

## Results-based finance for REDD-plus

### -Lessons learned from the Forest Carbon Partnership Facility and the BioCarbon Fund-

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#### Key Lessons for Effective Transfer of Results-based Finance

More than 10 years of experience with carbon finance has shown that performance-based payments can produce powerful incentives to stimulate mitigation of greenhouse gases.

For results-based finance to be effective, several conditions need to be met. These include among others:

- A clear **agreement on the definition of results** and what triggers potential payments;
- A **well-designed measurement, reporting and verification system** that can give reasonable confidence that results have been achieved;
- **Management arrangements** that oversee the implementation of the actions as well as adherence to proper safeguards.

These conditions require that:

1. Countries that receive the payments have appropriate capacity and systems in place; and
2. There is a regulatory framework that fosters the effectiveness of results-based payments.

#### Appropriate Capacity and Systems for REDD-plus Countries

The experience from the FCPF Readiness Fund shows that in order to build appropriate capacity and country systems, the particular circumstances in a REDD-plus country must be taken into consideration. The readiness process under the FCPF is thus designed to accommodate these different country circumstances by focusing on **relative progress**. A system for results-based finance for the full implementation of REDD-plus activities should support this concept of relative progress and assist REDD countries to transition from preparation to REDD-plus implementation taking into account national circumstances.

To support the progress from preparation to REDD-plus implementation, a system for results-based finance would need to recognize a couple of things:

- i. REDD+ programs face a significant obstacle in the form of **upfront financing needs** that have to be met before emission reductions can be achieved. This upfront financing is required to put in place capacity, make investments and implement policy measures. Upfront financing needs will vary according to program types but are likely to be substantial.

A system for results-based finance could accommodate this by providing upfront payments for different measures of results, including proxies. This could be done on an interim basis, until REDD-plus countries have appropriate systems in place to report results as measurable and verifiable greenhouse gas emission reductions. Depending on the type of results, payments can come from different types of financing sources.

- ii. A system for results-based finance should also recognize that **the investments that are needed to address the drivers of deforestation and forest degradation are long-term and deemed risky**. Results-based payments can produce powerful incentives as long as it is on a sustained and recurrent basis and they can leverage more traditional forms of finance, including private finance, available for land-use activities.

To achieve this, it is necessary to have:

- Timely and predictable financing for innovative strategies;
- Appropriate institutional arrangements for financial intermediation and insurance;
- An understanding by financial institutions, including those in developing countries, of the opportunity for climate finance to help in financing rural development;
- Payments for upfront investments, based on meeting performance benchmarks and frameworks that incentivize the private sector to engage in these upfront investments; and
- Complementary concessional resources and grant financing order to reduce risk to private capital and mobilize significant flows of private sector financing at a later point.

### Regulatory framework

The second requirement for results-based finance to be effective is a **regulatory framework that fosters the effectiveness of payments**. Regulatory requirements such as ex ante and ex post assessments of results of programs have direct implications on revenue flows. The experience with the CDM has shown that validation and verification requirements for projects have imposed high transaction costs. This erodes the potential of results-based payments. It is therefore necessary that the assessment of REDD+ programs should rely on more streamlined or better calibrated approaches, in order to lower costs.

In this context, it is also important to consider the benefits of REDD-plus beyond climate mitigation. Mitigation activities in the land-use sector also improve resilience of the environment and communities, and enhance both living and environmental conditions. Given that these additional benefits are a strong incentive for local participation and for improving program performance and maintaining permanence, a system for results-based finance should **encourage the enhancement of these benefits and the contribution of REDD activities to broader sustainable development**.

### Relevant Pilot Programs at the World Bank to test Results-based Finance

In order to test results-based financing, the World Bank Carbon Funds and Facilities are pioneering activities and implementing pilots.

- The FCPF is doing this through its Carbon Fund. The **FCPF Carbon Fund** will provide results-based payments to about five countries that have made significant progress in their REDD+ readiness endeavors. A first Letter of Intent for the Fund is about to be signed with Costa Rica.

Results in the context of the Carbon Fund are defined as measured and verified emission reductions relative to an agreed reference level. The Carbon Fund will pilot the regulatory context required for this type of results-based payments. One of the first components of this regulatory context that the Carbon Fund is developing is a **methodological framework**. This framework addresses both the quantification of the emission reductions as well as making sure

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REDD programs have certain programmatic characteristics, including social, environmental and other non-carbon benefits..

- The World Bank's **BioCarbon Fund** has launched a **third Tranche** which aims to scale up climate-smart land use activities and deliver landscape level transformations using results-based financing. This Tranche will build on previous project level experiences and seize opportunities for innovative public-private partnerships and incentivizing sustainable land use. An example is encouraging upstream investments in land productivity and supply chains by private companies.

It is expected that the pilots under the FCPF Carbon Fund and the BioCarbon Fund will generate important lessons on result-based finance for the full implementation of REDD-plus. We are looking forward to sharing these lessons with all Parties as the discussions develop in the future.