**On behalf of the International Emissions Trading Association (IETA), we are grateful for this opportunity to provide comments in response to UNFCCC's request for inputs on:**

**C. Policy approaches and positive incentives on issues relating to reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.**

**Response to:**

- provide adequate and predictable support, including financial resources and technical and technological support, to developing country Parties for implementation of REDD+ activities;

- consider existing institutional arrangements or potential governance alternatives including a body, a board or a committee, and to make recommendations on these matters to the Conference of the Parties at its nineteenth session;

The International Emissions Trading Association (IETA) is a non-profit business organisation representing many of the world's most active REDD+ carbon investors, project developers, and technical experts. IETA member companies are involved in all aspects of REDD+ activities—from the implementation and financing of projects to the purchase of offsets—with a shared aim to support large-scale emissions reductions needed to combat climate change.

Scaled and predictable financing of REDD+ is a key criterion for success of any REDD+ program. IETA believes the development of a REDD+ carbon market that provides for private sector participation is essential to provide a significant component of such scaled investment in REDD+. IETA also recognizes and supports the role of public finance and non-market approaches to contribute financial resources and technological and technical support to developing countries to support REDD+ activities. We believe negotiators should build on the progress achieved under UNFCCC COPs to develop a market mechanism specifically designed to address REDD+. In the development of any REDD+ market mechanism, negotiators should provide appropriate signals to ensure that private sector investment is welcomed and encouraged.

This Paper intends to inform the Parties' consideration of the REDD+ agenda and to specifically respond to the queries outlined in AWG_LCA's outcomes from Doha.

## Executive Summary

IETA encourages the Parties to advance the following enabling conditions, which are critical to provide adequate and predictable support, including funding sources from the private sector:

1. **Strong Policy Signal**. Ambitious reduction targets for global carbon emissions are critical to create demand in the nascent REDD+ market. To maximise private sector finance via REDD+ markets, the private sector must receive clear signals on long-term demand for emission reductions and recognition of REDD+ credits.

2. **REDD+ Crediting using a "Nested Approach"**. The most effective market mechanism for REDD+ would institute a "nested approach", which would allow for private sector participation in REDD+ projects and direct crediting to private actors. A nested approach would encourage the development of REDD+ projects by the private sector while countries continue to develop nationwide REDD+ programs and policies. We note that nesting allows for simultaneous private and public funding to be used in a complementary fashion. Private finance can be channeled to projects and public finance to REDD+ Readiness planning and/or implementation of subnational or national jurisdiction programs.

3. **Risk Management Related to Performance of REDD+ Projects**. Private actors are unable to take on the same type of risk as public actors in financing REDD+ projects. Incentivising private investment requires understanding risks specific to private actors and mitigating them where necessary. There are a number of mechanisms that are already being used to mitigate a variety of risks, including the use of buffer pools and accounting systems for crediting, insurance and a global fund[1]. Assuring that performing REDD+ projects implemented by private parties receive credits would alleviate the risk that a non-performing country would jeopardise an otherwise successful REDD+ project.

4. **Administration and Oversight of a REDD+ Mechanism**. A REDD+ mechanism should include the institutional tools and framework to provide an efficient system for crediting and tracking REDD+ activities from the private sector. This institutional framework should include the implementation of a system to report and track the issuance of REDD+ credits to private and non-private actors and account for any post-issuance reversals (e.g., administering buffer pools).

5. **Environmental and Social Safeguards.** Private investment in REDD+ projects will only occur with strong environmental and social safeguards in place. These safeguards should be instituted by the UNFCCC to allow for consistency on the international level. Standards for environmental and social safeguards are available such as REDD+ SES. At the project level enhanced social and environmental safeguards such as CCBA (Climate, Community and Biodiversity Standard) and other institutions such as The Round Table's for sustainable palm oil, bio fuels and soy, may provide a starting point for policy development.

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[1] Discussed on page 6.

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## Background

Current public funding commitments for REDD+ fall far short of resources needed to stem deforestation and forest degradation. Private sector investment can help bridge this gap. IETA encourages the parties to the UNFCCC to consider the opportunity presented by the Durban Platform to create a REDD+ crediting mechanism.[2] The creation of a new market mechanism that includes a REDD+ market, coupled with clear demand for emission reductions, would provide an avenue for private sector involvement and unlock an additional funding source for REDD+ that can augment currently available public funds.

UNFCCC negotiators have recognised that the private sector may have a role to play in the development of a REDD+ program. In the Bangkok Informal Note, the following query was posed:

- Should the UNFCCC process provide guidance on private sector participation? How to ensure and catalyse their involvement?
    - Providing a signal to welcome and encourage private sector involvement in the full implementation of REDD+ actions;
    - Enabling conditions needed for private sector participation, such as risk management, strong compliance, structural reforms, strong implementation of safeguards;
    - Recognise the role of the private sector in addressing the drivers of deforestation and forest degradation.

We provide high-level responses to these queries below and suggest specific enabling conditions that the secretariat also might consider. We would be pleased to discuss further any aspect of this Position Paper to the extent it would be helpful.

## Strong Policy Signal: Creating market demand for REDD+

Ambitious reduction targets for global carbon emissions are critical to create demand in the nascent REDD+ market. To maximise private sector finance via REDD+ markets, the private sector must receive clear signals on long-term demand for emission reductions and recognition of REDD+ credits. Only with clear policy commitments will the private sector create enterprises and investment around REDD+ activities. Like other emissions markets, demand for UNFCCC-created, tradable REDD+ credits will be shaped by the policy choices made by the Parties in the design of a REDD+ mechanism and associated emission reduction targets. There are two key ways the Parties can create a level of demand that will attract private sector investment at scale:

[2] In addition to carbon markets that involve REDD+ projects sourced in one country being transferred to another, other market-based approaches should be considered. These could include approaches to stimulate (and finance) domestic demand for REDD+ instruments within developing countries or options to incentivise change across forestry product supply chains. IETA does not take a view at this juncture on which combination of these tools is optimal, but encourages further dialogue and consideration of such measures.

1. Agree on more ambitious overall mitigation targets that recognise REDD+ instruments as a means of compliance.
2. Create a separate minimum quota for REDD+ instruments that certain Parties must acquire as part of their commitments.

In either case, the Parties should also adopt incentives for early action, similar to the approach used for the CDM. Incentives for early action on forests paired with long-term demand signals for REDD+ reductions will encourage immediate deployment of private capital at scale.

The private sector has continued to make progress on REDD+ through investment, project development and technology advancement ***despite*** the absence of coherent international policy on market-based forest protection. However, obtaining private sector investment at the level necessary to bridge the gap between available public funding for international forest protection and the actual costs of this critical undertaking will require creation of new policy instruments related specifically to REDD+ and private sector participation in REDD+.

**REDD+ Crediting using a "Nested Approach"**.[3]

IETA believes the development of a nested approach in any REDD+ market mechanism is essential to mobilise private capital toward REDD+ projects. A nested approach allows for the channeling of incentives directly to sub-national actors, which is critical to generating private participation and investment in REDD+. Investing directly in sub-national activities is more attractive for most private investors because it affords greater control over the outcomes than investing in national government initiatives. We note that this can create a complementary funding model, with public finance being focused at a national level simultaneous to private project funding.

Under a nested approach, the national government would set up a national accounting framework and establish a nation-wide monitoring system. Establishing a national baseline for REDD+ activities encourages comprehensive national plans to address land use change and prevents leakage of land use change activities and emissions from one region or project area to another within the same country. The national government could implement certain policy reforms that would lead to verifiable emission reductions and therefore earn incentives from an international system. Meanwhile, implementation of REDD+ activities would also occur at the sub-national level led by local/regional governments, communities, NGOs, or private developers. These activities would account for emission reductions at the sub-national level and private participants would earn incentives directly from the international system based on those reductions.

[3] IETA has previously described the value of utilising a Nested Approach as part of a REDD+ market mechanism to encourage full engagement by the private sector in its submission to the AWG-LCA on March 5 2012. Available Here: http://www.ieta.org/assets/LU-WG/ieta_agw%20lca%20submiss2b0acc.pdf.

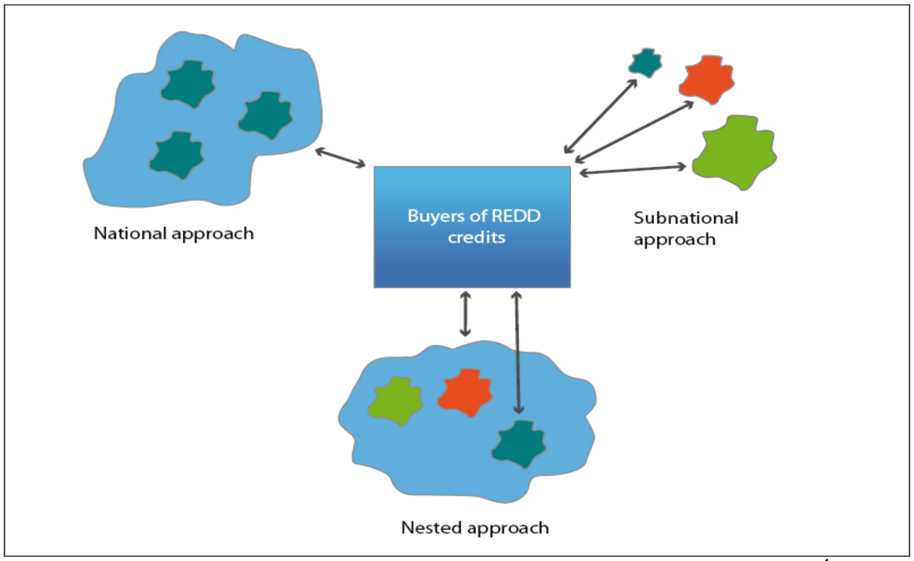


**Figure 1** Nested Approach in comparison to other approaches[4]

A nested approach will require an integrated carbon accounting methodology to support the direct issuance of offset credits at the project level within a national level accounting scheme. Clear national and project-level reference emission levels and associated crediting baselines will need to be established. The Parties should develop definitive methodologies for establishing and linking these baselines.

A nested approach is not purely hypothetical. REDD+ standards used in the voluntary carbon market have incorporated aspects of the nested approach. For instance, the Verified Carbon Standard and American Carbon Registry have released REDD+ protocols that incorporate an approach where projects can be nested within a jurisdiction-wide accounting framework. Climate Action Reserve also has nested approaches in development within their standard.

IETA views the nested approach as an effective mechanism for balancing environmental integrity in emission reductions, and providing the necessary incentives to drive private sector investments. Governments will play a critical role in establishing national accounting frameworks and reference emissions levels from which baselines are able to be determined. However, direct project-level crediting is a critical design feature for private sector investors in a REDD+ crediting mechanism.

## <u>Risk Management Related to Performance of REDD+ Projects</u>: Opportunities for Risk Mitigation

In the same way governments have practical limits on how they allocate public funds, investors and businesses have practical criteria for making and attracting new investment. In order to allow for provision of adequate and predictable support,

[4] Angelsen, A., C. Streck, et al. 2008. What is the right scale for REDD? In: Moving Ahead with REDD: Issues, Options and Implications.

including private sector financial resources for implementation of REDD+ activities, investors and businesses need a reasonable expectation of risk-adjusted return on investment. REDD+ investments hold a number of risks that need to be addressed either by project developers or policymakers.[5]

One primary concern of the private sector is how a REDD+ market mechanism would address the influence of sovereign performance on the ability for a performing project to receive REDD+ credits. IETA stresses that the private sector will not invest at scale while the ultimate return on investment is wholly dependent on actions outside of private control (i.e. the ability of a government to successfully facilitate REDD+ policies outside of a private project boundary). For example, if an investor develops a REDD+ project and the project performs as intended (i.e., avoids deforestation in the project area while accounting for project-related leakage), that investor will expect a return on their investment in the form of REDD+ credits. In that scenario, non-project-related failures at the sovereign level that cause the nation as a whole to miss its target (despite project level performance) should not prohibit the project from receiving credits. At the same time, IETA recognises the need to maintain overall environmental credibility in the system, which would be undermined if REDD+ credits were continued to be issued to projects in the fact of sovereign-level non-performance. This dilemma requires a sharing of risk between sub-national and national actors.

Some of the risk sharing and risk mitigation options could include the following (individually or in combination): [6]

- ***Buffer.*** Performance buffer or reserve accounts for both sub-national and national level actors, into which a portion of all REDD+ credits issued at the project level and national level remain in segregated reserve accounts. Credits would be withdrawn from the buffer account in proportion to the degree that each of the actors was deemed to be responsible for the national level non-performance.
- ***Replacement.*** Purchase and cancellation of replacement REDD+ credits in the market by the actor(s) responsible for national level non-performance.
- ***Insurance.*** Insurance products, such as political risk insurance available through the Multilateral Insurance Guarantee Agency (MIGA) from the World Bank, as well as private insurance products to be developed around REDD+ performance and permanence.
- ***Global Fund.*** A global fund that would receive levies from sub-national and/or national-scale activities and would, in turn, insure projects against country non-performance (or vice versa), for example, by purchasing replacement credits for countries that fail to perform.
- ***Transparent Governance Structures.*** A systemic solution to addressing co-dependent performance would be to set up transparent governance structures (as found in the Kyoto Protocol compliance regime, EUETS and many federal

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[5] For a full assessment of all risks associated with forest projects, see: http://www.garp.org/risk-news-and-resources/2012/august/risk-management-trends-in-forest-carbon.aspx?p=1.

[6] Cortez, R., Saines, R. et al. 2010. A Nested Approach to REDD+: Structuring effective and transparent incentive mechanisms for REDD+ implementation at multiple scales.

government systems) linked to registries, whereby all actors responsible for meeting agreed targets have their performance shown centrally in real-time. This would allow for public pressure on everyone to perform, as well as both early action solutions to potential problems and penalties/compensation for non-performance.

IETA urges policymakers to create conditions that reallocate the risk of non-performance at a national level.

Separately, on the issue of permanence, IETA believes that the use of temporary crediting, as was used for afforestation/reforestation projects under the CDM, is not an efficient response for incentivising investment. Fungibility is critical to creating a traded commodity, and creating a secondary tier of credit is highly detrimental to investor confidence.

**Administration and Oversight of a REDD+ Mechanism**.

IETA views REDD+ as an essential element of a new climate agreement. For REDD+ to succeed, an institutional framework able to effectively and efficiently meet administrative and regulatory requirements in a predictable way is critical. This is essential for building confidence for future market participants and attracting private sector investment at scale.

The administrative tasks that need to be carried out include the following:

- Forest country capacity building, technology deployment, and land tenure reforms (public and private sector involvement);
- Review and registration of national and subnational reference levels/reference emission levels;
- Review and approval of REDD+ monitoring reports and registering projects;
- Issuing REDD+ credits to authorized public and private entities;
- Managing a buffer account to address permanence; and
- Developing dispute resolution procedures.

How a future REDD+ mechanism relates to the NAMA registry and financial mechanisms of the UNFCCC (GEF and Green Climate Fund) will also need to be considered from an administrative perspective.

**Environmental and Social Safeguards**

IETA believes environmental integrity is critical to ensuring that market transactions are transparent and trustworthy for both private and public sector finance. Principles and standards for responsible investments in REDD+ have been initiated by the private sector, in addition to work undertaken by institutions such as UN-REDD and the World Bank's Forest Carbon Partnership Facility (FCPF). The results and benefits from demonstration projects can build confidence, establish successful best practices and lead to essential learning among government officials, local communities and indigenous peoples. This will promote champions willing to implement robust REDD+ programs and projects with strong safeguards and transparent, verified results.

Voluntary standards such as Climate, Community & Biodiversity (CCB) Standards are currently being used to evaluate the design and implementation of land-based projects that simultaneously reduce or remove greenhouse gas emissions and generate positive impacts for local communities and the local environment. The CCB Standards can be used to demonstrate good project design to generate significant climate, community and biodiversity benefits. In addition, third party verification using a qualified auditor for the delivery of social and environmental benefits demonstrates a method to evidence results based action and in turn safeguards environmental and social integrity. The REDD+ SES initiative provides similar guidance regarding the optimisation of project design to achieve high environmental and social performance.

IETA also recognises and respects that Parties may have varying capacities and degrees of flexibility to implement identical safeguard measures, but allowing purely self-defined safeguard policies could lead to an unintended "race to the bottom" for such safeguard standards. Thus, IETA strongly encourages further dialogue toward striking the right balance between ensuring a minimum level of internationally recognised safeguards and recognising the vital role host governments play in implementing REDD+ policy.