BUILDING TRUST IN REDD+ FINANCE

SOWING CONFIDENCE AND CAPITAL ARE VITAL FOR REDD+ TO BLOSSOM, SAYS CHRISTINA ELVERS

In early November, climate negotiators from around the world descended on Bonn, Germany to attend the UN climate change talks. The two-week meeting focused on how to implement the 2015 Paris Agreement, under which 196 countries[1] have agreed to keep the global temperature rise below 2°C in order to avert dangerous climate change.

This is urgently needed – because while the goal is ambitious, the evidence suggests that countries aren't yet rising to the scale of the challenge.

PwC has been crunching the numbers on the extent to which countries are decarbonising their energy systems and economies to reach the goal of limiting warming to 2°C. While our annual Low Carbon Economy Index revealed a clear step-change in the carbon intensity of the global economy (2.6% reduction in 2016 from 2015), average country progress falls well below the 6.3% annual reductions needed. Tackling widespread carbon sequestration outside the energy system is likely to be necessary to address this gap given the reality of current emissions trends in power, transport, buildings and industry.

But a truly 'green' option is already on the proverbial wooden table. Over a third of carbon mitigation could be achieved through a combination of reforestation and reducing global deforestation through a market-based mechanism, known as reducing emissions from deforestation and degradation (REDD+).

The idea of REDD+ is simple: those that benefit from the carbon emissions saved (i.e., the credits) should channel money to countries who would otherwise benefit more in the short-term from cutting the forest down. However, financing flows to REDD+ programmes and projects haven't taken off at the scale neither expected nor needed.

In a recent paper, Building trust in forest carbon payments[2], we argue that this is due to a lack of trust between those stakeholders working on REDD+ and explore ways to overcome this lack of trust.

REDD+ STARTED ON SHAKY FOUNDATIONS

When the concept of REDD+ was first conceived over a decade ago, many believed it would solve global deforestation. However, the mechanics of implementing REDD+ have proved difficult and its early problems were broadcast very publicly. This led to a lack of trust between many of those trying to design and scale a REDD+ mechanism and its intended beneficiaries. Stakeholders were left with the perception that REDD+ systems are extremely complex; that there are concerns around its environmental and social robustness; and that it is difficult to achieve results on the ground. These concerns led outsiders, including many private sector stakeholders, to take a step back.

However, we believe that now is a crucial time to overcome this lack of trust, to open up the possibility of scaling up REDD+ investment and implementation to the levels originally envisioned – levels required to combat climate change.

There are a number of upcoming opportunities to scale up results-based payments for REDD+, including the following:

- The Paris Agreement requests substantial cuts in carbon emissions by countries, and Article 5 specifically highlights REDD+ as a mechanism. Article 6 of the agreement sets out provisions for transferring emissions reductions between countries, but it has not yet been decided whether this will include REDD+ emissions reductions.

- The International Civil Aviation Organization is launching an offset mechanism for international aviation. It is looking to set eligibility criteria for its 'early action' phase and for the full programme, but it has not yet been decided to what extent it will accept emissions reductions from REDD+ as eligible offsets.

- The Green Climate Fund – the primary vehicle for climate finance under the UN Framework Convention on Climate Change (UNFCCC) – recently approved a $500 million pilot programme for REDD+ results-based payments. This is one step towards its larger ambition for a full-scale programme for REDD+ results-based payments.

These are very real opportunities – but they will be realised only if trust is built in REDD+ approaches.

LEARNING FROM FINANCIAL MARKETS

We believe REDD+ contributors can learn a lot from trust-building in financial markets. Financial accounting in particular has played a key role in maintaining investors' confidence in mainstream capital markets. The International Financial Reporting Standards Foundation's Conceptual framework for financial reporting identifies six characteristics, or guiding principles, for financial accounting, including relevance, faithful representation and comparability. These characteristics go beyond those generally used to assess REDD+ (the UNFCCC's transparency, accuracy, consistency, completeness and comparability – TACCC – reporting principles). We believe these financial accounting characteristics can not only

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be applied to accounting for the impacts derived from REDD+ efforts, but can help build trust in much the same was as financial markets have successfully achieved to date

Applying financial accounting principles to REDD+ accounting can help build trust in three ways:

- **Tailoring reporting to end-users of the information:**
  In financial accounting, reports have to be relevant to the end-users for them to make decisions. Applying this to REDD+ accounting would mean collecting data that is relevant – not only for the direct end-user (such as a donor) but a wider group which may include a company that has pledged zero deforestation in its supply chain.

  For example, Costa Rica is combining remote sensing information with property registry information on pineapple farmers. This allows buyers to source preferentially from pineapple farmers with a zero deforestation record. Focusing on data that is relevant to end users builds trust because it provides decision-relevant information and a clear picture of REDD+ impacts to engage important stakeholders, including private sector investors and agricultural producers.

- **Increasing the robustness and transparency of REDD+ approaches:**
  In financial accounting, faithful representation relates to whether the information provided is a good representation of reality and can be relied on by investors for decision-making. Specifically, it refers to the need for complete, neutral and error-free reporting (these align well with three of the TACCC principles: accuracy, completeness and transparency). For REDD+, this means working towards the provision of emissions data with good coverage and reporting uncertainty data using common methodologies.

  In addition, we would recommend a third-party rating agency for REDD+ programmes and projects which independently assesses the data gathered and the reporting. These interventions will help to improve stakeholders' confidence that REDD+ is environmentally and socially robust.

- **Harmonising and standardising REDD+ accounting approaches:**
  The financial accounting principles have led to a standardisation and harmonisation of the reporting of financial information. Conversely, a number of different REDD+ approaches and frameworks have evolved for results-based payments, but each has a different set of requirements. A roadmap towards a harmonised set of requirements for results-based payments (which provide another level of detail beyond that provided by the Warsaw Framework[3]) is needed to reduce complexity and make REDD+ and its reporting more accessible to a range of end-users.

These measures would be an important step towards building trust. Public stakeholders, in particular donors and REDD+ countries, and private entities – from REDD+ project developers to large-scale investors – need to work on these standards together to develop a common set of metrics that everybody can subscribe to.

In order to halt global deforestation, everyone in the space – public and private alike - need to come together to provide the finance so desperately needed.

Trust is a fundamental building block – let's start building it now so we can all reap the benefits.

(1) In June 2017, US President Donald Trump announced he would withdraw the country from the Agreement; the earliest this can take effect is November 2020. Nonetheless, the country is not included in this figure. The two holdouts from Paris, Syria and Nicaragua, have both this year announced they will participate in the Agreement. (2) See www.pwc.co.uk (3) The Warsaw Framework for REDD+, adopted at the UN climate talks in the Polish city in 2013, is a set of decisions which define the international framework for financial incentives for developing countries to implement REDD+.