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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Naomi Swickard, Director, Land-based Frameworks
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 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.
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;
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.
<table>
<thead>
<tr>
<th>Source of demand</th>
<th>Accounting requirements</th>
<th>Potential size of demand</th>
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</thead>
<tbody>
<tr>
<td><strong>Bilateral</strong> (e.g. Norway, Germany - REDD Early Movers)</td>
<td>Bilaterally-negotiated; not offset-grade/less rigorous</td>
<td>e.g. KfW REDD Early Movers ~14 Mt (2015-2020)</td>
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<td><strong>Multilateral</strong> (e.g. FCPF, ISFL/BioCarbon Fund)</td>
<td>FCPF Methodological Framework; offset-grade/more rigorous</td>
<td>e.g. BioCarbon Fund ~28 Mt; FCPF Carbon Fund ~50-100 Mt (2015-2020)</td>
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<tr>
<td><strong>Green Climate Fund UNFCCC (INDCs)</strong></td>
<td>Requires compliance with UNFCCC; additional requirements likely, including for market mechanisms</td>
<td>Unknown ($10s of billions for REDD+ annually &gt;2020)</td>
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<td><strong>Private funds</strong> (e.g. Althelia, Permian)</td>
<td>Typically offset-grade required; rigorous</td>
<td>Several hundred million dollars (2015-2020)</td>
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<td><strong>International voluntary market</strong></td>
<td>Offset-grade required; rigorous (e.g. VCS, Gold Standard)</td>
<td>~87 Mt (2013-2017)</td>
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<td><strong>Domestic voluntary markets</strong> (e.g. Costa Rica, Chile, Colombia...)</td>
<td>Varies by country; typically rigorous</td>
<td>Unclear</td>
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<td><strong>Regulatory markets</strong> (e.g. CA, Japan, South Africa...)</td>
<td>Offset-grade required; rigorous (e.g. California Offset Credits)</td>
<td>e.g. CA ~30-40 Mt (2018-2020)</td>
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<td><strong>Aviation sector / ICAO</strong></td>
<td>Likely market-based mechanism, including REDD+ (project and/or jurisdictional); rigorous</td>
<td>~8-10 Bt (2020-2050)</td>
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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 MtCO₂e in market-based transaction volume over time.
Voluntary market is holding steady

Figure 3: Historical Market-Wide Voluntary Offset Transaction Volumes

Notes: Based on 931.2 MtCO$_2$e in transacted volume over time.
Positive policy signals could ramp-up voluntary demand

However, with either positive or very positive policy signals, voluntary demand is projected to reach a minimum of 106 MtCO$_2$e by 2025 – up almost 350% from 2014 levels. Positive policy signals have historically
Growing confidence in REDD projects

Note: Bubbles sized according to volume - from 0.4 MtCO₂e (minimum) to 25 MtCO₂e (maximum)

Notes: Based on 412 MtCO₂e of transacted offsets associated with a project type, 2007-2014.
**REDD is now voluntary offset of choice**

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

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Value</th>
<th>Price</th>
</tr>
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<tbody>
<tr>
<td>Avoided deforestation</td>
<td>$442 M</td>
<td>$5.2/t</td>
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<tr>
<td>Wind</td>
<td>$384 M</td>
<td>$4.6/t</td>
</tr>
<tr>
<td>Landfill methane</td>
<td>$285 M</td>
<td>$5.9/t</td>
</tr>
<tr>
<td>Hydropower</td>
<td>$170 M</td>
<td>$4.1/t</td>
</tr>
<tr>
<td>Tree planting (A/R)</td>
<td>$270 M</td>
<td>$7.7/t</td>
</tr>
<tr>
<td>Clean cookstoves</td>
<td>$162 M</td>
<td>$10.2/t</td>
</tr>
<tr>
<td>Forest Mgmt.</td>
<td>$113 M</td>
<td>$8.4/t</td>
</tr>
</tbody>
</table>

Notes: Based on 412 MtCO$_2$e of transacted offsets associated with a project type, 2007-2014. 
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+

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

Naomi Swickard
Director, Land-Based Frameworks
nswickard@v-c-s.org

Verified Carbon Standard
One Thomas Circle, NW
Suite 1050
Washington, DC  20005
www.v-c-s.org