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Opportunities and challenges associated with emerging carbon finance in forestry and land use

Seminar on country experiences and lessons learned

Issue Brief 4

Country circumstances and strategic choices: How can countries use emerging forest carbon finance opportunities to support their national mitigation and development objectives?

This issue brief was developed based on the background paper for the fourth session in a four-session seminar on country experiences and lessons learned on the **opportunities and challenges associated with emerging carbon finance in forestry and land use**. The paper was discussed at the event and received input from participants. This fourth session laid out and synthesized key choices available to countries in using emerging forest carbon finance opportunities to support their national mitigation and development objectives.

What questions did session 4 aim to answer?

This session laid out three strategic choices available to countries in using emerging forest carbon finance opportunities.

- Strategic choice 1: Selling international offsets vs. pursuing domestic targets (potentially with results-based payments, RBPs)?
- Strategic choice 2: What role should be given to projects in country efforts to reduce emissions from forests?
- Strategic choice 3: Which carbon standards should be used for verifying jurisdictional / national emission reductions?

Moreover, this session highlighted the country circumstances that determine approaches to using forest carbon finance. The premise is that countries' strategic choices are determined by a range of factors, such as the interest from bilateral or multilateral donors, their domestic mitigation ambition, the forest governance context, technical and administrative capacity, the extent to which countries have at all reduced emissions, carbon ownership, and momentum on carbon project development. The importance of these circumstances was explored for several example countries during this seminar session.

What key choices are available to countries in using forest carbon finance?

Country approaches to accessing carbon finance are as diverse as these countries' legal contexts, mitigation policies, forest governance and technical capacities. Moreover, carbon finance opportunities of course depend on the requirements of the international mechanisms for REDD+ payments. Despite this diversity, there are recurrent themes in the discussions at the country level on accessing carbon finance. Three of these recurrent themes are discussed here in more detail.

Strategic choice 1: Selling international offsets vs. pursuing domestic targets (potentially with RBPs)?

When planning and implementing REDD+, countries are guided by their development and mitigation targets. The multiple available sources of international (and domestic) carbon finance should support this work, yet implications for international targets are complex and the details of the Paris Agreement still need to emerge in full, including on critical issues such as double counting and the need for corresponding adjustments. Therefore, countries need to keep a close eye on managing the emission reduction claims of different kinds of carbon finance opportunities, including those from the private sector.

One of the key issues to be considered when contemplating carbon finance opportunities is how a country's Nationally Determined Contributions (NDC) targets and commitments are affected. Some carbon finance opportunities need to be seen in the context of countries' NDCs, either because the emission reductions support progress towards the host country's NDCs or because they offset another country's emissions based on a transfer of title to emission reductions between countries.

Relation of internationally transacted emission reductions to NDC commitments:

- Compliance with host-country NDC mitigation targets
- Compliance with other country's NDC mitigation targets and corresponding adjustment to the host country's NDC
- No obvious relation to either country's NDC mitigation targets but use for voluntary offsetting

There are, however, other cases where the relation between carbon finance opportunities and country NDCs is less obvious, regardless of whether emission reduction titles are transferred. Notably, in the case of offsets for voluntary offsetting purposes, the relation to a country's NDCs is often unclear. Voluntary offsetting is especially common for private entities and in the context of corporate carbon neutrality claims. Where offsetting is being undertaken voluntarily, the emission reductions, almost by definition, are not going to be counted against the country NDCs where the corporation is based. There are opposing views among sector experts whether accounting emission reductions against the host country's NDCs would need to be ruled out.

Table: Prominent carbon finance opportunities and relation to the host-country's NDC targets

	Emission reduction titles	Use of emission reductions for host-country NDC
GCF results-based payments pilot	No transfer of title	Can be used for host-country NDCs
REDD Early Movers	Carbon credits are issued, but not transferred, immediately retired	Can be used for host-country NDCs
Voluntary carbon markets (e.g., VCS)	Carbon credits are transferred to buyer	Unclear
FCPF Carbon Fund (tranche A)	Carbon credits are transferred to buyer	Adjustment required to host-country NDCs
FCPF Carbon Fund (tranche B)	Carbon credits are transferred to buyer and then returned to host country	Can be used for host-country NDCs
CORSIA	Carbon credits are transferred to buyer	Adjustment required to host-country NDCs
Domestic offsetting (several countries)	Carbon credits are transferred to buyer	Can be used for host-country NDCs

The strategic country choice to be made is about a possible trade-off between two country objectives: Offset sales may allow a country to achieve its own mitigation targets, or to attract international carbon finance. Country choices may be influenced by the available amounts of emission reductions and the stringency of mitigation targets – as well as by the need for international funding. In addition, the decision to sell offsets may also depend on who holds the right to ownership of emission reductions and who is monetizing them.

Strategic choice 2: What role should be given to projects in country efforts to reduce emissions from forests?

Land use and its changes are the result of diverse drivers. Consider a typical forest-rich landscape in a tropical developing country- there may be agribusinesses that produce for international commodity markets, working alongside local people who grow crops for subsistence. There may be wood harvesting, food production, or efforts to protect ecosystems. Governments will aim to regulate, harmonize, and direct these activities, for example through laws and regulations, through fiscal measures and through direct management intervention.

How can governments most effectively reduce emissions in such diverse landscapes and access carbon markets? Many countries develop jurisdictional programmes to raise carbon finance. In parallel, there are carbon projects in many countries that aim to reduce emissions at a local scale but sell carbon credits internationally. Several countries have hybrid schemes that integrate projects as implementation partners into jurisdictional programmes, or that give access to international carbon markets through nesting arrangements.

Potential roles for carbon projects:

- Implementation partners sharing benefits
- Carbon credit providers for domestic offsetting schemes
- International carbon credit vendors

Where carbon projects sell offsets into international carbon markets, whether for voluntary purposes or in the context of NDCs compliance, this can have implications for the country's ability to achieve targets and attract carbon finance. It is not always obvious that projects' emission reductions, once sold as offsets, can still be counted as contributions to national development objectives. Notably, it must be avoided that the same emission reductions be accounted against two NDCs (e.g., the selling and the buying country of an offset). Moreover, donors for jurisdictional REDD+ programmes may often be reluctant to provide funding for emission reductions, unless there is proof, for example through a registry, that these emission reductions were not also monetized otherwise, e.g., by a project selling offsets into voluntary carbon markets.

The strategic country choice to be made, is about what role to give to carbon projects: Projects may be integrated into government-led jurisdictional programmes, sharing their benefits, or they may access international carbon markets directly. Country choices may depend on whether the primary ownership of emission reductions rests with governments (that can therefore administer them) or with the owners of land (rendering use of the private sector to access carbon markets a natural choice). In addition, the private sector momentum differs between countries. Carbon projects have been rather successful in the past and have built up significant portfolios, allowing such activities to continue could be the most obvious course of action. Related to this, governmental efforts to incentivize private sector action through means other than carbon markets may be more or less effective. Governments with active subsidy and/or incentive schemes and that are effectively regulating the private sector may be in a good position to also integrate carbon projects into jurisdictional programmes and define which benefit/compensation they will receive. In any case, a close understanding of the private-sector perspective will be an important ingredient for governmental decision making on accessing carbon finance.

Strategic choice 3: Which carbon standards should be used for verifying jurisdictional / national emission reductions?

Not only are there various carbon finance opportunities available to countries, but there is also a growing number of carbon standards available that countries can use to have their achieved emission reductions verified as a basis for offset sales or results-based payments.

The available standards have different technical and regulatory requirements and may therefore be more or less suitable for any specific country context. Countries with much momentum for carbon project development will often seek to make arrangements for such carbon projects, and only some standards provide much detail there. Also, countries' forest monitoring systems may differ in their ability to meet technical requirements of carbon standards. Countries legal setups around the ownership of emission reduction titles could differ and therefore limit their ability to comply with some standards' requirements without reform.

Table: Technical and regulatory requirements of carbon standards that make them more or less suitable for countries

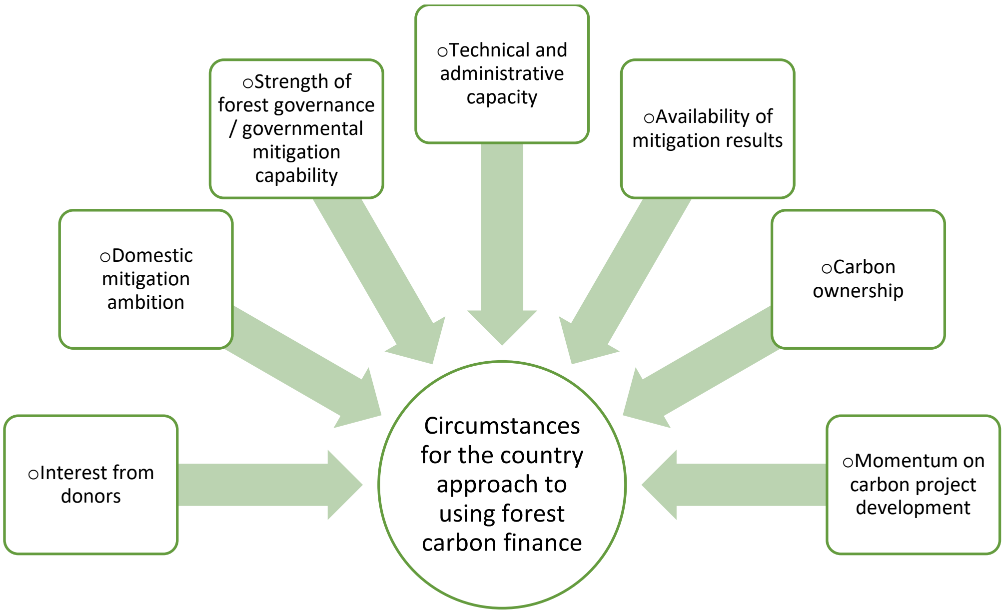
	Reference level time frames	Adjustment for high forest cover low deforestation	Arrangements for projects	Emission reduction ownership	Forest monitoring requirements
VCS JNR 4.0 (draft)	4-6 year reference period in latest update	No - historical average reference level	Crediting to projects and to government	Establish ownership of the programme	More demanding than Warsaw framework
ART / TREES 2.0 (draft)	5-year reference period	Yes – trend baseline allowed	Only government crediting	Secure and transfer emission reduction title	More demanding than Warsaw framework
Carbon Fund	10-year reference period (with flexibility)	Yes – limited adjustment for HFLD countries	Only government crediting	Secure and transfer emission reduction title	More demanding than Warsaw framework
GCF RBP pilot programme	5-20 year reference period	Yes – limited adjustment for HFLD countries	Results-based payments to government	Exclude competing claims	Largely the Warsaw framework

The technical requirements of carbon standards entail potentially different amounts of emission reductions – and different attainable carbon prices. Volumes depend on the specific rules for results measurements. For example, that reference periods differ will lead to different reference levels under VCS JNR and ART / TREES. Therefore, the amounts of emission reductions that could be credited will also differ. Moreover, obtainable carbon prices would also depend on the carbon standards since these give access to distinct carbon finance opportunities. For example, the Carbon Fund's standard purchase price amounts to 5 USD per tCO_2 while pricing in the voluntary carbon markets through ART/TREES or VCS JNR will depend on supply and demand – and could be higher or lower.

The strategic country choice to be made is about which carbon standard provides a best fit for a country's circumstances and capacities – while providing access to financing. Some countries may, because of the way their national systems are set up, not be eligible for certain standards – or much investment may be required for complying with technical requirements. Moreover, governments will closely consider the amounts of emission reductions that can be compensated and the achievable price.

What circumstances determine country approaches to using forest carbon finance?

Countries' legal contexts, mitigation policies, forest governance, and interaction with international sponsors determine their strategic choices in accessing carbon finance. The fourth session of the carbon finance seminar series laid this out by examining a small set of example countries.



Conclusion

Countries that successfully reduce emissions from forests have options to access carbon finance to support their mitigation efforts. The choices available to countries to do this include decisions regarding the sale of offsets, the role to give to private sector-led projects and the types of carbon standards to use. Such country choices will closely reflect the context of mitigation policy, legal context, private sector momentum and technical and administrative capability.