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UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

Ad Hoc Working Group on Long-term Cooperative Action under the Convention
Fifteenth session
Bonn, 15–24 May 2012

Item 3(b)(iii) of the provisional agenda
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

Views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72

Submissions from Parties

1. The Conference of the Parties, at its seventeenth session, invited Parties and admitted observer organizations to submit to the secretariat, by 5 March 2012, their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72, and requested the secretariat to compile the submissions by Parties into a miscellaneous document for consideration by the Ad Hoc Working Group on Long-term Cooperative Action under the Convention at its fifteenth session (decision 2/CP.17, paras. 69 and 70).

2. The secretariat has received 18 such submissions from Parties.[1] In accordance with the procedure for miscellaneous documents, these submissions are attached and reproduced* in the language in which they were received and without formal editing.

3. The one submission received from an intergovernmental organization[2] and the nine submissions received from non-governmental organizations[3] have been posted on the UNFCCC website.

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[1] Also available at <http://unfccc.int/4578.php>.

* These submissions have been electronically imported in order to make them available on electronic systems, including the World Wide Web. The secretariat has made every effort to ensure the correct reproduction of the texts as submitted.

[2] Available at <http://unfccc.int/3714.php>.

[3] Available at <http://unfccc.int/3689.php>.

Contents

* This submission is supported by Bosnia and Herzegovina, Croatia, Iceland, Serbia and the former Yugoslav Republic of Macedonia.

Paper no. 1: Bangladesh, Cameroon, Central African Republic, Congo, Costa Rica, Côte d'Ivoire, Democratic Republic of the Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

Submission by

Bangladesh, Cameroon, Central African Republic, Congo (Republic), Costa Rica*, Cote d'Ivoire, Democratic Republic of Congo, Dominica, Dominican Republic, Fiji, Gabon, Ghana, Guyana, Honduras, Kenya, Pakistan, Panama, Papua New Guinea, Sierra Leone, Solomon Islands, Suriname and Uganda

*Please refer to Annex II

Views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72, as requested by the Conference of the Parties at its seventeenth session

29 February 2012

1. The Conference of the Parties at its 17th session invited Parties to submit to the secretariat, by 5 March 2012, their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72[1].

2. For this purpose the Coalition for Rainforest Nations and a number of like-minded developing countries met in London, England on 29 February and 1 March 2012 to consider issues related to financing results-based actions. This submission has been prepared to reflect those discussions and expresses input from many other developing country Parties on the same issues.

3. The submission of views to AWG-LCA made on 19 September 2011by *Belize, Cameroon, Central African Republic, Costa Rica, Cote d'Ivoire, Democratic Republic of Congo, Dominican Republic, Gabon, Ghana, Guyana, Honduras, Panama, Papua New Guinea, Republic of Congo, Solomon Islands, Togo, and Uganda* on financing options for the full implementation of results-based actions under REDD+ should be recalled.

4. Activities referred to in paragraph 70 of decision 1/CP.16 (REDD+ activities) undertaken by developing country Parties in accordance with national circumstances and respective capabilities should be supported through significant financial resources that are new, additional, adequate, predictable and sustainable over time.

5. **Combination of Sources:** Financial resources for the full implementation of results-based actions referred to in paragraph 70 of decision 1/CP.16, accompanied by an appropriate, robust and transparent monitoring, reporting and verification process at the national level, should come from a flexible combination of public and private sources, including market-based sources that are also monitored, reported and verified;

   a. *Public finance:* Green Climate Fund, international financial institutions and bilateral funding;
   b. *Market Linked:* Public finance generated through markets, such as the auctioning of allowances;

[1] Draft decision [-/CP.17], Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, paragraph 69.

c. *Market Based:* Existing and new market-based mechanisms established in accordance with existing and futher decisions of the Conference of the Parties related to REDD+;
d. *Combined funding:* Combination of public, private and market-based funding,
    i. REDD+ Bonds: Bonds structured as public-private partnerships, wherein REDD+ countries could pledge future carbon emission reduction units generated by REDD+ activities (REDD+ credits) that were guaranteed by Annex-1 Parties and sold to private investors, such as pension funds, etc.
    ii. Advance Market Committment: Contractual obligations whereby Annex-1 Parties, possibly in association with their respective private sector, would commit in advance to purchse any REDD+ credits resulting within an agreed timeframe.
    iii. Sectors: Public-Private partnerships where revenues or subsidies earned or given to specific sectors could be earmarked to finance REDD+ activities meeting agreed criteria.

6. **REDD+ Window in GCF:** Public funds for the implementation of the activities referred to in paragraph 70 to decision 1/CP.16 should be channeled through or governed by a new REDD+ window in the Green Climate Fund using direct access and administered by a REDD+ Board.

7. The tasks of the REDD+ window of the Green Climate Fund should include, amongst other functions:

- Channel public finance to recipient REDD+ countries;
- Coordinate funding managed by the existing International Finance Institutions and bilateral funding in the short-term and absorb them in the medium-term;
- Regulate the distribution of funding with the view to guarantee fair and equitable distribution to rainforest countries;
- Administer a share of the public finance generated by market-linked sources.

8. The terms of reference for the design of the REDD+ Board within the relevant window of the Green Climate Fund, including modalities, procedures, tasks and functions, should be adopted by the Conference of the Parties at its eighteenth session. The REDD+ Board should, amongst other functions:

a. Comprise 20 expert members, elected for a fixed term by the Conference of the Parties, serving in their personal capacity and nominated by Parties with the aim of achieving a fair and balanced representation and geographical distribution and ensuring equal representation of developed country Parties and REDD+ country Parties undertaking and/or supporting REDD+ activities;

b. Work under the guidance and authority of the COP and ensure transparency and consistency with modalities and procedures of existing multilateral and bilateral agencies;

c. Focus its respective public finance on demonstrating results-based actions, supporting actions by developing country Parties choosing not to apply market-based instruments due to national circumstances, and also to protect developing country Parties against market failures, including tools such as supporting appropriate price floors;

9. **Consistency required for Private Sources:** Private sources, including market-based sources, for the implementation of the activities referred to in paragraph 70 to decision 1/CP.16, should be subject to specific guidance developed by the COP at its next session with the view to ensuring consistency with existing and future standards adopted by the COP, efficiency, effectiveness and environmental integrity.

10. **Voluntary and Based on National Circumstances:** All market-based mechanisms, including existing and new, regional and national, should be explored on a voluntary basis by the Parties which have agreed to consider appropriate market-based approaches to support results-based actions by developing country Parties referred to in paragraph 73 of decision 1/CP.16[2] based on their national circumstances. All new market-based mechanisms should operate under the guidance and authority of the COP as defined in paragraph 83 of decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

11. **REDD+ shall be included in LCA's New Market Mechanisms:** All relevant sectors, including REDD+, should be actively considered within the context of the ongoing discussions under the Ad Hoc Working Group on Long term Cooperative Action regarding various approaches, and mechanisms, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries.

12. **Must include Parties with High Forest Cover and Low Deforestation:** The new market-based mechanism referred to in paragraph 83 of decision 2/CP.17 should recognize the need to include highly forested countries which have maintained very low historical rates of deforestation through sustainable management of forests (SMF). Parties with high forest cover having maintained low rates of deforestation and forest degradation should be able to adjust their national reference emissions level relative to the historical rate, taking into account national circumstances.

13. **Establish a Regulatory Body:** A Regulatory Body under the guidance and authority of the COP should be established to, among other matters, ensure environmental integrity,coordinate all existing and new market-based mechanisms, and ensure balance and the settlement of any dispute that may arise in the implementation phase.

14. **Shall Recognize Existing Decisions:** National and regional market-based mechanisms that may be used by Parties to meet the objectives of the Convention, including their respective commitments, that include REDD+ activities, shall be consistent with the relevant decisions of the COP, including amongst others, national forest reference levels, national forest monitoring systems, national MRV systems and processes, national greenhouse gas inventory reports, and safeguards information systems, with the view to ensure environmental integrity.

15. **Consider Past Submissions:** When considering the inclusion of REDD+ activities in a new market-based mechanism, the countries listed in Annex I, below, supported the Submission of Views to the Ad Hoc Working Group on Long Term Cooperative Action at its fourth session made on 30 March 2009. This submission details many relevant modalities.

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[2] Paragraph 66, decision 2/CP.17 Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention.

Annex I

PAPER NO. 1: BELIZE, CENTRAL AFRICAN REPUBLIC, COSTA RICA, DOMINICAN REPUBLIC, DEMOCRATIC REPUBLIC OF THE CONGO, ECUADOR, EQUATORIAL GUINEA, HONDURAS, GHANA, GUYANA, KENYA, MADAGASCAR, NEPAL, NICARAGUA, PANAMA, PAPUA NEW GUINEA, SINGAPORE, SOLOMON ISLANDS, THAILAND, UGANDA, UNITED REPUBLIC OF TANZANIA, VANUATU AND VIET NAM

Submission of Views

Ad-Hoc Working Group on Long Term Cooperative Action
Fourth Session

February 2008

Reducing Emissions from Deforestation and Forest Degradation and the role of Conservation, Sustainable Management of Forests, and the Enhancement of Forest Carbon Stocks

Jointly Submitted by:

Belize, Central Africa Republic, Costa Rica, Dominican Republic, Democratic Republic of Congo, Ecuador, Equatorial Guinea, Honduras, Ghana, Guyana, Kenya, Madagascar, Nepal, Nicaragua, Panama, Papua New Guinea, Singapore, Solomon Islands, Tanzania, Thailand, Uganda, Vanuatu, & Viet Nam.

The Fourth Session of the Ad Hoc Working Group on Long-Term Cooperative Action under the United Nations Convention on Climate Change (UNFCCC), held in Poznan, Poland, invited Parties and accredited observer organizations to provide additional information, views and proposals on Paragraph 1of the .Bali Action Plan. by 6 February 2009. For this purpose, a number of like-minded developing countries met to consider these issues in Singapore from 22-23 January 2009. This submission has been prepared in reflection of those discussions and incorporates input from many other developing country Parties.

1. **Scope for a REDD Mechanism:** A REDD Mechanism should be designed to accommodate differing national circumstances and respective capabilities within and between developing countries on issues relating to reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forest and enhancement of forest carbon stocks.

2. **Industrial Country Leadership:** The foundation of any effective international agreement on climate change must be built upon significant and mandatory national/economy-wide emission reductions targets for all industrialized nations; in aggregate, at least 40% below 1990 levels before 2020 and more than 80% below before 2050. Leadership by Annex 1 Parties, in the form of deeper targets than would otherwise be accepted, that are truly additional, and must precede the introduction of a new supply of carbon credits from reduced emissions for deforestation in developing countries.

3. **Developing Country Partnership:** Based upon positive incentives, a REDD Mechanism should establish a pathway to engage in voluntary nationally appropriate mitigation actions (NAMAs) by developing countries in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner.

4. **Integrating Emissions Intensive Activities:** Given the linkage between the loss of forest carbon due to rural energy and food production needs, the REDD mechanism may be expanded in the future to include other emissions intensive activities or sectors, such as rural energy and food production, consistent with methods approved by the UNFCCC.

5. **Mobilizing Financial Resources:** To be effective, significant global financial resources must be mobilized that are transparent, adequate, predictable and sustainable over time. To support the range of activities referred to in Decision 2/CP.13, measurable, reportable and verifiable funding must be equitably mobilized from a variety of sources, including increased official development assistance, auctions of authorized allowance units (AAUs), carbon taxes, private sector investment, cap & trade market instruments, etc.

- *ODA*: As appropriate, Official Development Assistance (ODA) should be transparently increased, additional, predictable and sustainable.

- *Market Linked Funding:* AAUs are presently granted by the Parties at .no cost. to Annex-1 Countries. Therefore, if any revenues should accrue to an Annex-1 Party through coordinated commercial dealings with AAUs (such as trading or auctions), then such activities should incur a levy to be used by the Parties for specific purposes of common agreement . such as to support elements of a REDD Mechanism, increased funding of the Adaptation Fund, etc.

- *Integrating Funding Sources:* Innovative bond instruments could mobilize greater capital in the short-run by securitizing future revenues from AAU auctions along with auctioned REDD emission reduction credits resulting from pre-2012 demonstration activities to cover interest and principal payments over a 5 . 10 year term. Such bond instruments could enhance understanding for REDD Mechanisms and foster North-South and public-private partnerships.

- *Compliance Markets:* In order to mobilize the required resources to effectively implement REDD activities on the necessary global scale, a REDD Mechanism must include a thoughtfully constructed .market window. as outlined below.

6. **Stepwise Implementation:** To maximize participation in REDD activities, developing country Parties may engage in a voluntary stepwise approach. Movement between categories is voluntary. In certain cases, activities between categories may be simultaneous depending on national circumstances, respective capabilities, and capacity needs.

Category I. *Readiness and Capacity Building*

- *Scope:* Voluntary analysis, capacity, policy frameworks, institutional review, stakeholder engagement, internal financial mechanisms, and monitoring, accounting and verification to support initial demonstration activities.

- *Financial Sources:* Primarily by new and additional official development assistance (ODA), and augmented as required by, inter alia, revenues generated from the auction of AAUs and carbon taxes within Annex-1 countries.

Category II. *Expanding Implementation under the Convention*

- *Scope:* Positive incentives to support the scaling-up of demonstration activities including a range of national, subnational, local and project-level activities in developing countries under the Convention.

- *Financial Sources:* Primarily by revenues generated from the auction of AAUs and carbon taxes within Annex-1 countries, and as required by new and additional official development assistance (ODA).

- *Flexible Implementation:* Provides an opportunity to develop internal policies and strategies for implementation based upon respective capabilities and national circumstances.

- *Methods:* Application of IPCC 1996 methodologies approved by the UNFCCC, encouraging the use of the 2003 IPCC GPGs, and the guidance provided by Decision 2/CP.13 and Decision SBSTA/2008/L.23.

- *Integration into National Accounting:* To facilitate the implementation of National monitoring and accounting systems, the SBSTA Chair should convene an Experts Group to explore methodologies to integrate activities at various scales into National monitoring and accounting systems.
- *Demonstration Trading:* Establishment of a voluntary .Demonstration Trading. platform designed to facilitate learning-by-doing, simulate market conditions, and pilot market access.

Category III. *MRV Emissions Reductions through a Market Mechanism:*
- *Scope:* Measurable, reportable and verifiable (MRV) emissions reductions units which are fully fungible within market mechanism(s).

- *Financial Sources:* A REDD Mechanism should provide full and equitable participation with global carbon markets including instruments to stabilize dramatic fluctuations in supply and demand that could be supported by funds derived by the auction of AAUs and carbon taxes (see below.)

- *National Monitoring, Accounting and Reporting:* should apply national-scale monitoring, reporting and accounting systems, including the principle of conservativeness and guidance provided by Decision 2/CP.13 and Decision SBSTA/2008/L.23, requiring 2003 IPCC GPG methodologies where utilizing carbon offsets, and subject to the necessary funding and capacity support for their implementation.

- *Reporting:* When reporting, Parties would apply reporting principles already established under UNFCCC (transparent, consistent, comparable, complete and accurate) and may also implement a new principle of conservativeness.

- *Fungible:* Emissions reductions units earned under an agreed national reference emissions level that are measurable, reportable, and verifiable, should be guaranteed direct market access, be fully fungible with AAUs, and transacted at a price equal to those credits transacted by Annex_1 Parties.

- *Credit for Early Action:* Emission reductions undertaken before 2012 that are subsequently integrated into a national accounting system should be permitted for use in achieving future compliance by Annex_1 Parties, subject to independent review by Expert Teams supported by the Secretariat (applying precedent granted to the CDM in the Kyoto Protocol.)

- *Price Floors*: To encourage broader participation by guaranteeing the livelihoods of rural and indigenous communities, the Parties should agree on a .price floor.. Such price floors could be independently supported from the revenues generated from AAU auctions, for example.

- *National Trust Accounts:* To improve participation by domestic stakeholders, donors, and market participants, Parties may choose to transparently address funding inflows, fund management, and disbursement commitments, if appropriate, through independently governed trust arrangements.

- *Reserve Accounts:* On a periodic or annual basis, a proportion of realized emission reductions or removals could be maintained in reserve to provide:
  - a buffer against future emissions that are greater than the emissions reference level, or
  - the opportunity to fulfill shortfalls by other REDD countries.

- *End of Term Accounting:* To maintain atmospheric integrity within and between international agreements on climate change, at the end of an agreement period, any final quantity of emissions above the reference emissions level could be:
  - deducted from any remaining national .reserve. accounts, or
  - " transferred to a subsequent international agreement on climate change.

7. Entry into Market Instruments: Developing countries wishing to voluntarily engage in Category III of a REDD Mechanism, shall inform the Parties of their intention and include the information set out below. Upon receipt of the information, the Subsidiary Bodies shall convene a Contact Group to consider the information provided and make recommendations to the next COP.

- *Reference Scenario:* a national reference emissions or removal level taking into account historical data and national circumstances, including low rates of historical deforestation and forest degradation, and assessed over a period of at least five years.

- *Projected Emissions Reductions:* a National REDD Plan, including policy approaches, that states the total projected emissions reductions or removals to be achieved below the reference emissions or removal level during an agreed timeframe.

- *Early Action:* emission reductions or removals achieved under a national accounting system prior to the request for market entry, subject to independent review by an Expert Team supported by the Secretariat.

- *Developmental Adjustment:* an adjustment to the reference emissions or removal level, either elevated or reduced, and early action credits taking into account, inter alia, the developmental divergence and respective capabilities of REDD countries.

8. Contributing to Pricing Stability: Developed and developing parties should collaborate to encourage general price stability with global carbon markets in order to promote both technological transformation and incentives for emission reductions in developing countries. Therefore, a process to improve market price stability, as described below, should be considered by the Parties:

- *Registry:* The Secretariat would register the agreed reference emissions or removal level, projected emission reductions or removals, request for early crediting, and when achieved, the periodic or annual realized emission reductions or removals.

- *Deduction from AAU Allocations:* On a periodic or annual basis, the Secretariat would proportionally deduct the total of the agreed requests for early crediting along with the projected emissions reductions or removals from the respective AAU allocations of Annex-1 countries, in an equitable way, that will be held in a REDD Settlement Account.

- *Settlement:* On a periodic or annual basis, REDD participants would report realized emissions reductions to the Secretariat, and
  - *Sales:* subject to independent verification, realized emission reductions would be exchanged on an equal basis by the Secretariat for the fully fungible AAUs being held within the REDD Settlement Account.
  - *Proportionality:* the Secretariat would exchange AAUs held within the REDD Settlement Account on a proportional basis between all participating Annex-1 Parties.
  - *Shortfalls:* On a periodic basis, if the supply of realized emissions reductions is less than the total AAU deductions:
    - The shortfall from one REDD country could be fulfilled by another REDD country, or
    - If no fulfillment was made by other REDD participants, the Secretariat would proportionally return the residual AAUs to the participating Annex-1 Parties.
  - *Oversupply:* On a periodic basis, if the supply of realized emission reductions is greater than the total AAU deductions available:
    - The oversupply could be used to fulfill shortfalls by other REDD countries, or
    - If there is no shortfall by other REDD countries, the realized emission reductions could be banked for application in future years, or a portion could be made available for offsets, or otherwise addressed by the Parties.

9. **Ex-Ante Crediting:** A further step forward, a developing country Party could be issued allowance credits ex_ante against an agreed reference emissions or removal level, considering that a REDD Mechanism would effectively constitute a sectoral approach for a system of policy approaches and positive incentives, similar to that applied by Article 3.3 and 3.4 of the Kyoto Protocol.

10. **Additional to the CDM:** A REDD mechanism cannot simply compete with, and lower market prices for, actions taken under the Clean Development Mechanism (CDM). Therefore, while REDD should be addressed within a separate mechanism, a REDD mechanism must be complementary and additional to the CDM.

11. **International Coordination:** Interested donors and bilateral multilateral, and international agencies, should coordinate, under the guidance of the UNFCCC process, related programs and initiatives for efficiency, consistency and to avoid redundancy, to provide at scale, consistent and adequate funding.

12. **Forest Degradation:** Parties should be guided by the most recent methodologies developed by the IPCC and approved by the Parties (IPCC LULUCF Good Practice Guidance), including the recommendations of the Expert Group convened by the SBSTA Chair.

13. **High Forest Cover and Low Rates of Deforestation and Forest Degradation:** Any post 2012 agreement should recognize the need to include highly forested countries which have maintained very low historical rates of deforestation through SMF. Parties with high forest cover having maintained low rates of deforestation and forest degradation, for example, may propose an increase in their emissions reference level.

14. **Permanent Forest Conservation Areas:** For Parties seeking to increase or consolidate permanent forest conservation areas within the context of a REDD mechanism, certain forest areas could be permanently identified as conservation areas.

15**. Role of Local Communities and Indigenous Peoples:** Recognizing the rights and roles of local communities and indigenous peoples, based on national circumstances, REDD activities should respect their traditional knowledge and intrinsic relationship with tropical forests while significantly supporting their social, environmental and economic development and also achieving the ultimate objective of the Convention.

16. **Technology Needs & Institutional Capacity Building:** The capabilities of developing countries, and/or regional centers of expertise, vary greatly when considering the implementation of approved methodologies. In many cases, REDD countries will require an expert team to assist in undertaking a .gap analysis. that identifies currently available in-country capabilities and technology resources and assesses the gaps and costs required to support full and effective implementation of the relevant IPCC guidelines for the REDD Mechanism.

17. **Ungoverned Areas:** Based upon national circumstances and to avoid perverse incentives, a REDD country may advise Parties of unmanaged or ungovernable geographic areas within its national border that are not included in a REDD mechanism due to such factors as war, rebellion, geographic remoteness, etc.

18. **Extreme Weather Events and Natural Disasters:** For purposes of clarity, the Convention considers only anthropogenic emissions, and therefore, greenhouse gas emissions resulting from extreme weather events and natural disasters affecting forest areas should not be included within any REDD Mechanism.

Annex II

A specific additional response from Costa Rica

En este sentido, es necesario ampliar las discusiones y el entendimiento general de todas las partes sobre la canalización de los recursos financieros necesarios para que los países REDD+ realicen las inversiones necesarias para lograr sus metas de reducción de emisiones o mantenimiento de los reservorios de carbono y de esta manera contribuir efectivamente a los objetivos globales de reducción de emisiones. Si estos recursos no están claramente identificados y disponibles en las fases 1 y 2 de REDD+ (lo cual no parece desprenderse de las decisiones hasta ahora adoptadas por la COP), dicho vacío debe ser subsanado, incluso mediante el establecimiento de un mecanismo de pagos por adelantado sobre las proyecciones de reducción de emisiones, mantenimiento o mejora de los reservorios de carbono en los países REDD+, de manera que se pueda disponer de los recursos necesarios para las inversiones que conduzcan a las mismas. No es realista esperar que los países REDD+ destinen recursos propios a dichas inversiones dado que tienen que atender otras prioridades de desarrollo nacional.

Con el objeto de tener mayor claridad sobre el financiamiento para las diferentes fases de implementación de REDD+, así como sobre las fuentes, es clave tener una clara decisión sobre el tipo de actividades o acciones que serán financiadas en cada una de estas fases. En particular, en la fase de acciones basadas en resultados, interesa tenr plena claridad respecto de las actividades, más allá de las reducciones de emisiones, que serán financiadas con los recursos financieros de diversa índole.

Asimismo, es necesario garantizar, durante la fase de acciones basadas en resultados, las inversiones que serán necesarias para establecer las capacidades técnicas y operativas adicionales requeridas para aumentar el potencial de contribución de los países REDD+ a los esfuerzos globales de mitigación. En otras palabras, durante la fase de acciones basadas en resultados no se requerirá únicamente financiamiento para el pago de las reducciones efectivamente logradas, sino también para los costos adicionales de las capacidades requeridas para producir dichas reducciones.

En consecuencia con lo anterior, deberá establecerse un registro de GEI y financiamiento como elemento fundamental de un mecanismo REDD+ conforme se desprende de la Decisión de Cancún y se amplía en las decisiones relevantes tomadas en la COP de Durban. La función principal de dicho registro consiste en proporcionar un registro independiente del comportamiento de las reducciones de emisiones y los respectivos flujos de financiamiento independientemente de la fuente. El registro también permitirá a las entidades participantes brindar transparencia y confiabilidad de los interesados nacionales e internacionales, lo cual es fundamental para generar la confianza necesaria en los mercados y en las fuentes de financiamiento públicas.

Paper no. 2: Bolivia (Plurinational State of)

DEVELOPMENT OF THE JOINT MITIGATION AND ADAPTATION MECHANISM FOR THE INTEGRAL AND SUSTAINABLE MANAGEMENTOF FORESTS

The Plurinational State of Bolivia presents its views on modalities and procedures for financing results-based actions and considering activities relates to 1/CP.16, paragraphs 68-70 and 72.

At the UNFCCC conference in Durban first steps were taken towards the building of an alternative approach to REDD+. This submission has the purpose of providing the necessary inputs and views on guidelines and related aspects for the design and implementation of the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests [1] as mandated in Paragraph 67 of the 1/COP17 decision.[2] The intention is that this should represent an alternative mechanism to support activities oriented to reducing emissions from deforestation and forest degradation in developing countries with significant areas of forest resources. Due to the important contribution made by forest landscapes in meeting the goals of local development and due to their regulatory functions in climate change it is increasingly realized that forests represent a fundamental part of the life support system for humankind in particular and for the planet as a whole.

To date, the Convention's main approach has been to define a framework for the transfer of financial resources to support the reduction of emissions of greenhouse gases (GHG) in the context of the Reduction of Emission from Deforestation and Forest Degradation (REDD+). This framework, however, is intended to tackle separately both mitigation and adaptation issues, and has not fully considered the possibilities to embrace the integral management of forests as systems of life[3] and forest' landscapes that generate sustainable landscape dynamics[4]. It is considered that this alternative vision of forests and the social organization of forest dependent people constitute fundamental elements for the development of forest governance systems which have the objective of creating sustainable, climate friendly and resilient economies while meeting peoples' needs for food, fiber and energy.

This proposed approach challenges the current conceptual and methodological approaches to climate change negotiations; requiring more refined conceptual definitions and methodologies. This submission is aimed at contributing to such an endeavor.

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[1] From the perspective of the Bolivian government the integral and sustainable management of forests promotes forest conservation, sustainable development of forest landscapes and sustainable livelihoods of local and indigenous people by valuing the potential of forests and other land use systems in forest landscapes as well as of other natural resources without negatively affecting their multiple environmental functions, and by guaranteeing the sustained continuation of those functions in articulation with social, cultural, and economic aspects of forest management.

[2] The relevant paragraph states the following: "Notes that non market based approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests as a non-market alternative that supports and strengthens governance, the application of safeguards as referred to in decision 1/CP.16, appendix I, paragraph 2(c.e), and the multiple functions of forests, could be developed".

[3] We adopt here the definition of the United Nations (Decision of COP17 regarding Land use, land-use change and forestry) which consider forests are systems of life that have multiple and integral functions and consist of communities of diverse, interrelated and interdependent components; therefore they encompasses landscapes where are interacting different natural resources such as forest, land, water and biodiversity, among others,

[4] This concept refers to the management of forest taking into account landscapes based predominantly on forests and cultivated landscapes with forests but also other natural resource-use elements such as land, forest and water-use created by local people ensuring a social and environmental sound rural development.

1. Context

Following the mandate of the World Conference on the "Rights of People and Mother Earth" held in Tiquipaya, Bolivia in April 2010, the Plurinational State of Bolivia has questioned the implementation of REDD+ schemes. The Plurinational State of Bolivia questions the linking of forests to global carbon markets for ethical reasons since this authorizes the effective conversion of what is considered the sacred Mother Earth into a commercial commodity, allowing the transfer of responsibilities for mitigation of climate change from developed to developing countries, fostering the latter to continue subsidizing the former. In addition, these arrangements—mediated by the market—may lead to the loss of sovereignty by States and people with regard to the use and management of their natural resources.

In his letter to the indigenous peoples of the world, President Evo Morales states that "Nature, forests and indigenous people are not for sale" (October, 2010) and declares that "It is an obligation of developed countries, as part of their climatic and environmental debt, to contribute financially to forest conservation in the tropics but **not through their conversion into commodities**. There are many alternative ways of supporting and financing developing countries, indigenous peoples and local communities that are contributing to the conservation of forests" [emphasis added].

Beyond the ethical considerations, mentioned above, there are important reasons that justify the establishment of non-market compensatory mechanisms. Such mechanisms should attach value to the sustainable and integral management of forest resources as a basis for the provision of support to local[5] and indigenous people to manage their forests, and forest landscapes, in sustainable ways. These mechanisms should thereby enhance local and national forest governance as a way of improving people's livelihoods, based on climate friendly and resilient economies, while simultaneously ensuring sustained reduction of the GHG emissions without affecting the legitimate goals of socio-economic development. This implies that supporting joint mitigation and adaptation measures can contribute to foster the transition of developing countries towards pathways based on socially and environmentally sound rural development by strengthening local resource use and management practices of forests and other land use systems located within forest landscapes—in community forest management, agroforestry, forest gardens, and smallholder tree planting—without compromising the forests' multiple environmental functions while simultaneously enhancing the livelihoods of forest dependent communities.

There is considerable accumulated evidence that supports the argument that traditional, local uses of forest as systems of life are climate friendly, and economically, culturally, and socially viable options that have high potential impacts on poverty reduction in rural areas. These traditional uses of forests maintain a high potential for adaptation to global warming with changes in temperature and precipitation becoming increasingly pronounced. Additionally, such forest use systems constitute amongst the most productive options but require longer term investment and development of necessary capacities. It has been shown that under appropriate conditions these practices are both economically and socially viable; with low dependence on external inputs and consumption of resources produced or extracted elsewhere. Finally, with appropriate technical design and under adequate governance frameworks, such production systems have potential to reduce GHG levels, contributing to enhance carbon stocks.

In this proposal, the strengthening of local and indigenous peoples' organizational capacity and management skills to implement diverse social and economic options associated with multiple-use management of forest and forest landscapes is highlighted as the privileged option to enhance forest governance. With an

[5] Local people refers to landholders living within or surrounding natural forests, as well as small-and medium-scale land and forest holders occupying mixed forest and agrarian landscapes and other areas needing forest restoration.

appropriate incentive structure, these systems, are then of great importance in promoting a pattern of rural development with positive impacts for the global climate. This proposal is suggested as an alternative to proposals that privilege the transition to low-carbon resilient economies based on financial transfers conditioned on meeting additional reductions in their GHG emissions, a position that currently forms the basis of REDD+, employing market based compensatory mechanisms. Nonetheless, making progress towards integral and sustainable management of forests, and forest landscapes, oriented to the reduction of deforestation and forest degradation, requires important financial and non-financial actions aimed at strengthening local resource use and production practices. Also, complementary actions are necessary mainly though aligning forest and non-forest policies, leveling the playing field by reducing barriers that operate against the rural poor and their forest based production systems while reducing asymmetries in conditions of access to land and other assets. In addition, the support and development of institutions at different levels is central for this proposal to work.

2. Foundations and guidelines

The Joint Mitigation and Adaptation Mechanism is based on the following foundations:

(a) Reinforces the principle that environmental functions of the forests must not be converted into commodities and the understanding that forests are much more than mere reservoirs of carbon.
(b) Recognizes, values and supports the efforts of indigenous and local populations' collective action to strengthens local institutions regarding integral and sustainable management of forests and forest landscapes.
(c) Supports the respect for local and indigenous peoples' rights and the compliance of States' duties and society's obligations in the promotion of integral and sustainable management of forests and in the creation of sustainable forest landscape dynamics.
(d) Promotes the governance of forest with joint results in mitigation and adaptation.
(e) Strengthens local resource uses and production practices of local and indigenous people oriented to the conservation and integral and sustainable management of forests and forest landscapes, including use of land, water and biodiversity.
(f) Contributes to tackle the contextual conditions and the underlying causes of deforestation and forest degradation taking into account specific needs at the local, regional and national levels.
(g) Promotes the enhancement of the sustainable livelihoods of local peoples without compromising the need to fulfilling their food and energy needs

The following guidelines should be considered in the implementation of the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests:

(a) Facilitation of the development of an enabling policy environment and incentives, according to country and locally specific situations, to reduce deforestation and forest degradation, thus complying with additionality criteria in the reduction of GHG emissions.
(b) Support to the integral and sustainable management of forests, and sustainable forest landscapes dynamics, through an approach which is based on the convergence of rights, duties and obligations, rather than on the payment for environmental services, based on the following criteria:
    - Rights of peoples to enhance their livelihoods to overcome poverty and peoples' duties to protect forests and the goods and functions that they provide
    - Rights of nature to be respected in its integrity to regenerate life.
    - Respect and compliance of indigenous rights.
    - Duties of States to establish appropriate institutional conditions and incentives to promote the integral and sustainable management of forests ensuring the provision of multiple environmental functions.

- Obligations of developed countries to support developing countries through transparent, new and reliable flows of financial resources devoted to climate change mitigation and adaptation.

(c) Recognizing, valuing and supporting the development of institutions (regulations and sanctions) of local and indigenous people in order to control and regulate forest use, conserve forests, and support the development of sustainable forest landscape dynamics, while at the same time enhancing sustainable livelihoods for local people, operating within climate friendly and resilient economies.

(d) Developing multi-scale programs and projects, with wider social participation, favoring forest conservation options, sustainable forest landscape dynamics, and sustainable livelihoods of local and indigenous people.

(e) Fostering private-, public- and community-based initiatives promoting the sustainable use of forests and forest landscapes, including the access of local and indigenous people to a wide variety of financial and non-financial services in order to strengthen local resource use and productive practices.

(f) Provision of support to the development of local capacities for integrated forest resource management through the strengthening of appropriate educational systems and vocational training centers to revalue what have hitherto been considered as backward land use practices.

3. Proposal of the Approach and Mechanism

As stated in the paragraph 67 of the 1/COP17 decision outcome, the implementation of non-market based approaches is based on the creation and establishment of the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests, and the reduction of pressure conducive to deforestation and forest degradation.

The Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests will be established at international and national levels, while at the same time fully respecting the sovereignty of developing countries

The Joint Mechanism should fulfill at each level the following three main tasks: a) coordination of actions, b) establishment of a framework for operational support, and c) provision of financial assistance, as described below.

3.1 Coordination of actions

Coordination is a responsibility that should be developed for the Joint Mitigation and Adaption Mechanism in the two different levels. First, in the international level in which coordination is a key issue in order to achieve the following:

- Constitution of the Joint Mitigation and Adaptation Mechanism at the international arena ensuring decision making with active involvement of national governments of developing countries.
- Establishment of dialogue between developed countries and developing countries in order to promote the flow of public funding from the former to the latter as outlined in Article 4.7 of the UN Framework Convention on Climate Change.

Second, in the national arena: once constituted the Joint Mitigation and Adaptation Mechanism in each specific country, coordination will take into account the following issues:

- Establishment of decision making procedures with the participation of local and indigenous peoples' representative organizations.

- Development of schemes to provide financial and non-financial support to individual families, communities or indigenous territories, and local governments, taking into account lessons learned from the field with respect to integral and sustainable management of forests and forest landscapes, and sustainable livelihoods.
- Development of criteria for the eligibility and implementation of joint mitigation and adaptation actions.
- Revision of national policy framework to address drivers of deforestation and forest degradation and the establishment of a system of incentives for long term integral and sustainable management of forests and forest landscapes, with effects on enhancing sustainable livelihoods of local people and establishment of targets for reduced GHG emissions.

3.2 Establishment of an Operational Framework for Support

This is an outstanding task in both international and national levels in order to make this proposal operational in an effective, efficient, accountable and equitable way, taking into account the procedures in tuning with country-specific realities. The following operational priorities should be taken into account:

a) Definition of standard eligibility criteria for joint mitigation and adaptation actions at different scales: i) individual, ii) communal or indigenous territories, and iii) local governments.
b) Establishment of methodologies and standardized operational procedures for land use planning and the assessment of ecological stability of forests and forest landscapes considering social-environmental balances and tradeoffs .[6]
c) Identification and formulation of multidimensional indicators of forests integrality and sustainability including deforestation and forest degradation, and joint indicators of mitigation and adaptation.
d) Control and monitoring of forest condition at multiple levels (i.e. local, sub-national and national) emphasizing the development of monitoring systems arranged and implemented by local and indigenous people based on multidimensional indicators comprising social and environmental aspects associated with the use and management of forests, including mechanisms of self-regulation where capacity exists.
e) Systematization of local practices, under the premise that the joint mitigation and adaptation approach is a process based on “learning through experience”.

3.3 Provision of Financial Assistance

The provision of financial support is without doubt the most important task to be fulfilled by the Joint Mitigation and Adaptation Mechanism through new, additional and reliable funding that will come from a variety of sources, public and private (outside the markets). The funding of mitigation and adaption actions in developing countries should be developed in a direct, expedite and immediate way according to national strategies and priorities, fully respecting the sovereignty and national capacities of developing countries.

The potential sources of financial support for the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests are the following:

[6] The monitoring of goals will be undertaken using the following instruments: Geographic information systems for monitoring deforestation and forest degradation; community monitoring of local institutions linked to forest situation based on simplified protocols of the International Forestry, Resources and Institutions (IFRI) Research Program; local monitoring of multidimensional indicators of integrality and sustainability together with joint indicators of mitigation and adaptation.

(a) **External Public funds,** transferred from the "Green Climate Fund" to the "National Fund for Climate Justice" to be constituted by developing countries at national levels following country-specific policies.
(b) **Ethical private funds,** fundraising activities targeting international private funds outside the markets, which can be channeled directly to the "National Fund for Climate Justice" at the national level.
(c) **Business funding,** developing "*pro-climate justice*" business initiatives with private-community partnership regulated by the Joint Mitigation and Adaptation Mechanism, in the context of a national and international regulatory framework.

The provision of financial support should consider the following aspects:

- Financial support for the creation and strengthening of local institutions, initiatives and actions oriented to the integral and sustainable management of forests' and forest landscapes, and development of sustainable livelihoods joining mitigation and adaptation, taking into account three levels: i) individual or familiar, ii) communal or indigenous territories, iii) local governments.
- Financial and non-financial support for the production, transformation, and commercialization of products from forest and forest landscapes, fostering diversification and the strengthening of local resource use and practices.
- Supplementary financial support to individual families, communities and local governments that meet targets for reduced deforestation and forest degradation and the establishment of sanctions for those which fail to do so.
- Financial support for the development of monitoring of forests at multiple scales including monitoring carried out by local and indigenous people.

4. Actions

The following actions should be undertaken in order to advance the design and implementation of the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests.

a) It is important that the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (LCA) provides a road map to prepare the way forward with the design and implementation of this Mechanism. The following points are presented as suggestions:
   - The Mechanism should be designed during 2012 and approved officially in the COP18.
   - The legal framework to link the Mechanism to the Green Climate Fund of the UNFCCC should be developed beginning in 2012 and to be completed in 2013.
   - The Mechanism should be fully implemented from 2014 onwards.

b) There is a need for a specific working agenda to be developed through the Subsidiary Body for Scientific and Technological Advice (SBSTA) during 2012 in order to move forward the Mechanism, considering the following issues:
   - Definition of the scope and indicators of integral and sustainable management of forests and forest landscapes and of joint mitigation and adaptation actions.
   - Definition of the methodological issues regarding the implementation of the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests.
   - Establish relationships between the Green Climate Fund and the Joint Mitigation and Adaptation Mechanism for the Integral and Sustainable Management of Forests both at the international and at the national levels

- Complete the design of the mechanism taking into account the three tasks: a) coordination of actions, b) provision of financial assistance, and c) support to the establishment of an operational framework.

Paper no. 3: China

China’s Submission on the Modalities and Procedures for Financing the Results-Based REDD-plus Actions

The Conference of the Parties at its seventeenth session held in Durban invited Parties and accredited observer organizations to submit to the secretariat, by 5 March 2012, their views on the matters referred to modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraph 68-70, 72. China welcomes this opportunity and would like to submit the following views:

Recalling the paragraph 65、66、67 and 68 of the draft decision [-/CP.17] on Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, the discussions on the modalities and procedures for financing results-based REDD-plus actions should focus on new, additional and predictable public finance sources. The modalities and procedures for financing the results-based REDD-plus action should abide the following principles:

1. All the activities and actions as defined in the paragraphs 68–70 and 72 of the decision 1/CP.16, resulting in emission reduction, removal and stabilized forest carbon stocks shall be provided with equal opportunity to access the results-based REDD-plus finance. Appropriate allocation of result-based REDD-plus finance should be ensured among the activities and actions, as defined in the paragraphs 68–70 and 72 of the decision 1/CP.16. All the developing countries shall be incentivized to participate in the implementation of REDD-plus actions. Both national and sub-national approaches in implementing REDD-plus actions should be allowed.

2. The application and distribution of results-based REDD-plus finance should be open, effective, efficient, appropriate and participatory, while respecting the domestic laws, regulations, and relevant institutional arrangements in developing countries. It is the legitimate authority of developing countries to decide the domestic disbursement of the results-based REDD-plus finance received from international source, but the process of application of results-based REDD-plus finance and its domestic allocation should ensure the effective participation of relevant stakeholders.

3. The modalities and procedures for financing results-based REDD-plus actions should strictly follow the relevant articles of the Convention, especially the Articles 4.3, 4.7 of the Convention, and be conducive to strengthening the multilateral finance mechanism under the Convention.

4. The modalities and procedures for financing results-based REDD-plus actions should give due considerations for the different abilities in finance absorption and delivery. Therefore, the modalities and

procedures should be simplified and with low transaction costs ensuring well balanced consideration of the various technical requirements and implementation costs of REDD-plus. Relevant stakeholders, especially indigenous people, local households and communities should receive real benefits and be incentivized in the end.

In line with these principles above, the modalities and procedures should be arranged as follows:

1. The operating entities of the financial mechanism under the Convention should ensure sufficient earmarked financial provisions for REDD-plus actions. To facilitate the finance allocation, a REDD-plus technical panel, with equal distribution of members from developing and developed countries, may be created as an assistant to the operating entities of the financial mechanism of the Convention.

2. To help developing countries to access the result-based REDD-plus finance, the detailed rules and formats guiding the application and distribution of the result-based REDD-plus finance from the operating entities of the financial mechanism under the Convention should be developed and adopted by COP. To follow the rules and formats agreed by COP, a developing country may send a national proposal voluntarily to the operating entities of the financial mechanism under the Convention, outlining the steps of the actions in the developing country, including development of national or sub-national REDD-plus action plan and strategy, national or sub-national reference level, projection of reduced emission or enhanced removal or stabilized forest carbon stocks at national or sub-national level through implementing the specific REDD-plus actions.

3. The REDD-plus technical panel should assess the feasibility of the proposed REDD-plus actions submitted by a developing country based on the rules and formats agreed by COP, presenting its recommendations to the operating entities of the financial mechanism under the Convention for final approval.

4. Upon approval of the proposed actions, the developing country government should be provided with certain amount of up-front funding for its initial activities, such as capacity building, establishing forest carbon monitoring system etc.

5. The delivery of results-based REDD-plus finance should be paid in installments to the government of developing countries based on the results achieved.

6. The developing country government implementing REDD-plus actions could disburse the result-based REDD-plus finance received from the operating entities of the financial mechanism of the Convention following its domestic finance allocation system in a timely, open, transparent, appropriate and participatory manner to the local people, small landowners or the poor who are implementing the REDD-plus actions in the field.

Paper no. 4: Colombia, Costa Rica, Honduras and Mexico

I. Mandate

1. The Conference of the Parties (COP), at its 17th session, invited Parties and accredited observers to submit to the Secretariat, before March 5th, 2012, their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72.

2. Colombia, Costa Rica, Honduras, and Mexico welcome this opportunity to provide views and submit the following inputs on these issues.

II. Modalities for results-based incentives

Participation requirements

3. Any Party achieving emission reductions and/or enhancements in carbon stocks through the activities described in paragraph 70 of decision 1/CP.16 and complying with the participation requirements established below shall be able to access one, or a combination of, the sources of incentives described in the following section of this document.

4. In order to be eligible to receive any of the incentives proposed below, the results-based actions by developing country Parties referred to in decision 1/CP.16, paragraphs 71, 73, 74 and 77, shall be measured, reported and verified, have forest reference levels and/or forest emission reference levels established, and systems for providing information on how the safeguards referred to in decision 1/CP.16, appendix 1, are being addressed and respected.

5. Before participating in any of the incentive mechanisms proposed below, a Party shall establish a national REDD+ Registry to account for the verified emission reductions and carbon stock enhancements ("REDD+ units", equal to one tonne of carbon dioxide equivalent (CO_2e)) it holds, transfers or cancels, these information shall also be transmitted to the UNFCCC REDD+ Registry that should also be established. Additionally, if a Party decides to participate in any incentives mechanisms at the subnational[1] level, it shall submit information regarding reference levels and monitor emissions at that scale and inform the UNFCCC REDD+ Registry about the location of each subnational unit, so as to prevent double counting. The SBSTA should provide guidance on the design and operation of the UNFCCC REDD+ Registry and the national registries.

Eligibility of results-based actions

6. In order to achieve the target of holding the increase in global average temperature below 2 °C above pre- industrial levels, noted in decision 1/CP.16, emissions from the land use sector must be seriously and urgently addressed. Consequently, in order to establish immediate incentives, emission reductions and enhancements in carbon stocks achieved with respect to any registered reference emission levels and reference levels resulting from actions started after December 14, 2007 (official

[1] Throughout this submission, a subnational region refers to a compact territory of the country, of significant size and with boundaries defined by the REDD country. It is not intended to include specific projects of relative small scale (examples of these compact territories include, inter alia, municipalities, States, Provinces, and/or associations of them).

end date of COP13), shall be eligible for the issuance of REDD+ units following the procedures proposed later in this document.

7. REDD+ units may be used for obtaining the incentives described in this document, provided that it can be demonstrated that the emission reductions and enhancements in carbon stocks they represent have not already been used to obtain results-based incentives from sources outside the UNFCCC framework (for instance, through bilateral results-based agreements, or nationally recognized voluntary carbon markets), or that they have not been used for compliance purposes in any (local, national or regional) carbon market arising from a legally binding mitigation regime. This is the reason for the central role of the Registry.

8. In order to guarantee the environmental effectiveness and integrity of the mechanism, all REDD+ units for which incentives are granted shall be backed through one or more of the following approaches to deal with the risks of reversals, inter alia:

- The establishment of REDD+ units reserves at the national and/or subnational levels, the size of which shall be determined by methods to be developed by SBSTA;
- Insurance, in which case any reversals shall be compensated with an amount of any valid UNFCCC mitigation unit equal to the loss occurred, instead of a monetary compensation;
- Any other approach that might arise from the ongoing discussion on non-permanence under the Clean Development Mechanism, if applicable.

9. Before being able to participate in the REDD+ incentives mechanism, a Party shall inform the Secretariat about the approach(es) it has selected to deal with reversals. Likewise, before being granted any incentives in exchange of its REDD+ units, the Party shall provide proof that the requirements to be established by SBSTA for the application of the selected approach(es) are met (e.g. an insurance contract, or a REDD+ units reserve, covering the amount of units to be converted to incentives).

10. If a Party decides to participate in the incentives mechanism at the subnational level as an interim measure, it shall monitor the displacement of emissions due to REDD+ actions, if appropriate, and report on how displacement of emissions is being addressed. In such case, national monitoring systems should be in place, as mentioned in footnote 8 of decision 1/CP.16.

Sources of incentives

<u>Fund-based incentives</u>

11. The Green Climate Fund (GCF) should finance results-based incentives and could coordinate other contributions from all Parties and from any other interested funders such as private sector entities, foundations and NGOs. Additional innovative sources of funding to feed REDD+ GCF incentives shall be sought.

12. For each verified REDD+ unit of a Party at the national or subnational level, it shall receive a monetary incentive per REDD+ unit updated periodically. SBI should issue guidance on the pricing approach for this REDD units from the GCF.

13. In the allocation of funding through the GCF, broad participation of countries shall be promoted.

14. REDD+ units exchanged for fund-based incentives shall be forwarded to the holding Party´s cancellation account to avoid their subsequent use in market-based incentives mechanisms.

15. Adequate and predictable replenishment of funds for REDD+ activities is critical and some incentive mechanisms should be sought to ensure it, e.g. conditioning participation in market mechanisms, and the use of transparent MRV mechanisms for financing for REDD+.

Market-based incentives

16. As has been widely recognized, public funding alone will not suffice to achieve the emission reductions required to avoid the worst impacts of climate change. Private investment will be paramount and needs to be urgently attracted to REDD+ activities, and the carbon markets (backed by ambitious mitigation commitments) currently represent the most promising avenue for private participation in mitigation activities in developing countries. Therefore, REDD+ units outside of the GCF could be eligible to be used for compliance with any emission reduction commitment established under the framework of the UNFCCC from 2013 on, including with the second commitment period of the Kyoto Protocol and with the commitments arising from the protocol and another legal instrument or agreed outcome with legal force under the Convention resulting form the work of the Ad Hoc Working Group on the Durban Platform for Enhanced Action. In addition to information on REDD+ generated, transferred or cancelled, the Registry may also contain information on any transferability conditions for this REDD+ Units.

17. The use of REDD+ units for compliance with any emission reduction commitments shall be supplemental to national mitigation efforts. Any transaction outside of the GCF shall be reported to the carbon registry.

III. Procedures for results-based incentives

18. A developing country Party wishing to obtain REDD+ units from emission reductions and/or carbon stock enhancements resulting from the successful implementation of activities referred to in paragraph 70 of decision 1/CP.16 shall submit a REDD+ report on monitored emissions and removals demonstrating how carbon benefits were achieved during the period since the last issuance of REDD+ units to a review body established by the COP specifically to this end and in relation to a reference level submitted by the Party and reviewed according to procedures defined by the SBSTA. Annex I Parties shall provide additional resources to cover the costs of the preparation of such report. The contents and format of the performance report should be defined by SBSTA.

19. After reviewing the REDD+ performance report based on guidance to be established by the SBSTA, the review body may decide to approve or reject it. In case the report is approved, it shall be forwarded to the entity designated by the COP as the UNFCCC REDD+ registry manager, which shall issue and register an amount of REDD+ units equal to the total emission reductions and enhancement in carbon stocks verified by the review body. If the report is rejected, the review body shall provide, in writing, an explanation of its decision pointing out any specific non-compliances with the adopted guidance. Upon revising the performance report, the Party shall be able to submit it again for review.

20. Once issued, the Party shall be able to convert the REDD+ units to incentives using one, or a combination of, the mechanisms proposed in the previous section. Any Party holding REDD+ units may decide to cancel them by requesting the manager of the registry to forward them to its cancellation

account, in which case they shall be recognized as a net contribution of that Party to climate change mitigation. REDD+ units shall also be cancelled once they have been converted into fund-based incentives or used for compliance with emission reduction commitments under the UNFCCC.

21. Benefit sharing arrangements to ensure equitable compensation to relevant land owners/stewards and other relevant actors shall be determined by countries.

IV. Missing link: Financing for results-based actions

22. Results-based actions refers to actions, including the creation of enabling environments, that will eventually lead to a measurable reduction in greenhouse gas emissions or an increase in carbon stocks relative to a reference emission level or reference levels established following all relevant UNFCCC guidance. Examples of such actions, include, inter alia:

- Structural readiness reforms that reduce incentives for deforestation of forest degradation (for instance, enhanced land tenure security improved law enforcement to reduce illegal logging or new institutional arrangements that remove barriers to sustainable management of forests),
- Direct actions in the form of on-the-ground interventions/investments to reduce pressure on forest, to promote their sustainable management or increase their carbon stocks, or,
- Other land use and management actions by governments, landowners or forest stewards.

23. It is often assumed that financing of the actions above will have to come mainly from private sources given the difficulties in ensuring the appropriation of adequate resources by governments. However, this will face various challenges: Private investment in the rural sector of many developing countries is usually scarce, in part due to the perceived high-risk by investors, and the lack of enabling environments. The sole attractiveness of results-based incentives may not be sufficient to overcome this situation. In addition, access to financial institutions and their financial instruments (credit, guarantees, insurance, etc.) is usually out of the reach of rural actors, which hampers their capacity to act. Additional international public resources will be needed to:

- Reduce risk for private investments
- Address barriers to sustainable investments, both outside and inside the forest sector, including support to strengthen rural financial systems
- Complement investments for result-based actions

24. Even though some of the ongoing readiness initiatives supported by developed countries may contribute to create enabling environments, only a few readiness efforts have provided support to strengthen the rural financial systems in developing countries. It is our view that readiness activities in these areas should be multiplied and enhanced. Moreover, the World Bank and the Regional Development Banks should be invited to share their experiences in financing mitigation activities and to build capacities in private and public financial institutions in developing countries, particularly in the rural sector. They could also play a valuable role IN designing and testing innovative financing instruments that are adequate to the specific circumstances of rural actors in developing countries, including the design and implementation of financial mechanisms to jointly provide incentives for the provision of environmental services, including adaptation and mitigation, as well as sustainable products.

25. Additionally, increased direct funding for results-based actions (both for demonstration and scaled-up activities) should be provided by the Green Climate Fund as well as by other multilateral, bilateral and domestic channels to complement and attract private investments.

26. Emission reductions and increases in carbon stocks resulting from these actions and investments in enabling environments shall be eligible to generate REDD+ units, irrespective of the sources of funding used for their implementation (i.e., national and/or international) as long as they comply with all the methodological and other requirements adopted for REDD+. However, international funding for such actions shall never be conditioned to the generation of REDD+ units unless specifically negotiated among the Parties involved.

Paper no. 5: Costa Rica

I. Mandate

The Conference of the Parties (COP), in its seventeenth session, request to all the parties and accredited stakeholders to submit to the Executive Secretary, before march 5th of 2012, their opinions about the modalities and procedures for funding the Action Taken, considering the activities related with 1/CP.16 decision, specifically 68-70-72 paragraphs

In its paragraph 70 the Conference of the Parties encourages developing countries to contribute to mitigation action in the forest sector by undertaking the following activities:

- Reducing emission from deforestation
- Reducing emission from degradation
- Conservation of forest carbon stocks
- Sustainable forest management
- Enhancement of forest carbon stocks

Also, the Conference of the Parties recommends to the parties to undertake these activities in the context of the provision of an adequate and predictable support, including financial resources and forest reference levels, including the elements at paragraph 71[1]

The Government of Costa Rica is grateful for the opportunity that the Conference of the Parties has given to us.

II. Funding for the Action Taken

The Action Taken could be defining as the actions that contribute to the reduction of emission from deforestation /degradation and enhancement of the forest carbon stock in accordance with the respective capabilities and national circumstances, by the development of a national forest emission reference level and a national strategy.

The results could be deriving from a wide range of actions, including:

- Actions addressing mechanisms for reducing the incentives for land use change and degradation (well defined land tenure, new institutional arrangements for improve the sustainable forest management, to strengthen the governmental and institutional action for reducing the illegal logging)
- Direct economical incentives to improve the sustainable forest management
- Encourage the land use according with the land capacity and management action taken by landowners and government.

The institutional arrangements must be address to strengthening endogenous national capacities to ensure the participation of all the relevant stakeholders in a social, economic and environmental access. The endogenous distribution of benefits must ensure the equitable compensation for landowners and other relevant stakeholders, ensuring the full and effective participation, inter alia indigenous people and local communities.

[1] In accordance with national circumstances and respective capabilities the developing countries should develop the following elements (a) A national strategy or plan action, (b) A national reference emission level or forest reference level.

The funding for the implementation of REDD+ action could be from a variety of sources, as long as, they are new, predictable, and additional and complemented with international or national publics funds.

III. Modalities for Taken Actions incentives

Any eligible party that is looking for receiving some of the Incentives for the Action Taken, established in the 1/CP16 Decision, must have a measurable, reportable and verifying forest emission reference level in accordance with the safeguarding at 1/CP16 Appendix I.

Also, any party will have to request an entry in the UNFCC-REDD+ registry, in order to establish a verifiable national account for its reduction on emission levels and the enhancement in forest carbon stocks.

The spawn incentives must be in accordance with shown reduction emission levels and enhancement of carbon stocks as results of the undertaken actions defining by each country, in accordance with the Convention.

To assure the effectiveness of the implemented environmental mechanism, all the REDD+ units must be supported in order to avoid any possible risk of reversal, using one or more of the following approaches:

- Establishment of carbon stock per country (Buffers)
- Insures, this could be measure in REDD+ units or in monetary compensation
- Any other approach established in the Convention

The party must inform to the Executive Secretary about the approach or approaches to be used in order to avoid the risk of reversals.

The reduction of emission levels and enhancement of forest carbon stock as result of the Nationally Appropriate Mitigation Actions (NAMAs) must be eligible for generating REDD+ units, independently of the funding source used for its implementation. Nevertheless, the international funding available must not be conditional for the generation of REDD+ unit, in this case, if a party want to finance a unit of NAMA REDD+, this unit must not be considered for a additional unit REDD+.

IV. Funding source

<u>Funds based Incentives:</u> use of different available financial sources (World Bank, Green Climate Fund, others) will be optional for developing countries

The funding for the Action Taken must be equitably addressed to all involved relevant stakeholders, promoting full and effective distribution.

It will be necessary to use mechanisms to ensure the financial accountability of the financial resources in order to avoid a double accountability.

<u>Market Based Incentives:</u> it is important the existence of a regular funding for REDD+ activities, that can support a strong measurement, reporting and verification system according with the mitigation commitment

Endogenous Market Based Incentives: in order to increase the private funding and improvement the REDD+ activities conditions at the long term, the REDD+ units generated by the developing countries must be widely recognize as a mechanisms for achieve the national reduction emission level in low carbon economies.

It is important to consider that the generated REDD+ units must be eligible for using as part of the accountability for achieving the commitment taking under UNFCCC Convention, at 2013 and beyond 2013, including those commitment established under the Kyoto Protocol.

This units must be widely recognized as a mechanisms for achieve the goal of national reduction emission in those countries with low carbon economies.

This REDD+ units also must be considered as a supplementary tool for reaching the commitment of the national strategy for emission reduction

V. Procedures for Action Taken Incentives

Those developing countries who want to requests the use of REDD+ units for the accomplishments of the emission reduction level or enhancement of the carbon stocks, as mentioned in the 70 paragraphs of I/CP16, must sent a performance report showing how the carbon benefits has been reached. This report must be check by panel established by the COP, the contents and the format of this report will be define by the SBSTA

The panel could accept or reject the report. The report must follow the specification established by the SBSTA. If it is accepted it will be send to a pre-establish COP entity (as a REDD+ register manager). This entity has the task to register the amount of REDD+ unit's equivalent to the reduction emission level and enhancement carbon stocks. If the report is rejected, the panel must send a note pointing out the failures, after that the part could make the amendments and present the report again

The part could convert the REDD+ units into incentives, using one or more of the mechanisms proposed. Any parts that have REDD+ units can pay off it by asking to the REDD+ register manager to send it to the account, in that case the REDD+ units must be regards as a net contribution for climate change mitigation. Also the REDD+ units could be pay off once they have been converted to fund based incentives or used as mechanism for reduction emission under UNFCCC Convention.

Paper no. 6: Denmark and the European Commission on behalf of the European Union and its member States

This submission is supported by Bosnia and Herzegovina, Croatia, Iceland, the Former Yugoslav Republic of Macedonia and Serbia.

Copenhagen, 8 March 2012

Subject: **Submission on enhanced action on mitigation, 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 (AWG-LCA)**

Context

In relation to REDD+, Decision XX/CP.17 (Outcome of the work of the AWGLCA) invited submissions from Parties and accredited observers on *views on modalities and procedures for financing results-based actions and considering activities related to decision 1/C.P.16, paragraphs 68, 69, 70 and 72*. The EU wishes to take this opportunity to set out its vision for a decision at COP18 on this matter. Such a decision should give guidance to foster financing for results-based actions. The AWGDP should address the role of REDD+ in the broader post-2020 arrangements

General remarks

As part of the overall scaling up of international support, all Parties should seek to mobilise adequate and predictable funding to support results-based REDD+ actions, with the aim of:

1. Slowing, halting and sustainably reversing global forest cover and carbon loss[1], in order to achieve long-lasting and credible GHG emission reductions, consistent with the 2°C objective;
2. Preserving and enhancing other benefits of forests such as poverty alleviation, biodiversity, restoration and resilience of forests ecosystems and the services they provide, recognizing the linkages between adaptation and mitigation, in line with international commitments and objectives;
3. Enabling broad participation of developing countries resulting in a wide coverage of forests to avoid international carbon emission displacement;
4. Anticipating and encouraging further movement towards sustainable land use and resource consumption patterns as a basis for food, water and energy security, raw material supply and rural income and in the context of low emission development strategies.

REDD+ activities and actions should also address drivers of deforestation and degradation across sectors and focus on land and resource governance. Modalities and procedures for financing results-based actions should guide the effective and efficient design and implementation of national forest related policies and use of financing informed by the principles of aid effectiveness. Experiences from sectoral policy changes in developing countries, the synthesis of evolving modalities and procedures of multilateral and bilateral REDD+ initiatives, lessons learned from voluntary carbon markets, and demonstration activities should inform the process of designing REDD+ results-based actions.

Indicative content of a possible decision.

In the EU view, the decision should elaborate on the following elements:

- A quantifiable baseline for the provision of finance for results-based actions and how those baselines differ from forest reference emission levels and/or forest reference levels, ensuring environmental integrity.

- Operational definitions building on existing definitions as far as possible.

[1] Including the enhancement of forest carbon stocks.

- Participation requirements for results-based financing
    - A description of the contribution of REDD+ activities to Nationally Appropriate Mitigations Actions;
    - A national REDD+ strategy or action plan is in place in accordance with paragraph 72 of Decision 1/CP16 and links to relevant policies and programmes such as national forest programmes, FLEGT systems etc.;
    - A national forest monitoring system in accordance with the guidance by the COP, is in place;
    - Forest reference emission levels and/or forest reference levels are independently assessed, according to guidance by the COP, and are adopted by the COP;
    - Anthropogenic forest related emissions and removals are fully measured, reported and independently verified;
    - A system for providing information on how safeguards are addressed and respected is in place;
    - A summary of the information on how all safeguards are addressed and respected is provided as part of the National Communications and biennial update reports;
    - An agreed scope, methodology and quantifiable baseline for the provision of finance for results-based actions;
    - Fiduciary and institutional arrangements.

- An encouragement to the operating entities of the financial mechanism of the Convention and to other public and private organisations and institutions, to apply these modalities and procedures while providing REDD+ results-based finance.

- An invitation to the private sector to help addressing the drivers of deforestation and degradation.

- Indicative guidance for results-based demonstration activities in accordance with the annex to decision 2/CP.13 and with decision 1/CP.16, paragraph 73

Paper no. 7: Gambia on behalf of the least developed countries

Submission by the Gambia on behalf of the Least Developed Countries Group on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68.70 and 72

1. The COP in its Decision 2/CP.17 on the Outcome of the AWG-LCA, paragraph 69, invited Parties and accredited observers to submit to the secretariat their views on modalities and procedures for financing results-based actions and considering activities related to Decision 1/CP.16, paragraphs 68.70 and 72.

2. The LDCs group herewith submits their views as follows:

(i) The focus on results-based financing for REDD+ must not put LDCs at a disadvantage. LDCs must be given priority support in areas such as: general readiness; policy development and implementation; technology development and transfer (as set out in Article 4.9); demonstration activities; development of reference emission levels/reference levels; establishment of national forest monitoring systems; and systems for providing information on safeguards;

(ii) The Green Climate Fund must include funding for REDD+, as agreed in Durban (paragraph 35 of Durban decision on GCF, advance version). Allocation of funding should prioritise LDCs in accordance with UNFCCC Article 4.9;

(iii) LDCs have urgent funding needs to enable them to prepare for and undertake REDD+ actions and despite various international REDD+ initiatives, large gaps remain. Based on UNFCCC Article 4.9, Parties shall take full account of the specific needs and special situations of LDCs in their actions with regard to funding and transfer of technology. This must be reflected in decisions related to REDD+;

(iv) LDCs oppose including REDD+ into the system of carbon trading that could provide developed countries with a window to offset their own emissions without providing adequate domestic emission reductions.

(v) With respect to financing options, LDCs request for public sector funding as a major source of funding and the private sector funding being complementary;

(vi) Funding must be provided for the full implementation of the third phase of result s-based actions with full consideration of the direct and indirect benefits (not only carbon) from forest;

(vii) Funding for reducing emission from deforestation and forest degradation should be invested in national programs and infrastructure that directly provide support to forests dependents such as alternatives (energy, building materials, range improvement, fire fighting…etc) and rights and privileges that people driven from forests;

(viii) Developed countries must take the lead to meet their obligations for financial and technology transfers to the LDCS and Keep REDD+ out of carbon markets;

(ix) Principles for finance should remain adequacy, equitability of distribution, predictability and sustainability of finance to all REDD+ countries and accommodate the different national capabilities and circumstances;

(x) Urgent need to mobilize financial resources to assess the contributions and support conservation, sustainable management of forest, and enhancing forest carbon stocks.

Paper no. 8: Guyana

GUYANA REDD PLUS SUBMISSION ON REDD Plus FINANCING and related MRV and Reference levels

Background

Over 13 million hectares are lost annually (one acre per second) to deforestation and degradation, accounting for more than 17% of global greenhouse gases. If the world is to achieve a modest 2 degree temperature goal, a 5 percent reduction in deforestation and forest degradation will be required by 2020.

But developing rainforest countries rely on forest resources as a source of revenue for their own limited growth and development. In order to arrest DD, adequate and predictable financial flows to these countries will be required to incentive forest conservation and sustainabe management of forests.

The IWG-IFR, UNEP and Eliash have estimated that it would cost 15-33 B annually to reduce deforestation and degradation by 50% by 2020. $4.5 B has been pledged from Copenhagen. It is clear that the finance gap is large and that no single source of funding will be adequate for implementing REDD Plus worldwide.

It is for this reason that Guyana has held, and continues to hold, that REDD Plus must be financed by a combination of both public and private sources, including market based and market linked financing.

The Conference of the Parties at its 17th Session in Durban December 2011 agreed that financing for REDD Plus results based actions may come from public and private source. The COP further invited Parties to submit views on modalities and procedures for financing results based actions.

Positions

REDD Plus results based financing

The activities referred to in paragraph 70 of the 1/CP16 undertaken by developing country Parties in accordance with national circumstances and respective capabilities should be supported by significant financial resources that are new, additional, adequate and predictable.

Financial resources for the full implementation of results based actions should come from a flexible combination of public and private sources, including market based and market linked sources.

Public:

Public finance should be channeled through a REDD Plus window in the Green Climate Fund. using direct access, and administered by a REDD+ Board.

The REDD Plus window of the Green climate fund should coordinate funding managed by International Finance Institutions, with a view to absorbing all public finance in the long run, and also administer a share of the public finance generated by market-linked sources.

The REDD+ Board should work under the guidance and authority of the COP, and its membership should be equally balanced between developed and developing countries and be representative of the major geographical groupings.

Private sources

Private sources of financing, including market sources, should be subject to guidance and standards provided by the COP to ensure efficiency and environmental integrity.

Market linked:

Public finance that is generated from markets, such as the auctioning of allowances, where possible, should include a share that is managed under the Green Climate Fund.

Market based sources

Parties should consider all market based approaches to support results based actions, but a new market mechanism under the guidance and authority of the COP is preferred.

Where Parties develop national market based mechanisms that may be used by Parties to meet the objectives of the Convention, including their respective commitments, such market mechanisms that include REDD Plus actions shall

- Maintain consistency with the relevant decisions of the Parties under the Convention, including Subsidiary Bodies.
- Maintain consistent standards for reference levels, safeguards and MRV systems to ensure environmental integrity.

REDD+ actions should be results-based and measured, reported and verified at the national level. The national forest monitoring system should apply principles already established under UNFCCC reporting rules, notably transparency, consistency, comparability, completeness and accuracy.

Emission reduction units equivalent to an agreed national reference emissions level that are measurable, reportable, and verifiable, should be guaranteed direct market access, be fully fungible with AAUs, and transacted at a price equal to those credits transacted by Annex I Parties.

To encourage broader participation by guaranteeing the livelihoods of rural and indigenous communities, Parties should agree on a price floor which could be independently supported from, amongst others, the revenues generated from AAUs auctions.

For Parties seeking to increase or consolidate permanent forest conservation areas within the context of a market based mechanism, certain forest areas may be identified and designated as conservation areas.

Recognizing the rights and roles of local communities and indigenous peoples, based on national circumstances, activities referred to in paragraph 73 of decision 1/CP.16 should respect their traditional knowledge and intrinsic relationship with tropical forests while significantly supporting their social, environmental and economic development.

Since the Convention considers only anthropogenic emissions, greenhouse gas emissions resulting from extreme weather events and natural disasters affecting forest areas should not be included within any market based mechanism.

Reference levels for results based payments:

The market based mechanism referred to in paragraph 83 of decision 1/CP.17 should recognize the need to include highly forested countries which have maintained very low historical rates of deforestation through sustainable management of forests (SMF). Parties with high forest cover having maintained low rates of deforestation and forest degradation should be able to adjust their national reference emissions level relative the historical rate.

Parties not included in Annex I may voluntarily engage results based actions referred to in paragraph 73 of decision 1/CP.16 and should provide, inter alia, the following information:

- Reference Scenario: a national reference emissions or removal level taking into account historical data and national circumstances, including low rates of historical deforestation and forest degradation, and assessed over a period of at least five years;

- Projected Emissions Reductions: a National REDD Plan, including policy approaches that states the total projected emissions reductions or removals to be achieved below the reference emissions or removal level during an agreed timeframe;

- Developmental Adjustment: an adjustment to the reference emissions or removal level, either elevated or reduced, and early action credits taking into account, inter alia, the developmental divergence and respective capabilities of REDD countries.

MRV

Guyana recognizes the important role of forest monitoring, measurement, reporting and verification systems in a REDD scheme for results based payments.

In implementing national forest monitoring system, Decision 4/CP.15 of the Conference of the Parties relating the methodological guidance for REDD Plus is noted.

Forest monitoring systems should:

i. Be consistent with MRV of NAMA’s,
ii. Be based on a combination of both ground based and remotely sensed approaches, and using a tiered approach in accordance with ICC guidelines and guidance.
iii. Be national in scope, but may include subnational forest monitoring systems based on national circumstances.

Reporting should

i. Be consistent with those under MRV of NAMA’s,
ii. Be done through national communications every four years, with biennial updates of GHG inventories
iii. Provide any additional or technical information through a technical Annex.

Verification

Pursuant to 1/CP.16, Annex II para (c) verification has to be consistent with that under MRV of NAMA’s. Subject to 1/CP.17 Annex IV, Parties have agreed to conduct International Consultation and analysis of biennial reports under SBI in a manner that is non-intrusive and non-punitive, and respectful of national sovereignty and legislation.

Combined sources:

New and innovative sources such as

i. REDD+ Bonds
ii. Advance market commitments
iii. Carbon taxes and/or levies, provided that this is implemented in such a way that does not adversely affect developing country Parties dependent on tourism and maritime trade

should be explored and applied subject to guidance and standards approved by the COP.

Paper no. 9: Honduras

(12) Enhanced Action on mitigation, policy approaches and positive incentives on issued relating to REDD in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (AWG - LCA).

The Government of Honduras, in response to the invitation to Parties contained in document FCCC/SBSTA/2011/L.25, welcomes the opportunity to provide its views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraph 68-70 and 72.

Overview

In its Readiness Preparation Proposal, that outlines the process by which the Government of Honduras will develop its national strategy for participating in REDD+, a set of incentives are being proposed as well as the removal of existing disincentives to sustainable forest management and to REDD activities.

Honduras has prepared this submission in order to provide elements that may contribute to facilitate decision making during the next session of the SBSTA and COP regarding how to address drivers of deforestation and forest degradation, by establishing an adequate framework of policy incentives, efficient and fair both from a social and economic perspective, including inter alia a consideration of policy reform, policy alignment and enforcement, on the basis of lessons learnt and work already carried out by the country, as they relate to the elements discussed in this submission.

Positive incentives

Recalling paragraph 3 of Decision 2/CP.13 that encourages Parties to explore a range of actions, identify options and undertake efforts, including demonstration activities, to address the drivers of deforestation relevant to their national circumstances, with a view to reducing emissions from deforestation and forest degradation and thus enhancing forest carbon stocks due to sustainable management of forests, Honduras highlights the importance of deciding upon modalities and procedures for financing results-based actions and national efforts to redress deforestation and forest degradation processes due to direct as well as indirect causes of deforestation and forest degradation in developing countries with the aim of reducing emissions and avoid further increase in emissions due to the continuance of those processes.

Further to that, Honduras considers that, regardless of the type of positive incentive to be deployed at the national level, any financial mechanism to provide resources to facilitate the implementation of policy approaches and results-based actions should be effective, sustainable, predictable and equitable.

In addition to making operational the principle of common but differentiated responsibilities specifically in relation to implementation of actions to reduce GHG emissions from deforestation in developing countries, as well as ensuring compliance with paragraph 1 b (iii) of the Bali Action Plan, that identifies the need to provide positive incentives to REDD, the rationality for the provision of funding by developed countries to finance results-based actions to address the drivers of deforestation and forest degradation, is that in developing countries undertaking those actions, by means of policies and measures and the establishment of appropriate regulatory frameworks, in the absence of police incentives and since a major portion of benefits of the activities undertaken are global and not captured by concerned developing countries, the overall level of forest activities tends to be suboptimal. Hence, convergence of economic rationality and agreed principles and decisions is realized through results-based climate financing.

Further, from the perspective of a stock-flow approach, stored carbon is an asset that should provide a return over time, whereas carbon flowing into carbon stocks is to be considered an investment.

Honduras considers that positive incentives for actions aimed at reducing emissions from deforestation and forest degradation should cover the lost incremental benefits due to the reduction in the rate of deforestation, including direct and opportunity costs. Further, the financing should cover the three phases of national preparation, implementation and monitoring.

Honduras supports the idea that the Green Climate Fund should be the entity responsible to channel resources to finance actions to reduce emissions from deforestation and forest degradation, in the context of its key role in channeling new, additional, adequate and predictable financial resources to developing countries and catalyzing climate finance, both public and private, at the international and national levels, and other funding sources should be only complementary. Methodological approaches to determine the modalities to finance results-based actions should be developed as required.

Due to the complexity of the proximate and underlying causes of deforestation and forest degradation in developing countries and the need to differentiate between local direct drivers and indirect international drivers of deforestation, Honduras supports the idea that resources at a commensurate level with developing country requirements should be made available to finance activities related to capacity building, participatory development process and readiness.

According to our historical experience and the lessons learnt in the preparatory phase to implement actions at the country level, deforestation is primarily driven by agricultural conversion, increased international demand for forestry products, natural resource extraction and infrastructure development to supply a growing population, while forest degradation is mainly driven by over exploitation of forest resources and inadequate forestry practices. Frequently indebtedness, fiscal imbalances, trade imbalances and food security considerations tend to aggravate overuse of natural resources and deforestation and forest degradation. Governance issues are the crux of the matter in relation with the intensification of deforestation and forest degradation in developing countries.

Recalling paragraph 72 of Decision 1/CP.16 that requests developing country Parties, when developing and implementing their national strategies or action plans, to address, inter alia, the drivers of deforestation and forest degradation, land tenure issues, forest governance issues, gender considerations and the safeguards identified in paragraph 2 of appendix I to this decision, Honduras considers that in the elaboration of a national strategy or action plan it is essential to examine existing policies and regulatory frameworks in order to ensure policy alignment, determine the need for policy reform, create the appropriate positive incentives for forest-maintaining activities as well as establish negative incentives for forest-replacing activities.

In that regard, Honduras Forestry Law[1], already includes positive incentives and the elimination of

[1] Ley Forestal, Áreas Protegidas y Vida Silvestre. Decreto No. 156-2007. Honduras.

perverse incentives. However, resource constraints and insufficient enforcement capacity has led to a protracted implementation. In the current readiness phase, some of areas of concern are:

- Persistence of perverse incentives: subsidies (interest rate subsidies to agriculture and animal agriculture), tax incentives, under-priced public land
- Illegal logging
- Animal agriculture
- Land tenure issues
- Forest governance issues

Honduras considers that positive incentives to address identified issues of concern should include:

- Clear, transparent, consistent and enforceable regulatory framework
- Capacity building at the national, sub-national and local level
- Technical assistance and technology support to key forestry stakeholders
- Microfinance mechanisms
- Payment for ecosystem services, including non carbon services
- Eco-labeling
- Tax incentives to value added forestry products
- Forest conservation grants
- Long term loans
- Economic diversification

Having initiated the analysis of the diverse positive incentives and policy approaches to be included in its national strategy, Honduras considers that the financing of results-based actions should explicitly include financial support at the national level (budgetary support) to alleviate fiscal impacts of the establishment of positive incentives and the reduction of income due to diminished agricultural activities.

Given the complexity of the issues, the different national circumstances and the similarity of effects caused by indirect international drivers in developing countries, Honduras supports the idea of reinforcing the means to share experiences and lessons learnt in the context of the process to optimize REDD+ activities. In addition, many of the underlying causes are common to different regions. Hence regional approaches to face international drivers of deforestation and forest degradation should be promoted.

Paper no. 10: India

Submission by India on AWG-LCA REDD-plus Financing Issues

<u>Enhanced action on mitigation, 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 (AWG-LCA)</u>

Views submitted by India on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72 *(Decision [-/CP.17] Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, paragraph 69 (Advance unedited version)*

Government of India proposes following elements that it considers essential for financing results-based actions to be included in the modalities and procedures for the purpose:

1. Definitions: The terms which are being used in the AWG-LCA and SBSTA text on this agenda item, like deforestation, forest degradation, conservation of forest carbon stocks, sustainable management of forests, enhancement of forest carbon stocks, national forest reference/emission reference level, and others should be clearly defined.

2. Participation: Developing countries may undertake voluntarily the activities mentioned in paragraph 70 of decision 1/CP.16, and claim incentives for results-based actions following due modalities and procedures agreed by Parties for the purpose.

3. Unit for assessing deforestation: All developing countries voluntarily participating as per paragraph 2 above shall use the same unit of area in multiples of 1 hectare for assessing deforestation.

4. Unit for assessing forest degradation: Participating developing countries shall use the same unit of dry biomass in metric tonnes lost or extracted in a forest area for assessing forest degradation.

5. Unit for assessing conserved forest carbon stocks: Participating developing countries shall use the same unit of dry biomass in metric tonnes conserved or stabilized in a forest area for assessing conserved forest carbon stocks.

6. Unit for assessing enhancement in forest carbon stocks: Participating developing countries shall use the same unit of dry biomass in metric tonnes added in a forest area for assessing enhancement of forest carbon stocks due to management interventions.

7. The resultant effect of actions leading to emission reduction, removal or conserved/ stabilized forest carbon stocks will be expressed in units of metric tonnes CO_2eq.

8. Scope of accounting: Forest carbon stocks of the entire country will be compiled at the national level, and will comprise such stocks corresponding to the i) forest cover of the country, and ii) trees outside forest (ToF) in the country. Selection of ToF will be optional for a developing country.

9. However, ToF once accounted for in the First Accounting Period (FAP) shall continue to be accounted for in the subsequent Accounting Periods (APs) also.

10. Similarly the extent of forest cover accounted for in FAP shall continue to be accounted for in the subsequent APs also.
11. Duration and beginning of FAP will be determined by the Parties.
12. For FAP, accountable anthropogenic greenhouse gas emissions by sources and removals by sinks resulting from reported forest cover and ToF (if elected) shall be equal to anthropogenic greenhouse gas emissions by sources and removals by sinks in the FAP less the reference level (RL)/reference emission level (REL) agreed by the Parties for the developing country Party.
13. RL/REL of a developing country Party will be expressed in metric tonnes CO_2eq.
14. RL/REL for a developing country Party shall be fixed in an open and transparent manner following the procedure agreed by Parties for the purpose, which will include independent expert review by UNFCCC of the proposal of RL/REL submitted by the developing country Party.
15. All anthropogenic activities resulting in emissions or removals[1] will be accounted for in the FAP to compute net emissions or removals at the national level.
16. Countries may use their own methodologies to measure emissions from forest degradation, till a common methodology for the purpose is agreed by the Parties.
17. Incentives in terms of money per unit of reduction effected due to reducing emissions from deforestation and/or forest degradation will be determined and fixed in advance by the Parties.
18. Incentives in terms of money per unit of removal effected due to conservation, sustainable management of forests and enhancement of forest carbon stocks will be determined and fixed in advance by the Parties.
19. Incentives in terms of money per unit of stabilized/conserved forest carbon stocks due to conservation and/or sustainable management of forests will be determined and fixed in advance by the Parties.
20. Minimum price of one unit of CO_2eq for i) emission reduction, ii) removal and iii) stabilized/conserved forest carbon stocks will be fixed as agreed by the Parties.
21. Stabilized/conserved forest carbon stocks will be incentivized using non-market based mechanism.
22. Accounts will be compiled at the national level, and submitted by the developing country Parties on voluntary basis to the UNFCCC.
23. Incentives will be directly disbursed by the UNFCCC to the national governments, who without delay and in an open and transparent manner further disburse the same to various stakeholders including the local communities within the country.

[1] Activities mentioned in paragraph 70 of decision 1/CP.16

24. The host country will decide on benefit sharing among various stakeholders including local community. However, it shall be done in accordance with a set of guidelines that will be developed and finalized in an open and transparent manner involving all stakeholders including civil society, marginalized groups and women.
25. Incentivized units of reduced emissions, and removed/conserved forest carbon stocks will be preserved for a period to be agreed by the Parties.
26. Proportionate distribution of resources between ‘REDD’ {(a) and (b) of paragraph 70} and ‘plus’ {(c) to (e) of paragraph 70} activities of decision 1/CP.16 should be ensured. Requirement for undertaking Phase III results-based actions should be carefully worked out as the amounts required would be much higher compared to those for Phase I and Phase II actions.
27. Market-based approaches to be developed for incentivizing removals and emission reductions shall be separate from the CDM market.
28. Resources from the Green Climate Fund can be used for incentivizing activities mentioned in paragraph 70 of decision 1/CP.16, and undertaken by a developing country Party in the manner as agreed for the purpose by the Parties.

Paper no. 11: Indonesia

Views of the Government of the Republic of Indonesia
on
Modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72

1. Conference of the Parties (COP) in its Decision 2/CP.17 on the Outcome of the Work of Ad Hoc Working Group on Long Term Cooperative Action under the Convention (AWG-LCA), paragraph 69, invited Parties and accredited observers to submit to the secretariat, by 5 March 2012, their views on modalities and procedures for financing results-based actions and considering activities related to Decision 1/CP.16, paragraphs 68–70 and 72.

2. The Government of the Republic of Indonesia herewith submits its views as follows:

3. Indonesia recognizes:

   (i) the need for substantial financial resources to address drivers of deforestation and forest degradation and other issues in paragraph 72 of Decision 1/CP. 16; to asses potential contributions of conservation, sustainable management of forest, and enhancing forest carbon stocks; and to implement guidance and safeguards;

   (ii) that roles of private sector to engage in result-based actions and in addressing drivers of deforestation and forest degradation is essential;

   (iii) diversity of national circumstances and capabilities of developing countries, and the level of support received, taking into account paragraphs 73 and 74 of Decision. 1/CP.16;

4. As regard financing options, Indonesia considers that:

   (i) a combination of market and non market-based approaches/mechanisms including forest investment for all types of forests, which may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources, should be used for the full implementation of the result-based actions, in a complementary basis;

   (ii) considering the phases of REDD+ implementation and the complexity of issues to be addressed, non-market based supports to on-going efforts should be continued beyond 2012 and forest investment for all types of forests should be promoted to enable developing countries entering full implementation phase and to address issues in paragraph 72 and safeguards in Annex 1 of decision 1/CP.16;

   (iii) financing for full implementation of result-based REDD+ actions should be part of developed country Parties' commitment to jointly mobilize financial resources of USD 100 billion per year by 2020. It should be operated with specific modalities, rules and procedures to access the finance, taking into account relevant provisions on modalities for reference emission level or reference level and guidance on a system for information provision on safeguards, as referred to in COP-17 decision; as well as provision on MRV of actions and MRV of supports determined by the COP.

5. Indonesia is of the view that modalities and procedures for financing of full implementation of the result-based actions under paragraph 73 of Decision 1/CP. 16 should:

(i) ensure voluntary participation of Parties and respective national stakeholders;

(ii) support emission reduction/emission avoidance/enhancement of forest carbon stocks that show additional, fully measured, reported and verified, and meet other key requirements including safeguards. Emission reduction/emission avoidance/ enhancement of forest carbon stocks should be quantified against a national forest reference emissions level/forest reference level or a sub-national reference emissions level/forest reference level with actions to be monitored and reported under a national forest monitoring system;

(iii) recognize good governance including through avoiding double-counting of results (emission reduction/emission avoidance/enhancement of forest carbon stocks);

(iv) ensure environmental integrity on one side and market integrity in market-based mechanism on the other;

(v) provide mechanism for adequate incentives to countries with significant carbon stocks but lower deforestation rates in order to deviate from future deforestation and emission pathways, while ensuring other key requirements;

(vi) underscore direct access of national entities to international funds and investment and recognize the important role of the national governments to ensure coherence and integrity of all efforts within the countries including in addressing national level issues such as displacement of emissions, risks of reversals, as well as fair distribution of benefits and responsibilities of all relevant stakeholders in REDD+ implementation, including local communities;

(vii) define appropriate approaches/mechanisms for different types of REDD+ activities, taking into account a wide variety of sources, public and private, bilateral and multilateral, market and non market including forest investment;

(viii) further efforts to create funding windows for REDD+ under Green Climate Fund and/or special funds at the global level to support long term investment that advances REDD+ goals;

(ix) provide guidance for effective integration of public and private finances in REDD+ implementation at the national level.

Paper no. 12: Japan

Japan's Submission on modalities and procedures for financing result-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72

28 February 2012

1. General

For the full implementation of the results-based REDD+ actions, finance should be provided for REDD+ actions which are fully measured, reported and verified and are fully ensuring the safeguards identified in paragraph 2 of appendix I to decision 1/CP.16, in accordance with assessment of country's performance in implementing the activities referred to in decision 1/CP.16, paragraph 70. For this purpose, robust and transparent national forest monitoring system and system for providing information on how the safeguards are being addressed and respected are indispensable. Therefore, the progress of the development of such systems and their feasibility should be reviewed in transparent manner.

In this context, we should also note that maintaining comparability of the results is important as results of REDD+ actions would be potentially diverse depending on the national circumstances.

For ensuring sufficient volume of finance, various types of finance, including public and private finance, in both developed and developing countries, should be mobilized. It is also important that countries can, individually or jointly, develop various finance options according to their national circumstances and policies under the robust MRV systems and the safeguards systems guided by the COP. Furthermore, it is necessary to make it possible for each country to choose types of finance (public/private) and types of channels (market-based / non-market-based, centralized / decentralized mechanisms, bilateral / multilateral channels, etc.) according to its own national circumstances and policies. In choosing types of finance, effective use of experience gained from demonstration activities is crucial. Therefore, demonstration activities should be promoted and their role should be appropriately given its rightful place in national systems.

On the other hand, REDD+ is expected to effectively deploy multiple functions of forests and social and environmental safeguards, beyond carbon aspects, as referred to Appendix I to Decision 1/CP.16. These efforts should also be appropriately assessed in combination of qualitative and quantitative manner and these assessments should be taken into consideration in results-based finance.

2. Points to be discussed for consideration of the modalities and procedures of REDD+ financing

In our discussions until the COP 18, various financial options (types of financial resources, channel) and elements of MRV and the safeguards which are essential for financing should be identified, and Parties' views on these points should be shared. Such practical and pragmatic discussions are helpful for us in order to enhance mutual understandings on different views and to find a common ground.

(1) Information to be collected and analyzed in the technical paper referred to in paragraph 71 of decision X/CP.17.

Following information is helpful for us in discussing the modalities and procedures for REDD+ financing for the full implementation of the result based REDD+ actions. Therefore, the technical paper should collect and analyze the following information:

- Prediction of financial demand;
- Estimation of lead time before starting the full implementation of the result based REDD+

actions;

- Financial options (types of financial resources and types of financial channel) and their characteristics;
- Cost items for the full implementation of the result based REDD+ actions;
- Uncertainties of GHG reduction estimates;
- Essential information on the safeguards for REDD+ financing;
- How to maintain transparency in efficient and effective REDD+ actions which link to REDD+ financing, in light of the experiences gained from current and future demonstration activities; and
- Lessons learned through on-going REDD+ demonstration activities and sustainable forest management projects by international donors and developing countries.

(2) Points to be discussed in the workshop referred to paragraph 72 of decision X/CP.17.

It is helpful for our mutual understandings to discuss following points during the workshop:

- Financial options (types of finance and channel) and their characteristics;
- Essential elements of MRV and the safeguards for REDD+ financing;
- How to maintain transparency in REDD+ actions which link to REDD+ financing, in light of the experiences gained from current and future demonstration activities;
- Actions subject to REDD+ financing; and
- Risks to be considered both by donors and recipients.

Paper no. 13: Malaysia

Enhanced action on mitigation, 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 (AWG-LCA)
Submission of views by Parties and accredited observers on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68.70 and 72
(Decision [-/CP.17] Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention, paragraph 69)

Malaysia is of the view that for full implementation of result based REDD actions, mechanism and conditions must in place to ensure changes in forests are accurately measured, reported, and verified, safeguards are respected, benefits are equally distributed, and relevant stakeholders participate in this process as per decision 1/CP.16 paragraph 70 and paragraph 2 of appendix I to decision 1/CP.16. Financing of results-based actions will be measurable, reportable, and verifiable and would require additional resources. In this accord, decision on how the results-based actions phase will be financed must be made sooner.

The decision should provide countries the freedom to utilize a broad range of financing sources as appropriate, on a voluntary basis, including public and market finance for full implementation. 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.

Modalities and procedures for financing result-based actions

(a) Definitions should be also made clear on the on how result based actions would be measured. Result based actions must be measured in a common unit and achieved through a. emission reduction b. removal c) stabilized/conserved forest carbon stocks.

(b) Incentives in terms of money per unit of emission reduction or removal must be fixed in advance by the Parties.

(c) Following the national forest monitoring, carbon accounting on the emission reduction and or removals will be compiled at national level and submitted to the UNFCCC on a voluntary basis by developing country parties.

(d) Financing must be predictable and equal for all the REDD+ scope and not perverse in incentive and early REDD+ actions shall not be marginalized. In this context, adequate public international funding for REDD+ must be linked closely to the provision of implementing plus action and the safeguards.

(e) A continued role of public international funding, particularly complementing investments in key public goods aimed at removing further barriers to investments to effectively tackle drivers of deforestation, forest degradation and conservation efforts.

(f) Dedicated REDD+ funds under the Green climate fund to complement and work towards national and international 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 communities.

(g) Bilateral or market based mechanism should shift current investments towards addressing the drivers of deforestation and forest degradation. It should strengthen market for goods and services that protect forests, including the carbon market and ecosystem markets, and create a local economy that values ecosystem protection.

(h) Market based mechanism for REDD+ should be separate from the CDM mechanism.

Paper no. 14: Norway

Norway's Submission to the UNFCCC on Views on Results-Based Finance for REDD+ (March 2012)

Norway appreciates this opportunity to provide views on results-based finance for REDD+. We look forward to work with other Parties to bring REDD+ to the next level and deliver on its potential.

Significant progress has been made on REDD+. However, as with mitigation in general, we are behind schedule. If we are to achieve the 2 degree target and the agreed goal to slow, halt and reverse forest cover and carbon loss in developing countries, we must intensify our efforts without delay.

In the text below, Norway respectfully submits some perspectives and proposals on how this could be done.

I. The Importance of REDD+ in the 2 degree Scenario

It is increasingly clear that without REDD+ delivering at or near its near full potential, we will not reduce emissions to the levels needed by 2020 to reach the two degree target. While global deforestation rates fell in the period 2005-10, in large part due to cuts in Brazil, large additional cuts are needed by 2020. According to some sources, REDD+ could provide as much as one third of the cost-effective emission reductions required by 2020 to put us on a credible two-degree path. Demand for verified REDD+ emission reductions is essential both to realize the upper ranges of current mitigation pledges, and to increase the ambition level and thereby close the mitigation gap.

Many developing forest countries are committed to do their part. Indonesia, for example, has pledged to reduce emissions relative to the business-as-usual scenario by 26% by 2020, increasing to 41% with appropriate international support. Up to 89% of the cuts will come from REDD+ and peat. As of now, there is no globally agreed mechanism in place to help developing forest countries like Indonesia to reach their existing pledges.

The lack of a credible demand, however, is the most critical barrier to increasing REDD+ actions and results. This was widely recognized by the Parties at the recent meeting of the REDD+ Partnership in February 2012. If we are serious about the 2 degree target, ensuring a prize on carbon and establishing a credible demand is urgent.

II. The Economic Case for a Global Incentive Structure for REDD+

The economics behind deforestation and forest degradation is simple. Global demand for agricultural and forest products is driving deforestation and forest degradation in developing countries. "Commodification of nature" is already happening, with disastrous consequences for the world's forests and its inhabitants.

Currently, the societal (global) cost of forest emissions is not taken into account in rational private and public land-use decisions.

Putting an adequate value on carbon can help align the societal (global) and private (local) costs. Overall, a value on carbon can provide incentives, for example, to move the expansion of agriculture from high carbon/conservation value forests to relatively degraded lands, and provide an impetus for increased efficiency in forestry, or intensification of agriculture, to reduce the overall pressure on forests.

Predictable demand is one of many tools needed to reach the objective of reduced emissions at a global scale. Other elements– such as governance and tenure reforms, multi-stakeholder participation, responsible trade policies, and investments in sustainable supply chains – are indeed *also* crucial to success. However, an incentive structure that creates a demand for emission reductions with strong safeguards (as agreed in Cancun), seems to be the best way to motivate all these other elements needed to reduce emissions. In essence: A sustainable rationale for doing all these things at scale is needed. Putting a price on forest carbon through predictable demand is the best option available.

Introducing incentive payments will also help create transparency around the effective implementation of safeguards. Results-based payments need to be introduced gradually but swiftly, in the context of robust, participatory and transparent national systems that provide information, nationally and internationally, on how safeguards are being fully addressed and respected throughout the preparation and implementation of REDD+.

Forests, of course, are about more than carbon. However, the phase 3 incentive payments for emission reductions, combined with full national and international transparency around strong social and environmental safeguards, will be most likely to meet not only our climate goals, but also to preserve forests for all the various services they provide, including for biodiversity and for the livelihoods, rights and cultural and spiritual values of local communities and indigenous peoples depending on the forests. There is currently no other option on the table with a comparable potential to alter the dynamic towards conserving these local and global public goods at scale; on the contrary, current trends are that without large-scale action, all of these goods will continue to lose out on the path to short-term unsustainable development. It should also be noted that while the metric for incentive payments should be for emission reductions, payments can (and will) still be spent on activities that maximize other benefits.

Other natural capital such as biodiversity could be priced in a similar way. Norway would be open to consider ways to promote payment schemes for other ecosystem services than carbon - structured through the appropriate international frameworks and/or legal bodies. This would require methods to monitor such natural capital combined with a global awareness and willingness to pay for it. In lieu of such a system being in place, payments based on carbon remain the best lever for preserving forest biodiversity at scale (and to promote social justice and development).

III. The Political Case for a Global Incentive Structure for REDD+

Cancun and Durban established the broad global framework for REDD+. A phased approach to REDD+ has been agreed upon, which allows developing countries to advance according to national circumstances and to access development assistance funds for capacity building support and policy reforms while gradually preparing for full implementation of national REDD+ strategies and financing from payments for verified emission reductions and removals.

The "3-phased approach" agreed in Cancun reflects the fact that reducing forest emissions in developing countries will require a coordinated set of actions on multiple fronts. Thorough readiness preparations are critical to ensure effective, efficient, just and sustainable outcomes from REDD+ implementation. Inclusive consultation processes are time-consuming and require resources. Countries must undertake the appropriate analysis to assess the direct drivers and underlying causes of forest carbon loss and develop a national strategy addressing both market and governance failures. New institutional set-ups, and strong educational efforts will often be required to effectively address an issue that cuts across ministerial or departmental responsibilities and national and local jurisdictions. Systems to ensure that REDD+ actions contribute to rural development, benefit broad stakeholder groups, reduce poverty and protect the local environment should be established. And, crucially, transparent national system must be put in place to show how safeguards are being fully addressed and respected throughout REDD+ implementation in order to reduce risk, provide confidence to investors and ensure effective outcomes.

All this preparatory work carries significant short term costs - economic and political - for developing countries. Strong vested interests stand to lose significant income and power. With no visibility on demand for the results of their efforts, and no clarity that income from REDD+ can provide at least partial short- and medium term compensation for loss of income from more resource-intensive development approaches, many countries are understandably reluctant to scale up implementation.

To succeed in sustainably reducing or avoiding forest emissions, REDD+ must be perceived to be - as it is - in developing countries' long term self interest. Sustainable use of forest resources, rational land use planning and clarity over land use rights and concessions are good for business and communities alike. The local and national benefits from preserving forests are sometimes greater than the global benefits rewarded through carbon payments. Countries must look at REDD+ as part of a broader sustainable development strategy that considers synergies and potential trade-offs between various important goals, such as economic development, food security and climate mitigation and adaptation.

However, the economic and political costs of REDD+ in the short term can be significant. Therefore, to motivate developing countries to take on vested interests to reduce emissions, they should be offered a partnership of equals. Developing countries must be fully in charge, and provided incentives for verified results *ex post* rather than up-front earmarked support for specific elements of the total effort.

IV. The importance of providing payments for verified REDD+ emission reductions and removals

By REDD+ "results" we mean reduced emissions, avoided emissions and/or enhanced removals that are fully measured, reported and verified (t CO2eq per year), based on Decision 1/CP.16 and Decision -/CP.17. Thus, "financing of results-based actions" means payments for verified emission reductions relative to an agreed incentives level[1]. Decision 1/CP.16 paragraph 73 refer to "results based actions that should be fully measured, reported and verified" in the full implementation phase of REDD+ ('phase 3'). Decision -/CP.17 refers results-based actions back to the definition (scope) of REDD+ activities, most of which are themselves results rather than actual actions. Also, the Durban decision in SBSTA defined reference levels as a way to measure the performance for those same activities; "forest reference emission levels and/or forest reference levels expressed in tons of carbon dioxide equivalent per year, are benchmarks for assessing each country's performance in implementing the activities referred to in decision 1/CP.16, paragraph 70".

Ex-post payments **for verified emission reductions is the best way to** ***incentivize*** **emission reductions in any sector, including REDD+**. Such incentives would motivate improvements in the enabling environment. Regardless, strong provisions on safeguards must be a requirement for such payments, and up-front support may be needed to ensure the effective application of safeguards.

Payments for "performance" measures other than carbon - such as policy and institutional reform as well as development and implementation of safeguards - may be useful when providing bilateral or multilateral support in the early phases of REDD+. (This is already being done, including through Norway's country-to-country REDD+ partnerships.) Such performance-based support can be provided as countries prepare to deliver verified emission reductions at scale. They are not, however, a substitute for actual financial demand for such reductions. Moreover, such measures will necessarily be quite country-specific, and it would be counter-productive to try to agree on appropriate indicators for "progress" in the context of the UNFCCC.

V. Funding the Incentive Structure

Continued and scaled up donor support will be absolutely critical to allow for continued progress on readiness (phase 1) and reforms and early incentive payments in phase 2 of REDD+. However, generating adequate and predictable demand for the full implementation phase with payments for verified emission reductions at scale will require far more substantial, sustainable and predictable financing. The Durban decision on finance was useful in this regard. Paragraph 65 reads; "*Agrees* that results-based finance provided to developing country Parties that is new, additional and predictable may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources". Further, paragraph 66 reads; "*Considers* that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support results-based actions by developing country Parties referred to in paragraph 73 of 1/CP.16, ensuring that environmental integrity is preserved, and the provisions of appendix I and II to Decision 1/CP.16 are fully respected and should be consistent with relevant provisions of decision 1/CP.16, decision -/CP.17 (SBSTA) and any future decision by the COP on these matters." Paragraph 67; *"Notes* that non market based approaches, such as joint mitigation and adaptation approaches for the integral and

[1] Emission 'reductions' relative to the incentive level does not necessarily mean absolute reductions. E.g., for countries with high forest cover and low deforestation, payments could be made to maintain that low level (as per definition of REDD+ from Cancun. While reference levels should attempt to measure the results of actions, incentives levels should be created to allow for self-finance, at a varying proportion based on national circumstance.

sustainable management of forests as a non-market alternative that supports and strengthens governance, the application of safeguards as referred to in decision 1/CP.16, appendix I, paragraph 2(c.e), and the multiple functions of forests, could be developed". The decision was, however, inadequate to provide a clear signal to developing country governments and the private sector that the short-term risks and liabilities of taking REDD+actions are worth accepting.

We now need to make decisions on how each of the various sources identified in Durban can be mobilized for the phase 3 incentive mechanism. Norway is prepared to consider all the sources called for in the AGF report - and would in particular emphasis the potential of innovative sources of finance - as well as those listed in the REDD+ decision from Durban. However, we recognize that these sources need further negotiation. In the absence of agreement on these sources, public finance and emerging carbon markets – as long as they contribute to increased overall ambition levels and ensure adherence to agreed safeguards as well as environmental integrity (as agreed in Durban) – must be tapped to generate demand for emission reductions from REDD+.

To this end, immediate and coordinated action should be taken by committed countries, in particular developed countries, to ensure adequate, predictable, and sustainable demand for verified emission reductions in the 2016-2020 period before full inclusion in a global regime beyond 2020. While guided by relevant UNFCCC decisions and closely coordinated, countries could channel resources bilaterally before innovative sources or markets reach scale. This would also allow a "race to the top", if selection criteria included highly sustainable programs that place carbon finance as part of a credible green growth strategy, and required full transparency around implementation and compliance with safeguards.

Such "bridge demand" over the next couple of years would build momentum and confidence as well as provide learning and mitigation results. Various forms of finance – public sources, innovative sources, market- or market-linked sources – would be put effectively to play and leverage and re-direct private finance. Such an effort would effectively create a price signal even now, as the commodity markets would factor in the expectation of a future value on forest carbon. Increased predictability of demand in the future will affect land-use decisions today. A sector-wide price signal is a more effective way to mobilize and re-direct private investments than co-financing specific interventions in the pursuit of visible and seemingly more targeted 'leverage'.

An international mechanism for incentive payments is needed. The international incentive structure could develop in many different ways, with a variety of channels providing payments for emission reductions from a variety of sources of finance. Over time an international mechanism under the Convention should be available to ensure environmental integrity, transparency, market fungibility, and predictability of demand for all developing forest countries. Such a design, however, does not necessarily imply a unitary, consolidated system. Rather, the sum of decentralized transactions could be combined to provide sufficient demand. Full transparency would be essential for such a regime to work.

A REDD+ Window under the Green Climate Fund could be created for this purpose. The Cancun Agreements established that phase 1 and 2 will be financed by existing channels. It thus seems reasonable to focus a Green Climate Fund window on *ex post* payments per ton of verified emission reductions or removals relative to an agreed incentive level. In addition to ensuring value-for-money and making decision-making and program cycle procedures of the fund easier, it could also provide valuable learning for the Fund's broader agenda as it moves – on the mitigation side – towards an increasing focus on incentivizing verified emission reductions.

VI. Rules and Modalities for Incentive Payments

Priority should be given to clarify how reference levels translate into incentive payments. Results-based payments should be provided for verified emission reductions measured in tCO2eq/yr relative to an agreed 'incentive level'. 'Incentive levels' should equal reference levels subtracted for nationally appropriate self-financing, provided that a robust approach to setting reference levels (see below) is established.

A periodic review of reference levels would contribute to ensuring global environmental integrity. Further progress is needed on reference levels, especially if reference levels are the point of departure for calculating or negotiating incentive levels. It will be necessary to establish a periodic cumulative review of all approved reference levels and incentive levels to avoid a situation where results-based finance would be provided without a reduction in global deforestation rates. We understand that developing countries cannot be held liable for lack of progress in other countries. However, the pressure on forests in one developing country will also be affected by actions in other developing countries. We believe the best way to ensure that the incentive structure is effective, efficient and equitable is to instigate a periodic review process to guide future reference level and incentives level setting.

To get access to incentive payments developing countries will need to:

- Have developed a national REDD+ strategy or action plan in accordance with Decision 1/CP.16 paragraph 72 outlining how the drivers of forest emissions are addressed;
- Have in place a national forest monitoring system in accordance with the guidance by the COP;
- Have in place a forest reference emission levels and/or forest reference level that is independently assessed according to guidance by the COP.
- Have in place a transparent system for providing information on how safeguards are fully addressed and respected throughout the implementation of REDD+;
- Have provided a summary of the information confirming that all safeguards are fully addressed and respected for the period for which they are to receive incentive payments, provided as part of the National Communications and biennial update reports at a minimum;
- Have in place national or international fiduciary arrangements to receive and manage payments according to international standards.
- Channel REDD+ revenues towards the implementation of their publicly available national climate compatible development strategies formulated through inclusive, transparent, multi-stakeholder strategies and preferably anchored in national legislatures.
- Deliver verified emission reductions, avoided emissions or removals from their forest sector, recorded in the international registry (see below).

Conservative estimates of emission reductions could be used in an interim period before more accurate measurements are possible. This would incentivize broad participation among developing countries, maximize near term mitigation potential and learning for future scale-up, increasing and improving global environmental integrity by reducing international leakage, increase cost-effectiveness (paying for fewer tons than you get) and lower transaction cost. By using default values subtracted for the full confidence interval to discount for uncertainty, this would allow early access to results-based payments while also incentivizing continuous improvement over time. Norway does not see any reason why these cannot qualify, to enter compliance markets in the future, on equal terms with "fully MRVed" reductions, given that the appropriate discounts more than ensure full environmental integrity.

An international registry – potentially supplemented by national registries – is urgently needed to record transactions of emission reductions from REDD+. In a situation of multiple channels for incentive payments, it is crucial that additional elements be agreed and coordinated internationally. In particular, it is crucial that a registry of all transacted volumes be put in place in order to avoid double-counting (i.e., that a ton of emission reductions is sold twice). This applies both to ERs used as offsets under national and regional regimes and those paid for in order to 'cancel' emission reductions (i.e., not to be used for any sort of compliance or re-selling). An effective registry will also provide transparency over flows, and ensure quality and comparability of emission reductions. Please refer to Norway's submission on "A common accounting system under the Convention", November 2011, for details.

International agreement on a verification process is needed. For emission reductions to be counted against UNFCCC commitments, verification should be standardized. Verification could either be done centrally by the UNFCCC (similar to national reviews), decentralized as with the DOEs used in CDM or through 3rd party independent verification based on agreed standards. Procedures for accreditation could potentially also be agreed under the UNFCCC. Full agreement on verification, however, can be achieved only over time. It should not be a precondition for establishing near and medium term demand for REDD+ results.

VII: Summary of arguments

Significant progress has been made on REDD+. However, as with mitigation in general, we are behind schedule. If we are to achieve the 2 degree target and the agreed goal to slow, halt and reverse forest cover and carbon loss in developing countries, we must intensify our efforts without delay.

For this purpose, continued and scaled up funding for 2013-15 must be ensured. More important, however, is to send a credible signal in the near future that there will be substantial and predictable demand for REDD+ results (verified forest sector emission reductions) in the 2016-20 period and beyond. If REDD+ is to fulfill its potential, we must collectively and in the near future start to correct the fundamental market failure that drives deforestation (benefits from forests, including carbon sequestration, often have no market value and emissions no cost) by putting a price on forest carbon. Predictable, scaled-up payments for verified emission reductions and removals from REDD+ can be one of the quickest ways to meet our collective climate goals—as well as to protect the world's standing forests.

Though not in itself sufficient to ensure the success of REDD+, **creating such demand is the best available tool for the international community** to help trigger essential governance reforms, incentivize effective application of safeguards, mobilize and redirect private finance towards sustainable conservation and management of forests, and create sustainable commodity supply chainsIt would also serve to effectively and efficiently promote the other social, environmental, economic and cultural services tropical forests provide. This is true irrespective of preferences regarding sources of funding and modes of transaction constituting such demand.

With this in mind, **Norway suggests efforts along three parallel tracks** with the aim of achieving:

(1) A substantial increase in REDD+ funding for 2013-2015 compared to the USD 4bn pledged for 2010-12. Funding should, in addition to readiness work, incentivize transformational policies and measures in developing forest countries and increasingly pay for verified emission reductions.

(2) Urgently providing a signal that predictable and significant demand will be available for verified emission reductions in the period 2016-20, and become part of a 2020 agreement under the UNFCCC. The 2016-2020 period is crucial. Eight years of 'capacity building' support for 'readiness' alone would lose out on the critical mitigation potential in that period and endanger future large scale mitigation action. If developing countries have to wait for the still-to-be negotiated post-2020 agreement, there is a real risk that REDD+ opportunities would be lost. To achieve this, a broad range of financial sources – including scaled up public funding – would be needed. Potential ways to make "early" action (e.g., 2015-20) count in the post-2020 agreement should be explored, in order to avoid delaying near term action. A REDD+ window under the Green Climate Fund could also be considered. Given that the Cancun decision establishes that Phase I and II should be financed through existing mechanisms, such a window could usefully focus on payments for verified emission reductions.

(3) Progress on the architecture of REDD+ payments. It is a realistic assumption that REDD+ demand in the near term may come from a variety of sources. Experimentation should be promoted, but based on UNFCCC guidance. This underscores the importance of progressing in the negotiations on further modalities related to MRV, reference levels, and guidance on safeguards information systems. Finally, we must ensure environmental integrity, and this could require creating such elements as a common registry – supplemented by national registries – to avoid double-counting and/or -selling, and promote comparable standards across sources of demand.

Paper no. 15: Pakistan

Item No. No. 13:

Enhanced action on mitigation. 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 (A WG-LCA) Response:

1. **Drivers of Deforestation and forest degradation**

In Pakistan majority of natural forests is either privately owned or heavily burdened with legal rights of local people. historically local communities, particularly in Gilgit Baltistan and Khyber-Pakhtunkhwa provinces depends on Forests for livelihood and other forest products for sustaining their life. While addressing drivers of deforestation and degradation in Pakistan's perspective, direct correlations with poverty and sources of livelihood must be essentially established. some recent studies ,e.g. one conducted by Swiss NGO Inter- cooperation revealed that the wood extracted from deforestation hotspots was largely consumed as fuel .however detailed analysis are required on drivers of deforestation at National level are planned to be under taken in the readiness phase

2. **Land tenure and governance**

Legally, Pakistan has four categories of forests including Reserve Forests (RF), Protected Forests (PF), communal and private forests. The RFs are free of public rights and as such are under the least threat of deforestation and forest degradation. Whereas PF and communal forests are burdened with public rights as legally dictated. The legal right holders are unwilling to give-up their rights unless positive incentives are provided. The last category i.e. private forest is under severe threat of deforestation and degradation because the owners solely depend on these resources for livelihood. Forest governance issues are therefore essentially linked with the socio economics of forest communities.

3. **Gender, Safeguards**

As a policy matter Pakistan supports women empowerment and integrates gender in the programs of all economic sectors, however in REDD+ distribution of credits and benefits on the basis of gender is a complicated issue. Detailed studies are required in specific forest areas in conjunction with REDD+ project development cycle. Pakistan organized a national workshop on REDD+ safeguards which unanimously recommended implementation of all safeguards narrated in Appendix-I, in particular those regarding restricting conversion of natural forests, promotion of native species, involvement of local and indigenous communities in planning, implementing and monitoring of REDD+ activities.

4. **Robust and Transparent national forest monitoring system as referred in paragraph 71 (c)**

Presently, Pakistan has no centralized forest reporting system. However, provincial and local authorities have adopted monitoring systems of diverse specifications including field based surveying and remote sensing based monitoring. Pakistan strongly recommends a harmonized and standardized forest monitoring system for the sake of transparency in REDD+ activities. The national forest monitoring system requires approved methodologies backed with technical resources and capacity building of stakeholders, with the support of bilateral and multilateral financing agencies.

Joint Submission of the Philippines and Switzerland

REDD+ AWG-LCA: views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72

March 28, 2012

Introduction

The secretariat has invited submissions under the AWG-LCA on *views on modalities and procedures for financing results-based actions* and considering activities related to decision 1/CP.16, paragraphs 68–70 and 72. The content of paragraph 72 includes addressing drivers, land tenure, forest governance, gender, safeguards and effective participation. Further, three key elements of the Durban decision 1/CP.17 that guide further work are:

- paragraph 65, which states that financing may come from a variety of sources, public, private, and alternative, and
- paragraph 66, which states that, based on demonstration activities, appropriate market-based approaches could be developed to support results-based actions.
- Paragraph 67, concerning non market-based approaches, such as joint mitigation and adaptation

This submission is organized around the following concepts:

- the conceptual foundation developed in the Philippine-Swiss initiative "towards building a governance framework for REDD+ financing"
- market and non-market based approaches to REDD+ implementation
- engaging and attracting investments for REDD+
- revenue generation for REDD+ investments
- fund management and governance

The Philippine-Swiss Initiative "Towards Building a Governance Framework for REDD+ financing"

The Philippine-Swiss initiative has been facilitating dialogue with several Parties toward a common vision of a feasible, practical, yet robust and verifiable, performance-based REDD+ and REDD+ financing. The initiative's efforts continue to involve the private sector since private capital, as well as market-based approaches, have the potential to shift current investments away from destructive activities that drive deforestation and forest degradation. It is the vision of the initiative that public funds, private investment, and a market for goods and services that protect forests, including carbon and ecosystem services can be established, ultimately creating local economies that value environmental protection and forest peoples' livelihoods.

The Philippine-Swiss initiative facilitates dialogue with Parties toward a common vision of a feasible, practical, yet robust and verifiable, performance-based REDD+ and REDD+ financing. The initiative involves the private sector since private capital, as well as market-based approaches can shift current investments away from destructive activities that drive deforestation and forest degradation. Public funds, private investments and a market for goods and services that protect forests, including carbon and ecosystem services can be established, ultimately creating local economies that value environmental protection and forest peoples' livelihoods.

The forest sector has characteristics, such as governance issues and technical difficulties relating to estimating emission reductions that make it challenging to identify and secure attractive investments. A "governance framework for REDD+ financing"[1] shall facilitate confidence and steer capacity towards generating and securing REDD+ financing:

1. The international community should catalyze adequate financing for REDD+ in all phases of implementation
2. Unlocking private finance requires demand for REDD+ credits and incentives for sustainable investments
3. Planning for REDD+ financing should be part of a broader policy approach, which orients investments toward specific country strategies and objectives
4. REDD+ investments should cover the implementation of results-based actions defined as emissions reductions (tons of GHGs reduced per year), should meet environmental, social, and governance safeguards, and should be "fully measured, reported and verified," distinguishing them from payments for support activities, programs, or policies, as decided in Cancun and Durban.
5. Governments in REDD+ countries should ensure balanced investments within and outside the forest sector in order to address drivers of deforestation and forest degradation

Market and non-market based approaches to REDD+ finance

More will be needed (USD 100 billion per year by 2020) in REDD+ than the amount pledged to date in public finance. Market and non-market based approaches must be used to address the delay and uncertainty about the supply and demand for REDD+ credits and the REDD+ mechanism as a whole in the fast-start finance period and more so under mid-term and long-term financing.

Until a regulatory market for forests is established, REDD+ will be in a phase of trial and innovation regarding finance mechanisms that will necessitate market and non-market based approaches with cooperation from both the private and public sectors to raise REDD+ finance to an adequate level, while pushing for an international framework that includes forests in conjunction with stringent targets, adequate financing that also provide support for addressing social and environmental safeguards and governance, and robust MRV[2].

Assuming that REDD+ finance may come from both market and non-market sources, emphasis should be put on the question of how it can evolve into a performance-based system that enables the fulfillment of multiple objectives for ecosystems, livelihoods and governance.

Engaging and attracting investments for REDD+

There exist numerous experiences and diverse options for engaging and attracting private and public sector financing.[3] From the private sector, "patient capital" (long-term capital), including "green" investors, also referred to as *impact investors*, provides one source which can be tapped

[1] http://www.cmia.net/Portals/0/Repository/REDDPlus.8caf0c39-01c1-48b4-bcfe-6edafa5c9012.pdf
[2] http://www.unep.fr/energy/pdf/pathwaysimplementingreddplus.pdf
[3] http://www.odi.org.uk/resources/docs/5640.pdf

for upfront REDD+ financing. With the capacity in providing returns and absorbing resources, traditional conventional or institutional investors can be considered for REDD+ financing.

In 2010, the total market value for REDD+ credits was estimated at only $95 million (Ecosystem Marketplace, 2011). Juxtapose this against the total value of private sector assets under management in 2008 - $99.3 trillion (IFSL, 2009). According to feedback from interested investors, in order to unlock finance, REDD+ projects must be seen to be competitive with other types of investment in terms of risk and return, which is still not currently the case. Forests are regarded as a generally challenging environment with regulatory uncertainty, lack of rules to show compliance with safeguards, and perverse incentives for unsustainable practices.

On behalf of developing country governments implementing their REDD+ strategies, successfully managing investment in the sector has diverse implications. A government that has received private capital to enable emissions reductions is responsible for underwriting and guaranteeing that the principal on investments is paid back when maturity is reached and for a fixed rate of return. Forest owners cannot assume full responsibility for producing returns. This could be an ideal place for public funds, multilateral and bilateral funds, climate insurance, and eventually the Green Climate Fund, to assist developing country governments build capacity, leverage private finance, and address default risk. The GCF could channel finance from a variety of sources such as levies, taxes, and auctioning that are non-market based. Similarly, developing countries can also source counterpart public funds from levies, taxes, and other non-market based approaches.

Revenue generation for REDD+ investments

Generating revenue to pay returns on forest investment may come both from the forest sector and outside of it. Forest bonds[4] are an example of a mechanism in which governments underwrite the investment and offer a fixed rate of return. Revenues can be supplied partly by financial markets, including a prospective carbon market for REDD+, but also through the sale of certified timber, non-timber forest products, ecosystem service payments, environment-related taxes, levies and others.

Payment for Environmental Services (PES) programs, currently functioning or being established in about 60 countries, when provided with adequate funding, eventually evolve from sub-national to nationally institutionalized environmental and social programs. Thus in effect PES programs follow a “nested approach” in implementation, investments and revenue generation.

Revenues obtained from PES activities are “ring-fenced” and plowed back into similar activities. It is encouraged that both public and private financing contribute toward the implementation of nested approaches in REDD+ so as to develop national level capacities to participate in any possible international regulatory market, minimize leakage, as well as generate funds that can be invested and plowed back into REDD+.

Fund management and governance

Regardless of source, both market and non-market based approaches can succeed and complement each other towards common goals only through sound fund management and governance.

[4] http://www.globalcanopy.org/sites/default/files/UnderstandingForestBonds.pdf

Sound fund management includes (ring fencing, etc) and the ability to pool different financial resources towards desirable and sustainable outcomes. In the context of sound fund management, the principles of good governance should be applied, i.e. transparency, accountability, equity, participation, effectiveness and efficiency[5].

Governance of these funds should also demonstrate compliance with social, environmental and governance safeguards so as to attract and sustain investment. Credit ratings should ostensibly be related to how effectively safeguards are being addressed and respected and the manner in which robust and transparent measurement, reporting, and verification is conducted.

Some guidance towards sound fund management and governance in REDD+ from both the public and private sectors may include:

1. Government incentives, whether providing demand for REDD+ credits or enforcing standards for sustainable investments, with public funds underwriting risk and addressing concerns of the private sector to attract private investment
2. The pooling of public funds for REDD+, as regularly collected from taxes, levies and others which may be related to forests and carbon, though not exclusively
3. Establishment of a policy framework for REDD+ that facilitates revenue generation from a variety of sources such as forest/livelihood-related products, PES and carbon markets.

Conclusions

- Governments have primary responsibility to build the enabling environment that is needed for REDD+ implementation, in closest cooperation with stakeholders, guided by multilateral (UNFCCC) rules to:
  - manage and disburse financial resources capably, fairly, and across land-use sectors
  - guarantee that safeguards are addressed and respected, provide capacity building, and institutional strengthening,
  - work together with the private sector to find ways to generate and secure investments

- REDD+ investment begins with confidence in regulation and governance. Once the value of one ecosystem service is recognized, i.e. forest carbon, other benefits of forests such as biodiversity, water, marketable products and the ecosystems contribution to human livelihoods cannot be separated. Thus, investment in REDD+ has a potentially catalytic effect that extends to other land-use sectors and eventually the green development plans of nations.

- The private sector currently has potential to become a major source of financial capital for REDD+ provided the principles of good governance are applied, i.e. transparency, accountability, equity, participation, effectiveness and efficiency.

[5] http://www.unredd.net/index.php?option=com_docman&task=doc_download&gid=5336&Itemid=53

Paper no. 17: Saudi Arabia

Views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72.

Saudi Arabia welcomes the opportunity to submit its views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72 and decision 1/CP.17, paragraphs 64 – 67.

At the outset, Saudi Arabia wishes to emphasize that the proposed modalities and procedures should respond to certain concerns that are, directly or indirectly, related to financing results-based actions in the following issues:

A. Long term performance financing.
B. Measuring, reporting and verifying.
C. Environmental impacts.
D. International law.
E. Risks and Liabilities.
F. Potentials for perverse outcomes and hindering of development.
G. Finance and insurance coverage.

Before further advancing in the REDD issue, Saudi Arabia would like to support the acceleration of research on REDD implementations to support CO_2, or any GHG emissions, reduction in all mitigation forms. However, Saudi Arabia would also like to highlight the issues that have not been addressed yet, such as leakage, long term evaluation, long term liabilities, MRV methodologies, etc. Some of these issues might have been examined or discussed, but no satisfactory solutions were reached.

Furthermore, it should be noted that adding a financing result-based mechanism would complicate the aspects of monitoring, performance, progress, and expansion. Not to mention that REDD has yet to develop clear definitions for terms such as deforestation, land degradation, sustainable management of forests, enhancement of forest carbon levels, reference levels, etc.

A. Long term performance financing

1. Although REDD initiatives lead to real reductions, floras develop different life cycles and atmospheric sinks, based on plantations, water supply, land fertility, urbanization, etc. As a result, plantations and forests carry emission reductions on different scales that are yet to be measurable today and in the long run. So, basing a REDD financing mechanism, could not truly be established since there are no concrete measurable reduction estimates and no clear baseline.
2. The period for REDD activities do not really have a time frame. Plantations and forests could last hundreds if not thousands of years. This aspect on its own would deplete the funds if not addressed.

3. Even if there was an accounting mechanism, it is not possible to compare today's accounting prices with that of tens or hundreds of years later. If a country wishes to dismiss a treaty and deforest an area a hundred years from now, the price variation due to leakage would be considerably different and the allowances given at present would not be affected.
4. Forest degradation due to climate change may turn areas designated for REDD activities into savannas, even without human interference; this could present a future liability issue.

B. Measuring, reporting and verifying

1. To accomplish a successful financing based-result, the need for an accurate MRV system is essential. However, this is not the case. It is a major challenge to accurately estimate the CO_2 stored/leaked in a tree, a hectare of land or a forest, as forests vary tremendously in their characteristics and possible baselines.
2. There will be considerable resources and time consumed during the period for verification. This aspect on its own has not been completely addressed and needs further deliberation.
3. Saudi Arabia believes in country ownership and sovereignty over a country's own lands and natural resources. However, there needs to be a detailed and unified monitoring system with clear monitoring procedures and descriptions. By virtue of plantation life spans, it is very challenging to establish a precise monitoring system. Instead there may be consideration of a dynamic and evolving plan that would develop as time pass by requiring continuous amendments and changes. This can create instability and would make MRV extremely difficult.
4. Due to all of the MRV undisclosed issues, Saudi Arabia finds it difficult to address these concerns in economic terms. This, on its own, will require further deliberation before tackling the financial issue, not to mention the need to establish long term monitoring systems.

C. Environmental impacts

Since there is no clear definition for the REDD forests and plantation, there is a real risk in developing monoculture plantations. This could alter the local biodiversity and have unseen impacts on the environment, public health, flora and fauna. In other words, its impact could have future unforeseen costs.

D. International law

1. Developing a financial model will imply considerable international law implications to accommodate the REDD new regulations. This could include issues such as insurance, accountability, emission credit models, etc., however, there is no clear legislative foundation for the REDD implications today. Saudi Arabia believes that this issue should also be addressed before initiating a financial model.
2. Saudi Arabia would also like to highlight that even in the national level, REDD laws are premature and issues concerning different stakeholders, including indigenous people, have not been addressed sufficiently. This could only lead to the commercialization of forests

and leading the indigenous people and civil societies to an unconsented future. This on its own is a clear violation of article 19 of the UNDRIP.

E. Liabilities

1. Due to the long life of plantations and forests, host countries are not able to assume long term liabilities. The time range could be influenced by varied actions such as natural disasters, changing of political administrations, bankruptcies, etc., thus, long term liabilities and accountabilities are baseless.
2. MRV systems in the long run will prove costly and time consuming. This should also reflect on any further liabilities when expanding and enhancing forests and plantations.

H. Potentials for perverse outcomes and hindering of development

1. One of the main aspects of REDD is that it could generate credits in a short period that can help finance development. Given that REDD already includes 73 partner countries, if a financial model is established for selling emissions credits (e.g., under NAMAs), there is a high risk of flooding the market and reducing credit prices.
2. If a REDD financial model is established, the long term consequences would be to delay the transition of developing countries in terms of mitigation technologies. There would be large project initiatives and the need for transitions to smart and more advanced technologies would be postponed. As a result, this will increase the gap between the developed and developing countries.
3. Saudi Arabia would also like to note that REDD is only a transition initiative for sustainable development. There is the risk in having large REDD projects create more barriers to small projects addressing low emission technology.
4. It is also important to note that due to a lack of water sources and fertile lands, not all countries would be able to practice REDD initiatives. This would lead to a clear dichotomy between the developing countries receiving funding for REDD and those without the capacity to do so. Countries with large deserts will be left out of this mitigation process and this would also widen the gap between developing countries, and the opportunities available to them.

I. Finance and insurance coverage

Finance:

1. On the aspect of financing, Saudi Arabia wishes to emphasize that the proposed modalities and procedures should explicitly refer to the following guiding principles and relevant provisions of the Convention:
    - The principles of equity.
    - Common but differentiated responsibilities.
    - Country ownership.

- The developed countries' commitments to provide financing to the developing countries as the only financial flow recognized by the Convention, and the only financial resources which could fairly be described as 'new, additional, predictable and adequate'.

2. The private financing role should be supplemental and should never replace or displace public funding.
3. Avoiding controversial alternative sources of innovative financing which would introduce extra burdens on the developing countries, such as raising fund flows through levies on international aviation and shipping.
4. Incidences on developing country Parties for any type of finance should be covered fully by the developed country Parties.
5. Afforestation and reforestation efforts should also be included in REDD funding. The idea of creating sinks should incarnate all countries and not be limited to those that have the potential and facilities to create forests.
6. We call for a transparent and accountable approach. There needs to be an assessment process through which sources of finance may be reviewed and evaluated. Such a process would be extremely important and would enable monitoring and assessment of the progress, effectiveness and adequacy of funding.

Insurance:

Creating an insurance model is relevant for any mitigation. Thus, it is essential to establish one for REDD in case of leakage in situations such as forest fires, floods, hurricanes, landslides, etc. Although an insurance model can be established in the meantime, the allowances paid during the present period will not be applicable in the middle or long term.

Saudi Arabia would like to encourage all initiatives in reducing emissions. We welcome such mitigation efforts like REDD. However, all of these issues must be addressed and clarified in order to be able to design and put in place a financial model for REDD. Our objective is to create a model that withstands the environment integrity test.

Paper no. 18: United States of America

Submission by the United States of America

Views on Modalities and Procedures for Financing Results-based Actions

March 5, 2012

In the decision on the Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention in Durban (from now, the Durban LCA Decision), the Conference of the Parties (COP) "*Invites* Parties and accredited observers to submit to the secretariat, by 5 March 2012, their views on modalities and procedures for financing results-based actions and considering activities related to decision 1/CP.16, paragraphs 68-70 and 72." These views will form the basis of a technical paper to be prepared by the Secretariat and a workshop.

The Durban LCA Decision also "*Requests* the Ad Hoc Working Group on Long-term Cooperative Action under the Convention to consider the submissions by Parties and accredited observers referred to in paragraph 70 above, the technical paper referred to in paragraph 71 above and the report on the outcomes of the workshop referred to in paragraph 72 above with the aim of reporting on progress made and any recommendations to the Conference of the Parties at its eighteenth session."

The United States believes that further discussion on modalities and procedures on finance for results-based REDD+ actions may help inform broader finance discussions within the COP as well as among entities and institutions that may provide REDD+ financing, including operating entities of the financial mechanism. At this stage, the technical paper, workshop, and related discussions referred to above should focus on REDD+-specific issues, to help inform the broader finance discussions. The U.S. recognizes that the development of modalities and procedures with respect to results-based finance will happen within specific entities providing such finance.

Financing for "results-based actions" in the Durban Decision

The Durban LCA Decision mentions one or more new market-based mechanisms with possible applicability to REDD+. The possibility for a market-based mechanism specific to REDD+ was agreed to in paragraph 66 of the Durban LCA Decision: "*Considers* that, in the light of the experience gained from current and future demonstration activities, appropriate market-based approaches could be developed by the Conference of the Parties to support results-based actions by developing country Parties referred to in paragraph 73 of 1/CP.16, ensuring that environmental integrity is preserved, and the provisions of appendix I and II to Decision 1/CP.16 are fully respected and should be consistent with relevant provisions of decision 1/CP.16, decision XX/CP.17 (SBSTA) and any future decision by the COP on these matters."

Paragraph 83 of the Durban LCA Decision (in the section dealing more broadly with market-based mechanisms) "*Defines* a new market-based mechanism, operating under the guidance and authority of the Conference of the Parties, to enhance the cost-effectiveness of, and to promote, mitigation actions, bearing in mind different circumstances of developed and developing countries, which is guided by decision 1/CP.16, paragraph 80, and which, subject to conditions to be elaborated, may assist developed countries to meet part of their mitigation targets or commitments under the Convention."

The Durban LCA Decision did not define the relationship between the mechanisms included in paragraphs 66 and 83. Further definition of how these two decisions will interact is necessary and should be considered by both the markets and REDD+ contact groups.

The REDD+ approach that may be developed pursuant to paragraph 66 appears to be most appropriately viewed as a subset of the broader market-based mechanism included in paragraph 83. For example, REDD+ might be one sector to be included as part of a new sectoral crediting mechanism. Therefore, we believe discussions relating to paragraph 66 should be premised on work done in relation to paragraph 83. In this context, careful consideration should be given to the schedule of discussions on REDD+ finance so as to ensure these discussions are adequately informed by broader discussions on markets.

A number of countries are also developing bilateral offset crediting programs that may involve REDD+ or other forest-related project types. These programs should take into consideration paragraph 79 of the Durban LCA Decision, which states that such approaches "must meet standards that deliver real, permanent, additional and verified mitigation outcomes, avoid double counting of effort and achieve a net decrease and/or avoidance of greenhouse gas emissions."

Bilateral, Regional, and Multilateral Finance for results-based actions

A range of entities and institutions may provide financing for REDD+ results based actions, including non-market-based financing. We expect that decisions regarding such financing, and specific operational modalities and procedures, will be made by the financing entities or institutions. As with other sectors, there are likely to be different financing arrangements agreed to by various combinations of suppliers, in this case REDD+ countries, and investors or buyers. Donors or investors may choose to define results in different ways, measure performance according to varying standards, and seek to verify these results by different means. Individual jurisdictions might choose to design offset programs that may utilize locally developed standards and methodologies.

The draft governing instrument of the Green Climate Fund (GCF) endorses both the need for REDD+ financing and "results-based financing approaches, including, in particular for incentivizing mitigation actions, payment for verified results, where appropriate." The GCF Board is expected to define the scope and modalities for financing, as well as allocation of resources across a variety of activities. The GCF Board, however, may seek expertise and input on modalities and procedures for REDD+ results based financing.

Given the urgent need to mitigate climate change and the very real need for financing for all phases of REDD+, including for results-based actions, all sources and types of funding will be required and should be encouraged. As decision X/CP.17 noted, "results-based finance provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources." This points to the need for additional ongoing discussions on financing for results-based actions, and we are pleased to note that upcoming discussions are planned under the auspices of the REDD+ Partnership, the Forest Carbon Partnership Facility Carbon Fund, and in a number of other workshops around the world.

Workshop Recommendations

Expert views with respect to issues specific to REDD+ may be requested by or prove useful to entities and institutions interested in providing financing (either market or non-market) for results-based REDD+ actions.

Given the complexity of this discussion, we believe the Secretariat paper and the workshop envisioned in the Durban LCA Decision should focus on REDD+ specific issues, and could result in the identification of issues for further expert discussion. Those issues identified might be summarized in an expert report. We would further encourage Party experts involved in the workshop to help ensure the expert views are communicated to their colleagues working on the broader market mechanism and on the Board of the GCF.

We would consider the following topics to be an appropriate framing for the paper drafted by the Secretariat and the subsequent workshop. In order to do justice to the breadth of discussions on these topics underway, we would expect to see a summary of the variety and diversity of approaches to each of these topics, as well as a summary of outcomes or results where available:

For market-based financing, REDD+ specific topics such as:

- How might reference levels for crediting be determined?
- How might different market-based systems approach adjustments to reference levels (especially if fungibility between sectors is a consideration)?
- What are the implications of different periodicities for updates of the reference levels needed for crediting?
- What are different approaches to reporting on the implementation of safeguards under market-based systems?
- How have different systems approached requirements on carbon rights/ownership[1]?
- What are different options to address permanence of net emissions reductions?
- What are different approaches to assess and address leakage risk?
- What are different methods (eg buffers, discounts, or insurance) that might be employed to address uncertainties, underperformance, and/or reversals?
- What are different scales of crediting (national, subnational, nested subnational, etc) that might be considered, and what are the implications in terms of requirements, costs, benefits, and potential funding?

For non-market based financing of REDD+ results-based actions

- What is the range of other types of REDD+-specific results-based financing (ie, those not based on net emissions reductions) that are now available or might be useful?
- What have been country experiences regarding various types of results-based financing?
- What are the possible scales (national, subnational, nested subnational, etc) that might be considered for non-market based financing, and what are the implications in terms of requirements, costs, benefits, and potential funding?
- What are other bases for measuring results beyond CO_2 (for example, changes in tenure systems, policies, net deforestation rate, etc.) that might be used for determining performance?
- What are different strategies for verifying results from results-based financing, if definitions of results other than CO_2 are applied?
- What are different approaches to reporting on the implementation of safeguards under non-market-based systems?

[1] E.g. whether the right to sell credits for reductions in net emissions, or increased sequestration, is maintained by the land owner, by the government, or by another entity

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We believe the below references, while not comprehensive, are useful input into any discussions on REDD+ financing, including those on financing of results-based actions. We suggest that they might be useful background material for this discussion.

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