



Meeting Summary
Fourth Meeting of the Forest Solutions Dialogue (October 2020)
Western Hemisphere and Asia-Pacific Sessions

Responding to the call for enhanced cooperation to accelerate action on nature-based climate solutions, the Forest Solutions Dialogue aims to develop models of cooperative approaches for forests under Article 6 of the Paris Agreement and provide participating countries with the technical and policy assistance to pursue such partnerships. Since May 2020, the Dialogue has met every 1-2 months for 90-minute sessions on relevant topics, preceded by a background paper or other relevant materials. For more information on previous sessions and the concept note, please visit www.forestolutions.org. Forest Solutions Dialogue is an initiative of Climate Advisers Trust with support from Environmental Defense Fund through a Norwegian International Climate and Forest Initiative civil society grant. The Dialogue meetings take place under modified Chatham House rules in which a summary is made available, but comments are non-attributable.

The **Fourth Meeting of the Forest Solutions Dialogue** focused on technical elements of cooperative approaches for REDD+: “nesting” of REDD+ projects and programs. The meeting occurred in two different sessions on October 27, 2020 for the Asia-Pacific region and the Western Hemisphere. Participants came from ministries in Cambodia, Chile, Colombia, Germany, Korea, Malaysia, Mexico, Jalisco State (in Mexico), Japan, New Zealand, Nigeria, Peru, Singapore, Suriname, the United Kingdom and the United States.

Presentation by Donna Lee, Consultant, and Charlotte Streck, Director of Climate Focus (available at www.forestolutions.org)

Donna Lee explained that the current forest carbon finance landscape is very complex, including results-based payments, domestic carbon pricing schemes, and voluntary markets. For this reason, nesting is often necessary to organize and to optimize REDD+ finance from these various sources. Nesting can organize both private investment from local projects and results-based payments at national/jurisdictional scales. She noted most countries (but not all) would like to see both results-based payments and market-based finance.

Streck (during the Western hemisphere session) and Lee (during the Asia-Pacific Session) then presented an overview of key findings from their new project to develop a decision support tool on nesting for the FCPF. The development of the tool is led by Climate Focus with a number of experts subcontracted. The tool will strive to help countries think through how to design nested systems (the authors hope to finalize the document within a few months). The authors expressed hope that FCPF and countries will use the manual, and felt that the

recommendations therein have potential to be included in current programs. However, they said the manual will also be a resource for countries that are not in the FCPF.

Streck and Lee emphasized that the REDD+ countries determine which model best suits their needs and reflects their current forest governance situation and laws on forest definition and carbon asset ownership. They emphasized that countries should have clear objectives for nesting and posed key diagnostic questions:

- Is forest ownership centralized or decentralized? How strong are private property rights?
- What is their strategy for REDD+? Do they only seek Results-Based Finance? Do they support carbon markets? Are they seeking private sector investment?
- What role should the private sector play in forest management? (Not all countries want the private sector to be involved in forest management at the local level).

Streck and Lee then presented an overview of the four models of nesting identified by the decision support tool. These are based on country examples of existing and emerging systems (for example, New Zealand, Colombia, South Africa, Peru, Cambodia, and DRC). Each model focuses on where and how to receive carbon finance. They also noted that models can be combined. (Please see presentation for more details).

1. *Centralized approach*: In this model, the governance of forests is highly centralized in both ownership and management. Crediting is only at the national level and is managed by the government. There are no projects and no direct performance-based rewards for non-state actors. (For example, this could be a country that receives GCF funds and then distributes it; it does not allow voluntary REDD+ projects)
2. *De-centralized approach*: Here, crediting only occurs at project scale and incentives are only at the local level. Projects can directly engage in carbon markets, generate credits, and manage the transactions. We often see this in developed countries, such as the US.
3. *Centralized Nested Approach*: In this model, crediting occurs at the national level but projects are included in the Benefit Sharing Plan. Projects might receive carbon finance or credits based on performance. For example, a project nested in an FCPF Carbon Fund program that is contributing to the country's overall performance may receive compensation accordingly from the government.
4. *Decentralized Nested Approach*: Here, crediting can occur at both the national level and for projects. Projects are authorized to market and transact directly to generate credits. The government is interested in accessing results-based finance or even crediting, and would need to subtract out project results (those credits project generated and sold) from calculation of national-level REDD+ results.

Example: How can country combine models? Lee gave a hypothetical country example of how to combine models. A country wants to access GCF and use funds to benefit local actors according to its benefit sharing plan. The country also wishes to enable projects to participate in voluntary carbon markets in order to generate investment finance and help implement local activities. The country might choose a **decentralized hybrid model**. For a **decentralized hybrid model**:

- The government might allocate their reference level down to projects.
- The government might require projects to measure and monitor in ways that align with national forest definition, with stratification of land, etc.
- If this country also has Article 6.2 pilot with crediting, they might use a centralized approach. Here, the government will need to meet all Paris Rulebook requirements and determine whether corresponding adjustment is needed.

Clarification questions and reactions to the presentation: The presentation was followed by clarification questions, moderated by Peter Graham, Managing Director of Climate Advisers.

- There was broad agreement among participants that there is no “one size fits all” solution to nesting.
- There was broad support that the manual will be useful to countries in designing nested systems.
- There was also broad support that the design of the nesting systems look is the decision of the country where it will exist and should take into account existing institutions and circumstances.

- One participant asked whether it is possible to start with one nesting model and then change later on. Charlotte Streck and Donna Lee explained that changing systems is possible, but can be difficult. They therefore recommend picking a system at the beginning and working towards it. If there are capacity constraints, the support tool will propose a “bridging solution” where the nested system can become more sophisticated over time.

Broader discussion on nesting

- *Plan ahead:* A unanimous, key recommendation from REDD+ countries is to plan ahead for nesting. Three REDD+ countries on the call said they are currently implementing a nested system, and noted that their approach to nesting has involved “learning by doing” with some challenges in reconciling existing projects with evolving national policy. They said countries should strive to set the rules at the beginning before projects or other actors have vested interests. They also noted that nesting must be proposed by the government: nesting will not happen automatically and private actors will not self-regulate.
- *Popularity of a decentralized hybrid model:* Most REDD+ countries on the call are currently considering or pursuing a decentralized hybrid model.
- *Driving finance to areas most needed:* Country and expert nesting practitioners said the nesting system should direct financial resources to areas where it is most needed to stop deforestation. This can be aided by a risk map (below).
- *High risk areas/risk map:* A REDD+ country asked for clarification on how “high-risk areas” inform nesting approaches. Lee explained it is ideal to drive projects to areas at high risk of deforestation and to allocate the baseline accordingly. She noted that with her work in Cambodia, their team determined two variables can predict over 75% of deforestation: 1) distance to past deforestation and 2) distance to forest edge. From this they developed a risk map of the country and will use this to assign baselines.
- *Avoiding double counting and consistency with Paris Agreement:* There was broad agreement that a nested system has to be credible both nationally and internationally. Baselines are key to this environmental integrity. Project developers may wish to have high incentives (baselines) but governments need to ensure a transparent and credible system. A risk map (above) can help develop area-specific baselines.
- *Alignment of MRV:* Beyond baseline allocation, a key technical issue is consistency in MRV approaches. Lee recommends that a decentralized hybrid nested system include government regulations for consistency. The government should require all projects to use the national forest definition, the national method for classifying different land and forest types, and to use the government methodologies for measuring carbon stock in carbon areas. A donor-country participant stressed that donor countries seek good MRV systems that enable accurate calculations of emissions reductions.
- *Role of third-party standards:* Lee also noted that a government may choose to use the methodologies of third-party standards (such as by VCS/Verra) to guide their nesting approach. For example, governments may decide to use VCS standards or allow VCS credits in government regulated systems. Several country participants noted that they have seen countries begin to consider using third-party standards in national REDD+ systems.
- *Overissuing* was key topic of discussion. Many participants noted that a country’s credibility suffers if a small project is issuing more credits than the country can claim. The nesting approach should provide assurance there is good RL/FREL that is shared and appropriate and a good MRV system. Lee noted that to date, project methodologies have been so flexible that they have overissued credits. Then, the host countries have to find MRV alignment that will bring greater credibility to the projects as well. She said Verra (issuer of many offsets) is encouraging countries to nest in order to make projects more credible. She noted Verra is planning to revise its Avoided Unplanned Deforestation project methodologies.
- *Can countries use results-based payments for a REDD+ program in a certain forest, and then develop a project for the voluntary market in that forest?* The moderator and Lee said that this would depend on the terms of the agreement for the results-based payments. However, in general, donors do not want to “double-pay.” For example, countries receiving REDD+ results-based payments from the GCF must subtract all voluntary credits issued from the tally of results eligible for GCF payments.

- *Return on investment*: Several participants wondered how to ensure companies get return on investment and to address the needs of companies. Another wondered what the scale of demand from different sources is. Climate Advisers noted that many corporations are developing net zero targets and rely on voluntary market projects to meet them. This means that demand for REDD+ projects is likely to grow: the sooner they companies see nested approaches work, as an alternative to or within jurisdictional programs, the sooner they can unlock private investment.
- Similarly, a key question facing REDD+ countries is about rewarding good performance by projects: should a project be paid if it succeeds in reducing deforestation, even if the national level does not generate the expected results? Most REDD+ countries hope and expect to have good performance at the national level, but this may not always occur. The presenters agreed that solutions for underperformance or overperformance are needed – possibly with a mix of rules and legal measures.
- *Poll*: A poll was conducted among REDD+ countries: 2/3 of countries are starting to nest, while 1/3 are interested but have not started (at least on our call, there was no REDD+ country that was not interested in nesting). In terms of the greatest need identified by REDD+ countries, 2/3 equally identified political will, legal support and technical expertise and 1/3 identified institutional development (which may reflect its readiness to date).

Country examples: Several REDD+ countries gave updates on the nesting situation in their countries.

- A REDD+ country which is already designing its nesting system said coordination with the voluntary projects is a key need - they have been meeting with project developers almost monthly. There is also a communications need to share advances in the government’s nesting approach with project proponents. They said that intergovernmental education and coordination is important, such as with ministries charged with agriculture and protected areas (many REDD+ projects are located inside protected areas). Their other challenge is to build the RL/FREL allocation tool. While they are using a density of deforestation map currently being built by an expert consultant, they lack a comprehensive map of the location of roads for all their forested regions – yet this is likely vital to accuracy.
- A REDD+ country noted that their government has mainly focused on accessing GCF and FCPF funding for REDD+. However, they see interest from private forest owners to develop projects, and therefore the forest service is starting to plan a nesting system. They are planning to complete their national RL/FREL (an improvement from subnational level) by end of 2021, and then enable landowners to use this RL/FREL to develop private projects. They will also detail the MRV and registry requirements. A key question is how to manage private owners who wish to sell units directly to international buyers.
- A REDD+ country stressed the importance of planning ahead, as they have already had developers over-issue credits. They stressed the broader importance of engaging with different ministries to get both political buy-in and institution support. The ministries of Economy and Finance will enable the financial architecture for nesting and guide how the country will collect and distribute carbon revenue.
- A donor country that is directly supporting countries to nest offered some reflections. They felt it was important for the host country to have political will. They agreed that baseline allocation is important for future planning. They also emphasized that the more projects a country has, the more stakeholders will need to be included in a benefit-sharing arrangement.
- A subnational government noted that they are creating their own jurisdictional roadmap to help achieve national REDD+ goals, including a state carbon tax with a compensation mechanism via forest credit.
- A REDD+ country reminded participants that many are new to nesting or are in earlier stages of REDD+, and it is important to share advances in nesting with such countries.

Conclusion

The Dialogue host team thanked participants. They noted that information on the Dialogue sessions are found at www.forestolutions.org