

Guidance and Conditions for Attracting Private Sector Investments to National REDD+

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1 Purpose of Paper

This paper is designed to provide high level guidance to governments who are interested in attracting private investment to finance activities being implemented within the context of a national or subnational REDD+ program. For simplicity, the paper will use the word “project” to describe a set of related activities on a defined geographic area that contribute to reducing deforestation, forest degradation and/or increasing carbon stocks within the context of a national or subnational REDD+ program. While there are many types of private sector actors that can support REDD+, this paper focuses on the private sector investors that represent large pools of capital that could provide upfront finance to implement actions needed to halt deforestation globally.

The estimated amount of finance needed to halt deforestation globally through sustainable agriculture and REDD+ is US\$200 billion annually¹, of which current funding levels are around US\$ 1 billion mostly provided from donors, governments and other non-private investor sources. This leaves a large gap that needs to be sourced through the financial sector and market-based investments. Considering only private equity and impact investors with an estimated \$1.835 trillion^{2,3} in assets to deploy annually, this gap could be covered with 10% of their free capital which does not even include the trillions of dollars of other investors’ assets. To attract these private investments to sustainable agriculture and REDD+, governments and business/project owners are going to have to make it appealing to these investors. For most investors, this starts by convincing them they can generate an attractive risk-adjusted return relative to other opportunities in the marketplace. This means the investors need the ability to assess the risk and return of their investment before they will deploy capital. Second, as governments increase their interest in attracting private investments they need to create opportunities to blend government and donor funding with financial market instruments (loans, funds, green bonds, etc.) to create an attractive return scenario. And lastly, by building an investment track record for the sustainable agricultural and REDD+ sector that will demonstrate there are real opportunities to generate returns which will catalyze more mainstream institutional investors over time.

Private Sector Characteristics

- Seek financial return generation
- Some value impact in decision making
- Need to assess risk and return
- Require implementers with proven track records
- Use robust transactional agreements
- Adverse to reputation risk

For governments to attract private investments in the near term at scale they will need to implement laws, regulations and/or administrative processes that make it possible for investors to channel money directly to projects within a national and/or subnational program. The reason for this is if an investor is to finance activities on the ground that are designed to reduce deforestation and/or produce higher value crops sustainably, the investor will need to understand what will be implemented, by whom, and what are the key financial, social and environment performance indicators that will generate returns. This is difficult to do broadly across a large and diverse program. But providing the opportunity to invest in projects and groups of projects, investors will be

¹ WEF, The Role of the Financial Sector in Deforestation-free Supply Chains, 2016

² GIIN, Annual Impact Investor Survey, 2018

³ McKinsey, Global Private Markets Review, 2018

able to evaluate risk and return and define the performance indicators that will deliver that return. Some private finance may directly flow to a national program, however the high risks make this challenging at scale, and more feasible after results have been achieved rather than upfront to fund interventions.

There are a few key components that governments can adopt related to their national/subnational REDD+ programs to maximize opportunities to attract private sector investors.

Key Components of Attracting Private Sector Investments to REDD+

1. Recognize and promote projects within national/subnational REDD+ programs (Section 2)
2. Create REDD+ related policies and processes that drive private sector investments (Section 3)
3. Implement frameworks for stakeholder engagement, safeguards and monitoring of non-GHGs to meet private sector priorities (Section 4)
4. Structure mechanisms for attributing/recognizing results that incentivize emission reductions and removals and provide predictable revenue streams (Section 5)
5. Adopt technically robust, spatially explicit methods for quantification and verification for GHG emissions from deforestation and degradation that applies at the national/subnational and project levels (Section 6)
6. Apply processes for registration of REDD+ activities and elimination of double counting risk
7. Create other opportunities to connect private sector with REDD+ actors on your country (Section 7)

Each of these seven enabling conditions are covered in the sections below. These conditions are designed to meet investors' requirements of having 1) known scope for their investments, 2) predictability, 3) elimination of binary outcomes, 4) limited public relations risk, and 5) quantifiable social and environmental returns.

2 Relevance and Importance of Promoting Projects within National and Subnational REDD+ Programs

Project level REDD+ activities that are closely aligned with a country's NDC are critical to the long-term success of a national REDD+ program. On-the-ground projects that engage communities to transform local economies are often much more effective than government-led initiatives at stopping the drivers of deforestation and forest degradation. Furthermore, projects help attract desperately needed private investment where public funding falls short.

2.1 Risk Assessment is Possible

Projects are highly attractive to the private sector compared to government programs because they provide a lower risk investment and are less directly impacted by political change. Projects are generally implemented by private actors, and thus inherently have a better understanding of the needs of private investors and vice versa. Furthermore, well-designed projects have clarity around the attribution of results and ownership of emission reductions and removals, which has proved very

difficult to attain at the jurisdictional scale. This clarity in turn means more effective and flexible local benefit sharing mechanisms which help provide certainty to project actors and ensure resources are directed to the highest threat areas where they are most needed. Site-specific social and environmental benefits tell a compelling story and are another reason projects are attractive to private investment.

2.2 Projects are Integrated Components of the Larger Program

To provide long-term certainty for investors and access to a diversity of demand and markets, it is important for projects to be well-integrated with national objectives and NDCs, and receive government approval – in other words, to “nest” or be officially recognized within the broader REDD+ program. To ensure projects support national government-led REDD+ programs, nested projects should use baselines that are aligned with national reference levels. Such alignment will likely be required for projects to access emerging compliance markets such as CORSIA. It is important to note that allowing nested projects does not mean necessarily funds are diverted away from supporting national or jurisdictional policies, but rather it can facilitate additional private finance being brought to the jurisdiction which otherwise would not have been possible. Nested projects can build on donor funding, government strategies and private-public partnerships to contribute to financing the reduction of emissions across a jurisdiction.

2.3 Opportunity to Integrate Existing Activities

Early action REDD+ projects which have delivered vast on-the-ground experience to the sector, provide a host of proven practices and resources that can be critical to the success of the government level program and the production of emission reductions into the future. Their recognition by the government is important to provide credibility and certainty for investors at both the project and jurisdictional levels. Through use of frameworks such as the VCS Jurisdictional and Nested REDD+ (JNR) framework, it is possible to robustly integrate accounting between the project and jurisdictional levels. Governments play a key role in setting the rules for nested projects and may also be involved in their management and oversight. For example, governments should lead a transparent process that establishes the key methodologies and processes for quantifying emission reductions at jurisdictional and projects levels, as well as establishing fair, transparent and predictable allocation of the benefits coming from multiple sources of climate finance.

3 National REDD+ Policy Objectives that Promote Private Investments

3.1 Policy Objectives, Incentives, Structures

The success of private investment in REDD+ will be in part dependent on REDD+ specific laws, regulations and/or administrative processes to reduce uncertainty and risk for potential REDD+ investors. These laws, regulations and/or administrative processes should address land tenure and carbon ownership, anti-corruption measures, the right of access to information, compliance and enforcement mechanisms, transparency and accountability, key eligibility and performance measures to generate returns and benefit sharing arrangements. Lack of clarity over how future REDD+ regulations will impact private investments in project activities is a fundamental deterrent to private sector investment.

To determine policy objectives for encouraging private investment in REDD+, first an identification and review of REDD+ issues in existing legal and policy frameworks is required. Existing frameworks such as land, environmental, mining, forestry, criminal and commercial law and policy should be reviewed to determine how a national REDD+ framework will operate, giving careful consideration to how private investment into project level activities will be managed and sustained in the broader framework. Next, a country strategy legal action plan should be developed to identify gaps and barriers in REDD+ related laws and policies needed to clarify revenue generation opportunities for REDD+ activities. These legal and policy instruments should be developed in a way to minimize the ease of changing them as governments change over time.

Key REDD+ Laws and Administrative Processes

- Land tenure and carbon ownership
- Anti-corruption measures
- Right of access to information
- Compliance and enforcement mechanisms
- Transparency and accountability
- Key eligibility and performance measures to generate returns
- Benefit allocation arrangements

3.2 Creating Demand Drivers

Domestic or international markets established under legislation also provide a significant opportunity for encouraging REDD+ private investment. In this case, revenue streams from monetizing emission reductions can make the investment case for providing the upfront funding needed for implementing 2-10 years of activities until the project is scaled and financially, socially and environmentally sustainable.

In this regard, a broad interpretation of the Article 6.4 mechanism in the Paris Agreement to include authorized private sector engagement in REDD+ projects should be encouraged.⁴ This is in addition to the engagement of the private sector within a country-driven instrument under Article 6.2. As clarity is achieved at the UNFCCC on Article 6 guidance, host countries should consider how to recognize in national accounting and allow the “export” of REDD+ tons directly from private sector projects in order to increase the value of the projects and hence increase investment.

Legislation for domestic carbon markets can kick-start private investment into REDD+ in the near-term to support future national performance. Cases of domestic demand are emerging which can provide large scale opportunities for REDD+ programs and projects to secure finance and further simplify the arrangements needed to encourage private REDD+ investment. Domestic carbon pricing, which allows the use of emission reductions from REDD+, can be a powerful driver of private sector finance, whilst also supporting other NDC priorities and allowing for increased ambition. One good example of this is Colombia, where fuel importers or producers face a ~\$5/t carbon tax but can choose to instead “pay” the tax by surrendering a domestic offset including from REDD+ projects. By requiring domestic tons to be retired, the Government of Colombia can set their requirements on the level of alignment needed between private sector projects and national REDD+ measurements in order to allow the tax rebate, without compromising the net balance of emission reductions and removals measured at the national level.

⁴ For more information see here: <https://climatefocus.com/sites/default/files/REDDOptionsfinalreport.pdf>

Other domestic legal frameworks can stimulate the flow of REDD+ finance through the creation of specific fiscal incentives aimed at reducing investment risk, such as tax incentives for REDD+ project development, guaranteeing credit or low interest loans for certain project types, and providing public co-investment - all of which may be supported by underlying domestic legislation. Generally, inter-sectoral coherence should also be encouraged to ensure that private investment is equally encouraged across all sectors, rather than disadvantaging some REDD+ related sectors.

3.3 Legal Recognition of Projects within National REDD+ Programs

The development of national REDD+ strategies and accounting is essential for the contribution of REDD+ to NDCs and GHG reductions, and to address concerns such as leakage. However, as many countries continue to work towards this goal, REDD+ investment from the private sector into projects is stalled by the huge uncertainty of whether the project will be able to monetize their generated emission reductions or make a return through alternative benefit sharing measures. Creating a transparent and stable legal framework for how projects can receive recognition for their contribution to national-scale results will enable the private sector to assess the case for investment and deploy upfront capital to support on-the-ground interventions. If 100% priority of results is given to buyers from the national program, the risks associated with project level private sector investment increase dramatically and so private sector investment in on-the-ground interventions will be reduced.

Both Peru and Colombia have demonstrated they understand the importance of nesting projects within national REDD+ programs. Using a nested approach, Peru has authorized REDD+ project operators to use their existing baselines under the VCS for 2015-18, and the government will then remove any emission reductions achieved from the national inventory if they are sold outside of the country. This recognition effectively safeguards REDD+ projects against any potential double counting with Peru's NDC, which is a key requirement for the Article 6 market mechanism. Colombia has done something similar where projects may use their VCS baselines through 2018, but they are subject to a maximum number of emission reductions as determined by the government based on methods consistent to those that would be used to construct the national reference emission level. Beyond 2018 Colombia's Resolution 1477 formally recognizes projects within national REDD+. The resolution sets a number of rules including recognizing projects within a program and the process to establish REDD+ project baselines based on a methodological reconstruction of the national reference emission level. These two countries are at the forefront setting laws, policies and practices that will encourage a breath of private investments into the national REDD+ programs through recognition of projects.

3.4 Recognizing and Securing Carbon Tenure

Contractual agreements between private actors, landholders and governments could effectively manage land and carbon ownership rights, emission reduction units and engagement of local communities. Frameworks for these agreements could be provided in legislation, however, the actual agreement should be between the relevant stakeholders (which may include governments) and should be a standalone document and be flexible to accommodate the individual circumstances of each project.

Project based agreements could be closely aligned with NDCs and national REDD+ programs for long-term certainty and engagement with markets. This approach could simply require benefits to be measured against national or subnational baselines. Agreement with forest countries on the use of emission reduction units will have to be reached, including whether they will be used in domestic or international compliance instruments, whether they will contribute to the forest countries' NDCs and/or whether private entities can purchase emission reduction units from such projects.

4 Stakeholder Engagement, Safeguards, and Monitoring Non-Carbon Outcomes

Countries must ensure the implementation of REDD+ activities are consistent with the Cancun Safeguards, regardless of the source and type of funding for REDD+ activities, if they want to qualify for future results-based payments.⁵ Given that investors will likely rely on these result-based payments, they will require that robust safeguards and on-going stakeholder engagement are implemented at jurisdictional and project levels.

4.1 Cancun Safeguards

One of the most important aspects to take into account when developing REDD+ projects and programs is to meet the requirements established under the *Cancun Safeguards* and adopted by the Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC) at its sixteenth session (*Decision 1/CP.16*). The *Cancun Safeguards* seek to support REDD+ program implementation while reducing and/or avoiding negative environmental and social impacts. In this sense, the following REDD+ safeguards should be promoted and supported at both the jurisdictional and project levels:

- a) Actions complement or are consistent with the objectives of national forest programs and relevant international conventions and agreements.
- b) Transparent and effective national forest governance structures, taking into account national legislation and sovereignty.
- c) Respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples.
- d) The full and effective participation of relevant stakeholders, in particular indigenous peoples and local communities.
- e) Actions are consistent with the conservation of natural forests and biological diversity, ensuring that the actions referred to in paragraph 70⁶ of this decision are not used for the conversion of natural forests, but are instead used to incentivize the protection and conservation of natural forests and their ecosystem services, and to enhance other social and environmental benefits.
- f) Actions to address the risks of reversals.
- g) Actions to reduce displacement of emissions.

⁵ UNFCCC Decision 2/CP.17 paragraph 63, and Decision 1/CP.16, appendix I, paragraph 2.

⁶ (a) Reducing emissions from deforestation; (b) Reducing emissions from forest degradation; (c) Conservation of forest carbon stocks;

(d) Sustainable management of forests; (e) Enhancement of forest carbon stocks.

The above mentioned are fundamental to promote the interest of all stakeholders involved in REDD+ activities by promoting decision-making processes through the participation of rural communities, indigenous peoples, public and private sector, civil society and academia, among others. The idea behind this process is to provide transparency and equity to REDD+ initiatives and to achieve effective stakeholder engagement.

4.2 Safeguards for Private Investors

It is important for projects to minimize the possibility of conflicts between communities, civil society, governments and private investors through implementing mechanisms to address grievances and through following practices of Free, Prior and Informed Consent (FPIC). Transparent and inclusive participatory processes guarantee a balance between the participants and the level of decision-making, avoiding unidirectional actions by a single stakeholder or a minority group with the power to make decisions.

If a REDD+ program or project meets the requirements of the *Cancun Safeguards*, it ensures environmental integrity through compliance with national and international laws and regulations (for example the Indigenous and Tribal Peoples Convention-C169) and addresses other important issues for private investors, such as the permanence of emission reductions, minimization of leakage and not allowing the replacement of native forest by exotic plantations.

Further, the *Cancun Safeguards* promote the generation of environmental and social benefits which provide added value for private investors and go beyond obtaining emission reductions derived from the implementation of REDD+ activities. Examples of this include reducing social and environmental vulnerabilities through climate change adaptation, maintaining and increasing biological diversity and taking into consideration traditional knowledge and the rights of indigenous peoples and local communities.

4.3 Monitoring Non-Carbon Outcomes

To provide evidence and transparency around the non-carbon outcomes of REDD+ programs, the national entities must develop a system for providing information on how the *Cancun Safeguards* are being addressed and respected. Guidance on safeguards monitoring and reporting was approved through *Decision 12/CP.17* and Parties must periodically provide a summary of information via their national communications.

Beyond the provisions of the UNFCCC for REDD+, there are various certification standards for safeguards which can provide important assurance for private investors. The *Climate, Community and Biodiversity (CCB) Standard* includes a variety of environmental and social requirements that can be third-party verified for project level activities. At the level of national or subnational REDD+ programs, *REDD+ Social and Environmental Safeguards (REDD+SES)* provide a similar level of transparency and assurance that key safeguards have been met.

4.4 Higher Stakes for Safeguards and Stakeholder Engagement with Financing

The implementation of the Cancun Safeguards is vital for encouraging private sector investment in REDD+ noting that all Safeguards are required to be implemented to achieve results-based payments.

These safeguards could in part be addressed through a review and reform of:

- Land tenure and carbon ownership laws including the balance between customary and statutory land rights;
- Legal protection of indigenous people's knowledge and rights, with a view to encouraging economic opportunities for indigenous peoples;
- Transparency and accountability frameworks including anti-corruption measures such as laws which criminalize corruption and provide enforcement mechanisms;
- The implementation of planning land use frameworks;
- Laws protecting legal standing, appeal rights to higher courts, the right to a fair and unbiased trial and legal aid to those who need it; and
- Laws to address risk of reversals and displacement of emissions.

5 REDD+ Benefits Allocation to Attract Investments

Beyond accurate spatial explicit accounting of emission reductions, the most important condition required to attract private investments is clear and predictable rules on how results-based payments and/or allocation of tradable emission reductions will be made for project level results. This includes explicit criteria on eligibility and predictability of benefit allocation rules for at least five years.

5.1 Interaction with Existing Results-based Agreements

Recently, results-based payment programs under the Carbon Fund, BioCarbon Fund Initiative for Sustainable Forest Landscapes, REM Early Mover, Green Climate Fund and other bi/multi-lateral programs funded by large donors such as Norway, Germany and the UK have been operationalized. These programs have been instrumental in preparing REDD+ countries to understand and implement programs that will derive funding through actually reducing emissions at jurisdictional levels.

These agreements generally include forward commitments by REDD+ countries to provide emission reductions in exchange for a results-based payment. In some cases it is clear that these emissions will be transferred to the results-based payer and in others it is not clear. In many cases, the REDD+ country is delivering results on forest areas in which they do not have land tenure. This raises questions of carbon tenure and whether the government had the right to receive results-based payments if this would preclude land tenure holders from generating and selling emission reductions independent of the results-based program. Additionally, if existing or new projects are selling emission reduction credits to third parties are part of the same forest area, this may lead to double-selling and so an agreement must be reached between the national government and project entity as to how performance will be attributed, and benefits shared in order to ensure environmental integrity.

There are a number of different ways this can be achieved, and early clarity of a solution that maintains a workable business model for the project is essential to avoid early action interventions

being lost and disincentivising new private REDD+ investment in the region. Countries need to explicitly establish rules on deliveries of emission reductions under results-based payment programs and what impact that has on underlying tenure holders to produce emission reductions or receive payments. This information should be detailed and provided publically to all stakeholders.

Another consideration is the impact that the agreements signed for results-based programs may have on the attractiveness to private sector investors. In the case of the Carbon Fund, the ERPA signed by the country provide “first deliver rights” to the Carbon Fund. This means that the Carbon Fund gets the first emission reductions produced for the specified vintage years. And while the Carbon Fund may be justified in securing first rights based on the large amounts of REDD+ readiness funds provided to the country, this granting of first delivery rights will reduce the attractiveness of making upfront investments in the REDD+ program because their repayment will come second to the Carbon Fund. The agreement terms of results-based payments should take special care to understand the carbon tenure issues and impact they might have on private sector investments.

Benefits received from national REDD+ projects may not be clearly defined depending on each country’s stage of REDD+ readiness. Agreements can also be entered into between the private sector and governments for long-term strategies to develop REDD+ and achieve results and benefits recognition. Long-term strategy, government stability and carbon markets/tax systems are required to make this option attractive to private investors, with options to further scale up markets internationally.

5.2 Multiple Forms of Results-based Payments and Allocations of Tradable Emission Reductions

The specifics of the benefit allocation arrangements (form, delivery, timing, parties) could be determined by the provisions in law and/or in contractual arrangements between the government and parties producing the emission reductions. Depending on the source of REDD+ demand, benefits could be secured either through contracts (private, carbon market) or through statutory legal instruments (public sources of finance). As an example, results-based payments could be distributed through an independent institutional public fund at the jurisdictional level. For a public-type fund, strong legal and operational frameworks should be in place to reduce investment risk and ensure that benefits are shared in a predictable manner with projects. Another form of benefit distribution are mechanisms that provide or allow recognition of tradable emission reductions based results at the jurisdiction and project level. In one case, verified emission reductions are generated at the jurisdictional level and then provided directly to the project or in another case they are generated and recognized at the project level within part of the jurisdictional program. In either case, these emission reductions are then freely transacted by the project entity that generated them.

5.3 Flexibility, Certainty and Transparency

Given the uncertainty and the likely fragmentation in source of REDD+ demand over the next 5 years, with the potential game changers under CORSIA and Article 6, as well as the development of meaningful domestic markets, investors will value benefit allocation arrangements that offer flexibility. Benefit allocation arrangements should allow the projects the ability to opt to receive payments via results-based payments made at jurisdictional levels, but also have the flexibility to

receive tradable emission reductions that they can monetize through compliance or voluntary markets (but not for the same emission reductions). Transparency and accountability of government benefit allocation rules and processes is required to ensure that benefits are shared with projects. And as prospects for REDD+ payments grow, and large financial transactions start to occur, governments need to be aware that the stakes around carbon tenure require that benefit allocation arrangements are aligned with those that hold legal land tenure and have natural resource use rights.

6 Technical GHG Components

6.1 Rationale for Spatially Accurate GHG Accounting

Implementing the additional effort to develop spatially accurate GHG accounting is extremely important for a number of reasons 1) these methods will likely be used to drive large sums of money to REDD+ countries in the future so they should be as accurate as possible, 2) creating an accurate projection of the business as usual scenario (reference level) requires applying different methodological approaches to areas impacted by different drivers, agents and underlying causes of deforestation, 3) without spatially accurate reference emission levels and monitoring protocols governments run high risk of transfer of wealth, program failure and violation of tenure holder rights because of the inability to determine who actually produced the emission reductions and reward them accordingly, and 4) only with spatially explicit GHG accounting can investors assess risk and return to determine which components and areas of the national REDD+ program they will invest in.

6.2 Establishing Forest Reference Emission Levels (FREL)

At the heart of GHG accounting is the establishment of the reference emission level. This is the projected business-as-usual level of emissions that actual emission reductions are measured against.

Stratification

To accurately measure national or subnational REDD+ emissions requires stratifying these larger areas to smaller areas and applying the appropriate methodologies to create strata specific reference emission levels. This requires gathering the data on drivers, agents and underlying causes of deforestation and degradation at local levels as well as collecting land tenure types across the jurisdiction. This data is then used to define the driver and management/tenure strata that each uniquely capture deforestation and degradation dynamics. The stratification does not have to be highly granular but should at least uniquely separate areas that are primarily impacted by planned and unplanned deforestation. Defining each stratum should also take into account other conditions such as land tenure type linked to allowable land and forest uses. Strata should further be defined by conditions

Examples of REDD+ Stratum

- Unplanned deforestation and forest degradation from subsistence-based drivers on communal lands
- Unplanned deforestation and forest degradation government managed lands such as protected areas
- Unplanned deforestation and forest degradation from increased forest access due to development such as roads, bridges and/or large-scale conversion of adjacent forest areas
- Planned deforestation for large scale agriculture, mining, urban settlements and/or other development projects.
- Planned degradation from timber harvesting

that will affect future deforestation and degradation that will not be captured in the historical emissions.

Within each driver and management/tenure based stratum, the area should be further stratified on the basis of forest carbon stocks and biophysical parameters relating to forest productivity.

Matching Methods to Each Strata

Once the national or subnational area has been divided into spatially discrete driver and management/tenure strata, it is further defined by forest strata, then the quantification methodology that best captures these dynamics should be identified and applied. This is where existing methodologies under the Verified Carbon Standard (VCS) and other standards can be leveraged. Over the last 10 years, projects have applied these standards to create accurate and credible forest reference emission levels across numerous countries, forest types and driver typologies and management/tenure types which have been subject to rigorous 3rd party auditing. In addition, under the Carbon Fund Methodological Framework, there are countries that have developed their forest reference emission levels using spatially explicit strata. Within VCS project documents and Carbon Fund Emission Reduction Program Documents (ER-PDs⁷), examples can be found for how each stratum within the national or subnational program can quantify the reference emission level. In addition, there are examples on how to apply quantitative adjustments to historical deforestation and degradation based on the stratum to accurately construct reference emission levels as future management is specific to each stratum.

For each stratum it is also necessary to determine the scope of activities, carbon pools and the GHG gases that will be included in the reference emission level. They do not need to necessarily be the same across all strata. To enable assigning a reference emission level down to the project level within a stratum, it is necessary to determine where within the stratum deforestation and degradation (if included) is most likely to occur. This is done by applying a statistical model that is based on risk factors such as forest type, distance to roads, rivers, elevation, slope, etc that identifies the location of where deforestation and degradation is likely to occur. These models then assign deforestation and degradation to discrete pixels⁸ within a stratum based on highest risk areas allowing for the creation of forest and land-use change maps with future deforestation and degradation for any area within the stratum. With this level of spatial accuracy, reference emission levels can be accurately and fairly attributed to projects within a stratum.

Crediting Baselines

Once a spatially accurate reference emission level has been developed, a country must determine if it will make any adjustments to this level for recognizing results. There may be a number of reasons to set the crediting emissions baseline lower than the reference emission level which include covering NDCs, creating a pool of emissions that can cover areas of underperformance within the jurisdiction, and/or establishing a pool of emission reductions that can be monetized by the government to cover the administrative costs of managing the REDD+ program.

⁷ Two examples include Congo and DRC.

⁸ This may not technically be pixel level, but very small minimum mapping units.

When determining whether to set the crediting emission level lower than the reference emission level it is important to note that if this makes it harder to generate emission reductions, it might serve as a disincentive to taking action. Governments should consider whether the crediting baseline is simply a specified percentage lower than the reference emission level and that until results are generated below the crediting baseline no performance is recognized or another method is used. For example, a government could recognize emission reductions at 95% of the reference level, or they could recognize them at the reference level, but require that for each 20 credits generated, 1 credit is provided to the government. In addition there may be strong reasons why the crediting baseline of one management/tenure strata could differ from another.

6.3 Monitoring of GHG Results

Setting up the methods and processes for developing the reference emission levels provides the foundation for on-going monitoring. Monitoring should be conducted using the same methods established to set the reference emission levels covering the same activities, carbon pools and GHGs. To ensure that monitored emissions can be directly compared to the reference emission level, the monitoring of land-use change must be conducted at the pixel level and converted to emissions using monitored strata specific emission factors.

For investors to be willing to invest in projects that generate all or part of the return from GHG revenue, they will need to have certainty that if the area they finance reduces deforestation they will receive a known allocation of results-based payments or sellable emission reductions. One of the greatest challenges for jurisdictional monitoring of GHG reductions occurs when there is heterogeneous performance between areas within the jurisdiction. When there is underperformance in some areas and emissions are higher than the reference emission levels, how will this impact the allocation of results to areas with positive performance? Governments must establish rules regarding the safeguarding of results between land-mangers, by establishing intra-jurisdictional risk reserves, imposing penalties for underperformance and/or set aside areas managed by the government that are not eligible to generate emission reductions but produce positive results.

6.4 Government Registration Process and Avoiding Double Accounting

To enable accounting for, and attributing results at, project and jurisdictional levels without risking double counting, countries must implement robust registries and registration processes. This system and its supporting processes supports the functions of a typical offset registry including serializing and transferring tons as well as the functions for project and program registration and tracking. This will ensure that all requirements are met for REDD+ activities within the country and the REDD+ results based on GHG monitoring that can be tracked and transferred both inside the county and internationally. While only recently launched, the Colombia RENARE system is designed to handle these functions for both REDD+ and other emission reductions seeking any form of compensation in the country. These systems must also provide relevant information on project, offsets and other relevant information to users and the public. They should also support processes that protect confidential or sensitive information.

7 Other Ways Governments Can Promote Private Sector Investments

In addition, to the conditions detailed above, governments can take further actions to promote, engage and transact with private sector to help finance their REDD+ programs.

7.1 Make a Stronger Business Case for REDD+ Investments

Investors will respond to opportunities where it is clear how their investments can be used to build scaled and profitable businesses in sustainable agriculture and REDD+. By directing government and donor resources to build the investment readiness of activities and provide direct support for attracting and meeting investors requirements, governments can move their rural development financing models from concessional to commercially viable while still benefiting smallholders and promoting healthy ecosystems. This requires explicitly including deliverables related to creating robust business models and measuring success, in part, by the amount of new private finance (actual funding) that has been channeled to the sector. Governments should understand and support the requirements and good practice for executing private sector REDD+ transactions.⁹

7.2 Collaboration and Coordination

There are a range of actors working on REDD+ related activities within each country but often with limited coordination, such as CBD/FAO work on biodiversity mainstreaming, which by definition is closely linked to preserving forests. These should be leveraged to create synergies and economies of scale to close some of the financing gaps, and to reduce the burden on the private sector. Further, collaboration is important to communicate the benefits of REDD+ as a potential source of funds and dispel concerns about private sector participation increasing deforestation.

While sometimes challenging, the engagement of the private sector requires that the ministries related to environment, forestry, agriculture and climate change need to partner with ministries of finance to fully develop the private sector engagement opportunities. This is needed to bring in the government's financial expertise for designing and promoting public, private partnerships as well as innovatively leveraging existing financing instruments applied to other sectors for REDD+. This level of coordination will allow for the greatest leverage of the private sector.

7.3 Deploy Innovative Financial Instruments

Financing REDD+ requires attracting investors into emerging and frontier markets that may be new to them. It also requires bringing investors into a sector in which they may have very little to no experience in and has a very limited investment track record. Because of this, governments must be adept at promoting/adopting new types of financial instruments that can make REDD+ attractive to investors. Generally, this means governments promoting financing structures that are designed to lower risk for investors through either outright strategic deployment of capital or through providing guarantees.

Private equity funds are designed to take early risks in a new sector like REDD+ if they are supported with first loss provisions and technical assistance facilities. Through attracting investors to these

⁹ Terra Global, FIELD Report: Guidance and Best Practices for REDD+ Transactions

funds new pools of capital can be deployed to sustainable agricultural and REDD+ activities. Governments should find ways to promote fund vehicles by prioritizing donor/grant funding that can be blended with private investors within a fund. Green/REDD+ bonds as a financial instrument are also emerging as another mechanism to finance REDD+. These are preferred by some investors to private equity funds, in that there are generally fewer restrictions for certain pools of capital to invest through bonds. They can also offer a hybrid return with a credit worthy coupon and limited exposure to REDD+. These bonds can be issued by development finance institutions, banks and in countries with advanced financial market regulations, by the government.

Loans, particularly those with concessional terms, can provide valuable REDD+ funding directly to projects or to pooled vehicles such as funds. There exists numerous guarantee type instruments that can be applied to reduce risk, such as loan guarantees which may even underwrite delivery risk of emission reductions. Governments should work with development finance institutions, banks and their own ministries of finance to promote guarantees that can be offered on direct investments and/or pooled investment vehicles to lower private sector investment risk. There are also opportunities to expand crop guarantees and crop insurance to include covering the production of emission reductions.

While this section only mentions a few financing instruments at a very high level, the important point for governments is that to attract private sector investments to REDD+ at scale will require financial innovation. Governments who recognize this and who build the required financial expertise and who seek to partner with private investors will find solutions to overcoming the hurdles private investors see in allocating capital to REDD+.

7.4 Consider Economic Incentives on Exports and Imports

There are a number of different tariffs related to Exports and Imports that can be leveraged to stimulate REDD+ related finance:

- Countries could promote sustainable commodity production by lowering export tariffs in exchange for corporate support for commodities purchased from REDD+ areas.
- On the importer side, the European Union has been investigating the possibility of applying tariffs to agricultural commodity imports associated with deforestation. Countries could avoid such tariffs by charging a small REDD+ premium on exports of commodities associated with deforestation. This risks being perceived as a license to pollute, so would need to be a temporary measure to mitigate damage during supply chain reform.
- Countries could negotiate a lower import tariff for commodities for which an entity has invested in a REDD+ program or project in the country.
- Countries could invite private investments in a national REDD+ program in exchange for priority access to export commodities and/or a guaranteed level of commodity supply, with associated labeling where possible.

7.5 Redirect Perverse Subsidies

Subsidies supporting deforestation-linked activities should be re-allocated to support private sector partnerships and REDD+ programs involving improving agricultural practices through rehabilitation

or technical assistance. Subsidy redirection is often held back by political or economic inertia; improving the business case and clearly presenting the economic benefits should allow easier reform of domestic finances.

7.6 Promote Voluntary Buyers

While smaller than the opportunity for compliance markets, voluntary markets can play a meaningful role in providing climate finance for REDD+. Some opportunities for governments to encourage voluntary markets include:

- Promote the use of REDD+ instruments for action ahead of and beyond compliance in public and private sectors to raise ambition under the Paris Agreement; and,
- Clarify rules around credit ownership and how credit purchases for non-compliance purposes can be reconciled against NDCs to enable those taking voluntary action to make credible claims about their financial support to REDD+ projects as part of their climate commitments.