types of finance (eg loans or grants).

<u>Experience with the provision of financial resources for alternative approaches</u>

Experiences

The United States has significant experience providing financing for forests and climate change through a wide variety of approaches, each appropriate to the country, or stakeholders, for which the resources are targeted. In our experience, there is no one "standard" approach to financing climate change and forest actions, and no one "alternate" approach. Examples of existing or emerging approaches for which support has been provided include:

- National climate change strategies with a forests or land sector component;
- National REDD+ strategies;
- National forest and climate change strategies;
- National mitigation and adaptation strategies;
- National adaptation-based REDD+ strategies;
- National forest strategies
- A wide variety of programs, actions plans, and projects that assist in the implementation of these strategies to slow, halt, and reverse deforestation and achieve emissions reductions.

The mechanisms or tools through which bilateral or multilateral financing is provided vary greatly, as these also must be appropriate for the objectives, needs, and capacities. In many cases, a wide variety of financing tools have been used in a single country to support strategies for REDD+, land sector mitigation, and forest conservation. Examples of these tools or mechanisms include:

- Grants
- Concessional loans
- Loan guarantees

- Political risk insurance
- Debt for nature swaps
- Payments for performance milestones
- Payments for emissions reductions

Other financing tools such as equity investments, bonds, and advanced market commitments have used in other sectors or by other financers, and may be equally attractive to finance mitigation actions in forests.

Conclusions

- There will be a continued need for financing to support mitigation and resilience actions in forests (including REDD+), and in broader the land sector.
- Financing will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.
- Many different tools and methodologies are available to support mitigation actions in forests.
- The specific mix of financing tools, sources, and approaches that is most effective will depend on the context – national circumstances, approaches selected, actions to be financed, capacity, relevant financers, etc.
- Most strategies to enhance mitigation in forests (as well as resilience approaches, and broader land sector strategies) are likely to be financed through a blend of tools, sources, and approaches.
- This flexibility is fully supported by existing decisions under the UNFCCC.
- Countries, financers, and other stakeholders should be encouraged to implement the approaches to reducing emissions from forests that are likely to be most effective given their own circumstances.