
# Maximizing private sector engagement: How to keep nested projects as part of the solution

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The Future of REDD+

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# Emerging REDD+ market opportunities

# REDD+ in Paris Agreement

**Article 5**

1. Parties should take action to conserve and enhance, as appropriate, sinks and reservoirs of greenhouse gases as referred to in Article 4, paragraph 1(d), of the Convention, including forests.

2. Parties are encouraged to take action to implement and support, including through **results-based payments**, the existing framework as set out in related guidance and **decisions already agreed under the Convention** for: policy approaches and positive incentives for activities relating to **reducing emissions from deforestation and forest degradation**, and the role of conservation, sustainable management of forests and enhancement of forest carbon FCCC/CP/2015/L.9/Rev.1 24 stocks in developing countries; and alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests, while reaffirming the importance of incentivizing, as appropriate, **non-carbon benefits** associated with such approaches.

# REDD+ in Paris Supporting Decision

**Finance – Paragraph 55**

**Recognizes the importance of adequate and predictable financial resources, including for results-based payments**, as appropriate, for the implementation of policy approaches and positive incentives for **reducing emissions from deforestation and forest degradation**, and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks;

as well as alternative policy approaches, such as joint mitigation and adaptation approaches for the integral and sustainable management of forests; while reaffirming the importance of **non-carbon benefits** associated with such approaches;

encouraging the coordination of support from, inter alia, **public and private, bilateral and multilateral sources**, such as the **Green Climate Fund**, and alternative sources in accordance with relevant decisions by the Conference of the Parties;

# REDD+ in Paris Supporting Decision

**Private Sector– Article 6 Paragraph 4**

. A mechanism to **contribute to the mitigation of greenhouse gas emissions** and support sustainable development is hereby established under the authority and guidance of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement for use by Parties on a voluntary basis. It shall be supervised by a body designated by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, and shall aim:

(a) To promote the mitigation of greenhouse gas emissions while fostering sustainable development;

(b) To **incentivize and facilitate participation** in the mitigation of greenhouse gas emissions **by public and private entities** authorized by a Party;

(c) To contribute to the reduction of emission levels in the host Party, which will benefit from **mitigation activities resulting in emission reductions that can also be used by another Party** to fulfil its nationally determined contribution; and

(d) To deliver an overall mitigation in global emissions.

# REDD+ public funding & sources of demand

| Source of demand | Accounting requirements | Potential size of demand |
|---|---|---|
| **Bilateral** (e.g. Norway, Germany - REDD Early Movers) | Bilaterally-negotiated; not offset-grade/less rigorous | e.g. KfW REDD Early Movers ~14 Mt (2015-2020) |
| **Multilateral** (e.g. FCPF, ISFL/ BioCarbon Fund) | FCPF Methodological Framework; offset-grade/more rigorous | e.g. BioCarbon Fund ~28 Mt; FCPF Carbon Fund ~50-100 Mt (2015-2020) |
| **Green Climate Fund UNFCCC (INDCs)** | Requires compliance with UNFCCC; additional requirements likely, including for market mechanisms | Unknown ($10s of billions for REDD+ annually >2020) |

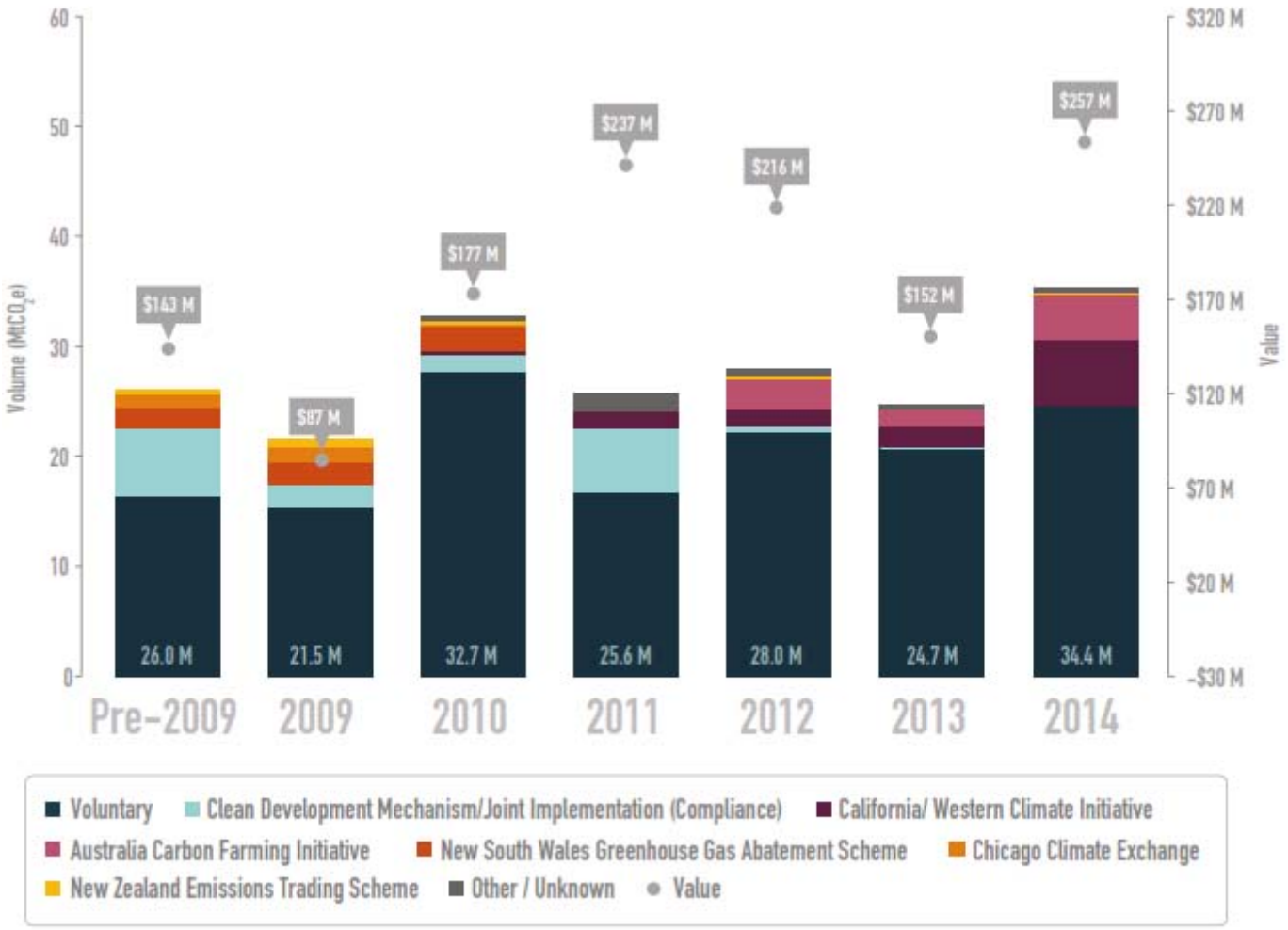
# REDD+ private finance & market demand

| Source of demand | Accounting requirements | Potential size of demand |
|---|---|---|
| **Private funds** (e.g. Althelia, Permian) | Typically offset-grade required; rigorous | Several hundred million dollars (2015-2020) |
| **International voluntary market** | Offset-grade required; rigorous (e.g. VCS, Gold Standard) | ~87 Mt (2013-2017) |
| **Domestic voluntary markets** (e.g. Costa Rica, Chile, Colombia…) | Varies by country; typically rigorous | Unclear |
| **Regulatory markets** (e.g. CA, Japan, South Africa…) | Offset-grade required; rigorous (e.g. California Offset Credits) | e.g. CA ~30-40 Mt (2018-2020) |
| **Aviation sector / ICAO** | Likely market-based mechanism, including REDD+ (project and/or jurisdictional); rigorous | ~8-10 Bt (2020-2050) |

# Forest carbon markets

# Forest carbon markets

**Figure 2: Historical Market-Based Payments for Forest-Based Emissions Reductions: Transaction Volumes and Values**

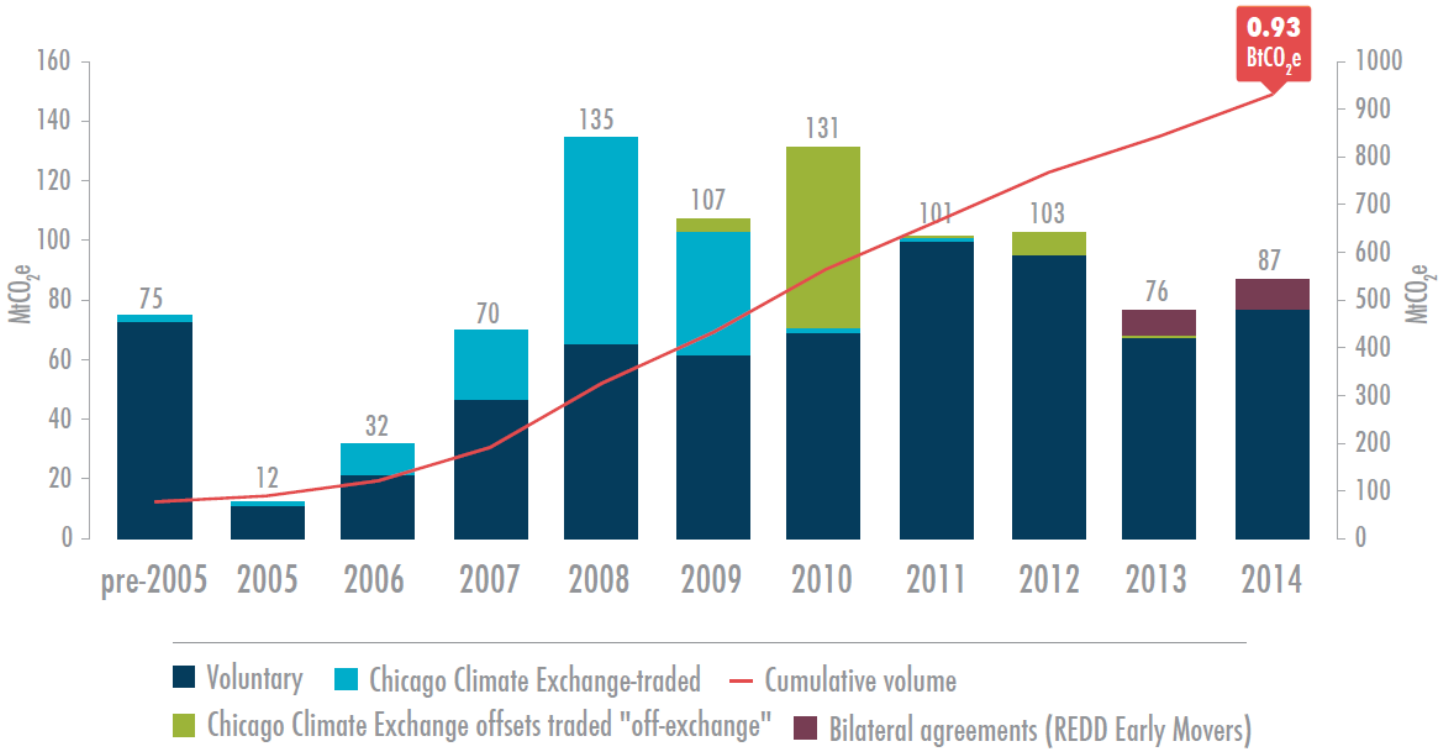



Note: Based on 193 $MtCO_2e$ in market-based transaction volume over time.

Source: Forest Trends' Ecosystem Marketplace, *State of Forest Carbon Finance 2015*.

# Voluntary market is holding steady

Figure 3: Historical Market-Wide Voluntary Offset Transaction Volumes

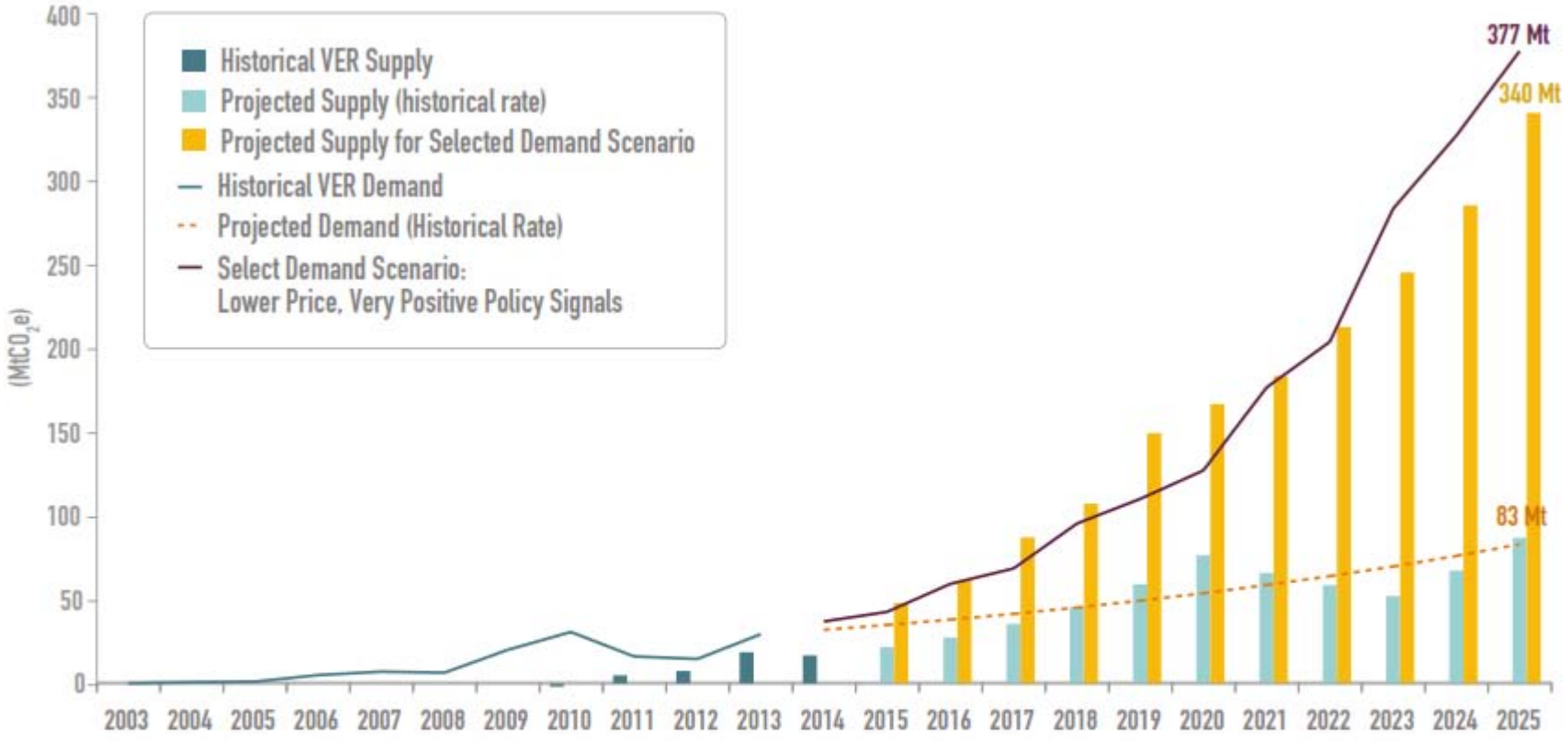



Notes: Based on 931.2 $MtCO_2e$ in transacted volume over time.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2015.*

# Positive policy signals could ramp-up voluntary demand

**Figure 17: Supply-and-Demand Projections for a "Lower Price, Very Positive Policy Signals" Scenario**



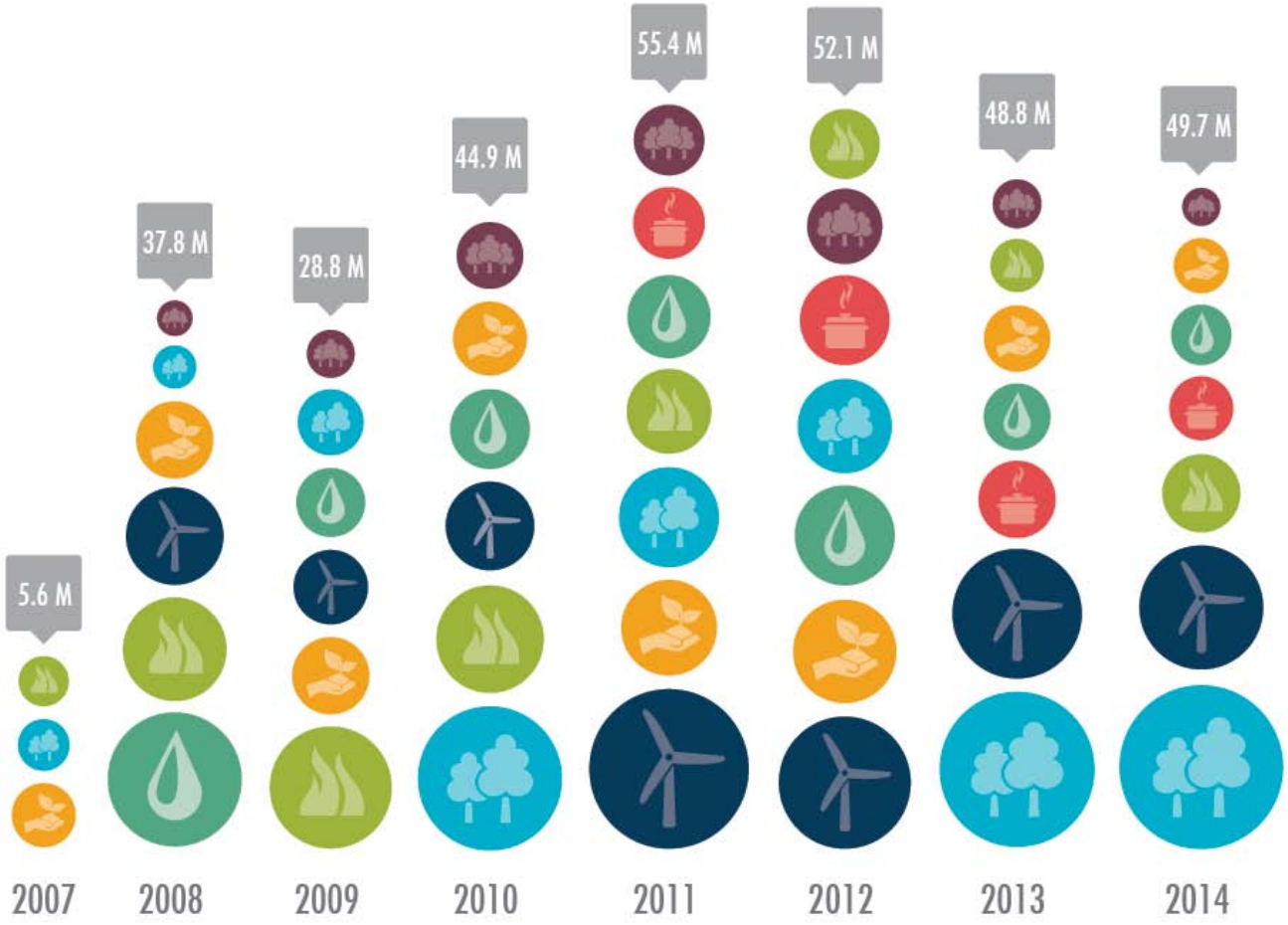

Notes: Based on a decade's worth of proprietary Ecosystem Marketplace forest carbon data.

**Full interactive model available at: http://theredddesk.org/markets-standards/analysis/forest-trends**

Source: Forest Trends' Ecosystem Marketplace, *State of Forest Carbon Finance 2015*.

**However, with either *positive* or v*ery positive* policy signals, voluntary demand is projected to reach a minimum of 106 $MtCO_2e$ by 2025 – up almost 350% from 2014 levels.** *Positive* policy signals have historically

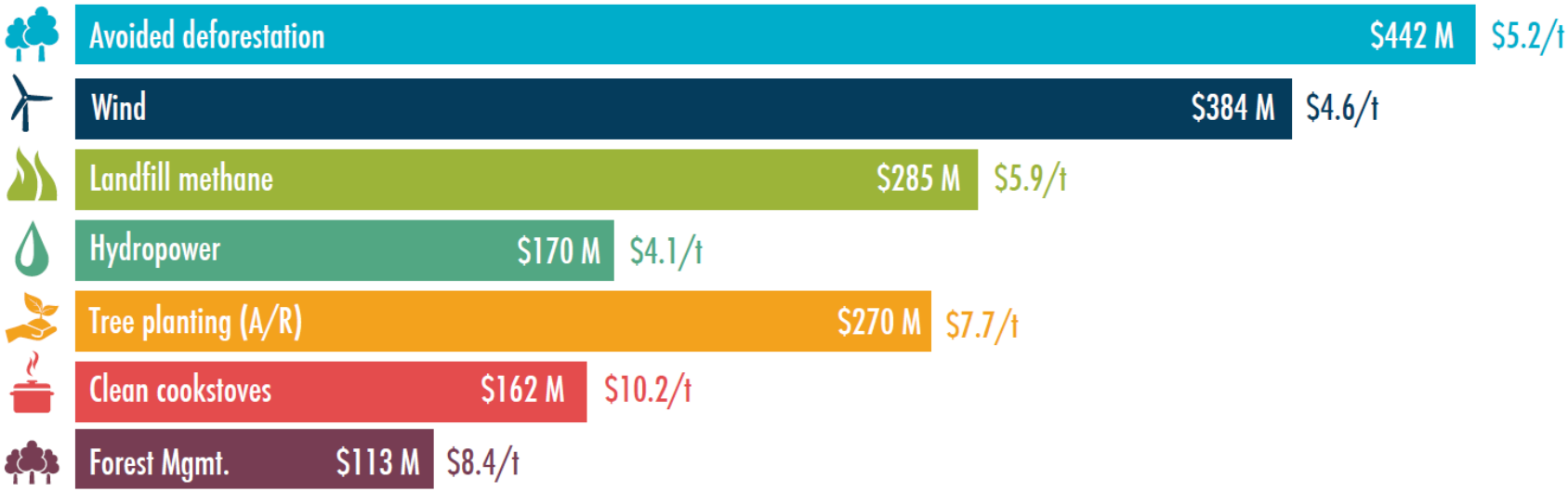
# Growing confidence in REDD projects




Notes: Based on 412 $MtCO_2e$ of transacted offsets associated with a project type, 2007-2014.
Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2015*.

# REDD is now voluntary offset of choice

Figure 7: Cumulative Value and Average Price of Top 7 Project Types, 2007-2014




Notes: Based on 412 $MtCO_2e$ of transacted offsets associated with a project type, 2007-2014.

Source: Forest Trends' Ecosystem Marketplace. *State of the Voluntary Carbon Markets 2015.*

# Jurisdictional and Nested REDD+

# Jurisdictional and Nested REDD+ (JNR) standard

- Provides a comprehensive, flexible and immediately operational accounting and verification platform for jurisdictions and nested projects
- Ensures fungibility of emission reductions and establishes environmental integrity across scales
- Aligns policies, programs and project activities
- Scales up emission reduction potential, and provides opportunity to harmonize and increase market and results-based public-funding streams
- Potential to link with green supply chain commitments

# Original nesting concept - Scenario 2

- Projects given ‘grandparenting period’ to adapt to new jurisdictional RL
- Where using JNR, jurisdictions submits RL/ spatially explicit baseline to VCS
- Projects “cookie cut” out project area from spatially explicit baseline to define their new baseline, which takes place of baseline requirements in the project methodology
- Monitoring done at both jurisdictional and project levels (due to timing issues), with a process for reconciling results at least every 5 yrs

# Grandparenting options

1) Recognize full project accounting
   - + Recognizes early action, clear requirements for projects
   - - Potential discrepancies in ERR results between project and jurisdiction
2) Recognize, but take some kind of conservative discount, such as:
   - Set deduction as additional buffer, tax or benefit sharing to government, or;
   - Set a cap, based on national accounting (eg, estimate of reductions in project area)
   - + Recognizes early action; provides means to reconcile results to some extent; encourages collaboration/ alignment with national/ sub-national programs
   - - May impact project financing

# Nesting options

1) Finalize and register a spatially explicit reference level (ie, JNR scenario 1), for which projects “cookie cut” their area to set new baseline
2) Set specific requirements for projects to update their own baselines, consistent with sub/national RL
3) Apply jurisdictional RL equally to all areas

# Nesting options (1)

**1) Finalize and register a spatially explicit reference level, for which projects "cookie cut" their area to set new baseline**

Pro:

- Recognizes spatial distribution of deforestation
- Easily reconcilable with jurisdictional results
- Most simple approach for projects
- Provides projects clear guidance and more certainty over ERR estimates

Con:

- Some projects may still not be viable, depending on model predictions
- "Picks winners" in terms of who can achieve reductions (disincentive to develop a project in other areas)
- Model may be open for debate

# Nesting options (2)

**2) Set specific requirements for projects to update their own baselines, consistent with national RL (eg, same EFs, approval process to review/adjust reference area, etc)**

Pro:

- Provides clear guidance to projects
- Recognizes counterfactual/ BAU of project area
- Likely most viable financially viable for projects
- Likely perceived as most fair option to projects

Con:

- Less clarity for jurisdiction over project results
- Still need to ‘reconcile’ monitoring results between levels

# Nesting options (3)

**3) Apply national RL equally to all areas (ie, apply the same rate to the project areas)**

Pro:

- Simple
- Easily reconcilable with jurisdictional results

Con:

- Ignores that deforestation and degradation are not equally distributed across the jurisdiction
- Could bankrupt early-action projects, who targeted high-risk areas
- Disincentives action in high-risk areas and could reward actors who do nothing

# Guidance under development

- VCS guidance document on methodological issues for nested projects and subnational jurisdictions
- Provides additional guidance (beyond JNR) and methodological recommendations to ensure that VCS projects (and subnational nested programs) appropriately adopt jurisdictional RLs, and maintain consistency with national and subnational REDD+ programs (which may or may not be using the VCS JNR framework)
- Will help project developers and governments find a solution to the problems associated with nested accounting

# Guidance under development

- Guidance to include recommendations on:
  - ✓ Introductory/basic guidance on nesting and validation/verification
  - ✓ Maintaining consistency/ reconciling differences in the 'grandparenting period'
  - ✓ Project (and subnational jurisdiction) nesting, where jurisdictional baseline does not use JNR (such in the case of baselines developed for FCPF and/or UNFCCC, which may or may not be consistent with JNR requirements)
  - ✓ Project (and subnational jurisdiction) nesting, where jurisdictional baseline is spatially explicit and uses JNR
  - ✓ Nesting, where jurisdictional baseline is not spatially explicit, uses JNR
  - ✓ Guidance on institutional arrangements or criteria/rules for project (and subnational jurisdiction) nesting, related to monitoring, leakage, non-permanence, safeguards and benefit distribution, etc
- **Timeline**: Draft w/in 3 months, finalized by mid 2016

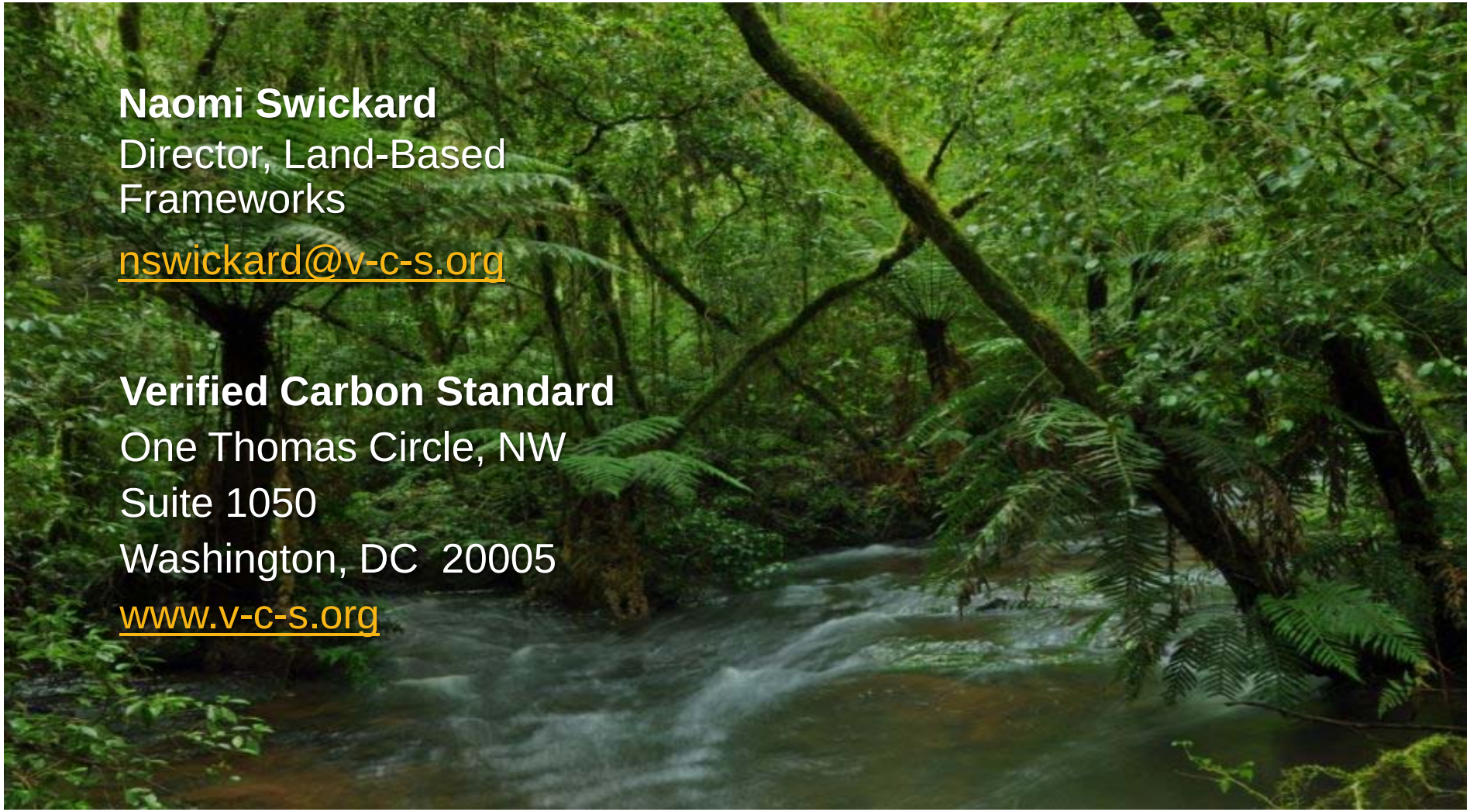
# Private investment opportunities in REDD+

| | Stand-alone projects | Nested projects | Jurisdictional (govt) programs |
|---|---|---|---|
| **Financial returns** | Medium – access voluntary markets | High – access voluntary and compliance markets; potential to leverage public funding | Medium – access compliance markets, but returns may be limited; potential to leverage public funding |
| **Risks** | Med/High – govts may limit project approvals or ERRs | Medium – dependent on initial govt baseline | High – completely dependent on govt ability to generate ERRs and deliver on contracts |
| **Scalability / Replicability** | Medium – many of most attractive projects have been developed | High – new arena with potential to establish replicable model | Medium – large ERR potential, but limited number of advanced J programs to work with |
| **Additional benefits** | • Fastest to develop<br>• Existing pipeline of investable projects | • Leadership play<br>• Create new investment-friendly market construct<br>• Strengthen donor & REDD govt relations (PPPs) | • Strengthen donor & REDD govt relations (PPPs) |

# REDD+ recommendations for private sector

- Nested projects could leverage public funding and supply emerging compliance markets, while minimizing implementation and crediting risks
- California, Aviation and GCF represent major REDD+ market opportunities and warrant private sector engagement
- Critical to work with donor and forested countries to incorporate jurisdictional and nested REDD+ construct into their NDCs, and establish clear pathway for private investment (incl. PPPs) and credit use for GHG compliance (whether under UNFCCC “cooperative approaches” and/or new crediting mechanism)
- VCS nesting guidance provides pathway to credibly bring scales together, ensuring projects are integrated in national programs
- VCS welcomes the opportunity to work with private sector players to create such attractive and scalable models

# Thank you!



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