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Support for REDD-plus

Summary

As per decision B.12/07, paragraph (d), this document provides background information on REDD+ finance, notes key elements for designing a REDD+ results-based finance scheme, and proposes options to initiate the operationalization of GCF results-based finance for REDD+.

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I. Introduction

1.1. Mandate

1. At its twelfth meeting, the Board, through decision B.12/07, paragraph (d), requested the Secretariat to provide a document for consideration by the Board at its fourteenth meeting, allowing for the operationalization of results-based payments (RBP) for activities referred to in United Nations Framework Convention on Climate Change (UNFCCC) decision 1/CP.16, paragraph 70, consistent with UNFCCC decision 9/CP.19, and in accordance with decision B.08/08.

2. In decision 9/CP.19, the Conference of the Parties (COP) to the UNFCCC encouraged the GCF to play a key role in collectively channelling adequate and predictable results-based finance (RBF) in a fair and balanced manner, taking into account different policy approaches, while working with a view to increasing the number of countries that are in a position to obtain and receive payments for results-based actions.

3. This document responds to the above-mentioned request and encouragement, and provides background information on REDD+ finance, notes key elements for designing a REDD+ RBF scheme, and proposes options to operationalize the Fund's RBF for REDD+.

1.2. Background

4. As per the Governing Instrument for the GCF, the GCF will provide financing in the form of grants and concessional lending, and through other modalities, instruments or facilities as may be approved by the Board. The Governing Instrument also specifies that the GCF may employ results-based financing approaches, including, in particular for incentivizing mitigation actions, and payment for verified results, where appropriate.¹

5. By UNFCCC decision 1/CP.16, REDD+ activities are defined and implemented in three phases:

- (a) Phase 1 is the development of national strategies or action plans, policies and measures, and capacity-building;
- (b) Phase 2 is the implementation of national policies and measures and national strategies or action plans and results-based demonstration activities; and
- (c) Phase 3 is the evolvement into results-based actions that should be fully measured, reported and verified.

6. Furthermore, guidance, modalities and requirements to access finance for results-based actions are articulated in UNFCCC decisions, particularly on the Warsaw Framework for REDD+.² Under these decisions, developing country Parties aiming to access results-based finance are required to develop the following elements: (1) a national strategy or action plan; (2) a national or subnational forest reference emission level (FREL) and/or forest reference level (FRL);³ (3) a

¹ Governing Instrument, paragraphs 54 and 55.

² Decision 1/CP.16 set the activities, REDD+ phase approach, elements to be in place and the list of safeguards, while the operational decisions on the elements of that decision include UNFCCC decisions 11/CP.19 (on the national forest monitoring system), 12/CP.19 (on the timing and frequency of presentations of the summary of safeguards), 13/CP.19 (on modalities of the technical assessment of FRELs and/or FRLs), 14/CP.19 (on modalities for measuring, reporting and verifying the assessment of REDD+ actions results), and 15/CP.19 (on addressing the drivers of deforestation and forest degradation). In addition, guidance on safeguard systems and modalities/guidance on the development of FRELs and/or FRLs is provided in UNFCCC decision 12/CP.17.

³ With subnational FRELs and/or FRLs being an interim measure, in accordance with UNFCCC decision 1/CP.16, paragraph 71(b).

robust and transparent national forest monitoring system; and (4) a safeguard information system, including a summary of the most recent information on how the safeguards were addressed and respected. Finally, the proposed FRELs and/or FRLs and the measured results of the REDD+ results-based actions need to be communicated or submitted to the UNFCCC secretariat in a technical annex to the Party's biennial update report.

7. It is, however, understood that REDD+ implementation depends on Parties' national circumstances, capacities and level of support domestically and from the international community, according to which Parties will move at their own pace⁴. As at September 2016, one country has fulfilled all the requirements mentioned above and is in a position to receive payments for results achieved. Fewer than 15 countries have developed FRELs and/or FRLs and have gone through or are in the middle of the technical assessment process under the UNFCCC secretariat.

8. The concept of results-based finance includes payments directly for verified results achieved, as opposed to traditional support modalities of financing inputs (investments) for expected future outcomes. In the case of REDD+, results are defined as mitigation outcomes that is greenhouse gas emission reductions and/or enhancements in forest cover and carbon stocks (sinks) measured and verified against a benchmark (FREL/FRL) expressed in tonnes of carbon dioxide equivalent per year.

9. In addition, RBF may include incentives for intermediate, predefined, and measurable milestones or outputs (such as policy performance and results from REDD+ phase 2 activities) that will be necessary in order to effectively reduce deforestation and forest degradation, and ultimately leading to phase 3 results. This will allow a greater number of countries at national and/or subnational levels to gain access the necessary finance in order to catalyse actions towards achieving REDD+ results. The absence of such financing for inputs may place a heavy burden on developing countries that would have to effectively finance their own investments with the expectation of a results-based payment at a later date.

10. The terms "results-based payment" (RBP) and "results-based finance" (RBF) appear to be used indistinctively in UNFCCC decisions and GCF Board documents. In this paper, RBF denotes payments against verified REDD+ results as well as financing for intermediate, predefined and measurable milestones or outputs, using the various financial instruments of the GCF, including grants and concessional lending. Thus RBF can be considered as a broader concept in which RBP is embedded, offering more flexible and innovative approaches necessary to accommodate the different national circumstances of developing countries and their varying degrees of progress in the different phases of REDD+ implementation.

1.3. Linkages with other documents

11. This document has linkages to the following documents:

- (a) "The GCF and the Paris Agreement" (document GCF/B.13/06);
- (b) "Further development of some indicators in the performance measurement frameworks" (document GCF/B.13/26);
- (c) "Strategy on accreditation" (document GCF/B.13/12);
- (d) "Further development of the initial investment framework: sub-criteria and methodology" (document GCF/B.09/07);

⁴ Voigt, C and Ferreira, F. 2015. The Warsaw Framework for REDD+: implications for national implementation and access to results-based finance. *Carbon & Climate Law Review*. 2: pp. 113-128.

- (e) “Further development of the initial results management framework” (document GCF/B.08/07); and
- (f) “Guiding framework and procedures for accrediting national, regional and international implementing entities and intermediaries, including the Fund’s fiduciary principles and standards and environmental and social safeguards” (document GCF/B.07/02).

II. Lessons learned from REDD+ results-based finance initiatives

12. A number of bilateral and multilateral initiatives were launched over the past decade to support REDD+ activities, including early RBF. The majority of these funds have supported phase 1 readiness activities with upfront grants (e.g. the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, and the Forest Carbon Partnership Facility Readiness Fund) and phase 2 demonstration activities with upfront grants and concessional loans (e.g. Forest Investment Programme).⁵ The Amazon Fund and the Central African Forest Initiative supports the design and implementation of investment frameworks for REDD+ in the Amazon Basin and central Africa respectively (phases 1 and 2). Similarly, significant funding has been committed to results-based activities. These include the Forest Carbon Partnership Facility Carbon Fund,⁶ part of Norway’s International Climate and Forest Initiative and other bilateral initiatives, the REDD Early Movers Program and the BioCarbon Fund Initiative for Sustainable Forest Landscapes.

13. Overall, although financing has been committed to recognize result-based actions in recent years, disbursements are still relatively low or limited. This can be attributed to several factors, including the time taken by the UNFCCC secretariat to provide clear guidance for REDD+ implementation and that by forest countries to advance through the stages of readiness, and the relatively recent completion of the Warsaw Framework on REDD+. Moreover, the scale and predictability of RBF has been too limited to trigger the necessary transformational changes in the forestry and land-use sector.

14. REDD+ RBF experiences are still limited, but are useful to the extent that they can inform the piloting of different approaches.⁷ In this context, the GCF can play a significant role in helping countries achieve scale, deliver finance that is both adequate and predictable, complement other existing sources of finance countries are accessing, and help catalyse public and private finance. Lessons learned and best-practices in place should inform any further initiative to support developing countries in the implementation of REDD+ activities, including those of the GCF.

15. Through decision B.13/12, the Board decided to prepare an operational framework on complementarity and coherence with other funds. It is expected that the development of this framework will reveal the type of arrangements needed between the GCF and other funds under the UNFCCC, and between the GCF and other funds, entities and channels of climate change financing outside the UNFCCC. In the context of REDD+ RBF, the GCF needs to consider how it can enhance its complementarity in supporting REDD+ with respect to other available financial mechanisms for REDD+ implementation.

16. These early experiences also provide valuable lessons learned in setting the specific arrangements for receiving RBF as well as for improving the understanding of the relationship

⁵ WWF. 2015. *How the Green Climate Fund (GCF) Can Operationalize the Warsaw Framework for REDD+*. WWF FCP Discussion paper. Available at: http://d2ouvy59p0dg6k.cloudfront.net/downloads/www_gcf_report_final_edited.pdf

⁶ Including the development of the Methodological Framework.

⁷ Climate Focus. 2015. *Results-based Finance for REDD+: Emerging Approaches*. REDD+ Expert Dialogue 7. Available at: <http://www.climatefocus.com/sites/default/files/20151130%20RBP%20Paper%201%20Summary%20-%20Expertdialogue%208%20final%5B1%5D.pdf.pdf>

between the financial flows and sources for phases 1 and 2 with future payments for REDD+ results in phase 3.

17. RBF in supporting REDD+ actions may come from a variety of sources and use a range of financial instruments (e.g. grant, loan, equity and guarantee). Many countries face stages where catalysing domestic finance with international support could be critical to triggering the transformations necessary to produce results that are measurable in the implementation of REDD+ activities (i.e. transitioning from REDD+ phases 2 to 3). In the context of REDD+, RBF could play a role both in supporting results-based actions that should be fully measured, reported and verified, as well as in providing finance for the achievement of enabling conditions that are catalytic for moving towards the implementation of REDD+.

18. Therefore, building on early experiences, and recognizing the need to increase the number of countries that are in a position to obtain and receive payments for results-based actions, the GCF should consider RBF not only payments for emissions reductions and enhancement of carbon stocks but also as incentives for intermediate predefined measurable milestones or outputs.

19. The investments needed to address the drivers of deforestation and forest degradation are large, long-term and considered risky according to experts and ongoing REDD+ programmes.⁸ Results-based finance can produce powerful incentives as long as it is on a sustained and recurrent basis, and that it can leverage other forms of finance, including domestic and private finance, available for land-use activities,⁹ with the vision of shifting the paradigm towards low-emission development.

20. The GCF has approved projects in forest and land-use interventions that may contribute to emission reductions from deforestation and forest degradation, with no payments for REDD+ results.¹⁰ With the provision of a wide menu of RBF delivery mechanisms for REDD+, the GCF would be providing a comprehensive set of financial options for catalysing REDD+ actions and recognizing REDD+ results for a wide range of countries.

III. Proposed approach and options for REDD+ results-based finance operationalization

3.1. Proposed approach

21. To initiate the operationalization RBF, the Fund could adopt a two-track approach composed of one track for financing intermediate, predefined and measurable milestones and a second track for payments for verified REDD+ results. Both tracks would serve as a first step for testing and learning early lessons to inform the further development of a full operational modality for GCF REDD+ RBF and move towards an integrated financing approach for REDD+ within the GCF.

22. The Fund's possible two-track approach is further explained below (figure 1):

- (a) **Track 1: REDD+ milestones-based finance** (i.e. financing based on agreed milestones from phase 2 that facilitate country transition to phase 3): This track could complement current finance available from GCF for forest and land use sector linking results-based finance and the REDD+ projects and programmes in the Fund's project pipeline. Financing

⁸ Climate Focus, 2015. Results-based Finance for REDD+: Emerging approaches. REDD+ Expert Dialogue 7

⁹ World Bank Carbon Finance Unit. [Year?]. *Results-based Finance for REDD+: Lessons Learned from the Forest Carbon Partnership Facility and the BioCarbon Fund*. Available at https://unfccc.int/files/land_use_and_climate_change/redd/coordination_of_support/application/pdf/redd_2013_0822_cop_wp_ws2_statement_fcpf.pdf

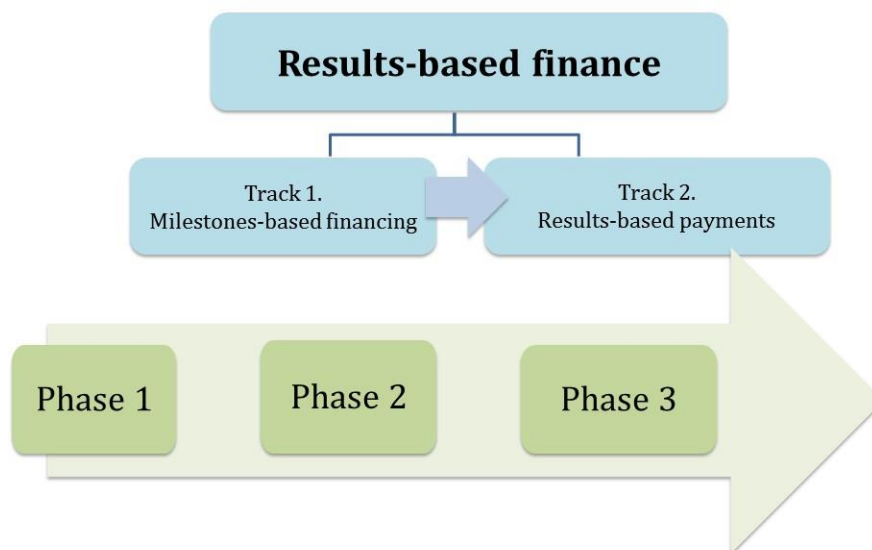
¹⁰ Decisions B.11/11 and B.13/23

could be available to operationalize the requirements under the WFR and to develop solutions to issues associated with the implementation of REDD+ results-based actions. It could include milestones such as policy changes or actions to address identified drivers of deforestation, enhance governance, addressing tenure issues, and others. It aims to encourage those projects and programmes at phase 2 gradually move to phase 3 and receive results-based payments for REDD+. This track may require further consideration and consultations before its modalities can be defined.

- (b) **Track 2: REDD+ results-based payments** (i.e. payments for results already achieved - phase 3): Countries that can demonstrate compliance with the Warsaw Framework for REDD+ that have progressed in achieving results in the form of measured, reported and verified emission reductions would be eligible to receive payments.

23. Each track will require a process to be defined for further steps to develop its operational modalities consistent with the Governing Instrument, and to provide adequate guidance to proposal developers and for implementing funded activities within each track (see sections 4.1 and 4.2).

Figure 1. GCF's initial results-based finance architecture



24. A two-track approach and a testing period is needed, due to the following reasons:

- (a) Only a few countries, at the national or subnational scales, are currently ready to implement full ex-post RBF systems, strictly limiting access to RBF payments for activities;
- (b) Experiences in the operationalization of the Warsaw Framework for REDD+ modalities and guidance in countries are only now slowly emerging, so little experience is available in extracting early lessons learned in the design of a full RBF financing scheme for the GCF;
- (c) There is currently a wide range of country circumstances, with varying status with regard to going through the REDD+ phases referred above;
- (d) Financial needs in order to achieve the implementation of REDD+ actions vary greatly by country; and

(e) A variety of key technical and operational issues will need to be identified, assessed and addressed within the GCF in order for it to play a key role in channelling adequate and predictable results-based finance for results-based actions.

25. Therefore, a period of experimentation will be beneficial in order to demonstrate early progress by GCF on RBF, so as to both stimulate countries to propose and start testing creative solutions to issues associated with the implementation of REDD+ activities in the context of the UNFCCC, as well as to recognize the efforts undertaken by the countries that already demonstrate the achievement of results.

26. This flexible approach would be open to proposals of activities that: (1) advance financing of activities that explore how to operationalize GCF support, including the use of its various financial instruments in a variety of circumstances and in response to differing country needs; and (2) provide support for early examples of countries that are ready to do so and that meet the requirements to access results-based payments. The two-track approach could be available concurrently for countries, in case the timing and level of advancement for REDD+ activities is different within a country (e.g. a situation in which REDD+ results are already available in some jurisdictions, while other parts of a country are at a stage of delivering intermediate milestones), considering provisions to avoid double financing or over subsidizing.

3.2. Possible options for the operationalization of REDD+ results-based finance

27. Taking into account the proposed two-track approach, and considering possible different technical and operational requirements for each track, the GCF could adopt a request for proposal (“RFP”), in line with GCF’s Strategic Plan and the Fund’s policies and procedures, considering two possible options¹¹:

- (a) **Option 1:** Issue an RFP for both tracks simultaneously. This option will require the development of guidance and operational modalities for each of the two tracks and could be released at the same time.
- (b) **Option 2:** Issue an RFP for results-based payments (track 2), and in parallel, apply interim operational modalities for milestones-based finance (track 1).

28. The RFP could include simple criteria that can be developed in order to guide applicant countries’ preparation and GCF selection of proposals for each track. These criteria could help the proposal development process to be more efficient and targeted to a specific type of proposal, by providing bounding parameters; and could guide the GCF to a quick assessment of proposals.¹²

29. The GCF could consider the development of modalities for the two tracks indicated above, taking into account the following factors, among others:

- (a) RBP proposals should include a strong narrative along a specific timeline of how financing would contribute to generating (payments for) verified emission reductions, and proposals should comply with the UNFCCC Warsaw Framework for REDD+ and previous GCF Board decisions on REDD+.

¹¹ Other additional options could be explored, nonetheless, the options presented in this paper represent the most plausible options for a testing period.

¹² Potential criteria could include, for example, the size of funding for each proposal (which could be limited to ensure that the majority of pilot funding available supports more than a few countries); a cap on the funding amount available to any one proposal; the limitations on the allocation and potential future transfer of the results produced (i.e. used for compliance or retired); regional distribution; the testing of a variety of technical or policy approaches to full RBF within the time period available; the variety of finance mechanisms employed; etc.

30. For countries that are not ready to base their request (solely) on verified emission reductions, proposals should include a portfolio of strategic interventions based on an in-depth analysis of the overall financial needs and financial barriers for implementing REDD+ activities that lead to paradigm shift in the forest and land use sector as well as the identification adequate financial instruments.

31. The operationalization of REDD+ results-based finance will require a comprehensive analysis of the possible modalities and arrangements for providing and receiving results-based finance in line with the UNFCCC requirements and consistent with the Governing Instrument before an RFP could be launched.

IV. Future steps for REDD+ results-based finance operationalization

4.1. Potential aspects to be considered in the relationship between the Warsaw Framework for REDD+ and GCF policies and procedures

32. UNFCCC decisions related to REDD+ results-based actions by developing countries and in particular those of the Warsaw Framework for REDD+, lay out the requirements for accessing RBP. These requirements, along with specific mentions of the GCF by UNFCCC decisions, need to be respected in the provision of support for REDD+ by the GCF.

33. However, the Warsaw Framework for REDD+ needs to be operationalized in the context of the GCF in order to design and implement an RBF scheme. Some consideration by and guidance from the Board may be needed in order to initiate the operationalization of a REDD+ RBF scheme, as well as to inform the development of the full RBF scheme later on. The following elements, among others, may require Board consideration and guidance¹³:

- (a) **Scale of intervention:** The UNFCCC REDD+ provisions indicate that the scale at which countries should implement REDD+ is at the national level, with some flexibility for subnational implementation as an 'interim measure', and with a national forest monitoring system in place. Additional guidance may be needed in order to define a minimum scale at which RBF will be implemented, taking into consideration the current financing modalities within the GCF;
- (b) **Access modality:** While the COP noted that national entities or focal points of developing country Parties may nominate their entities to obtain and receive RBF,¹⁴ GCF resources are currently accessed through accredited entities.¹⁵ The GCF could explore ways to promote close coordination between the entities nominated by the countries in accessing RBF, in particular for track 2 proposals, with accredited entities to the GCFs;
- (c) **Financial valuation of results:** The GCF should provide guidance on how to determine the relationship between the results and the amount of finance, for example by setting a value per tonne in the case of RBP or some other basis for RBF for phase 2 milestones or outputs;
- (d) **Predictable funding available:** The COP encouraged the GCF to channel adequate and predictable finance in a fair and balanced manner.¹⁶ The Board may consider a percentage

¹³ These elements listed are not exhaustive and addressing them will not undermine existing methodological framework and efforts made by other REDD+ financing institutions. The GCF will ensure its complementarity with other funds, taking the best-practice approach.

¹⁴ UNFCCC decision 10/CP.19, paragraphs 1 and 2.

¹⁵ Except for resources for readiness and preparatory support which can be accessed by national designated authorities.

¹⁶ UNFCCC decision 9/CP.19, paragraph 5.

or setting aside a portion of GCF resources available for launching the RFP for REDD+ RBF;

- (e) **Operationalization of the ‘Cancun safeguards’:** The Warsaw Framework for REDD+ and earlier COP decisions contain a number of safeguards¹⁷ that are required to be addressed and respected in all phases of REDD+. The GCF needs to consider how these relate to the existing GCF policies, procedures and reporting requirements and if further guidance is required on REDD+ RBF specific considerations such as actions to address the risks of reversals;
- (f) **Forest reference emissions levels/forest reference levels:** The Warsaw Framework for REDD+ articulates procedures for the review of FRELs/FRLs and monitoring, reporting and verification of emission reductions achieved through REDD+ activities. It remains unclear as to how these FREL/FRL and monitoring, reporting and verification procedures will be tied to results-based incentives.¹⁸ The GCF needs to consider ways to link these procedures with RBF; and
- (g) **Risk of double financing:** It is possible that proposals submitted for RBF are already receiving, or have received, ex-ante and/or ex-post payments under the other existing initiatives as well as within the regular GCF project cycle. The GCF should consider ways in which to ensure transparency in accounting and sources of financing, including taking into consideration the UNFCCC Information Hub.¹⁹

4.2. Development of the operational modalities for the initial operationalization of REDD+ results-based finance

34. Progress on the development of the GCF REDD+ results-based finance, and the role that the GCF will play in REDD+ finance, including RBF, can begin to be presented to the Board, starting from the fifteenth meeting of the Board for its consideration.

35. In the case of RFP, whether it be option 1 or 2, the timeframe and the financial portfolio of the RFP could be indicated at the time of adopting the terms of reference for the request for proposals at B.15. For the financial portfolio, USD x-y billion corresponding to x per cent of the present capitalization of the fund in relation to the proportional contribution of REDD+ activities to the global mitigation potential.²⁰

36. The following basic operational elements, among others, may need to be included in the terms of reference for the RFP:

- (a) Duration of the call for proposals;
- (b) Starting date for accounting emissions reductions against FREL/FRL; and
- (c) The minimum and maximum budget size, if any.

¹⁷ Appendix I to UNFCCC decision 1/CP.16.

¹⁸ Baker & McKenzie. 2014. *The Consolidated Guide to the REDD+ Rules under the UNFCCC*. Available at: http://www.bakermckenzie.com/-/media/files/insight/publications/2014/11/consolidated-guide-to-the-redd-rules-under-the-u_/files/read-publication/fileattachment/bk_global_reddrule_nov14.pdf

¹⁹ UNFCCC decision 9/CP.19, paragraph 9.

²⁰ The mitigation potential consists of the emission and carbon sequestration proportions attributed to REDD+ activities. “If deforestation were halted entirely, forests were allowed to regrow, and mature forests were left undisturbed, tropical forests alone could have captured 25–35% of all other anthropogenic carbon emissions” Goodman, RC and Herold, M. 2014. *Why Maintaining Tropical Forests Is Essential and Urgent for a Stable Climate*. Working Paper 385; based on International Panel on Climate Change Fifth Assessment Report data.

37. The two tracks of proposals mentioned above, and the respective associated criteria would require specific consultations with various stakeholders and experts in REDD+ during the process of development, in order to ensure transparency and inclusiveness.

38. A basic set of principles could be defined to guide the development of the RBF scheme. These principles should be rooted in the UNFCCC decisions and promote the linkage between the three phases of REDD+. As part of these principles, proposals for projects and programs should be firmly anchored in an explicit strategy for a national land use transformation/REDD+ and green economic growth, building on already ongoing efforts and extensive readiness work. Proposals should comply with the UNFCCC Warsaw Framework for REDD+ and previous GCF Board decisions on REDD+.

Annex: Draft decision of the Board

The Board, having considered document GCF/B.14/03 titled “Support for REDD-plus”,

- (a) Endorses the two-track approach for the operationalization of REDD+ results-based finance, including results-based payments and milestones-based financing; and
 - (b) Requests the Secretariat, to prepare modalities for the operationalization of the two-track approach at the fifteenth meeting of the Board for its consideration.
-