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Matters relating to finance

Report on the work programme on results-based finance to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70

Report on the workshops of the work programme on results-based finance to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70

Note by the co-chairs

Summary

This report contains information on the outcomes of the two workshops held relating to the work programme on results-based finance for the full implementation of the activities referred to in decision 1/CP.16, paragraph 70. It contains summaries of the presentations made and the outcomes of the discussions that took place at both workshops. The workshops addressed the three areas identified by the aforementioned work programme: (a) ways and means to transfer payments for results-based actions; (b) ways to incentivize non-carbon benefits; and (c) ways to improve the coordination of results-based finance. Several key points of convergence emerged during the discussions on ways and means to transfer payments for results-based actions at the second workshop. At both workshops, issues requiring further consideration and/or elaboration were identified. In addition, this report presents the key elements for consideration in designing an architecture for results-based financing for the full implementation of the activities referred to in decision 1/CP.16, paragraph 70.

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I. Introduction

A. Mandate

1. The Conference of the Parties (COP), by decision 1/CP.18,¹ decided to undertake a work programme on results-based finance in 2013, including two workshops, to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70 (hereinafter referred to as REDD-plus).² It invited the President of the COP to appoint two co-chairs for the work programme, one from a developing country Party and one from a developed country Party. The COP requested the secretariat to assist the co-chairs in supporting the workshops.

2. By the same decision, the COP also decided that the aim of the work programme is to contribute to the ongoing efforts to scale up and improve the effectiveness of finance for REDD-plus activities, taking into account decision 2/CP.17, paragraphs 66 and 67, and that the work programme will address options to achieve that objective, taking into account a wide variety of sources as referred to in decision 2/CP.17, paragraph 65, including:

- (a) Ways and means to transfer payments for results-based actions;
- (b) Ways to incentivize non-carbon benefits;
- (c) Ways to improve the coordination of results-based finance.

3. By the same decision, the COP requested the co-chairs, supported by the secretariat, to prepare a report on the workshops for consideration at COP 19, with a view to the COP adopting a decision on this matter.

4. The COP further decided that the work programme shall end by COP 19, unless the COP decides otherwise.

B. Scope of the note

5. This document contains a description of the proceedings of the two workshops (chapter II), a summary of the presentations made and the key issues highlighted during the discussions on ways and means to transfer payments and ways to improve the coordination of results-based finance (chapter III) and a summary of the presentations made and the key issues highlighted during the discussions on ways to incentivize non-carbon benefits (chapter IV). The final chapter of the document presents the key elements identified during the workshops for consideration in designing an architecture for results-based financing for the full implementation of the activities referred to in decision 1/CP.16, paragraph 70 (chapter V).

¹ Decision 1/CP.18, paragraphs 25–33.

² In decision 1/CP.16, paragraph 70, the COP encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking the following activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks (also referred to as REDD-plus).

C. Possible action by the Conference of the Parties

6. COP 19 may wish to consider the information contained in this report as part of its consideration of the matters outlined in paragraph 2 above, with a view to adopting a decision on those matters.

II. Proceedings of the workshops

7. In preparation for the workshops, the co-chairs, Ms. Christina Voigt (Norway) and Mr. Agus Sari (Indonesia), held informal meetings and bilaterals with Parties and observer organizations on the margins of the second session of the Ad Hoc Working Group on the Durban Platform for Enhanced Action and the thirty-eighth sessions of the subsidiary bodies. The views and inputs of Parties and observer organizations helped to shape the focus of the workshops.³ Both workshops organized under the COP work programme on results-based finance were co-chaired by Ms. Voigt and Mr. Sari. The co-chairs introduced the mandate and objectives at each workshop and presented the approach to the work.

First workshop on results-based finance

8. The first workshop on results-based finance for the full implementation of REDD-plus activities took place over half a day during the thirty-eighth sessions of the subsidiary bodies at the Maritim Hotel in Bonn, Germany, on 10 June 2013. The workshop was open to all Parties and admitted observer organizations attending the sessions.

9. The workshop started with an overview presentation on the key outcomes of the workshop on financing options for the full implementation of actions relating to REDD-plus held in August 2012 in Bangkok, Thailand,⁴ which was followed by short statements made by representatives of five Parties forming a panel,⁵ which focused mostly on responding to a set of specific questions posed by the co-chairs. After a question and answer session, the workshop participants engaged in plenary discussions on the same set of questions. The workshop concluded with a short summary of the key points by the co-chairs.

10. Detailed information on the workshop is available on the UNFCCC website.⁶

Second workshop on results-based finance

11. The second workshop on results-based finance for the full implementation of REDD-plus activities took place over two days at the Wissenschaftszentrum in Bonn, Germany, on 21 and 22 August 2013. Financial support for the workshop was provided by the European Commission and the Government of Norway.

12. In total, 91 representatives participated in the second workshop, representing 42 Parties not included in Annex I to the Convention, 16 Parties included in Annex I to the Convention, eight intergovernmental organizations (IGOs) and nine non-governmental organizations (NGOs).⁷ The IGOs represented were the Convention on Biological

³ Messages from the co-chairs on those informal meetings and bilaterals are available at <<http://unfccc.int/7376>>.

⁴ Details on that workshop can be found at <<http://unfccc.int/7028>>.

⁵ The countries represented on the panel were Australia, Costa Rica, Germany/European Union, Ghana and Indonesia.

⁶ <<http://unfccc.int/7671>>.

⁷ Before the workshop, the secretariat extended an invitation to each of the nine civil-society constituencies. Three of them nominated experts to attend the workshop: environmental NGOs, research and independent NGOs and business and industry NGOs. For the organizations that represented the three constituencies, please refer to the list of workshop participants.

Diversity, the Green Climate Fund (GCF), the Global Environment Facility (GEF), the United Nations Convention to Combat Desertification, the United Nations Environment Programme Finance Initiative (UNEP FI), the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme), the World Agroforestry Centre and the World Bank.

13. On the first day of the workshop, the co-chairs gave a presentation on the key outcomes of the first workshop, referred to in paragraphs 8–10 above, which was followed by several presentations on ways and means to transfer payments and ways to improve the coordination of results-based finance. Following this, the workshop participants engaged in plenary discussions on the same topics and shared their views on a set of specific questions posed by the co-chairs. The second day of the workshop was divided into two thematic sessions, with a separate set of specific questions posed by the co-chairs for each. The day started with presentations on ways to incentivize non-carbon benefits, which were followed by plenary discussions on the same topic. At the final session, the workshop participants identified and discussed the key elements for consideration in designing an architecture for results-based financing for the full implementation of REDD-plus actions.

14. Detailed information on the workshop, including an informal workshop summary by the co-chairs, is available on the UNFCCC website.⁸

III. Ways and means to transfer payments and ways to improve the coordination of results-based finance

A. Summary of presentations

15. This section summarizes the presentations and statements made at the workshops on ways and means to transfer payments and ways to improve the coordination of results-based finance.

1. Summary of the issues addressed at the first workshop

16. To set the scene for the first workshop, a recap of the discussions on REDD-plus financing under the Ad Hoc Working Group on Long-term Cooperative Action under the Convention was provided through a summary presentation on the outcomes of the previous workshop referred to in paragraph 9 above.⁹ The presentation outlined three thematic areas: (a) financing options and sources and related enabling considerations; (b) the role of the private sector in REDD-plus investments; and (c) key elements of a framework for financing the full implementation of results-based REDD-plus actions.

17. Subsequently, five representatives of Parties formed a discussion panel and each panel member provided views in response to one particular question posed by the co-chairs. The responses covered the following aspects related to ways and means to transfer payments for results-based actions: the unique features of financing for REDD-plus; the challenges or barriers faced by developing country Parties in terms of their access to and/or receipt of results-based payments for REDD-plus and potential ways to address them; the ways in which bilateral and multilateral initiatives are addressing such barriers; the requirements for scaling up and ensuring predictable financing and investment; and potential ways and means to ensure the link between results-based payments and addressing

⁸ <<http://unfccc.int/7729>>.

⁹ The full report on the workshop is contained in document FCCC/AWGLCA/2012/INF.8.

and respecting safeguards, addressing the drivers of deforestation and reducing risks (see chapter III.B.1 below for more details on the discussions).

2. Summary of the presentations made at the second workshop

18. At the second workshop, the co-chairs gave a briefing on the key outcomes of the first workshop. One of the co-chairs of the COP work programme on long-term finance, Mr. Mark Storey (Sweden), provided an update on the work being addressed by that work programme.¹⁰ Then, several presentations outlining views and proposals regarding potential ways to progress the work programme on results-based finance were given.

19. The representative of Brazil proposed an architecture for results-based payments for REDD-plus activities that, in his view, would be simple and effective at providing adequate and predictable support to developing countries. The proposed architecture has three key elements: (a) the GCF as the main multilateral financial institution; (b) the designation of a national REDD-plus coordination entity by each developing country; and (c) the development of an online repository of REDD-plus results on the UNFCCC website. The presentation outlined the central role of the GCF in assuring developing countries that a substantial proportion of their REDD-plus actions and results will be paid for, either through ex ante financing for readiness or ex post payments of grants for results that are fully measured, reported and verified (a non-market-based approach). National REDD-plus coordination entities would coordinate the application for and receipt of payments, as well as ascribe results to subnational actors as defined according to each country's priorities and circumstances. The proposal also includes the development of an online repository, termed the 'matchmaking tool', whereby information on REDD-plus results is maintained and results-based payments are tracked. An additional point made by the representative of Brazil was that the use of appropriate market-based approaches excludes the use of offset mechanisms.

20. On behalf of the Coalition for Rainforest Nations, the representative of Papua New Guinea presented views on the modalities for the transfer of payments for REDD-plus results-based actions. Four main challenges were identified, namely: insufficient tangible actions; funding mechanisms that are not working efficiently or effectively; a lack of funding; and an absence of effective, coordinated international governance. The representative also identified several gaps in the current financing of REDD-plus, including the lack of coordination of funding mechanisms, coherency and common standards. She noted the confusion existing at various levels among implementing countries, donors, financing institutions and other relevant stakeholders. To address the existing challenges, gaps and lack of coordination, the Coalition proposes the establishment of a REDD-plus governance body to coordinate and manage requests for support, facilitate the mobilization and scaling up of finance and technology support, ensure the transparency and equitable distribution of financing and address technical and capacity-building needs.

21. The representative of the Plurinational State of Bolivia highlighted different approaches in the consideration of policy approaches and positive incentives for reducing emissions from deforestation and forest degradation. According to him, the REDD-plus carbon-centred approach is focused mostly on mitigation and is based on ex post payments and market approaches. The representative proposed the joint mitigation and adaptation approach (JMA), which is designed to effectively advance non-market-based approaches and is focused on achieving sustainable mitigation through adaptation in a holistic, comprehensive and integrated manner. JMA is based on sustained public financing, comprising both ex ante and ex post financing, for the performance of results-based actions

¹⁰ Further information on the activities under the COP work programme on long-term finance is available at <<http://unfccc.int/6814>>.

that takes into account joint mitigation and adaptation indicators. The proposal also calls for the creation of a ‘forest mitigation and adaptation’ window by the GCF.

22. The representative of Colombia outlined the country’s views on an architecture for REDD-plus results-based finance and addressed the questions posed by the co-chairs. He outlined three main aspects of the architecture: ensuring linkages between methodological and reporting elements and financing for results-based actions; observing linkages between REDD-plus and other bodies and tracks of negotiation under the Convention; and providing guidance to the GCF. In addition, he proposed the creation of a REDD-plus unit tracking log. Further, the Colombian representative noted that the COP should provide some guidance to the Board of the GCF and that such possible guidance could include: encouraging the GCF to adopt and use the methodological guidance on results-based REDD-plus actions at both the national and, in the interim period, the subnational level; encouraging the GCF to support financing for phase two¹¹ of REDD-plus; and for the GCF to consider a specific window for REDD-plus.

23. The representative of UNEP FI presented seven lessons learned in relation to involving the private sector in REDD-plus investments: (a) private-sector capital will flow at scale if the incentive structure is well designed; (b) long-term and predictable policy should conform to the four ‘Ls’ – long, loud, legal and light; (c) once suitable incentives are in place, finance needs to be raised, as many green activities have higher ‘upfront’ finance requirements; (d) the supply of and (e) demand for finance is important; (f) results-based payments are generating considerable interest in other fields of finance, such as in social finance with the Social Impact Bond; and (g) results-based payments are very important, but we must not lose sight of the ‘big picture’. In order to scale up finance for REDD-plus by mobilizing private-sector capital, there is a need to create an attractive risk–reward profile for REDD-plus investments or a compelling business case.

24. Representatives of four IGOs¹² gave statements on their experiences with and/or views on the transfer of payments for results-based REDD-plus finance. It was acknowledged that results-based payments are a powerful incentive, but that they also take time and resources to operationalize, because the institutions, capacity and regulatory framework to receive results-based payments are complex and need time to be set up. The representatives shared the understanding that well-defined results, robust measurement, reporting and verification and proper addressing of safeguards are mandatory requirements for receiving results-based payments. Some mentioned that a single national entity could be helpful in addressing challenges with coordination, and that coordination between donors also needs to improve. A concern was raised that there is a need for continuous financing for REDD-plus readiness activities because of the complexities and time realities of the readiness process, and that there is also a need for more demonstration activities to gather experience with results-based financing.

B. Key issues highlighted during the discussions

25. This section provides a summary of the key issues highlighted during the discussions on ways and means to transfer payments and ways to improve the coordination of results-based finance at both workshops.

¹¹ Phase two of REDD-plus includes the implementation of national policies and measures and national strategies or action plans that could involve further capacity-building, technology development and transfer and results-based demonstration activities (decision 1/CP.16, paragraph 73).

¹² The GCF, the GEF, the UN-REDD Programme and the World Bank.

1. Key issues related to ways and means to transfer payments highlighted at the first workshop

26. On the basis of their consultations with Parties, the co-chairs posed a set of questions to guide the discussions at the first workshop (refer to the annex for the questions).

27. Responding to the first question, Parties identified a number of unique features affecting the financing for REDD-plus, including: that REDD-plus is a land-based issue covering large areas; that it touches on the sensitive issue of land tenure and land rights; that the drivers of deforestation and forest degradation are more complex than the drivers of emissions in other sectors; that REDD-plus is expected to contribute to other benefits by addressing and respecting safeguards; and that payments will be made ex post and be based on results. Conversely, they also identified common elements that REDD-plus shares with mitigation options in other sectors, including the common concept of measuring, reporting and verifying with the unit of a tonne of carbon dioxide equivalent (t CO₂ eq), setting a reference level and assessing performance against a baseline.

28. Barriers to access to and/or the receipt of results-based payments for REDD-plus pointed out by developing country Parties included the different requirements, processes and standards of different financing channels, which result in uncoordinated support for REDD-plus implementation and also lead to the inequitable allocation of funds. The issue of the limitation of existing finance was also raised, especially the lack of predictability and the gap between fast-start finance and long-term finance. Some Parties added that the demand for emission reduction units from emissions trading at this point is limited and unpredictable. Other barriers identified related to the national regulatory settings in developing countries and institutional and human capacities, which cannot readily deal with payments for results-based REDD-plus actions as required by donors. The need to further discuss ways to incentivize non-carbon benefits to gain more clarity on their scope and role was highlighted.

29. It was pointed out that addressing the above-mentioned barriers will require all Parties to work in a partnership spirit. Sustained, predictable and scaled-up finance as well as the transparent and equitable distribution of payments are critical. Some Parties identified a major role for the GCF in facilitating the achievement of this and they expect the majority of financing to come from public finance, while others expressed the view that, because of the scale of finance required, the private sector will need to play an important role in REDD-plus financing. Some Parties see a simplified, central and effective architecture for results-based payments at the international level as the best way to increase synergies between different sources of financing and to ensure coordination and coherence. Such architecture could be used as a 'hub' to strengthen regional cooperation. Parties made the point that it will be important to build capacity and provide technical assistance, especially to the least developed countries, to help countries to move from readiness activities to results-based actions. In addition, Parties mentioned the importance of finalizing the work on methodological guidance under the Subsidiary Body for Scientific and Technological Advice (SBSTA), in particular on measuring, reporting and verifying REDD-plus activities.

30. Some of the key elements for scaling up and ensuring predictable financing identified during the workshop were: the incorporation of good governance at all levels (local, national and international) and in all sectors; the importance of making progress in the exploration of modalities for results-based payments as well as for measuring, reporting and verifying REDD-plus activities; and the creation of an enabling environment, including building the institutional capacity to set up and respond to a results-based payment incentive mechanism. It was emphasized that it is crucial to establish an inclusive system flexible enough to account for differences in national circumstances and allows countries to

decide what works best for them. Some Parties added that there is a need for risk assessments and the reduction of the risk of investment to attract both public and private investments.

31. Parties discussed that, in order for REDD-plus to be a success, it is of critical importance to address and respect safeguards, address drivers of deforestation and forest degradation, and ensure that the benefits of REDD-plus are felt by the local people, including by enhancing the participation of local and regional groups of stakeholders, local communities and indigenous peoples. In relation to addressing drivers, it was considered useful to address broader issues, such as creating incentives for sustainable agriculture, reviewing potentially perverse incentives and enhancing the monitoring and control of illegal logging. One Party suggested that identifying non-carbon benefits and specific sources of funding to reward such non-carbon benefits could be considered in national legal and policy frameworks. In addition, the need to build capacity at the level of subnational implementation was mentioned. Addressing the link between mitigation and adaptation in an integrated and holistic way could increase resilience and reduce risks, leading to the improvement of people's livelihoods and well-being.

2. Key issues highlighted at the second workshop

32. At the first substantive session of the second workshop, the discussions on ways and means to transfer payments initiated at the first workshop were continued. At this session, Parties also had the opportunity to consider ways to improve the coordination of results-based finance for REDD-plus. Taking into account the views expressed by Parties at the first workshop and during informal meetings, the co-chairs formulated a set of questions to guide the discussions at the session (refer to the annex for the questions).

33. To set the scene for the discussions, the co-chairs presented their understanding of the provisions and elements relating to methodological guidance and financing options already in place, as contained in decisions 4/CP.15, 1/CP.16, 2/CP.17 and 12/CP.17, and the ongoing consideration relating to other methodological issues. They noted that, in accordance with decision 2/CP.17,¹³ the COP agreed that results-based finance that is new, additional and predictable may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources. In addition, they noted the existing financing entities under and outside of the Convention that are presently supporting actions relating to REDD-plus in developing countries. They invited Parties, while taking into account their questions, to consider the missing elements or missing link that may still be needed to complete the picture on results-based financing for REDD-plus and the type of guidance that the COP could provide on that matter. They proposed an 'information hub', which could facilitate the tracking and coordination of information and reports from REDD-plus implementing countries, bilateral and multilateral donor channels and operating entities of the financial mechanism of the Convention.

Key points of convergence

34. In their discussions at the session in question, Parties were able to reach common ground on a number of elements. Those elements included several guiding principles for results-based financing, elements that make up the missing link referred to in paragraph 33 above, such as an information hub, national coordination entities, and the role that the GCF could play in an architecture of results-based REDD-plus financing.

35. *Guiding principles:* Several principles that could guide the transfer of results-based payments for the full implementation of REDD-plus activities were identified. The proposed principles include: (a) a simplified and more streamlined structure which ensures

¹³ Decision 2/CP.17, paragraph 65.

the effectiveness and transparency of finance; (b) ensuring the equitable distribution of finance; (c) ensuring that guidance specific to REDD-plus is applicable to all financial institutions; (d) ensuring the broad participation of developing country Parties; (e) ensuring the environmental integrity of results-based actions; (f) avoiding double counting and gaps in financing and the duplication of efforts; (g) minimizing bureaucracy; and (h) reducing transaction costs.

36. *Tracking results and corresponding payments:* Parties shared the view that the creation of an information hub at the international level (or repository, registry, tracking log or clearing house) could facilitate the transparency and robustness of REDD-plus results and the transparency of corresponding payments. An information hub would also help to gather and maintain information on measured, reported and verified results (including all elements for results-based actions included in decisions 4/CP.15, 1/CP.16, 2/CP.17 and 12/CP.17 and any further relevant decisions of the COP) and track payments to avoid double counting and gaps in financing and duplication of efforts. A hub would also facilitate access to relevant information needed by implementing countries, donors and financial institutions, including the operating entities of the financial mechanism of the Convention, such as on how safeguards are being addressed and respected, as reported through the safeguards information system, as well as facilitate decision-making. The functions of such an information hub should not overlap with those of existing bodies and other institutional arrangements under the Convention.

37. *Coordination entity:* In the course of the discussions, Parties developed an interest in the proposed creation of national REDD-plus coordination entities or the appointment of national focal points for REDD-plus. They were of the view that such an entity would facilitate a transparent flow of information on both results and payments. According to the Brazilian proposal, a national REDD-plus coordination entity would operate at both the international and national levels, facilitating coordination at both levels and maintaining accurate information. More specifically, at the international level, it would take responsibility for obtaining and receiving payments for results and for signing corresponding agreements with the operating entities of the financial mechanism of the Convention, other financial institutions and donors, while at the national level it would take responsibility for ascribing results to other national or subnational actors in the implementation of REDD-plus. The establishment of a national coordination entity would also ensure that benefit-sharing arrangements are transparent and remain exclusively a national prerogative.

38. *Role of the GCF:* A large number of Parties shared the view that the GCF should have a central role in an architecture for results-based financing for REDD-plus, in addition to other multilateral and bilateral financing channels. Several Parties were of the view that the COP should provide guidance to the GCF with regard to financing for REDD-plus activities. There was a proposal that the guidance to the GCF could provide a menu of options for payments (e.g. to ensure equitable distribution of resources and thresholds for payments) and ensuring support for ex ante financing for readiness actions and ex post financing for results-based actions (see also para. 22 above).

39. *Role of other financing institutions:* A large number of Parties noted the importance of coordinating finance that may be coming from other financing institutions, such as the Forest Carbon Partnership Facility or the UN-REDD Programme, for results-based REDD-plus actions. While the COP is not in a position to provide guidance to those institutions, many Parties agreed that the COP should 'invite' or 'encourage' them to coordinate their work with that of the operating entities of the financial mechanism of the Convention, as well as to use agreed methodological guidance adopted by the COP.

40. *Other key elements:* Parties noted that an architecture for results-based finance for the full implementation of REDD-plus should recognize several elements that will need to be in place before results-based payments can be made, namely:

(a) The importance of adequate financing for the readiness phases of REDD-plus as a prerequisite for the implementation of results-based actions;

(b) The need to develop all elements identified in decision 1/CP.16, paragraph 71 (national strategy, national forest reference emission level/forest reference level, national forest monitoring system and a system for providing information on how safeguards are being addressed and respected), as a prerequisite for receiving results-based finance;

(c) The provision of information on how safeguards are being addressed and respected as a requirement for receiving results-based finance.

Other issues raised and issues and proposals requiring further consideration or elaboration

41. *Concerns relating to the present state of financing for REDD-plus:* Responding to the question of how an architecture for results-based payments for REDD-plus activities under the Convention could look, many developing countries highlighted the present situation on financing for REDD-plus. They were of the view that the present financing situation is overly fragmented, with a number of multilateral financing institutions outside of the Convention and/or bilateral donors supporting the financing needs of developing countries in relation to REDD-plus. There are no common standards to guide eligibility for acquiring finance, nor is there any guidance on the equitable distribution of finance to developing countries implementing REDD-plus actions.

42. The developing countries that are endeavouring to implement their REDD-plus readiness actions expressed concern that financing for the readiness phases and for addressing the drivers of deforestation and forest degradation is inadequate and difficult to access. They were also concerned about the 'sunset clauses' for existing multilateral financing channels, such as by 2020 for the Forest Carbon Partnership Facility, potentially limiting the pool of available readiness financing for REDD-plus.

43. Many developing country Parties were of the view that the present financing architecture for REDD-plus cannot continue as is if it is to be able to ensure the scaling up of finance for the full implementation of REDD-plus in developing countries. A longer time horizon for ensuring adequate and predictable financing and the coordination of such financing would be required. In addition, a few Parties noted the need to first have clarity on long-term climate finance and its architecture before there can be clarity on financing for REDD-plus.

44. *A governance body:* Addressing the present situation of fragmented financing, many developing country Parties proposed the establishment of a REDD-plus governance body. Accordingly, the functions of such a body could include: (a) receiving, coordinating and managing requests for support; (b) facilitating the mobilization and scaling up of finance and technical support; (c) providing guidance to the operating entities of the financial mechanism of the Convention; and (d) ensuring the transparent and equitable distribution of financing. A few Parties suggested the merging of the Brazilian proposal (the GCF playing a central role, national coordination entities and a repository) with the proposal of the Coalition for Rainforest Nations (a governance body). This combined proposal would provide the architecture for results-based payments with institutional, governance and information elements and ensure transparency of access to and the distribution of results-based payments.

45. However, many other Parties were not convinced that a new governance body would address the issue of fragmented financing or ensure the scaling up of results-based finance and the coordination of such finance. Some Parties were of the view that there is more

value in creating linkages with other Convention bodies and processes (such as the GCF, the Standing Committee on Finance, the new market mechanism, the framework for various approaches, the NAMA registry and work on long-term finance) to ensure the adequacy and scaling up of finance for REDD-plus than in setting up a new body. The setting up of such a new body was seen by some as counterproductive to keeping the architecture simple and less bureaucratic. Moreover, some Parties noted the value of collective decision-making by the COP and were concerned about delegating competences to smaller decision-making bodies. In addition, it was mentioned that the governance of REDD-plus financing involves many other economic sectors in a country.

46. *Role of the NAMA registry:* A few Parties noted the difference between the NAMA registry which facilitates the matching of projects and funding and the information hub that would track results at the international level. The question of whether the NAMA registry could be upgraded to meet the needs of tracking REDD-plus results and payments was raised.

47. *Role of the private sector:* A number of Parties highlighted the important role of the private sector in the mobilization and scaling up of finance for the full implementation of REDD-plus. One concern raised was the uncertainty over the amount of financing that could be generated from non-market-based approaches alone if the market-based approach were not considered as a source of finance. Some Parties expressed doubts as to the attractiveness of results-based REDD-plus actions to the private sector (e.g. risk of and return on investment) and noted that a 'business case' for REDD-plus needs to be seen in connection with ambitious mitigation targets and the creation of demand for REDD-plus credits or units. The prevailing view was that further clarity on the role of the private sector in financing the full implementation of results-based REDD-plus activities is needed.

48. *Inclusion of various approaches, including non-market-based approaches:* One Party emphasized that an architecture for results-based finance for the full implementation of the activities referred to in decision 1/CP.16, paragraph 70, cannot be based on a carbon-centric approach alone, but should include a diversity of approaches, including both ex ante and ex post payments for different actions, including mitigation and adaptation. Countries should be given the option of choosing their preferred financing approach or a composite of approaches. Another Party noted that, regardless of the approach chosen, market or non-market, the focus should be on sectors rather than on project-level implementation.

49. *Guidance to the GCF and other financing institutions:* Some concerns were expressed over the role of the GCF, owing to the uncertainty of when it will become operational. Another concern raised was in relation to the capacity and capability of the GCF to evaluate the reports submitted by countries on their results-based REDD-plus actions and requests for payments. A few Parties noted that guidance could be provided to the GEF while waiting for the GCF to become operational. In addition, Parties recognized that there are limits to the guidance that can be provided to the GCF. Several Parties suggested that liaising with colleagues working with the relevant external financing institutions or with the members of the Board of the GCF and updating them on the needs of REDD-plus countries could facilitate coherent decision-making on the provision of results-based finance.

50. *Establishment of incentive levels:* A group of developed country Parties proposed the establishment of a quantifiable incentive baseline as a threshold for payments. A few developing country Parties expressed strong reservations in that regard and raised their concern that the need for the establishment of an incentive level relates to the establishment of targets for developing countries. This could result in complicating negotiations on REDD-plus matters.

IV. Ways to incentivize non-carbon benefits

A. Summary of presentations

51. This section summarizes the presentations made at the second workshop on ways to incentivize non-carbon benefits.

52. The presentation of the first expert, from the Norwegian University of Life Sciences, started with a comparison of the different characteristics and requirements of safeguards and non-carbon benefits. While safeguards relate to meeting defined minimum standards, the active promotion of non-carbon benefits goes beyond meeting minimum standards. He identified several options for how carbon and non-carbon benefits could be combined or stacked for compensation, but also expressed concerns regarding the technical and financial feasibility of measuring non-carbon benefits and the risk of overloading REDD-plus with elements that have the potential to increase transaction costs and diverting funding away from actions to reduce emissions. Further, he questions whether it is at all possible to attribute non-carbon benefits to REDD-plus interventions.

53. The expert from the World Agroforestry Centre gave a presentation on the role of non-carbon benefits in REDD-plus results-based finance. The quantification of non-carbon benefits could make the implementation of REDD-plus viable in cases where the cost of REDD-plus exceeds the price of carbon. He emphasized that non-carbon benefits are important for the effectiveness of REDD-plus and that incentivizing non-carbon benefits could help to address the risks of non-permanence and leakage, although the fact that non-carbon benefits and their relationship with non-permanence and leakage differ greatly with scale requires consideration. The expert identified a number of existing safeguard approaches that go beyond the minimum safeguard requirements and might support implementing developing countries in generating non-carbon benefits. Given the current carbon prices and rate of financing, his opinion was that the consideration of non-carbon benefits is likely to be a necessary condition for making REDD-plus financially viable. At the same time, the expert emphasized that, because of the complexity of measuring non-carbon benefits, considering options for integrating non-carbon benefits into a financial framework for REDD-plus would require careful efficiency considerations.

54. The representative of Viet Nam presented on the country's national REDD-plus action programme and on how non-carbon benefits are considered in theoretical research and piloting. For different types of environmental services, service buyers compensate service providers through provincial funds, with an optional step through Viet Nam's Forest Protection and Development Fund (VNFF). Currently, VNFF distributes financing from different sources to give sectoral support and support for special used forests, but it will tentatively establish another subcategory for REDD-plus support in 2013. So far, the main lessons learned with regard to incorporating non-carbon benefits are that there are risks to raising the expectations of stakeholders and diverting resources away from essential REDD-plus readiness activities. The expert pointed to the challenges faced, such as the limited capacity to coordinate a country-led safeguards response, the persistent uncertainties resulting from slow and divergent international climate change negotiations, and the multiple safeguard frameworks of different financing institutions.

B. Key issues highlighted during the discussions

55. Several specific questions were posed by the co-chairs to guide the discussions (refer to the annex for the questions).

56. Parties recognized that non-carbon benefits are a critical part of REDD-plus activities and that they are crucially important for the long-term viability and sustainability of REDD-plus implementation. It was also recognized that non-carbon benefits are linked to safeguards and that additional linkages exist with adaptation. In that context, it was also mentioned that the information hub referred to in paragraph 36 above could contain information on non-carbon benefits.

57. Some developing country Parties expressed the view that REDD-plus is more than emission reductions, and that they see a need to promote action beyond emission reductions, because of the special importance of non-carbon benefits to developing countries. Other developing country Parties were wary of the lack of experience with in-depth consideration of non-carbon benefits at the national level, and the level of complexity and additional requirements that this might add to REDD-plus implementation, which could lead to delays and difficulties in progressing REDD-plus.

58. One particular concern of many of the workshop participants was the difficulty of measuring non-carbon benefits, which can be very different in different countries and depend on how they are defined. They doubted whether common metrics for non-carbon benefits for all participating developing countries could be developed. Some Parties raised the issue of the lack of experience with such measurement at the national level and the need for capacity-building. In addition, the need to further explore the costs of the measurement of non-carbon benefits compared with the costs of forest monitoring and/or the costs of a safeguards information system was identified, with some workshop participants indicating that qualitative assessments of non-carbon benefits might be more realistic than quantitative measurements.

59. Some concerns related to the difficulty of attributing non-carbon benefits to an action related to REDD-plus were raised. Such an attribution would be needed to consider them a result of REDD-plus implementation and to thus be eligible to receive results-based payments. In that context, the complexity of addressing non-carbon benefits was compared with the challenges of development aid projects or programmes, in relation to which decades of experience indicate that it is difficult to measure the impact of or attribute changes to particular interventions.

60. The workshop participants raised the question of whether the appropriate level at which to consider non-carbon benefits would be the local, national or international level. Similarities were noted between non-carbon benefits and payments for ecosystem services (PES), but it was pointed out that experience with the implementation of PES at the international level is lacking, and that national-level experience with PES is limited to a small number of countries. While some Parties expressed the view that the incentivization of non-carbon benefits should continue to be discussed under the UNFCCC, others felt that the UNFCCC is not the appropriate venue for dealing with non-carbon benefits; rather they could be incentivized through the national REDD-plus strategy of each developing country.

61. Parties expressed a need for greater clarity on where the demand to pay for non-carbon benefits should come from. A number of Parties were concerned that, at the current level of potential demand, payments for non-carbon benefits could be very limited. In that context, it was mentioned that it could be useful to explore non-financial ways to incentivize non-carbon benefits. It was also pointed out that it could be a way forward for developing country Parties to combine different funding options for different goals and from different sources to create a coherent implementation strategy at the country level.

62. Concerns were raised about turning forest ecosystem services into commodities, and that the consideration of non-carbon benefits requires a holistic and integral approach, in which non-market-based approaches and ex ante financing for non-carbon benefits would be of importance.

63. Parties acknowledged the lack of a clear definition of non-carbon benefits, and that the further discussion of how to incentivize non-carbon benefits should build on the work of the SBSTA on methodological issues relating to non-carbon benefits.

V. Key elements for consideration in designing an architecture for results-based financing for the full implementation of the activities referred to in decision 1/CP.16, paragraph 70

64. Building on the presentations made and the views expressed in the discussions on ways and means to transfer payments and ways to improve the coordination of results-based finance on the first day of the second workshop, Parties identified and discussed the key elements that could be considered in designing an architecture for results-based financing for the full implementation of actions relating to REDD-plus. They reiterated several points of convergence, identified in paragraphs 34–40 above, and raised several issues requiring further elaboration and/or work. Parties highlighted the linkages with existing financing arrangements and discussed the type of guidance that could be provided by the COP to those arrangements.

65. The co-chairs formulated a set of specific questions to guide the discussions during the session (refer to the annex for the questions).

1. Key points of convergence for consideration in designing an architecture for results-based financing

66. In their identification of key elements that could be considered for inclusion in an architecture for results-based financing for the full implementation of REDD-plus, Parties highlighted a few entities and tools as well as methodological requirements that would be needed to ensure the transfer of results-based payments for REDD-plus. As mentioned on the first day of the second workshop, Parties reiterated the need for and value of developing an information hub, repository or registry as a means to gather, coordinate and track information and actions to avoid duplication of efforts and gaps in financing at the international level. At the national level, coordination would be carried out by a national coordination entity or designated national authority, entity or focal point (see paras. 19, 22 and 37 above).

67. In addition, Parties recognized the importance of providing information on how all of the safeguards referred to in decision 1/CP.16, appendix I, are being addressed and respected as one of the requirements for obtaining results-based finance. Another requirement identified was the putting in place of the core elements for the full implementation of REDD-plus activities referred to in decision 1/CP.16 (e.g. national forest monitoring systems and the development of forest reference emission levels and/or forest reference levels).

68. Addressing the issue of what guidance should be provided by the COP, in general most Parties were of the view that guidance should be provided on governance, at the international level, of the transfer of results-based payments. Also, many Parties were of the view that guidance could be given to the GCF to facilitate its decisions on financing for REDD-plus actions and activities, particularly if the GCF is to play a central role in a REDD-plus finance architecture. Parties expect more clarity on the type of guidance that could be given to the GCF to be developed after the next meeting of its Board, scheduled for October 2013. A few Parties called for providing guidance to the Standing Committee on Finance in its role of improving coherence and coordination in the delivery of climate change financing and in the mobilization of financial resources. However, one Party noted that any guidance given to those entities should be REDD-plus specific. It was also noted

that the guidance on results-based finance for REDD-plus provided by the COP to the GCF and the GEF need not necessarily be the same (see paras. 22, 38 and 49 above for examples of the guidance to be given by the COP).

2. Other issues raised and requiring further consideration or elaboration

69. One of the main points of concern raised by developing country Parties was the need for clarity on the adequacy, sustainability and predictability of new and additional finance for the implementation of REDD-plus throughout all phases. A few Parties noted the importance of adequate financing for REDD-plus actions in the pre-2020 period and expressed concern that significant action on finance may not be taken until after 2020 when the new climate agreement under the Convention is in place. They were of the view that the progress achieved to date on the implementation of REDD-plus actions requires earlier and prompt action on financing. Developing country Parties emphasized the need to be ambitious in deciding on results-based finance for REDD-plus and to make as much progress in the consideration of issues relating to results-based financing as has been made in the consideration of methodological guidance for REDD-plus.

70. The lack of clarity on results-based financing for REDD-plus raised several questions: where are the potential sources of finance and how can they be materialized? What would the frequency of payments be? How would results-based financing for REDD-plus be tracked? And what would the cost implications of fulfilling the requirements of the full implementation of REDD-plus be? Some Parties noted the need to develop the modalities for the transfer of payments in order to ensure clarity.

71. Another major concern raised by many developing country Parties was the fragmentation of finance for REDD-plus, resulting in difficulty accessing finance and the inequitable distribution of financing. A related concern was the adequacy of financing for the readiness or preparatory phases of REDD-plus. Many of the developing country Parties that are still in or only beginning the preparatory phases of REDD-plus expressed the need for assurance that there will be sufficient financing for all phases for them as well. A large number of developing country Parties proposed the establishment of a governance body under the COP to address such issues and ensure the coordination and equitable distribution of finance. Many other Parties expressed caution in that regard and questioned the need for such a governance body, noting that a specific governance body will not necessarily address the issues in question. In that regard, it was noted that there is value in collective decision-making under the Convention, rather than relegating the decision-making on the coordinated distribution of finance to a small group of individuals. Other Parties noted the importance of ex ante payments as part of the financing package, so as to take into account the developing countries that need such payments for their REDD-plus actions. They proposed that the GCF should be encouraged to support activities in phase two of REDD-plus implementation.

72. Parties discussed the need for guidance on the creation of a REDD-plus window under the GCF. One Party added that, if a window under the GCF were to be created, it should not be specific to REDD-plus; rather it would need to provide for both mitigation and adaptation actions in the forest sector. The window should also be broad enough to incorporate the range of financing approaches, including non-market-based approaches. Another Party noted that a specific window for REDD-plus or forests may not be necessary. In fact, it would only be counterproductive, as there would be delays in the creation of a window under the GCF and it would not necessarily result in actual financing for REDD-plus. The same Party was of the view that the mitigation window of the GCF would suffice for REDD-plus related financing.

73. A number of developed country Parties noted the need to develop the concept of an incentive level (see para. 50 above). Some developing country Parties expressed strong

reservations in that regard. They were of the view that this is a moot point as there is insufficient finance to pay for all results; hence, there is no need to consider such a concept at all.

74. Another issue identified for further consideration was the eligibility of results from subnational-level REDD-plus implementation for results-based payments. In addition, questions were raised regarding how the price per t CO₂ eq will be decided and how the validation of data and information reported on results and payments will be treated. It was noted that further clarity on such issues is required.

75. A few Parties noted the overlap in the consideration of issues relating to financing for the implementation of REDD-plus activities across the Convention bodies. They proposed that only one consolidated decision on financing for the implementation of all of the REDD-plus activities referred to in decision 1/CP.16, paragraph 70, should be adopted at COP 19.

Annex

Specific questions by the co-chairs

First workshop on results-based finance

1. Specific questions (see para 26)

1. What are the unique features of financing for REDD-plus as compared with financing for other mitigation options in other sectors? What are some common elements that define results-based payments?
2. What are the challenges or barriers that countries are facing, for example in relation to governance and their access to and/or receipt of results-based payments for REDD-plus? Do these challenges vary for different REDD-plus activities? How can we potentially address these challenges and barriers in order to ensure a more transparent and effective transfer of results-based payments?
3. How can bilateral and multilateral initiatives address some of the barriers that developing countries are facing in order to facilitate their access to and the disbursement of results-based financing?
4. What are the requirements for scaling up and ensuring predictable financing and investment? What should developing countries have in place to facilitate their access to and the disbursement of results-based payments?
5. What are potential ways and means to ensure the link between results-based payments and addressing and respecting safeguards, addressing drivers of deforestation and the reduction of risks? Are there existing best practices that promote the effective transfer of payments for results-based actions?

Second workshop on results-based finance

2. Specific questions on ways and means to transfer payments and ways to improve the coordination of results-based finance (see para 32)

1. How do Parties envisage an architecture for results-based payments for REDD-plus activities under the Convention?
 - (a) What are the ways and means to transfer payments within such an architecture?
 - (b) What are the key elements, and their potential linkages, that would need to be included in such an architecture for results-based payments?
2. What could the role of the GCF and other financing institutions be in results-based financing for REDD-plus?
 - (a) What role do such financing institutions play now?
 - (b) What further guidance can the COP give to those financing institutions, with a view to scaling up and improving the effectiveness of results-based finance for REDD-plus activities?
3. One of the key elements identified as a requirement for ensuring results-based financing for REDD-plus is strong and transparent governance:
 - (a) Which elements could facilitate good governance?

(b) What are the links between the coordination of results-based payments and good governance?

3. Specific questions on ways to incentivise non-carbon benefits (see para 55)

1. What are the experiences with best practice when identifying non-carbon benefits?
2. What could incentives for non-carbon benefits look like?
3. What is needed to incentivize or promote the generation of non-carbon benefits?
4. Could incentives for non-carbon benefits help address the risks of non-permanence and leakage? If so, how and in what context?

4. Specific questions on key elements for consideration in the design of an architecture for results-based financing for the full implementation of actions relating to REDD-plus (see para 65)

1. Which key elements (substantive and procedural) are needed for the architecture under the Convention for scaling up and improving the effectiveness and coordination of results-based finance?
 2. What could be the potential structure of those elements and their interlinkages?
 3. What guidance, in relation to those key elements, should be provided by the COP?
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