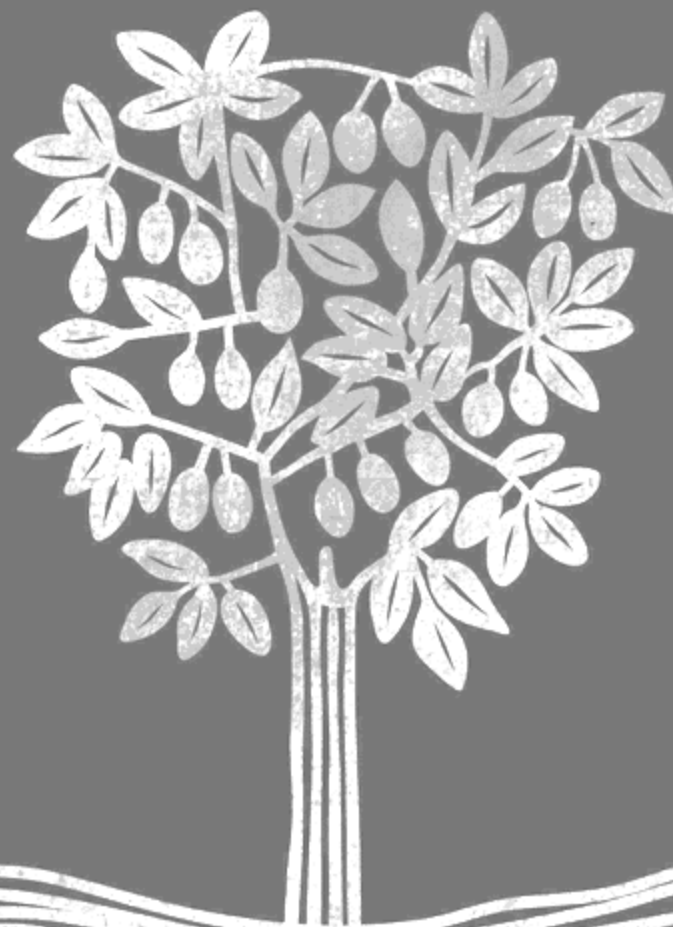




NESTED APPROACHES AND MOBILIZING EARLY START PRIVATE FINANCE FOR REDD

Jacob Olander
Director, Katoomba Incubator

USAID
Washington, DC
4 October 2010

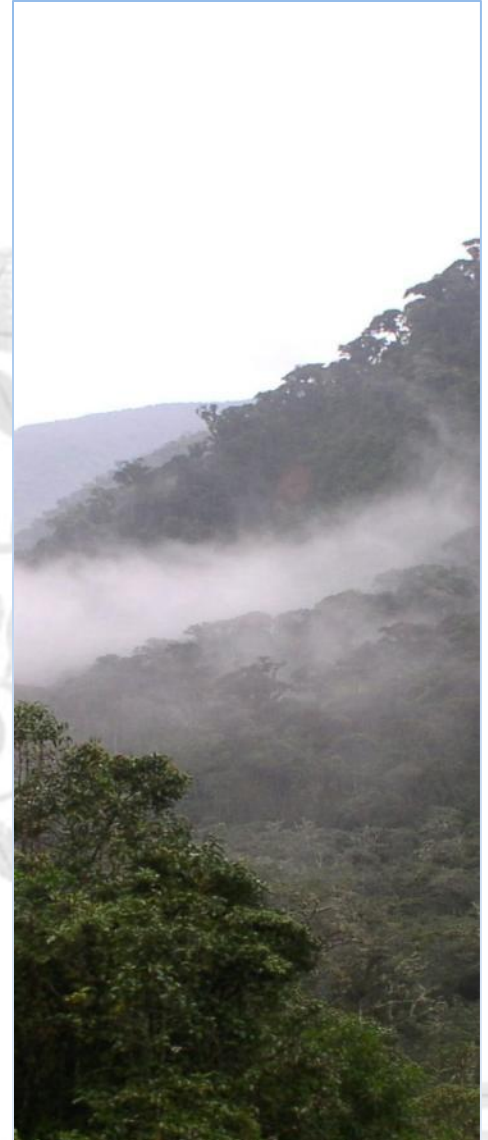


REDD in Context



- 17% of global emissions
- Can't keep to $< 2^{\circ}$ C without dealing with DD
- Rare point of consensus in international negotiations
- \$4.5B commitment for 2010-2012, post-Copenhagen CoP
- Enthusiasm for REDD projects builds after Bali

- Common expectation: Projects in compliance markets will operate in ways similar to projects in voluntary markets, or to CDM
- Current situation: Uncertainties surround both **projects** and **markets**
- Stand-alone projects likely to be, at best, transitional approach



- 2009-2010 growing emphasis on national-level frameworks
- Projects questioned
 - Insufficient scale, need to be complemented by policies and programs
 - Environmental integrity
 - Leakage risks
- UNFCCC: 3 Phases for REDD (FCCC/AWGLCA/2009/L.7/Add.6):
 1. development of national strategies or action plans, policies and measures and capacity-building,
 2. implementation of national policies and measures, and [sub] national strategies or action plans
 3. and evolving into results-based actions

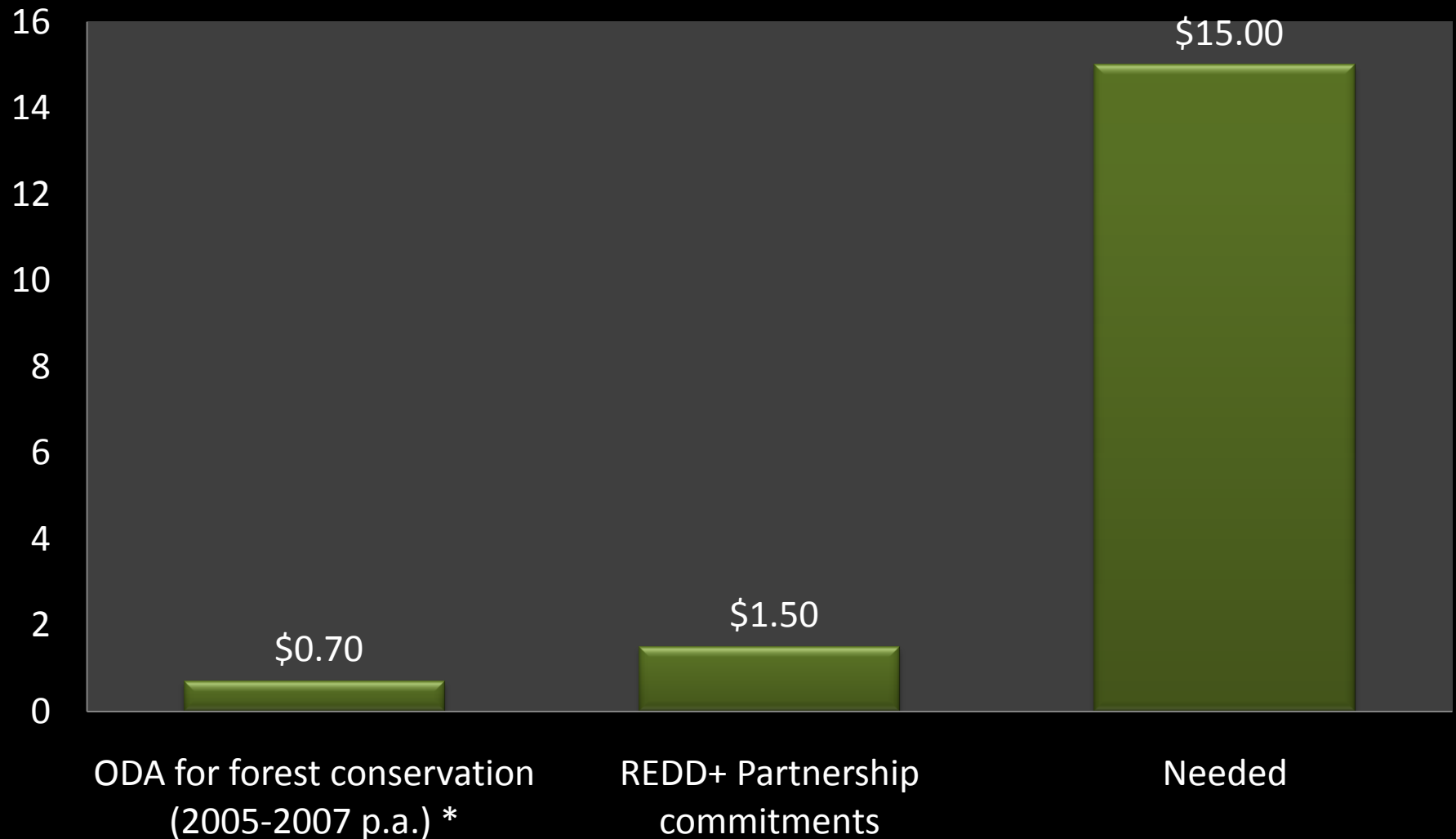
- Emphasis on national, sector-wide approach to forests
 - “the quantity of the offset credits is determined by comparing the national emissions from deforestation relative to a national deforestation baseline for that country established, in accordance with [a bilateral or multilateral treaty with the US]”
 - Country should establish a trajectory to zero net deforestation in 20 years
- Subnational (state, province) frameworks recognized during a 5-year transition phase
- Very limited recognition of projects
 - If quantity of credits is determined by reference to national baseline, credits may be issued to projects

Challenges for national approaches

- Lag time to create institutional capacity and frameworks to
 - Measure, monitor and report emissions
 - Implement measures to reduce deforestation nationwide
- Need for local rights, control and benefits
- Private investors prefer projects



REDD funding in context: Finance Gap



*World Bank, 2008. in
Lawlor and Olander, 2009

■ Finance per year (US\$BN)

REDD funding in context: Scale of regulated markets



Nested Approach

Originally proposed by Pedroni, Streck et al, introduced in negotiations by group of Latin American countries as an alternative to an exclusively national approach



Allows project-level activities to generate offsets in a transitional phase and/or in frameworks linked to national level accounts and crediting

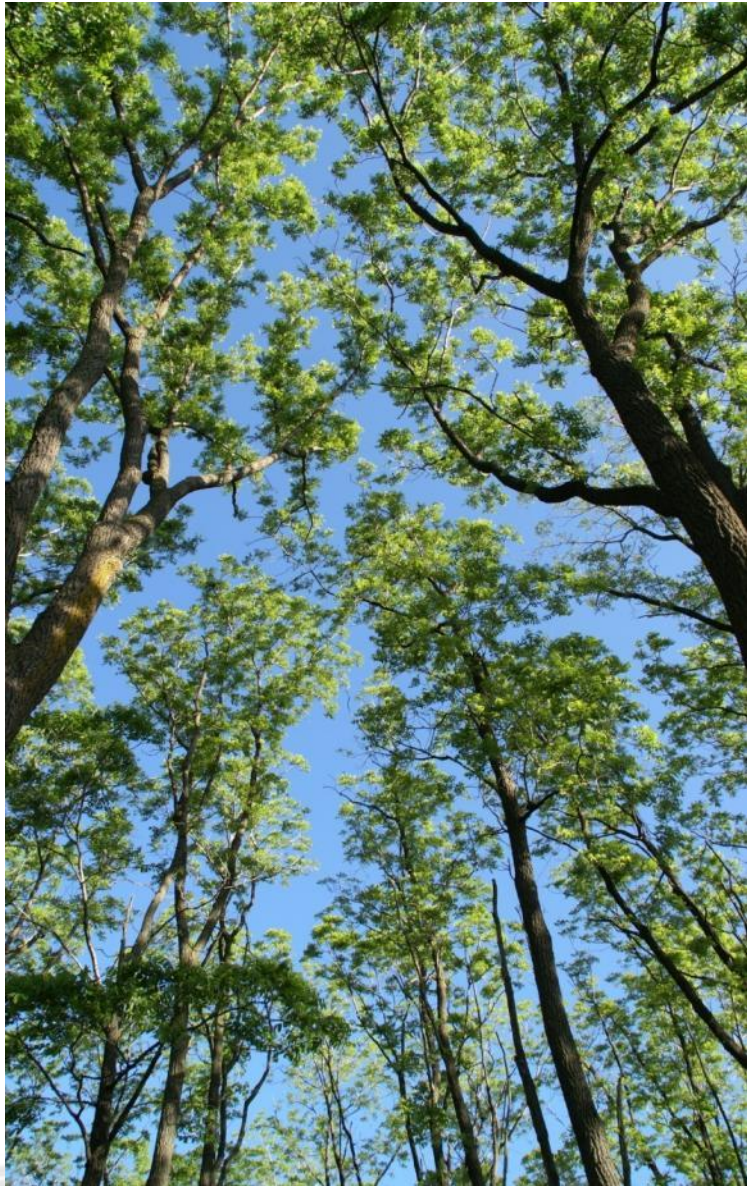


Key elements for nesting, national level



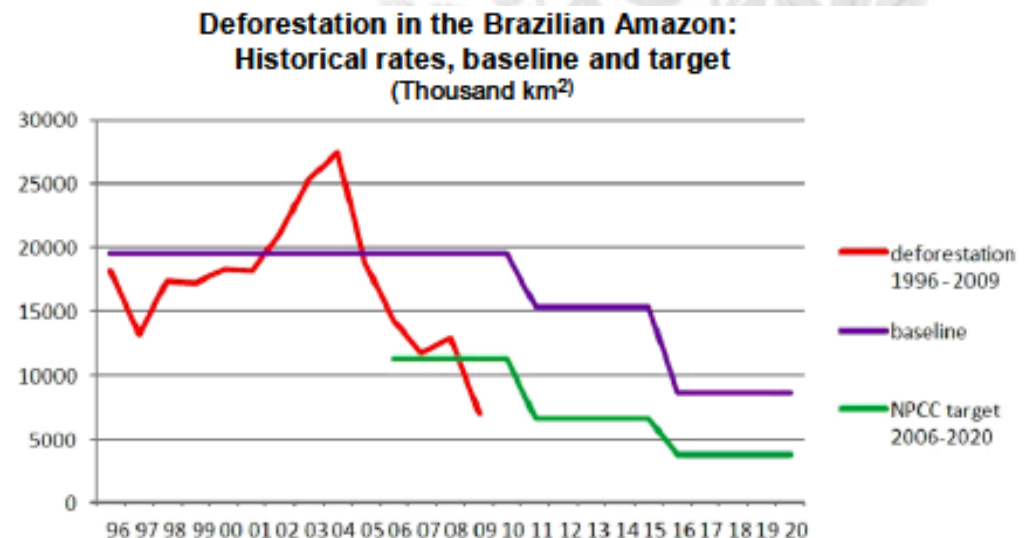
- **Accounting:** Consistency across scales for measurement and monitoring
- **Attribution:** Net reductions for which project is responsible
- **Allocation:** How and to whom are rights to credits or revenues distributed?





- Scientific guidance and methods are relatively established, and data sets improving at multiple scales
- Need for national guidance to ensure consistency across scales, e.g.
 - Eligible activities, pools
 - Spatio-temporal consistency
 - Stratification

- National aggregate projections based on technical/political formulae (**historical adjusted for national circumstances**)
- Reductions below BAU or some, “crediting baseline” would be recognized/compensated
- Far more difficult to determine who is likely to deforest where at finer resolution



Attribution: Baselines (2)

- Project-level approaches with spatially explicit projections (e.g. VCS)
- Useful transitional tool, while national systems established but
 - Expensive
 - Potential for inconsistencies across projects and scales
 - Risk of gaming
- Move to national or subnational spatially explicit baselines
 - “Public infrastructure:” Shared platform
 - Basis for project-level baselines or
 - Mechanism for assigning incentives, prioritizing investments



Attribution: Leakage

- Reduces net emissions benefits attributable to projects
- Expanding boundaries (subnational or national systems) can help capture
- Needs to be
 - Mitigated or quantified by project
 - Assumed by subnational or national system
- Leakage protocols



Allocation: Who owns carbon?

- Need for legal clarity, little existing specific legislation
- Systems may recognize rights to carbon credits or rights to revenue
- But legal rights are only part of the equation...



Allocation: Rights to how much?

Intimately linked to questions of attribution and overall REDD strategies

Project-level calculations adjusted to ensure integrity of overall system

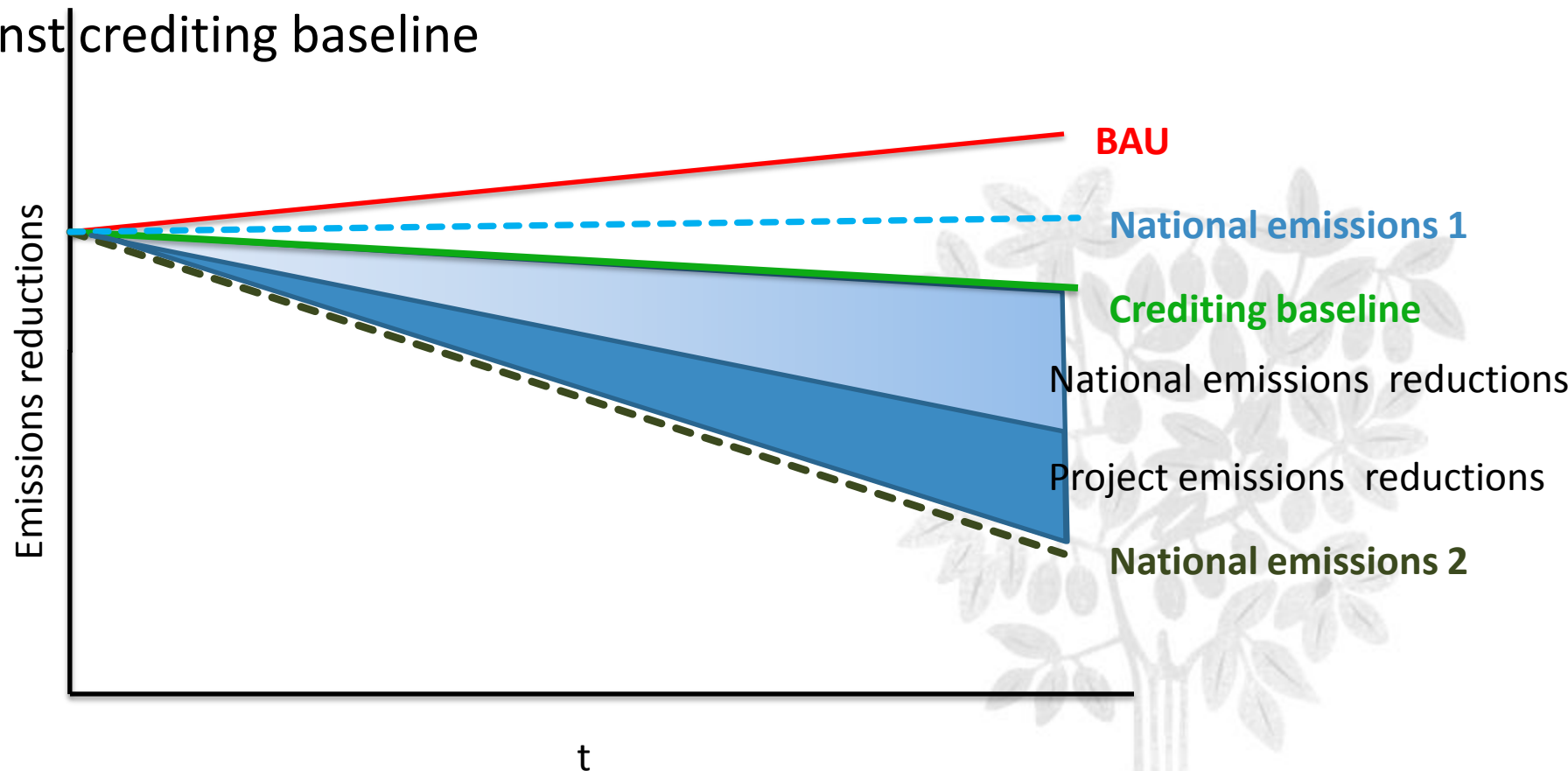
- Leakage mitigation/stock maintenance
- Permanence buffers
- Enabling policies and programs

Under national systems, project-level baselines and accounting could become only indicative for allocation of carbon credits



Allocation: Linking project- and national-level performance

Volume of project credits likely to be linked, to country performance against crediting baseline



Significant additional risk for project developers

Options: International level

- Freestanding subnational activities, direct international crediting
- Subnational activity linked to national accounting
 - International crediting
 - National crediting
- National activities, no subnational crediting

Climate Focus-Forest Trends. 2010.



- Build public information infrastructure for nested projects (baselines, MRV)
- Establish policies that recognize early-action projects
 - Recognition of carbon accounting and baselines using approved protocols (limited duration)
 - Registries
 - Commitment to incorporate into national accounting and subnational allocations of credits or revenues
- Establish national and international mechanisms to reduce risks and leverage private investment