

# Innovative forest protection - REDD multi-level approach

Interview with Lucio Pedroni\*  
March 2011

**REDD projects for the voluntary carbon market are increasingly being launched by NGOs or private project developers at local level. Since Bali 2007, climate negotiations have largely taken a national approach to REDD. In Cancun there was a slight opening towards a sub-national level. How can these two worlds come together?**

This can happen by means of a multi-level approach (MA) – originally known as a *nested approach*. It is a proposal to reduce emissions by means of forest protection. The concept was initially developed by CATIE, a research institute for tropical agriculture in Costa Rica, and then introduced into international climate negotiations by several Latin American countries.

The MA seeks a gradual transition from local to national level. It is particularly attractive for countries which are not in a position to implement a national programme in the short term due to high costs and weak governance conditions. The MA was developed for REDD, but it can also be used as an approach to reducing emissions in other areas.

**How might the transition from one level to another actually work in practice?**

The MA aims for an internationally agreed system to measure and monitor emission reductions (MRV system). The application of consistent standards is supposed to ensure a positive impact on the environment and climate. A carbon accounting system based on national registers should allow sub-national projects to have direct access to the international carbon market.

The MA can be gradually implemented. It starts with local projects, followed later by national programmes and individual projects running simultaneously. The sub-national approaches are ultimately integrated/merged into a national REDD regime.

**That all sounds rather abstract. Perhaps we are going backwards again. How does the MA actually differ from a national REDD approach?**

The MA generates reductions in emissions from the outset, whereas a national approach needs a longer run-in period. In the case of a national system, governments first have to create the conditions for a nationwide REDD policy by setting up institutions, by establishing legal frameworks and instruments for the monitoring of forest stocks, and by determining a national reference level on which the calculations of emissions re-

ductions are based. This is all currently the subject of international debate, and termed as “REDD readiness”. Verifiable emission reductions can only be provided at the end of a long period of preparation, which takes several years.

The current assumption is that a national REDD policy will pass through three stages (see “Multi-level approach” diagram). In the case of a purely national approach, usable emission reductions (ER) will not be produced until the third phase. The MA delivers these from the start of the project.

**Who receives carbon credits from whom in such a system?**

In the case of a purely national approach, sub-national projects would not be possible without an overarching national REDD system, unless the national government funded them from its own resources. If national ER are produced, the distribution of the revenues depends on the political decisions of the government and on the efficiency of the transfer mechanisms. Since private investors have no control over the distribution mechanism, they are hardly likely to invest in local forest protection, i.e. in REDD.

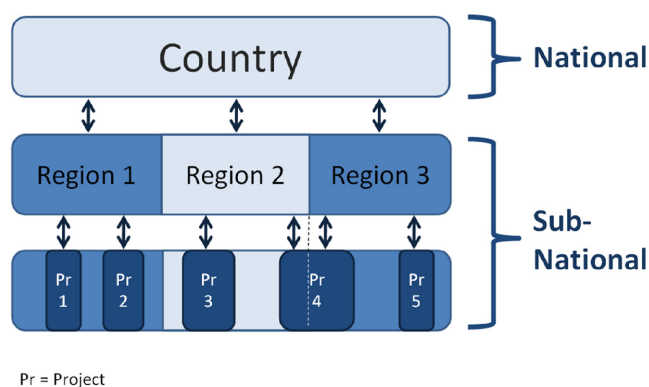
In this case, incentive payments could only come from international funds, which would need to have considerable financial volumes. It is hardly likely, however, that a sufficient number of donors could be found for this. After all, we’re talking about annual investments of around US\$ 20 billion.

**If I understand correctly, the governments are being ignored in the MA to begin with. Why should they then promote such an approach if the project developers are the only ones who ultimately stand to gain from it?**

The costs of a national REDD programme are high compared with the low investment capacity of public budgets in developing countries. With the MA, the private sector could assume a large proportion of the investment costs.

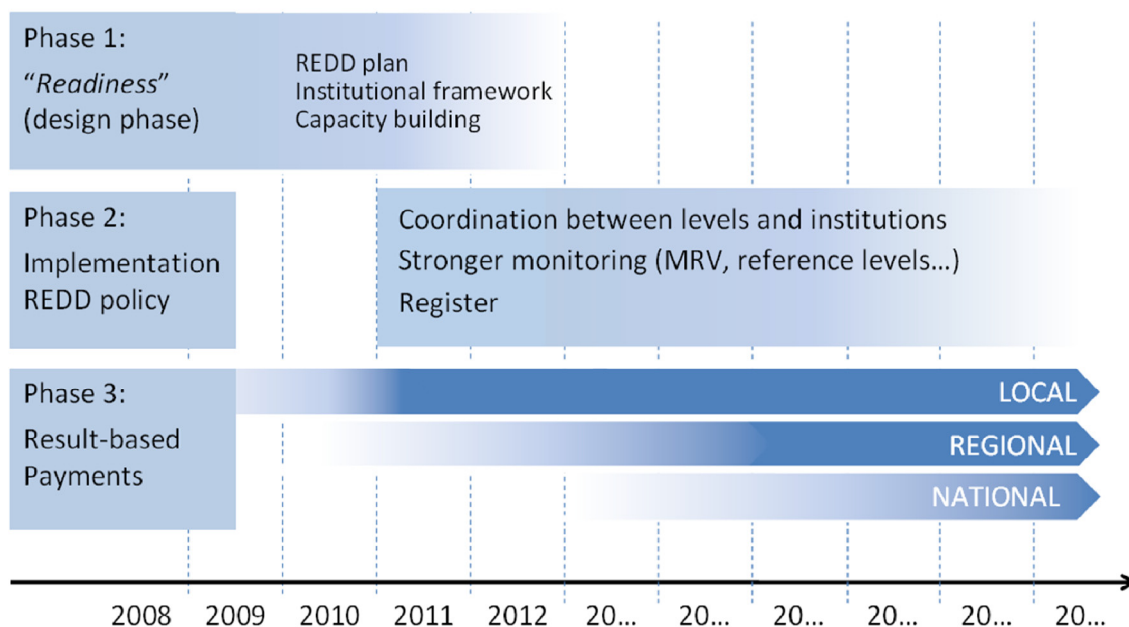
With the MA, the international carbon market provides a direct incentive for local players. They invest in hot spots of

Graphic 1: REDD at three levels



\* Lucio Pedroni is the founder and president of *Carbon Decisions International*, a consulting firm based in Costa Rica. He has spent 23 years working in international development cooperation, is a specialist in forest carbon and helped to develop the nested approach. Lucio Pedroni produced the diagrams in the text. The interview was conducted by Karl-Heinz Stecher.

**Graphic 2: REDD multi-level approach**



deforestation, where governance is often weak.

At the same time, national governments can focus their programmes on forests that are under less severe pressure. Eg., places with lower opportunity costs for forgone commercial exploitation, so larger areas can be protected. State programmes for protected areas and forest protection programmes, such as Sociobosque in Ecuador and the scheme to promote communal forests in Peru, are such approaches. These programmes, which often cover considerable expanses of up to 10 million ha or more, make a vital contribution to providing against leakage (shifting of forest destruction within national borders).

**Could you possibly explain step by step what role the national level has in the implementation of the MA?**

Ideally, at an early stage developing countries voluntarily define a national reference scenario (baseline). However, should the country need more time to take stock of deforestation dynamics and for overall preparations, or the so-called readiness process (consultation processes, setting up of institutions, legal foundations etc.), it could start voluntary REDD activities at sub-national level. According to the concept of the so-called “committed forest approach”, the country would first integrate only part of its national forests – in which reliable monitoring is possible – into a REDD regime and subsequently cover the entire country bit by bit.

The transition to a national REDD regime could then happen when specific threshold values are exceeded. One of these is the size of the area that is covered by centrally registered sub-national initiatives. Another could be the number of years that have passed since the start of the MA, in other words a defined transition period after which there is an automatic switchover to a national system. The US bill proposed by Boxer and Kerry, which unfortunately was not passed, assumed a maximum period of up to eight years for the endorsement of sub-national initiatives. Of course, provided necessary requirements are met, any country could install a national REDD regime before the transition period expires.

**What advance input is required at the national level and how much of its sovereignty must it give away?**

It would be necessary for national states to allow sub-national initiatives to produce emission credits beyond the date of transition to a national approach, i.e. throughout the entire runtime of the project. According to the “Voluntary Carbon Standard” (VCS), the runtime can be 20 to 100 years. In other words: the transition to a national regime would not automatically imply the end of the sub-national projects; their continuation would be feasible within a framework that is compatible with the reference scenario system and the MRV protocols applied at national level.

**Does this overlap not lead to a mix-up of levels and ultimately to double-counting of emissions, which compromises the climate integrity of REDD?**

A prerequisite for the MA is the authorisation and registration of sub-national initiatives by the national government. It is vital that this is done in a transparent and binding manner.

A register would be needed to prevent doublecounting of emissions, as it would show whether the relevant reduction in emissions comes from a sub-national project or from a national programme.

The carbon credits would be issued directly to the projects. This could be done via a unit especially created by the UNFCCC. After the launch of a national REDD programme, local project developers, local governments or indigenous communities could decide whether they are aiming for credits to be issued directly via the UNFCCC, or whether they want to become integrated within the national approach and have credits allocated by the national government.

Of crucial importance for the calculation of carbon credits is the benchmark on which it is based, i.e. the reference scenario. Countries wishing to start sub-national activities consistently take sub-national baselines as a basis, which take account not only of the current state of deforestation but also of future projections, e.g. for the next 5 to 10 years. The

baselines would be determined in accordance with the methodology stipulated by a responsible UNFCCC body. In principle, however, the standard VCS methodology is already sufficiently accurate. The stated baselines would be validated by independent experts and would be valid for a specific period of time, e.g. 10 years.

### Will a project-based procedure such as this not be a recipe for leakage?

It is becoming increasingly clear that regional baselines are preferable to local project baselines for larger units of area. These should cover preferably homogeneous regions with a uniform socio-economic structure and the same drivers of deforestation. In countries where federal states or provinces are responsible for forest policy, there is a consistent baseline for the relevant territorial unit.

transfer emission reduction quotas or rates of avoided deforestation for this period to the regional baseline units. This would be based on the UNFCCC-approved baseline method to prevent arbitrary divisions by national governments.

### And what about the national reference level – would this be determined by using the same method of regional baselines?

It is unlikely that governments in developing countries will accept projected baselines to determine the national reference level. A historic reference level is more likely, as with the Kyoto Protocol, which took the reference year 1990 as a basis. Given the strong fluctuations in forest destruction, an average historic level, e.g. the last five or ten years, is feasible.

### Does a hybrid system such as this not entail significant risks that leakage effects are not fully recorded? How could leakage be eliminated if sub-national and national REDD act together?

At the beginning of each commitment period the member states would define a national reduction target.

In principle, there are two possible ways of dealing with *leakage*:

- *Leakage* is estimated in line with a binding, UNFCCC-registered methodology and deducted from the emission credits by using this formula, so to speak:  $Emission\ credits = baseline\ emissions - observed\ emissions - leakage$ .
- The sub-national initiatives fit into a regional reference scenario. As *leakage* effects would then be recorded at a higher level, this would not be necessary at project level. If the higher level is a region or the national level, then the relevant governments could guard against possible *leakage* effects by imposing a levy or tax on emission credits.

The project operators would have the option either to disclose project-related *leakage*, as described above, and thus bill for example 30% less emission reduction, or to pay a fee of a comparable amount.

### And who guarantees that emission reductions will be permanent with the MA?

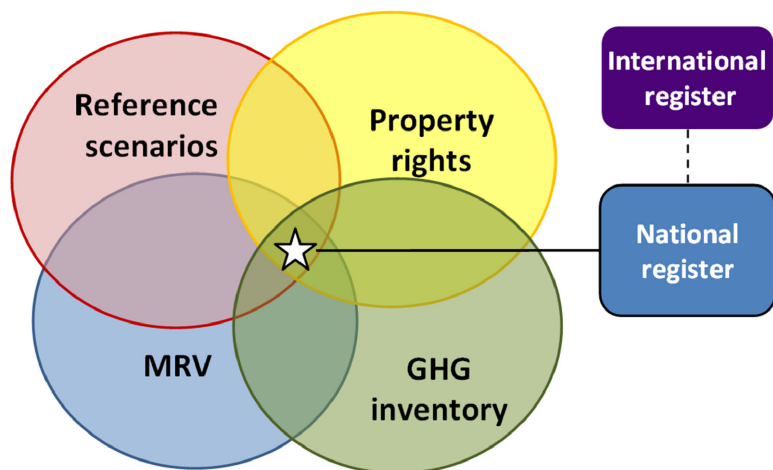
There are several ways of reducing risks of non-permanence: either time-limited emission credits are issued or a reserve fund/buffer fund of carbon credits and/or an insurance mechanism is set up. Experience shows, however, that buyers of carbon credits do not want certificates that they have to renew periodically. This is why the solutions just mentioned are more attractive.

With the “reserve fund” option, the sub-national initiatives and the national programmes could only sell part of their emission reductions. The rest would go into a national “reserve account”, which would be used to compensate future emissions increases.

### That sounds like complicated carbon accounting. What would a balance between the sub-national and national levels look like?

If a developing country reports emissions above its reference level (national baseline) at the end of a MRV period, the country would receive neither credits nor

Graphic 3: Central elements of REDD multi-level approach



The geographical borders of the reference regions and the associated baselines should preferably be registered with the UNFCCC, but at national level at the very least.

This should ensure that sub-national initiatives in the same region use the same baseline. The consistency of the scheme is thus enhanced, while preparation costs and times are kept to a minimum. To take an example: in the Madre de Dios region in Peru there are currently 11 sub-national REDD initiatives; a common baseline for the whole region would save costs and reduce reputational risk arising from the application of different baseline methods.

Once a national reference scenario has been introduced, the registered sub-national baselines remain valid until they expire. The national government would

### When using different methods – of forward-looking local and regional baselines and historic national reference levels – how can it be ensured that the whole system doesn't implode?

The best way would be to define the national baseline as the sum of all registered sub-national baselines. If a country makes the historic average the reference, emissions quotas can be allocated to the sub-national level by means of a distribution formula. These would be awarded to individual administrative units, ecoregions (biome) and other large landscapes, in a top-down process so to speak. The baseline for projects within these territorial units could then be determined by designating areas at particular risk.

a negative emissions balance (voluntary *no-lose target*). This applies up to the point at which the developing country reports emission reductions for the first time and receives credits for them. From this point in time the country is responsible for the permanence of these reduction contributions (including the sub-national reductions).

## **Can this prevent GHG reductions from being double-counted?**

Yes, that is possible, because the sub-national credits are subtracted from the emissions credits that are allocated to the national level. This requires an international or national register that allows credit transfers to be tracked. To determine the national credits at the end of a MRV period, *the actual MRV-verified emissions are deducted from the emissions as per the reference level. In addition, the emissions from an earlier period that have not yet been compensated as well as sub-national credits still have to be subtracted, too.*

Using this method of calculation, it is possible that the national carbon credits are zero or negative. The latter would be the case if sub-national initiatives have provided carbon credits. These credits then contribute to an increase in "emission debts" at national level. If a country has already started sub-national initia-

tives, however, it will already have credits in the reserve account that can be used for compensation.

The credits for the sub-national level are determined as follows: *Credits = Sub-national baseline emissions – MRV-verified sub-national emissions – leakage emissions.*

## **Are there alternatives to this system of offsetting? The non-governmental organisation The Nature Conservancy (TNC) recently published a study on the subject in collaboration with Project Catalyst. How does their proposal differ from the MA?**

TNC assumes that there is already a national reference scenario and MRV system and that sub-national projects are established within this framework. The TNC study is also very much geared towards insurance mechanisms through which the sustainability (permanence) of emission reductions should be assured.

## **In Brazil other offsetting methods are being discussed between the federal states and the national level. What do you think of these approaches?**

As far as I know, several options, including a MA, are presently being considered in Brazil. Remarkably enough, the voluntary system for the Amazon presented by

President Lula in Copenhagen is also a sub-national approach, although it's for the entire Amazon region. There are currently attempts to upscale REDD by extending it to other ecosystems, such as the Cerrado (dry savannah) and, possibly later, the Mata Atlantica, Brazil's coastal forest. This means that Brazil is actually taking a sub-national approach.

## **To conclude, another simple REDD message. What do you think will be the key aspects of implementing REDD over the next few years now that a landmark decision has been taken in Cancun to incorporate REDD into the framework convention on climate change?**

The governments of developing countries, not to mention forest communities, NGOs and private project developers, need an effective incentive system to be set up for REDD. REDD must not finish up in endless talk of readiness without any real action. We need measures on the ground to put a halt to deforestation. Sub-national projects are of great relevance here.