

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<sup>1</sup>?
- 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<sub>2</sub> (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<sub>2</sub> are applied?
- What are different approaches to reporting on the implementation of safeguards under non-market-based systems?

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<sup>1</sup> 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