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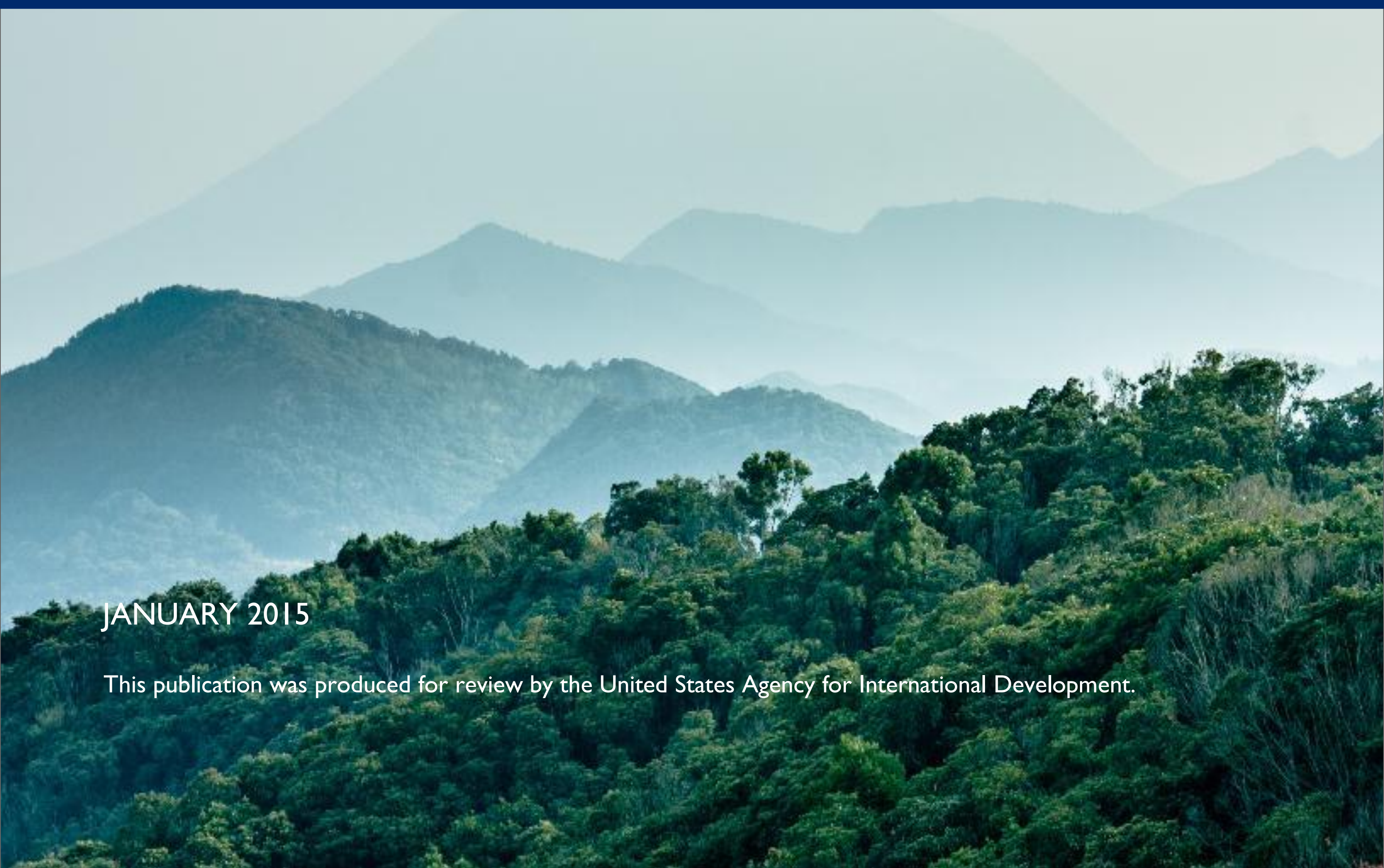
STATUS OF CLIMATE FINANCE AND REDD+ UNDER THE UNFCCC

FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM



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The U.S. Agency for International Development (USAID) launched the Forest Carbon, Markets and Communities (FCMC) Program to provide its missions, partner governments, and local and international stakeholders with assistance in developing and implementing Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks (REDD+) initiatives. FCMC services include analysis, evaluation, tools, and guidance for program design support; training materials; and meeting and workshop development and facilitation that support U.S. Government contributions to international REDD+ architecture.

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FOREST CARBON, MARKETS AND COMMUNITIES (FCMC) PROGRAM

FEBRUARY 2015

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS

ADP	Ad Hoc Working Group on the Durban Platform for Enhanced Action
AF	Adaptation Fund
AWG-LCA	Ad Hoc Working Group on Long-term Cooperative Action
CBFF	Congo Basin Forest Fund
CDM	Clean Development Mechanism
CMP	Conference of the Parties serving as the Meeting of the Parties to the Kyoto Protocol
COP	Conference of Parties
FCMC	Forest Carbon, Markets and Communities
FCPF	Forest Carbon Partnership Facility
FIP	Forest Investment Program
FM	Financial Mechanism
FVA	Framework on Various Approaches
GCF	Green Climate Fund
GEF	Global Environmental Facility
GHG	Greenhouse Gas
IET	International Emissions Trading
ISFL	BioCarbon Fund Initiative for Sustainable Forest Landscapes
JI	Joint Implementation
LDCF	Least Developed Countries Fund
MRV	Measurement, Reporting, and Verification
NAMAs	Nationally Appropriate Mitigation Actions by developing country Parties
NAPA	National Adaptation Plan of Action
NMM	New Market Mechanism
RCCP	Regional Climate Change Program
REDD+	Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks
REL	Forest Reference Emission Level

RL	Forest Reference Level
SBI	Subsidiary Body for Implementation
SBSTA	Subsidiary Body for Scientific and Technological Advice
SCCF	Special Climate Change Fund
SCF	Standing Committee on Finance
SFM	Sustainable Forest Management
UNFCCC	United Nations Framework Convention for Climate Change
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

This paper provides an overview of relevant Conference of Parties (COP) decisions and the current status of negotiations on finance issues related to Reducing Emissions from Deforestation and Forest Degradation, conservation of forest carbon stocks, sustainable management of forests and enhancement of forest carbon stocks (REDD+).

FINANCIAL MECHANISM OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

The United Nations Framework Convention on Climate Change (UNFCCC) defines a Financial Mechanism (FM) to provide financial resources to developing countries on a grant or concessional basis under the guidance of, and accountable to, the COP. The operation of the FM is currently entrusted to the **Global Environment Facility (GEF)** and the **Green Climate Fund (GCF)**. The GEF already provides support for REDD+[1] and sustainable forest management.[2] While the GCF is currently "up but not running," its board has already identified REDD+ implementation as one of the initial result areas of the fund. At its eighth meeting[3] the GCF adopted policies enabling the fund to allow contributors to provide pledges during the GCF's Initial Resource Mobilization period—which resulted in pledges of $10.2 billion as of 31 December 2014[4]—and for the fund to start deploying its resources in 2015. An initial logic model for REDD+ results-based payments and the performance measurement framework for REDD+ results-based payments were also proposed for adoption at the board's eighth session in October 2014.

In addition, specialized funds have been established under the framework of the Convention (e.g., the Special Climate Change Fund and the Adaptation Fund). In 2010 a Standing Committee on Finance (SCF) was established to assist the COP in exercising its functions with respect to the FM. Market-based mechanisms established by the Kyoto Protocol complement these financial sources, mechanisms, and institutions.

FINANCE FOR REDD+ ACTIVITIES UNDER THE UNFCCC

The set of decisions that the COP adopted from 2007 (COP 13) to 2013 (COP 19) provides the elements for a voluntary scheme to support and incentivize developing countries to implement REDD+ activities in phases. The 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

1 REDD+ activities in the context of the UNFCCC follow:
1. Reducing emissions from deforestation
2. Reducing emissions from forest degradation
3. Conservation of forest carbon stocks
4. Sustainable management of forests
5. Enhancement of forest carbon stocks

2 Information on the GEF 6 Sustainable Forest Management (SFM) strategy can be found at: http://www.thegef.org/gef/sites/thegef.org/files/publication/GEF_Forests-2014.pdf.

3 Held in Bridgetown, Barbados, 14-18 October 2014.

4 The Initial Resource Mobilization Pledges as at 31 December 2014 can be found as Attachment III of document GCF/BM-2015/Inf.01. Available at: http://news.gcfund.org/wp-content/uploads/2015/02/pledges_GCF_dec14.pdf

multilateral, including alternative sources[5]. The COP has encouraged the operating entities of the Convention's FM to provide finance for the actions in all phases of implementation. The COP also has encouraged other entities financing REDD+ activities through a wide variety of sources to channel adequate and predictable results-based financing collectively and in a fair and balanced manner. As a result, **between 2006 and 2013, bilateral and multilateral sources have pledged a total of US$7.1 billion** to support REDD+. Twenty-one countries collectively have pledged more than US$4 billion through bilateral agreements, while developed countries and the private sector are channeling finance through dedicated multilateral funds targeting REDD+ and sustainable forest management. Funds pledged to the Forest Carbon Partnership Facility (FCPF) Readiness Fund, Carbon Fund, the Forest Investment Program (FIP), the Amazon Fund, the Congo Basin Forest Fund (CBFF), and the BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) totaled US$3.1 billion between 2008 and March 2014. In addition, global estimates of domestic REDD+ financing have been calculated to be in the region of US$10 billion per annum or twice the level of international REDD+ pledges.

The COP has considered that appropriate market-based approaches could be developed to support results-based REDD+ actions so long as environmental integrity is preserved and a number of other provisions are met. Any such negotiations on market-based approaches for REDD+ may be a part of the ongoing negotiations on a New Market Mechanism (NMM) or the Framework on Various Approaches (FVA). The COP also has opened the possibility for the development of non-market based approaches, such as joint mitigation and adaptation approaches.

In 2010, the COP invited countries to communicate **Nationally Appropriate Mitigation Actions by developing country Parties (NAMAs)** aimed at deviating from business-as-usual emissions. So far, 57 countries and the African Group have done so.[6] Although NAMAs have no formal linkages with REDD+ in the negotiations other than their Measurement, Reporting and Verification (MRV) requirements,[7] many developing countries have submitted NAMAs that include REDD+ activities, and many more include other land-based actions such as agriculture. In fact, more than 50 percent of the 48 NAMAs registered by December 2013 reference REDD+ or forest management.[8] Thus, in practice, NAMAs have become a channel through which to seek finance for REDD+ activities.

CURRENT STATUS AND KEY ISSUES OF ONGOING PROCESSES UNDER THE CONVENTION RELATED TO FINANCE FOR REDD+

The 2007 Bali Action Plan[9] opened the possibility for the development, within the framework of the Convention, of "various approaches, including opportunities to use markets, to increase the cost-effectiveness of, and promote, mitigation actions, taking into account the different national circumstances of developed and developing countries." In 2010, the COP began considering one or more market mechanisms.[10] The **NMM** was established in 2011[11] as a new market-based mechanism

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5 Paragraph 65 of decision 2/CP.17.

6 UNFCCC "NAMA Registry". Retrieved from http://www4.unfccc.int/sites/nama/SitePages/Home.aspx.

7 Through decision 14/CP.19, paragraph 1, the COP decided that measuring, reporting, and verifying anthropogenic forest-related emissions by sources and removals by sinks, forest carbon stocks, and forest carbon stock and forest-area changes resulting from the implementation of REDD+ activities is to be consistent with any guidance on the measurement, reporting, and verification of nationally appropriate mitigation actions by developing country Parties as agreed to by the Conference of the Parties, and in accordance with any future relevant decisions of the Conference of the Parties.

8 Canaveira, P. (2013). Options and Elements for an Accounting Framework for the Land Sector in the Post-2020 Climate Regime. Terraprima Report to the Swiss Federal Office for the Environment, February 2014.

9 Decision 1/CP.13, paragraph 1 b) (v).

10 Decision 1/CP.16, paragraph 80.

11 Decision 2/CP.17.

operating under the guidance and authority of the COP that could help developed country Parties fulfill part of their mitigation targets or commitments under the Convention.[12] Together with the "various approaches" being discussed, the NMM must meet standards that produce mitigation results that are real, permanent, additional, and verifiable; avoid double counting of effort; and achieve a net reduction and/or avoidance of greenhouse gas (GHG) emissions.[13]

The key issue for the inclusion of market-based finance for REDD+ activities in the NMM relates to discussions on the scope and elements of the mechanism. The Parties share a common view that mitigation across broad segments of the economy should be stimulated. Two general options on how to achieve this goal have emerged, both of which have the potential to include REDD+.

The **FVA** emerged from the negotiations on "various approaches" mentioned above. There seems to be a high degree of convergence on the view that the purpose of the FVA is to provide a framework to track international transfers and aspects of mitigation/avoidance units and/or outcomes used to meet commitments under the Convention. The most relevant issue being discussed in this negotiation process in the context of financing for REDD+ activities relates to the scope and purpose of the framework. There is not convergence among Parties regarding the purpose and scope of the FVA and as a result its implications for REDD+ finance is not clear.

The COP has mandated the **SCF** to consider the issue of financing for forests in its work on coherence and coordination. Some Parties see a simplified, central, and effective architecture at the international level as the best way to increase synergies between different sources of financing and to ensure coordination and coherence. Parties also have underlined the importance of coordinating finance that may be coming from other bilateral and multilateral financing institutions.

The **Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP)** was established in December 2011[14] with the mandate to develop a protocol, another legal instrument, or an agreed outcome with legal force under the Convention applicable to all Parties. This work is to be completed no later than 2015 in order for it to be adopted at COP 21 and for it to come into effect and be implemented from 2020. The new agreement is currently under negotiation for all sectors, including the land sector. While REDD+ has broad support, it is unclear how the land sector or other sectors will be referenced in the new agreement. The annex to the Lima Call for Climate Action that the COP 20 adopted contains elements for a draft negotiating text, which include institutional arrangements for REDD+ finance; opening a REDD+ window under the GCF; and sources of funding for REDD+ (to include public, private, and non-market and results-based finance). Moreover, as part of the proposals for institutional arrangements under the agreement, the annex opens the possibility for the governing body of the agreement to establish means for cooperative arrangements. Building on the work conducted under the Subsidiary Body for Scientific and Technological Advice (SBSTA) regarding the FVA, these cooperative arrangement may include a REDD+ mechanism / the Warsaw Framework for REDD+ and a joint mitigation and adaptation mechanism for the integral and sustainable management of forests.

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12 Decision 2/CP.17, paragraph 83.

13 Decision 2/CP.17, paragraph 79.

14 Decision 1/CP.17.

1.0 INTRODUCTION

This background paper was developed to support the USAID-funded Regional Climate Change Program (RCCP) workshop series Central America: REDD+ Finance Options and the Links to National REDD+ Strategies and Climate Negotiations. The paper provides an overview of relevant COP decisions and the current status of negotiations on finance issues related to REDD+. The paper identifies key finance issues that have already been decided as well as key finance related topics under negotiation concerning the following items: REDD+, the ADP, NMMs, the FVA, NAMAs, the GCF, and the SCF.

This paper aims to be an objective and neutral summary and, when possible, avoids interpretation or commentary on decisions and UNFCCC negotiations. Please note that this document is a summary of decisions and requires the exclusion of certain details and nuances in the decisions. Readers should refer to the decisions for complete text.

2.0 FINANCIAL MECHANISMS OF THE UNFCCC

The UNFCCC defines a FM for the provision of financial resources to developing countries on a grant or concessional basis, including for the transfer of technology, that should complement bilateral, regional, and multilateral funding channels.[15] The Convention provides for the FM to have an equitable and balanced representation of all Parties within a transparent system of governance and to function under the guidance of, and be accountable to, the COP, which decides on its policies, program priorities, and eligibility criteria.

The operation of the FM is entrusted to one or more existing international entities. The Convention initially entrusted the GEF with the operation of the financial mechanism on an interim basis.[16] The GEF's status as an ongoing operating entity was subsequently confirmed in 1998, subject to review every four years.[17] The GEF has supported REDD+ through its Sustainable Forest Management (SFM)/REDD+ strategy, which aims to develop synergies across climate change, biodiversity, and land degradation focal areas. During the fifth replenishment period of the GEF, the GEF SFM/REDD+ program had contributed more than US$650 million toward forest projects, in comparison with US$470 million during the GEF's fourth replenishment. These contributions have encouraged a total of US$4.35 billion in co-financing so far during GEF 5. For the sixth replenishment period of the GEF, which extends from July 2014 to June 2018, US$250 million have been proposed and approved for the GEF SFM strategy. The SFM strategy will have four objectives that will drive the GEF SFM portfolio, namely: maintained forest resources, enhanced forest management, restored forest ecosystems, and increased regional and global cooperation.[18]

The SFM funding envelope operates as an incentive mechanism to encourage countries to invest portions of their GEF allocation from biodiversity, climate change, and land degradation in fully integrated SFM projects and programs. Each country is required to invest a minimum of $2 million from their national allocations to qualify for incentive investments from the SFM envelope. This investment in their SFM projects and programs is to come from national allocation from at least two of the three GEF focal areas. Countries with flexible allocations are required to invest national allocation from at least one focal area. The allocation of resources to projects and programs addressing SFM issues will be carried out through an incentive mechanism in which all countries are supported at a ratio of 2:1. Countries are eligible to access up to a maximum of $10 million from the SFM incentive, supported by qualifying investments from their national allocations. The SFM strategy additionally will offer, on a competitive basis, support for targeted investments to increase regional and global cooperation on major SFM issues such as the participation of indigenous peoples, civil society organizations, and the private sector in SFM through networking, South-South cooperation, and sharing of international experience and know-how.[19]

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15 Article 11.

16 Article 21.3.

17 Decision 3/CP.4.

18 "Background paper on coherence and coordination: the issue of financing for forests, taking into account different policy approaches" (SCF/2014/7/5).

19 More information on the GEF SFM strategy can be found in the summary of the negotiations of the sixth replenishment of the GEF trust fund, available at:

In 2010, Parties established the GCF as a second operating entity of the FM with the aim of supporting projects, programs, policies, and other activities in developing countries through mitigation and adaptation funding windows as well as a Private Sector Facility. The GCF is governed and supervised by a board that has full responsibility for funding decisions and that receives guidance from the COP[20]. The World Bank serves as interim trustee, subject to a review three years after fund operationalization. The board declared the fund ready for resource mobilization in May 2014[21].. At its eighth meeting, in October 2014, it endorsed the fund's policies for receiving funding and adopted the policies for the selection of the institutions through which it will disburse funds. The GCF's Initial Resource Mobilization period resulted in pledges from both developed and developing countries of $10.2 billion as of 31 December 2014[22]. The commitment authority of the GCF, which will enable it to make funding decisions, will become effective when 50 percent of the contributions pledged by the November 2014 pledging session are reflected in fully executed contribution agreements/arrangements received by the secretariat no later than 30 April 2015[23].

The GCF board has decided that the fund will initially make allocations under adaptation, mitigation, and the Private Sector Facility – and that there will be balance between adaptation and mitigation and the appropriate allocation of resources for other activities. The initial result areas for the fund include the following areas related to forests: sustainable forest management to support mitigation and adaptation, including afforestation and reduction of forest degradation; and REDD+ implementation. At its eighth meeting, the GCF board received recommendations to adopt a logic model and performance framework for ex-post REDD+ results-based payments, in accordance with the methodological guidance in the Warsaw Framework for REDD+.[24]

In 2010, Parties also decided to establish a Standing Committee on Finance to assist the COP in exercising its functions with respect to the FM of the Convention.[25] This work includes improving coherence and coordination in the delivery of climate change financing; rationalization of the financial mechanism; mobilization of financial resources; and measurement, reporting, and verification of support provided to developing country Parties.

Additionally, the COP has established the following specialized funds:

- The Special Climate Change Fund (SCCF) was established under the Convention[26]. The GEF operates the SCCF under the guidance of the COP. It was intended to provide finance to projects on adaptation, technology transfer and capacity building, energy, transport, industry, agriculture, forestry and waste management, and economic diversification. Due to limited funding, it has two active funding windows: one for adaptation (SCCF-A) and one for technology transfer (SCCF-B).

- The Least Developed Countries Fund (LDCF) was established under the Convention[27] to support a work program to assist least developed countries (LDCs) to prepare and implement their National

http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.46.07.Rev_.01_Summary_of_the_Negotiations_of_the_Sixth_Replenishment_of_the_GEF_Trust_Fund_May_22_2014.pdf.

20 Decision 5/CP.19, Annex, paragraph 2.
21 Green Climate Fund Press Release (9 September 2014) "Green Climate Fund Poised for Initial Capitalization", GCF/PR.08/14.
22 The Initial Resource Mobilization Pledges as at 31 December 2014 can be found as Attachment III of document GCF/BM-2015/Inf.01. Available at: http://news.gcfund.org/wp-content/uploads/2015/02/pledges_GCF_dec14.pdf
23 As provided for in Green Climate Fund Board decision B.08/13, annex XIX, paragraph 1(c), available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_45_Compendium_fin_20141203.pdf .
24 The framework is contained in the document GCF/B.08/08/Rev.01, available at: http://www.gcfund.org/fileadmin/00_customer/documents/MOB201410-8th/GCF_B.08_08_Rev.01_Initial_Logic_Model_fin_20141022.pdf.
25 Decision 1/CP.16.
26 Decision 7/CP.7.
27 Decision 7/CP.7.

Adaptation Plans of Action (NAPAs) and other items. The GEF has been entrusted to operate the LDCF under the guidance of the COP.

- The Adaptation Fund (AF) was established under the Kyoto Protocol[28] to finance adaptation projects and programs in developing country Parties that are particularly vulnerable to the adverse effects of climate change. Funding for the AF is raised from the share of proceeds of emission reductions achieved by Clean Development Mechanism (CDM) projects and other sources, including voluntary contributions. This fund is operated by a board under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), while the World Bank serves as its trustee and the GEF as the secretariat of its board, both on an interim basis.

In addition to the above financial sources, mechanisms, and institutions, mitigation activities are also funded through market-based mechanisms under the framework of the UNFCCC through the flexibility mechanisms established by the Kyoto Protocol to help its Annex B countries comply with their quantified mitigation commitments: International Emissions Trading (IET); Joint Implementation (JI); and the CDM, which also has the objective of helping developing countries achieve sustainable development.

[28] Decision 10/CP.7.

3.0 FINANCE FOR REDD+ ACTIVITIES UNDER THE UNFCCC

3.1 DEFINITION AND IMPLEMENTATION OF REDD+ ACTIVITIES

The set of decisions that the COP adopted from 2007 (COP 13) to 2013 (COP 19) provides the elements for a voluntary financing scheme to incentivize developing countries to implement the following mitigation activities (henceforth referred to as "REDD+ activities"), according to national circumstances and respective capabilities:

1. Reducing emissions from deforestation
2. Reducing emissions from forest degradation
3. Conservation of forest carbon stocks
4. Sustainable management of forests
5. Enhancement of forest carbon stocks

REDD+ activities should be implemented in phases.[29] The phases do not need to be sequential, and Parties have the choice of which phases interest them. The choice of a starting phase depends on the specific national circumstances, capacities, and capabilities of each developing country Party as well as the level of support received through multilateral and bilateral channels for the development of such activities[30]. The progression of developing countries in REDD+ implementation occurs in the context of providing adequate and predictable support for all phases of actions and activities.[31]

3.2 ELEMENTS REQUIRED TO RECEIVE FINANCE FOR REDD+ ACTIVITIES

In order to be eligible to receive finance, interested developing countries need to establish—in the context of providing adequate and predictable support, including financial resources and technical and technological support—the following[32]:

1. A national strategy or action plan;

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29 Decision 1/CP.16 establishes that the implementation of REDD-plus activities should begin with the development of national strategies or action plans, policies and measures, and capacity building. These plans and policies would be followed during the implementation of national policies and measures and national strategies or action plans that could involve further capacity building, technology development and transfer, and results-based demonstration activities. Ultimately, these efforts would evolve into results-based actions that should be fully measured, reported, and verified.

30 Decision 1/CP.16 specifically urged Parties, in particular developed-country Parties, to support the development of REDD+ activities through multilateral and bilateral channels.

31 As reaffirmed by the COP in decision 9/CP.19.

32 Decision 1/CP.16.

2. A national forest reference emission level and/or forest reference level or, if appropriate, as an interim measure, subnational forest reference emission levels and/or forest reference levels, in accordance with national circumstances and in accordance with relevant methodological provisions adopted by the COP and according to decision 12/CP.17 (Guidance on systems for providing information on how safeguards are addressed and respected and modalities relating to forest reference emission levels and forest reference levels as referred to in decision 1/CP.16);
3. A robust and transparent national forest monitoring system for the monitoring and reporting of REDD+ activities with, if appropriate, subnational monitoring and reporting as an interim measure following the relevant methodological guidance adopted by the COP and in accordance with decision 11/CP.19 (modalities for national monitoring systems); and
4. A system for providing information on how REDD+ safeguards[33] are being addressed and respected throughout the implementation of REDD+ activities, while respecting sovereignty, based on the guidance established by decision 12/CP.17.

Moreover, to receive results-based finance, the REDD+ activities that developing countries undertake should be fully measured, reported, and verified[34], in accordance with the decisions that the COP adopted on the technical assessment of Reference Emission Levels (RELs)/Reference Levels (RLs)[35] and MRV,[36] and should provide the most recent summary of information on how all of the safeguards in appendix I to decision 1/CP.16 have been addressed and respected.[37]

3.3 SOURCES AND GUIDANCE ON FINANCE FOR REDD+ ACTIVITIES

Finance provided to developing country Parties for REDD+ activities should be new, additional, and predictable. It may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources.[38] The COP has encouraged the operating entities of the financial mechanism of the Convention (i.e., the GEF and the GCF) to provide results-based finance for the actions in all phases of implementation. The GEF is already providing support through its SFM strategy[39]; however, the GCF is not yet operational.[40] The COP also has encouraged[41] other entities that finance REDD+ activities through the wide variety of sources mentioned above (including the GCF in a key role) to collectively channel adequate and predictable results-based finance in a fair and balanced manner. The COP has encouraged these entities to take into account different policy approaches while working to increase the number of countries in a position to obtain and receive payments for results-based actions.[42] The COP also has encouraged such entities to continue providing financial resources to alternative policy approaches.

33 See appendix I to decision 1/CP.16.
34 Decision 1/CP.16.
35 Contained in decisions 13/CP.19.
36 Contained in decision 14/CP.19.
37 As the COP agreed through decision 9/CP.19.
38 Decision 2/CP.17.
39 More information on the GEF SFM strategy can be found in the summary of the negotiations of the sixth replenishment of the GEF trust fund, available at: http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.46.07.Rev_.01_Summary_of_the_Negotiations_of_the_Sixth_Replenishment_of_the_GEF_Trust_Fund_May_22_2014.pdf.
40 For more information, see the GEF-6 programming directions, available at: https://www.thegef.org/gef/sites/thegef.org/files/webpage_attached/GEF6_programming_directions_final_0.pdf.
41 Decision 2/CP.17.
42 In doing so, such entities, including the GCF, are encouraged by decision 9/CP.19 to apply the methodological guidance consistent with decisions 4/CP.15, 1/CP.16, 2/CP.17, 12/CP.17, and 11/CP.19 to 15/CP.19 to improve the effectiveness and coordination of results-based finance.

As a result, between 2006 and 2013, 21 countries collectively have pledged more than US$4 billion through bilateral agreements.[43] In addition, developed countries and the private sector are channeling finance through dedicated multilateral funds targeting REDD+ and sustainable forest management. Finance pledged to the FCPF Readiness Fund, the Carbon Fund, the FIP, the Amazon Fund, the CBFF, and the ISFL totaled US$3.1 billion between 2008 and March 2014. Donor countries have pledged US$23 million through multiple channels involving both bilateral and multilateral programs. Additional funds for around US$465 million have been reported, though the particular multilateral channels are difficult to identify.[44] In addition, global estimates of domestic REDD+ financing are in the region of US$10 billion per annum, or twice the level of international REDD+ pledges[45].

3.4 MARKET AND NON-MARKET-BASED APPROACHES

Market and non-market approaches, using public or private financing, are both valid. Both depend on the requirements noted above in section 3.2, i.e., a national strategy or plan, forest reference emission level/forest reference level, forest monitoring system, and safeguard information system.

In light of experience from current and future demonstration activities, the COP has considered that appropriate market-based approaches could be developed to support results-based REDD+ actions as long as environmental integrity is preserved and other provisions are met.[46] The COP has not yet developed any such market-based approaches. Currently there is no specific agenda item under REDD+ to negotiate this topic; any such negotiations on market-based approaches for REDD+ may be a part of ongoing negotiations on NMM or FVA[47]. The following section summarizes the current status of negotiations on these two issues.

The COP has also opened the possibility for the development of non-market-based approaches.[48] Negotiations are currently taking place on whether there is a need for further methodological guidance for non-market-based approaches and on the methodological issues related to non-carbon benefits resulting from the implementation of REDD+. Negotiations on non-market-based approaches also are ongoing outside the REDD+ agenda – as a sub-agenda item of the deliberations on market and non-market mechanisms under the Convention.

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43 Norman, M., and Nakhooda, S. (September 2014). CGD Climate and Forest Paper Series #5: The State of REDD+ Finance. Working Paper 378. Overseas Development Institute.

44 Ibid.

45 UNFCCC Standing Committee on Finance. 2014 Biennial Assessment and Overview of Climate Finance Flows Report. Retrieved from http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf

46 Provisions of decisions 1/CP.16, appendices I and II, must be fully respected. Market-based approaches should be consistent with the relevant provisions of decisions 1/CP.16 and 12/CP.17 and any future decision by the Conference of the Parties on these matters.

Appendix I of decision 1/CP.16 provides guidance and safeguards. Appendix II describes the elements of the work program of SBSTA on policy approaches and positive incentives on issues relating to REDD-plus, which resulted in decisions including: decision 11/CP.19 (Modalities for national forest monitoring systems); decision 12/CP.19 (The timing and the frequency of presentations of the summary of information on how all the safeguards referred to in decision 1/CP.16, appendix I, are being addressed and respected); decision 12/CP.17 (Guidance on systems for providing information on how safeguards are addressed and respected and on modalities relating to forest reference emission levels and forest reference levels as referred to in decision 1/CP.16); decision 13/CP.19 (Guidelines and procedures for the technical assessment of submissions from Parties on proposed forest reference emission levels and/or forest reference levels); decision 14/CP.19 (Modalities for measuring, reporting, and verifying); and decision 15/CP.19 (Addressing the drivers of deforestation and forest degradation).

47 Decision 9/CP.19 Work programme on results-based finance to progress the full implementation of the activities referred to in decision 1/CP.16, paragraph 70.

48 Decision 1/CP.16.

3.5 COORDINATION AND COHERENCE OF SUPPORT FOR REDD+

The COP has requested that the SCF consider, as part of its work on coherence and coordination, the issue of financing for forests—including ways and means to transfer payments for results-based actions—as well as the provision of financial resources for alternative approaches. The COP also requested that the SCF invite experts on the implementation of REDD+ activities to such a forum.[49]

The COP also has invited interested Parties to designate a national entity or focal point to serve as a liaison with the secretariat and the relevant bodies under the Convention, as appropriate, on the coordination of support for the full implementation of REDD+ activities and elements required in all phases of implementation. These activities and elements include different policy approaches, such as joint mitigation and adaptation approaches. Designated national entities or focal points may nominate entities to obtain and receive results-based payments, consistent with any specific operational modalities of the financing entities providing them with support for the full implementation of REDD+ activities.[50]

Focal points and entities providing support may meet voluntarily—starting in conjunction with the second sessional period meetings of the subsidiary bodies in 2014 (Lima, Peru) and thereafter annually in parallel with the first sessional period meetings of the subsidiary bodies—to discuss the needs and functions, identified by Parties, related to the coordination of support.[51]

3.6 THE REDD+ INFORMATION HUB

In 2013, the COP decided to establish an information hub on the UNFCCC website to enhance the transparency of the information on results-based actions and corresponding results-based payments.[52] The hub will contain information reported through the appropriate channels under the Convention related to the elements required to participate in REDD+ activities (i.e., a national strategy or plan, a forest reference emission level and/or forest reference level, a forest monitoring system, and a system for providing information on safeguards discussed in section 3.2). These elements must be present before a Party can post its results. The hub will also contain the results for each relevant period—expressed in tons of carbon dioxide equivalent per year—and a link to the corresponding technical report. Additionally, information on each of such results, including on the quantity of results for which payments were received and the entity paying for results, is to be inserted on the hub. The insertion of results in the information hub does not create any rights or obligations for any Party or entity, i.e., any results recorded pursuant to current decisions do not amount to REDD+ credits or offsets. Information on results in the hub should be linked to the same results reflected on any other relevant future system that may be developed under the Convention, should such a system be agreed upon and include REDD+.

3.7 REDD+ AS NAMAS

"Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner" (NAMAs) were formally introduced in the UNFCCC negotiations through the Bali Action Plan in 2007.[53] The objective of NAMAs is to enhance national action by non-Annex I Parties in mitigating climate change. NAMAs refer to any action that reduces emissions in developing countries prepared under the umbrella of a national governmental initiative and aimed at achieving a reduction in emissions relative to 'business as usual' emissions in 2020. They can be policies

49 Decision 9/CP.19.
50 Decision 10/CP.19.
51 Described in paragraph 3 of decision 10/CP.19.
52 Decision 9/CP.19.
53 Decision 1/CP.13.

directed at transformational change within an economic sector or actions across sectors for a broader national focus.

NAMAs are supported and enabled by technology, financing, and capacity-building provided by developed country Parties; the entity or entities entrusted with the operation of the financial mechanism, including the GEF; GCF; multilateral, bilateral, and other public donors; and private and nongovernmental organizations. A registry has been established to record NAMAs seeking international support and to facilitate matching of finance, technology, and capacity-building support for these actions.

In 2010, the COP invited countries to communicate NAMAs aimed at achieving deviation from business-as-usual emissions. So far, 57 countries as well as the African Group have done so.[54] Although NAMAs have no formal linkages with REDD+ in the negotiations other than their MRV requirements,[55] many developing countries have submitted NAMAs that include REDD+ activities. In fact, more than 50 percent of the 48 NAMAs registered by December 2013 make references to REDD+ or forest management.[56] Thus, in practice, NAMAs have become a channel through which countries can seek finance for REDD+ activities.

54 As reported in the NAMA Registry: http://www4.unfccc.int/sites/nama/SitePages/Home.aspx.

55 Through decision 14/CP.19, paragraph 1, the COP decided that MRV of anthropogenic forest-related emissions by sources and removals by sinks, forest carbon stocks, and forest carbon stock and forest-area changes resulting from the implementation of REDD-plus activities is to be consistent with any guidance on MRV of NAMAs as agreed by the COP, and in accordance with any future relevant decisions of the COP.

56 Canaveira, P. (2013). Options and Elements for an Accounting Framework for the Land Sector in the Post-2020 Climate Regime. Terraprima Report to the Swiss Federal Office for the Environment, February 2014.

4.0 SUMMARY OF THE CURRENT STATUS AND KEY ISSUES OF ONGOING PROCESSES UNDER THE CONVENTION RELATED TO FINANCE FOR REDD+

4.1 THE NEW MARKET MECHANISM

The 2007 Bali Action Plan[57] opened the possibility for the development, within the framework of the Convention, of "various approaches, including opportunities to use markets, to increase the cost-effectiveness of, and promote, mitigation actions, taking into account the different national circumstances of developed and developing countries." In 2010, the COP began considering one or more market mechanisms that, among other actions, would: ensure the voluntary participation of Parties, support the promotion of fair and equitable access; complement other sources of support; stimulate mitigation in broad segments of the economy; safeguard environmental integrity; ensure a reduction or avoidance of emissions of greenhouse gases; help developed countries comply with part of their mitigation targets; and ensure good governance and robust market functioning and regulation.[58]

The NMM was established in 2011.[59] The NMM defines a new market-based mechanism operating under the guidance and authority of the COP that, subject to conditions to be elaborated upon, could help developed country Parties fulfill part of their mitigation targets or commitments under the Convention.[60] In addition, the 2011 COP 17 determined that the "various approaches" being discussed, including the NMM and the FVA, must meet standards that produce mitigation results that are real, permanent, additional, and verifiable; avoid double-counting of effort; and achieve a net reduction and/or avoidance of GHG emissions.[61]

COP 17 also launched a work plan for the Ad Hoc Working Group on Long-term Cooperative Action (AWG-LCA)[62] to elaborate modalities and procedures for the NMM with the goal to recommend a draft decision at COP 18. In turn, COP 18 transferred the development of such a program to the

57 Decision 1/CP.13, paragraph 1 b) (v).
58 Decision 1/CP.16, paragraph 80.
59 Decision 2/CP.17.
60 Decision 2/CP.17, paragraph 83.
61 Decision 2/CP.17, paragraph 79.
62 Decision 12/CP.17.

SBSTA, extended the date for its finalization to COP 19, and requested the consideration of the possible elements of the NMM.[63] SBSTA could not reach an agreement at COP 19 and continued its consideration of this issue at its 40th session (June 2014). SBSTA 40 agreed to consider this item again at its 41st session (December 2014)—drawing from submissions of views received after SBSTA 40[64] and from a technical paper on the design and operation of the mechanism it requested that the UNFCCC secretariat prepare—with a view to recommend a draft decision on the mechanism for consideration and adoption at COP 20.[65] SBSTA 41 did not finalize a draft decision, with some Parties proposing to pause the discussions on the NMM and the FVA until further guidance could be sought on how markets will be treated in the 2015 Agreement, and/or to transfer the agenda from SBSTA to the ADP[66]. However, this proposal was not agreed upon, and deliberations on these items will continue to be discussed under SBSTA at its next session.

The key issue for the inclusion of market-based finance for REDD+ activities in the NMM relates to the discussions on its scope and elements[67]. The Parties share a common view that mitigation across broad segments of the economy should be stimulated. Two general options on how to achieve this goal have emerged. Option 1 limits the scope of the NMM to sectoral and national crediting schemes, thus excluding project-based activities (but potentially including REDD+ if, e.g., it is included among the eligible sectors). Option 2 broadens the scope of the NMM to cover a range of approaches to increase the scale of mitigation. Once Parties determine the scope of the NMM, it could potentially contain different tracks for crediting – for example, REDD+, credited NAMAs, sector-based approaches, policy- or program-based approaches, and project-based approaches, all of which could be credited or traded within a centralized or decentralized system. A general framework could be developed to determine which sectors qualify under which track. Parties have discussed that the definition of a "broad segment of the economy" could either be a choice of the host country or be agreed upon internationally.[68]

63 Decision 1/CP.18, paragraph 51.

64 SBSTA invited Parties and observers to submit their views on the mechanism, including: (a) its design and governance; (b) the elaboration of the possible elements of its modalities and procedures; (c) the meaning of "a net decrease and/or avoidance of global greenhouse gas emissions"; (d) lessons learned from the mechanisms under the Kyoto Protocol that could be relevant to the further elaboration of the possible elements of the work program; (e) its relationship with the framework for various approaches and the mechanisms under the Kyoto Protocol; and (f) its relationship to enhanced mitigation ambition.

65 FCCC/SBSTA/2014/L.12.

66 As reported, for example, in the following summaries of the informal sessions on the NMM and FVA: 1) Decarboni.se. (19 December 2014). "A technical view on the Lima Call for Climate Action." Retrieved from http://decarboni.se/insights/technical-view-lima-call-climate-action; 2) DuketoLima. (6 December 2014). "FVA, NMA, NMM Sessions End with a Whisper." Retrieved from http://sites.duke.edu/duketolima/2014/12/06/fva-nma-nmm-sessions-end-with-a-whisper/; 3) Center for Climate and Energy Solutions (C2ES). (n.d.). "Outcomes of the U.N. Climate Change Conference in Lima". Retrieved from http://www.c2es.org/international/negotiations/cop-20-lima/summary.

67 COP 18 (decision 1/CP.18) requested the SBSTA to conduct a work program to elaborate modalities and procedures for the NMM, with a view to recommending a decision for adoption at COP 19. Furthermore, COP 18 agreed on 12 possible elements of the NMM to be considered as part of that work program, including: (a) its operation under the guidance and authority of the COP; (b) the voluntary participation of Parties in the mechanism; (c) 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; (d) requirements for the accurate measurement, reporting, and verification of emission reductions, emission removals, and/or avoided emissions; (e) means to stimulate mitigation across broad segments of the economy, which are defined by the participating Parties and may be on a sectoral and/or project-specific basis; (f) criteria, including the application of conservative methods, for the establishment, approval, and periodic adjustment of ambitious reference levels (crediting thresholds and/or trading caps) and for the periodic issuance of units based on mitigation below a crediting threshold or based on a trading cap; (g) criteria for the accurate and consistent recording and tracking of units; (h) supplementarity; (i) a share of proceeds to cover administrative expenses and assist developing country Parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation; (j) the promotion of sustainable development; (k) the facilitation of the effective participation of private and public entities; and (l) the facilitation of the prompt start of the mechanism.

68 UNFCCC Secretariat. (2013). "Technical synthesis on the new market-based mechanism". Technical paper. 22 October 2013. FCCC/TP/2013/6.

4.2 THE FRAMEWORK FOR VARIOUS APPROACHES

The FVA emerged from the negotiations on "various approaches" mentioned above when COP 17 established a work program to consider the establishment of a framework for such approaches under the AWG-LCA.[69] As in the case of the NMM, the COP transferred the continuation of this program to the SBSTA with the aim of recommending a draft decision to COP 19 in 2013.[70] According to the mandate of the COP, the work program considers, among others, the following elements:

1. The purpose of the framework
2. The scope of the approaches to be included under the framework
3. A set of criteria and procedures to ensure the environmental integrity of approaches in accordance with decision 2/CP.17, paragraph 79
4. The technical specifications to avoid double counting through the registration and accurate and consistent tracking of mitigation results
5. The institutional agreements for the framework

Negotiations continued at COP 19, but Parties were unable to reach an agreement. Negotiations were forwarded to SBSTA 40. At that session, the SBSTA invited Parties and admitted observer organizations to submit to the secretariat their views to elaborate on the possible design and operation of a framework.[71] The SBSTA agreed to continue its consideration of this agenda sub-item at SBSTA 41, drawing on these submissions and a technical paper it requested the UNFCCC secretariat to develop based on those submissions and other relevant materials, with a view to recommending a draft decision on a framework for consideration and adoption at COP 20.[72] As noted above, negotiations on the FVA and the NMM by SBSTA could not produce a draft decision for adoption by the COP 20; further discussions on these issues will take place at SBSTA 42.

There seems to be a high degree of convergence that the purpose of the FVA is to provide a framework to track international transfers and aspects of mitigation/avoidance units and/or outcomes being used for meeting commitments under the Convention. Any mitigation measures implemented by Parties that are purely of a domestic nature and do not result in international transfers of units or outcomes counted toward international mitigation targets would not fall under the FVA. Some Parties do not exclude the option of the Convention providing guidance regarding domestic approaches on a voluntary basis.[73]

The most relevant issue being discussed in this negotiation process in the context of financing for REDD+ activities relates to the scope of the framework – as in the case of the NMM. The options for the scope of the FVA discussed by Parties so far center on whether to include only approaches administered by the UNFCCC and its instruments or also approaches developed by Parties, including subnational, national, regional, and bilateral approaches that involve units or mitigation outcomes

69 Decision 2/CP.17, paragraph 80.

70 Decision 1/CP.18.

71 These submissions were to include information, experience, and good practice relevant to the design and operation of market-based approaches and non-market-based approaches, including approaches developed or being developed by Parties, individually or jointly. SBSTA suggested that these submissions could address, among other items, whether and how approaches: (a) meet standards that are comparable to standards under the UNFCCC; (b) meet the standards referred to in decision 2/CP.17, paragraph 79, and decision 1/CP.18, paragraph 42; (c) enable the accounting, at the international level, of mitigation outcomes; (d) allow for participation, including through possible eligibility criteria; (e) provide co-benefits, including, but not limited to, their contribution to sustainable development, poverty eradication, and adaptation; (f) have effective institutional arrangements and governance; and (g) relate to international agreements.

72 FCCC/SBSTA/2014/L.10.

73 UNFCCC Secretariat. (2013). "Technical synthesis on the framework for various approaches". Technical paper. 22 October 2013, FCCC/TP/2013/5.

transferred internationally and used to meet targets and commitments under the Convention and its instruments.

4.3 ISSUES RELATED TO FINANCING FOR FORESTS CONSIDERED BY STANDING COMMITTEE ON FINANCE

The SCF has been mandated by the COP to consider, in its work on coherence and coordination, inter alia, the issue of financing for forests, taking into account different policy approaches.[74] Some Parties see a simplified, central, and effective architecture for payments at the international level as the best way to increase synergies between different sources of financing and to ensure coordination and coherence. Such architecture could be used as a "hub" to strengthen regional cooperation. Some Parties have also underlined the importance of coordinating finance that may be coming from other bilateral and multilateral financing institutions, such as the FCPF or the UN REDD Program. Some Parties also feel that coordination at the international level is necessary for establishing dialogue between developed and developing countries to promote the flow of public funding.

Proposals on guidance to the GCF by Parties[75] include that it should encourage the GCF to support financing for phase two of REDD+; that the GCF should provide results-based incentives and could coordinate other contributions from all Parties and from any other interested funding entity such as private sector entities, foundations, and non-governmental organizations; and that it should consider a specific window for REDD+. Some Parties have argued that a specific window for REDD+ or forests may not be necessary under the GCF, stating that i) it would only be counterproductive, as there would be delays in the creation of a window under the GCF, ii) it would not necessarily result in actual financing for REDD+, and iii) that the general mitigation window of the GCF would suffice for REDD+ related financing. Proposals also have been made to develop a menu of options for payments (e.g., to ensure equitable distribution of resources and thresholds for payments) and to ensure there is support for ex ante financing for readiness actions and ex post financing for results-based actions.

4.4 FINANCE FOR REDD+ IN THE CONTEXT OF THE AD HOC WORKING GROUP ON THE DURBAN PLATFORM FOR ENHANCED ACTION

The ADP is a subsidiary body that was established in December 2011.[76] The mandate of the ADP is to develop a protocol, another legal instrument, or an agreed outcome with legal force under the Convention applicable to all Parties, which is to be completed no later than 2015 in order for it to be adopted at COP 21 and for it to come into effect and be implemented in 2020. In 2011, the COP also launched two workstreams under the ADP. Workstream 1 is to develop a protocol, another legal instrument, or an agreed outcome with legal force for COP 21. Workstream 2 is a work plan for enhancing mitigation ambition to identify and to explore options for a range of actions that can close the ambition gap with a goal to ensure the highest possible mitigation efforts by all Parties.

The COP 18 requested that the ADP consider elements for a draft negotiating text no later than at its session to be held in conjunction with COP 20, in December 2014, with a goal to make available a negotiating text before May 2015.[77] The annex to the Lima Call for Climate Action adopted by the COP 20 reflects the results of the discussions on the elements of such text carried out during the last two years. The elements for a draft negotiating text contained in the annex represent a work in progress,

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74 As proposed in the "Background paper on coherence and coordination: the issue of financing for forests, taking into account different policy approaches" (SCF/2014/7/5).

75 Included in the "Background paper on coherence and coordination: the issue of financing for forests, taking into account different policy approaches" (SCF/2014/7/5).

76 Decision 1/CP.17.

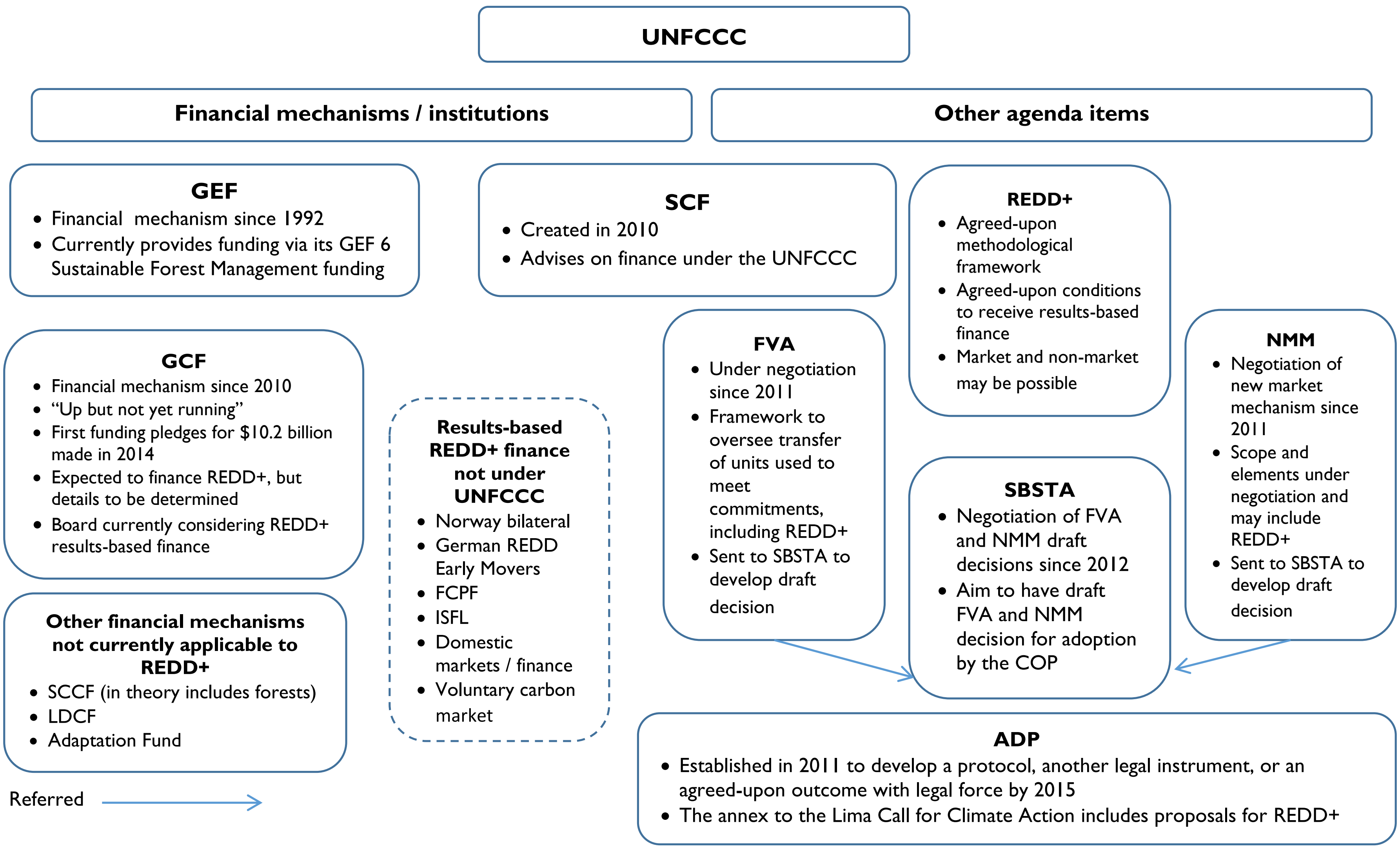
77 Decision 2/CP.18.

and they neither indicate agreement on the proposals presented nor preclude new proposals from emerging during the negotiations in 2015. Among the proposed options regarding financing for REDD+ in the new agreement, the annex includes institutional arrangements for REDD+ finance; opening a REDD+ window under the GCF; and sources of funding for REDD+ (to include public, private, and non-market and results-based finance). Moreover, as part of the proposals for institutional arrangements under the agreement, the annex opens the possibility for the governing body of the agreement to establish means for cooperative arrangements to be defined and accounted for under the agreement. These cooperative agreements would strengthen and create synergies between mechanisms under the Convention and its related legal instruments and mechanisms established or to be established, jointly or individually, by Parties, and avoid the double counting of efforts. This work could include a REDD+ mechanism / the Warsaw Framework for REDD+ and a joint mitigation and adaptation mechanism for the integral and sustainable management of forests.

4.5 SUMMARY FIGURE

Figure 1 on the following page provides an overview summary of REDD+ finance under the UNFCCC.

FIGURE 1: SUMMARY OF REDD+ FINANCE UNDER THE UNFCCC



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