Climate Markets & Investment Association

GETTING THE BALL ROLLING ON THE 'PARIS RULEBOOK' FOR REDD+

PRACTITIONERS' VIEW ON REDD+ ACCOUNTING, IMPACT MONITORING AND BENEFIT SHARING: A CMIA COP23 BRIEFING PAPER

The Climate Markets & Investment Association (CMIA) is a member-led organization comprised of private sector actors in the climate finance space. It holds private sector observer roles at the Green Climate Fund, the Forest Carbon Partnership Facility, the Forest Investment Program and has an active sustainable land use & forestry working group, putting it in a good position to share learning on REDD+ finance.

Our collective global perspective builds on practical on-the-ground experience trying to make REDD+ work, for communities, governments, and future generations. We bring to the table technical, policy and deal making expertise. Our membership is made up of development professionals implementing government funded projects, project developers and investors that build business cases and raise private capital for landscape level conservation and restoration activities as well as consultants that work along the entire product chain of a REDD+ credit (including high-level public policy design, carbon accounting methodology development, forest inventorying, local capacity building).

With the deadline to finalise the 'Paris rulebook' by the end of 2018 approaching fast, many legal and technical agreements will need to be made in the coming year to lay out how to operationalise REDD+. Hence, CMIA would like to invite all REDD+ stakeholders to take a step back and reflect on the overall vision of what REDD+ aims to achieve and how it should look in the end to ensure we stay on target for the rulebook.

Particularly, as attention in the land use community is drawn to new hot topics such as the zero deforestation targets of food companies and landscape finance facilities, we believe it is vital to remind ourselves of the progress that has been made to date in defining REDD+ and how REDD+ can inform and complement new initiatives that aim to make land use more sustainable. To date, REDD+ is still the only instrument that has the potential to channel payments for services that protect standing trees to those that protect them at the scale required. For all stakeholders who want to see forest landscapes thrive, learning from and improving REDD+ is a must.

Climate Markets & Investment Association

A VISION FOR REDD+, AN INSTRUMENT THAT STIMULATES COOPERATION AT MULTIPLE LEVELS

From a global perspective,

- helps to bring down global GHG emissions by halting the loss of terrestrial ecosystems and by growing terrestrial carbon sinks immediately; and
- builds new role models for public private partnerships in which private capital is re-distributed to rural economies to increase the resilience of local communities and their surrounding ecosystems globally.

From a national perspective,

- provides forest country governments with a means to achieve their UNFCCC commitments; that
- incentivises the formulation of holistic national land use strategies that are agreed between Ministries, broken down into targets and supported by management plans for each ecoregion in the country; that
- requires governments to develop policy and regulation to stimulate site-specific financeable activities in pursuit of national targets and development priorities; and that by doing so
- generates opportunities for financing from a wide set of sources, with as many entry points within the national sphere of operations as possible to maximize the potential economic support for each nation's transition to a sustainable economy. No matter where the entry point, the financing must play by the same set of rules to be fair, transparent and maintain environmental integrity.

From a local perspective,

- requires governments, private sector and civil society organisations to apply highest transparency standards in planning, implementation and results monitoring to assure reward is delivered to where the impact is being created with fair contributions to communities and local administrations; and that
- delivers adequate value to those stakeholders who must engage in forest friendly practices, and disengage in destructive practices through building alternative livelihood opportunities and increasing the resilience of rural economies.

The CMIA urges parties to use COP23 to set concrete next steps for securing advanced ambition in 2020 and to commit to fulfilling the rulebook deadline by 2018.

With a global mitigation potential of 2.4-8.5 GTCO2e pre 20201 and up to 7 GTCO2e per year by 20302, protecting and enhancing natural terrestrial ecosystems has the potential to reduce about a third of the emissions gap needed to reach the Paris target. REDD+ needs to be designed in a way that helps unleash this potential and better facilitates public and private investors to participate in the US $40b per year market for forest conservation, sustainable forest management, and afforestation.[3]

---

[1] UNFCCC (2014) 'Technical paper addendum: Technical examination process to unlock mitigation potential for raising pre-2020 ambition through land-use actions with climate benefits'. FCCC/TP/2013/13/Add.1

[2] UNEP (2015) The Emissions Gap Report 2015

[3] WEF (2013) The Green Investment Report 2013

In this regard, CMIA urges parties to design the rules for operationalising REDD+ with a view to building strong, reliable and predictable governance systems domestically as well as robust and transparent true-up processes at national and international level that assure environmental integrity, fair compensation of efforts made to date and provide predictable framework conditions to draw in furtherlong-term capital at scale.

We are concerned that countries who want to use REDD+ domestically do not have mechanisms in place to compensate for the emission reductions delivered by early movers. Where projects delivered independently verified results and are keen to comply with emerging REDD+ rules and regulations, governments and project developers have an opportunity to work together to build confidence among impact investors and provide certainty to potential carbon credit buyers.

We congratulate the Green Climate Fund for its decision to make results based payments for past efforts for national and potentially sub-national initiatives. CMIA encourages the nesting of site-based activities into GCF funded national and sub-national initiatives given how much site-based activities can contribute to unleashing the potential of REDD+ and ultimately increase global ambition. These activities provide a source of lessons learnt and can be positive examples that can be incorporated in the rules for REDD+ as well as investment frameworks of other forest landscape finance facilities such as the Results Based Finance Facility of the Green Climate Fund.

CMIA RECOMMENDATIONS FOR SITE-BASED ACTIVITIES TO NEST INTO NATIONAL PROGRAMS

Robust accounting is a key requirement for REDD+ implementation; however, it is a hugely difficult task hampered by data limitations and limited resources and capacities at national and sub-national levels. Thus, we would like to take this opportunity to share our view on the practical realities that we encounter in REDD+ accounting and how to assure consistency between the different geographic scales (site-based, subnational and national) in line with our vision above.

National and sub-national programs need to be based on real data to develop targets, plan activities and measure results in accordance with best available science (as required by PA Art 4.1). As this data is currently not available in the scale and quality needed, we urge all stakeholders to work together in developing platforms for data sharing and knowledge exchange and using data generated by site-based activities that is scientifically robust to inform program and activity design in other areas.

Below are our recommendations for the challenges we encounter in fully integrating site-based activities in results monitoring and accounting in support of national and subnational programs:

(I) Inconsistent Forest Reference Levels/ Reference Levels should not be considered bad intention of any of the actors involved but be seen as part of the challenges to overcome.

Differences between a jurisdictional (or sub-national) reference level and a reference level that was developed for a smaller scale can occur for a variety of reasons. E.g. is it because of differing assumptions on carbon stocks? or inclusion of carbon pools? or different activities like degradation? Or different data points on past deforestation? Or different projections on future rates? Or different spatial allocations of a deforestation rate? Or different assumptions about future macro-economic, demographic or political directions? Or are they both the same but one is a sub component of the other?

Our members are pro-actively working with governments to identify the reasons for such inconsistencies, which requires conversations about technical constraints as well as political priorities and challenges. We encourage and support these negotiations to occur to create clarity on a pathway that allows projects to comply with emerging regulations and access fair compensation for measurable impacts achieved in the past. CMIA believes that all projects that seek to sell REDD+ credits need to show measurable impact through third party verification as well as compliance with domestic regulations.

To assure consistency between reference levels within a country, it would be desirable that governments provide guidance on reference level development, and e.g. provide a set of validated data sources and assumptions to assure consistency. Technical organisations and carbon measurement and accounting professionals have developed several guidance documents and trainings[4] but uptake by governments has been relatively slow to date. Until this becomes available, it is key that technical staff of government and projects share the underlying approaches and information and discuss a pathway to adjust consistency of reference levels generated 'top down' and 'bottom up'. This is starting to happen now in progressive states and countries and this is what CMIA members work towards.

We advocate for reference levels that are set within scientifically defensible constraints and have been free from political interference. For example, the FCPF only allowing strict historical average deforestation rates bears the risk of creating an unachievable target for reductions in countries where the historical trend was increasing significantly.

Methodologies for calculating project impacts bring a degree of transparency and robustness in project planning and management to the industry that stands out compared to non-certified activities. The VCS first set its rules on how reference levels were allowed to be set for agriculture, forestry and other land use (AFOLU) projects in 2007. Over the last 10 years, the standard has been updated several times by the world's leading scientists and deforestation and degradation specialists, and undergone several public review and comment periods. Any methodology approved under the VCS for baseline setting has to undergo two independent audits by verification bodies as well as a public comment period. Furthermore, it is scrutinised against each updated version of the standard. Projects themselves then have to go through another independent audit of their application of the methodology. Thus, the system for setting project level baselines is both transparent and robust with checks and balances carried out in several project development and implementation intervals.

(II) Full accounting is the aspiration but in the interim we rely on collaboration, information sharing and strong institutions to keep our forests standing

The focus for administrations must be on developing a holistic land use vision for the national and sub-national levels that is long-lasting and agreed between the main government agencies with decision-making authority on land use (e.g. infrastructure, transport, housing, energy, agriculture, forestry, environment, social and cultural etc.). Such long-term vision is key to avoiding multiple concession issuance for the same land and other forms of competing land use claims, and ultimately is essential for a sound national system to manage and monitor leakage and permanence. Long-term planning certainty is a key milestone in building a sustainable

[4] a. Planning Guide: Integrating REDD+ accounting with a nested approach (USAID,2013); b. Decision support tool: integrated REDD+ accounting frameworks nested national approaches (USAID, 2015); c. VCS Jurisdictional and Nested REDD+ Requirements (VCS, 2016); d. Pearson TRH, Casarim FM and McMurray A. 2016. Guidance Document: Options for Nesting REDD+ Projects. Commissioned by Fundación Natura Colombia. Pp 29

development-focused investment environment that attracts private and philanthropic finance and allows for planning of large scale land conservation, restoration and management activities.

In most countries, agreeing to such a long-term land use vision and the corresponding domestic policy and regulation will take several years. Thus, in the meantime it is key that first steps are taken bottom-up to establish a method for successful site-specific activities with a view to inform high-level vision and policy formulation. Ideally, this would go hand in hand with increasing disbursement efficiency of national and sub-national administrations, who as a result, would be better equipped to choose targeted activities and steer the funding stream along established channels that are applying transparent MRV standards.

One practical way to stimulate development of site-specific activity proposals would be via issuing Request for Proposals (RfP) programs for pipeline development (this is a well proven tool to build pipelines in the energy sector); developing the domestic legal framework for safeguard implementation (e.g. community outreach and consent, benefit sharing arrangements); and issuing clear investment criteria for activity development (e.g. specifying geographic scope, job creation targets, local wealth development targets, expected volumes & vintages, preferred technologies, reporting requirements etc).

One area in which collaboration and strong institutions will be particularly important is identification, management and monitoring of leakage. While the programs and activities are being planned it is key to keep in mind the interaction between these at sub-national as well as national levels. The possibility that deforestation or degradation could leak from a place where activities to prevent deforestation and forest degradation are being implemented to another is one that has been known since the conception of a REDD mechanism in the Bali Action Plan in 2009. Project developers strive to minimise and quantify any leakage that might occur in their project and they are doing this in the following ways:

1. *Reduce leakage by building alternative livelihoods in project design:* Our members' projects are designed from the ground up with local communities to develop alternative subsistence and income opportunities that are non-destructive to the ecosystem in the region and, thus address the underlying drivers of deforestation
2. *Monitor and quantify activity shifting leakage:* The VCS methodology requires that analysis is conducted as to where deforestation actors could move to deforest and these areas are monitored in the same way as the project area. If additional deforestation above the baseline (leakage) is detected – then a deduction is made from emissions reductions claimed. To date, we have no knowledge of this happening in the projects that CMIA members represent. In fact, we noticed the contrary, deforestation rates tend to drop in the project leakage areas due to the work done by the projects. VCS rules do not allow projects to claim this 'positive' leakage. Any such benefit that accrues would go to the state for their accounting.
3. *Assessing and accounting for market leakage*: If access to land for (illegal) commercial crops is restricted, there is an argument that market forces will drive up the price of the commodity, encouraging deforestation elsewhere, but potentially in areas far away from the project area in another state, or even another country. The VCS has a tool for assessing and accounting for this risk and our projects take a conservative reduction in emissions reductions to account for that case.

There are tools in place to quantify and reduce leakage in projects. Although leakage can also occur at larger scales, for political reasons they are harder to address. The CMIA appreciates the effort to avoid the risk of leakage on small scales by operating at a larger scale through jurisdictional programs. However, it is key to note that leakage can then just happen at a larger scale. All the same leakage types are possible under a

jurisdictional scheme: activities could shift across state borders and market effects could arguably be greater than for small project interventions. The FCPF's Methodological Framework requires efforts are made to minimise leakage, but has no requirements to account for leakage in place as of now. A full national accounting system will need to address leakage also at larger scale, thus the CMIA would like to encourage REDD+ stakeholders to engage with those project developers who look back at 10 years of leakage monitoring to explore how best to scale this method to the national level, e.g. by reducing the risk of leakage by jurisdictional program design requirements and accounting for it, as projects are required to seek validation under the Verified Carbon Standard.

The best scenario is when all levels of a REDD+ system are minimising leakage by design and accounting for it. Guidance has been available for some time on the options for doing this[5] and our members are designing their projects to move into such approaches.

(III) Early action activities deserve a fair compensation for their effort to date, to compensate local communities and to draw in more capital.

Bullet proof, full accounting in the land use sector is not possible with given data limitations, however, the answer to this should not be holding back funding for activities on the ground as we risk losing the forests. Concessions need to be made to assure that REDD+ reduces emissions at national and global level, and that financial compensation for mitigation outcomes is used with a long-term perspective in mind. *CMIA members that have invested into early action projects understand and accept they will be required to merge site-based reference levels with sub-national and national reference levels, which will come along with concessions over the volume of marketable mitigation outcomes.* CMIA is not arguing for project activities to exist in parallel to other activities. CMIA members are keen to conform with emerging policies and regulation while also maintaining the trust of local communities who have been implementing REDD+ on the ground and bolstering their tried and true practical approaches to address deforestation. Without these early projects, there would have been further deforestation. We ask that countries recognise the real and verified emissions reductions that have taken place and enable project developers to seek fair compensation through results based payments, international transfers and corporate commitments. . In this regards, we applaud the Green Climate Fund to recognise past performance in the recently approved Results-based Finance Facility and encourage the Board to consider allowing access to for site-based activities. .

A key element in an effective REDD+ architecture is to assure that the money goes to where the work is being done. As much as we need to build carbon accounting data bottom-up for jurisdictions, projects can help to cost activities and build disbursement channels that help deliver the money to where the work is being done, to build the nurseries and seedbanks, train trainers, extension workers, rangers, build verifying capacity etc. National and sub-national administrations should draw on the expertise of development professionals to inform such program design and assure that the investment hits the ground

CMIA has been on a mission to help deliver the financing needed to unleash the mitigation and adaptation potential of terrestrial ecosystems since its beginning and will continue to do so. For further information and feedback please contact Margaret-Ann Splawn, Executive Director of the CMIA at Margaret.splawn@cmia.net.

---

5 http://www.climatefocus.com/sites/default/files/Integrating%20REDD%2B%20accounting%20within%20a%20nested%20approach.pdf