



NBS BRAZIL ALLIANCE
NATURE BASED SOLUTIONS

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A position paper by the NBS Brazil Alliance on Architecture for REDD+ Transactions (ART), The REDD+ Environmental Excellence Standard (TREES), and The Lowering Emissions by Accelerating Forest finance (LEAF) Coalition

Architecture for REDD+ Transactions (ART)

The REDD+ Environmental Excellence Standard (TREES)

The Lowering Emissions by Accelerating Forest finance (LEAF) Coalition

Tropical forest countries are being encouraged by the US, UK and Norwegian Governments to adopt an exclusive and unproven jurisdictional approach to prevent deforestation against the promise of a financing scheme called the Lowering Emissions by Accelerating Forest finance (LEAF) Coalition.

All international efforts to support tropical forest countries to protect forests from deforestation and forest degradation should be taken seriously. However, by imposing a model that discourages private sector project development in the critical work of forest conservation and recovery, the LEAF Coalition, and the standard it relies upon, ART/TREES, is likely to disincentivise much-needed investment, limit local agency and decision making and risks, not addressing the root cause of terrestrial emissions from the destruction of tropical forests.

Executive Summary

- With heightened demand for Verified Carbon Standard (VCS) carbon offsets from nature-based solutions (NBS), project-level REDD+ is proving highly appealing to international corporations who use offsets as a component of their climate mitigation strategies.
- Voluntary carbon offsets contribute towards meeting the country's Nationally Determined Contributions (NDCs) within which they are generated, with no need for corresponding adjustments in country-level GHG inventories.
- Under the jurisdictional approach proposed by ART/TREES, public and private landowners choosing to be part of the scheme are required to transfer the legal carbon rights to the jurisdiction's (federal or subnational) government in return for agreeing a benefit allocation plan to landowners/resource rights holders.
- This approach risks muffling the voices of local communities, increasing the risk of not adhering to the concept of Free, Prior and Informed Consent (FPIC).
- In addition, the participating government will have to develop a system to pass on carbon credits to projects and effectively guarantee rewards, which would increase transaction costs for all parties involved and significant investments to maintain such a system.
- ART/TREES is based on dated scientific definitions that do not measure the problem of terrestrial carbon emissions. For example, deforestation is not a useful proxy when emissions from degradation are not included. As such ART/TREES fails to adopt important updates in science and technology.
- Whereas all alternative carbon accounting standards require multi-decadal commitments, ART/TREES only requires 5-year crediting periods, thus in no way ensuring the permanence of any reductions in emissions.
- Although there currently are failures linked to subnational government transitions, ART/TREES is a program solely implemented by governments which can only commit through the tenure of that particular political administration, and failures linked to subnational government transitions are already known of.
- The lack of incentives for private sector participation in the origination of carbon units would limit the capacity to provide up-front investments that lead to payments for achieved results. In other words, the payments offered for results will not materialize if investments expected to generate those results are absent.

- Private sector projects encourage foreign direct investment into a region, generate local employment and boost local economies. The public sector benefits through appropriately designed revenue and benefit sharing mechanisms, as well as increasing income and corporation tax receivable. The interests of private investors and the government are aligned as they share in the success of the project when it performs well.

Growing demand for forest carbon offsets

Demand for carbon offsets, especially from independently verified forest protection projects, has risen rapidly in recent years. This is evidenced by how the volume of emission reductions claimed doubled between 2017 and 2020 and increased from 5% of total voluntary carbon offset issuances in 2010 to 40% in 2020.

This demand is expected to continue to soar in the near future as corporations seek ways to meet their climate pledges and better understand the important role of nature-based solutions in reducing atmospheric greenhouse gases (GHGs).

The Taskforce on Scaling Voluntary Carbon Markets (TSVCM), a mix of international businesses, academic experts and NGOs, is working to establish guidance for corporations looking to purchase high quality voluntary carbon offsets, with the aim of growing the market 15-fold by 2030.

The TSVCM - launched as a private sector-led initiative - found that while demand for voluntary carbon offsets exceeded 88 million tonnes of CO₂ equivalent in 2020, it is estimated to increase to at least 2 gigatons of CO₂ per year by 2030. For this to be achievable and for climate finance to reach the areas where it needs to be spent, there must be incentives to encourage further private sector investment.

However, when it comes to developing tropical forest protection, there is an increasingly crowded landscape of suggested approaches, requirements and standards.

The most common and successful model has been through site-specific project development, which can be verified against independent standards, such as the Verified Carbon Standard (VCS) Program, administered by Verra, a Washington DC based non-profit.

The VCS Program is the world's most widely used voluntary GHG program, in which nearly 1,700 certified VCS projects have collectively reduced or removed more than 630 million tonnes of carbon and other GHG emissions from the atmosphere. We acknowledge, however, that the VCS is a work in process with plenty of room for improvement and strive to resolve issues emerging from the experience of implementing actual projects, including inadequate baselines.

This type of project development can be done through private sector initiatives that work alongside governments and local communities to establish projects which respond to the specific local needs of the forest areas and communities.

By generating verified emissions reductions (VERs), or carbon offsets, the projects can tap into the burgeoning voluntary carbon market demand and finance their own environmental and social development programs with no need for government (taxpayer) funds.

This allows projects to attract significant private sector investment, especially foreign direct investment which boosts local employment and regional economies. The public sector may also benefit through appropriately designed revenue and benefit sharing mechanisms, while also increasing income and corporation tax receivables.

Projects can also fund activities – such as patrolling, restoration, monitoring and micro-finance - which would otherwise rely on local government funding, which is at times scarce or non-existent, and thus presents a solution to chronic problems such as the funding of “paper parks” and communally-managed protected areas.

The above presents examples of instances in which the interests of private investors and the government are aligned, as they share in the success of well-performing projects.

Forest carbon projects vary in size from relatively small areas to multi-million hectare landscapes, and are typically expected to demonstrate community and biodiversity benefits alongside the certification of avoided or sequestered carbon emissions.

These additional attributes are independently audited through third-party standards, such as the Climate, Community and Biodiversity (CCB) Standards, which were developed through a multi-stakeholder process by the [Climate, Community & Biodiversity Alliance](#), a partnership of [CARE](#), [Conservation International](#), [The Nature Conservancy](#), the [Rainforest Alliance](#) and the [Wildlife Conservation Society](#). CCB Standards add an additional layer of accreditation to projects of this kind, ensuring communities are sufficiently incorporated in the decision-making process from the design stage and are appropriately protected with the necessary safeguards. Projects of this kind must also irrevocably adhere to the UN principles of Free, Prior and Informed Consent (FPIC) need always to be adhered to in projects of this kind.

However, an alternative approach to site-based project development activities, which is gaining traction in discussions, is the Jurisdictional Approach, which hopes to manage forest carbon emissions at the national or, in the interim, sub-national level.

ART/TREES and the LEAF Coalition

The Architecture for REDD+ Transactions (ART) is a certification scheme which uses the REDD+ methodology (Reducing Emissions from Deforestation and forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries). It was developed through a steering committee of the Norwegian International Climate and Forest Initiative (NICFI), Environmental Defence Fund (EDF), Rockefeller Foundation, and the Climate and Land Use Alliance (CLUA). The secretariat is administered by the US non-profit organisation, Winrock International.

To be eligible for the ART certification, the REDD+ activity must be at national or sub-national jurisdictional scale, covering at least 2.5 million hectares of forest. It must also be certified against ART’s newly established standard, The REDD+ Environmental Excellence Standard (TREES).

The standard sets requirements for “accounting and crediting; monitoring; reporting and independent verification; mitigation of leakage and reversal risks; avoidance of double counting; assurance of robust environmental and social safeguards; and the transparent issuance of serialized units on a public registry”.

The non-profit intermediary Emergent Forest Finance Accelerator was created in August 2019, with the aim of selling any resulting credits, certified under the ART/TREES certification scheme, and also to ensure that proceeds from transactions are reinvested as aforementioned by the donor governments. Emergent is also partly funded by the Norwegian Government.

Under ART/TREES, the national government is required to be responsible for the development of forest protection and the sales of any resulting credits. Since national governments are responsible

for credit generation and sales, this may not meet the governance requirements of certain private investors.

Additionally, the private sector will be prevented from investing in project development as the government will control the potential revenue stream of the projects, as outlined in the required contractual benefit sharing agreements, thus generating potential risks. This is particularly relevant when in the case of countries with lower rankings by organisations such as Transparency International.

The use of ART/TREES as a standard is a requirement for countries hoping to benefit from the LEAF Coalition, an international forest financing scheme announced by President Biden at the Climate Leaders' Summit 2021, with support from the United States, United Kingdom, and Norway, as well as from a small group of companies.

A number of forest countries are currently considering joining the LEAF Coalition, while others have already publicly rejected it.

For example, the Indonesian Environment and Forestry Minister, Siti Nurbaya, said her country will not currently join the coalition because it requires that ART/TREES serve as the single standard for deforestation and carbon evaluation, regarding which she raises concerns relating to issues of carbon pricing, uncertainties, and leakage.

Issues with ART/TREES

While project developers have local teams working alongside the public sector to implement projects that address local issues, the prescriptive nature of ART/TREES has been perceived as a case of Global North governments dictating principles of forest conservation to the Global South, without consideration for local communities and their characteristics. This risks undermining the credibility of conservation as just another means of foreign control over a country's natural resources.

By operating at the national/subnational level there is a separation of carbon rights from the land, which is problematic in at least two reasons. Firstly, it can be considered to usurp resource rights away from landowners (even in lower levels of government, such as national park service(s)) to the federal government, which could be proven even more prejudicial in a corrupt government environment if ART/TREES does not have the right control in place to detect it. Secondly, it blocks local decision-making and does not preclude adherence to the UN concept of Free, Prior and Informed Consent (FPIC).

The jurisdictional approach in which ART/TREES, and therefore the LEAF Coalition, relies upon is unproven, insofar as there are as yet no successful working examples globally (notably, it is not an approach adopted by those countries promoting the LEAF Coalition / ART/TREES rules), and it focuses entirely on policy changes rather than techniques incorporating scientific, technological and conservation best practices.

An investigation by Norway's Office of the Auditor General into Norway's International Climate and Forest Initiative (NICFI) reported that progress and results were delayed and had uncertain feasibility and effects. The Office concluded that Norway's initial investments may not have had any climatic impact.

Barriers to private sector investment

Other forest protection approaches allow the private sector to provide up-front investment into the development and operation of forest protection projects. ART/TREES, however, requires the public sector – at the national or subnational level – to develop and operate the process of forest protection,

as well as to manage the generation of carbon offsets, which are then sold through Emergent or directly by countries to willing buyers.

This means the public sector is responsible for investing in the planning and development of the projects, which implies in the requirement of the necessary skills, expertise, and capacity (including, forest carbon analysis, social program design and coordination, sustainable business development, among others) to perform the multidisciplinary actions needed to meet the standard's requirements. The public sector is also expected to build capacity within the communities affected by the forest protection and deliver the complex social programs that will ultimately provide alternative livelihoods to those currently engaged in destructive activities.

Moreover, the popularity and significant growth of interest in, for example, VCS projects, as an alternative, demonstrates a strong interest from corporations in tangible projects that provide real performance and impact forming a credible narrative that can be shared with customers.

There is little evidence that the Jurisdictional Model will appeal to corporate credit buyers who understand the shortcomings of this model and wish to offset emissions while telling positive environmental stories, the main concern being that companies do not yet believe there will be any discernible results to lay claim to. This form of forest conservation has been demonstrated to be unsuccessful across the tropics for many decades.

Credibility issues

Site-specific projects that are accredited by the VCS are required to undergo independent third-party audit. The standard requires certain disclosures and allows public consultation periods over technical work prepared. As the auditing system improves, the level of transparency demanded by corporate buyers of carbon offsets is provided along with the confidence that results are valid.

There is some concern that government-led programs, like those administered under ART/TREES, will not allow for a similar level of transparency and scrutiny because governments may be unwilling or unable to gather and publish certain data. It is reinforced the need for high-quality third-party auditing processes, to be chosen under stringent terms.

In addition, under the VCS, a core requirement for project developers is the demonstration of *additionality*. To clearly show that through the intervention of the project activity, forest protection has increased, and emissions have been demonstrably reduced against accurately forecast business-as-usual scenarios (i.e. that they would not otherwise have been reduced).

Under the jurisdictional approach, additionality is not explicit but rather assumed through the implementation of new government policies. It is extremely difficult to attribute causality of a reduction in deforestation to a particular policy action, meaning performance is unclear and could be the result of factors independent of the forest protection program.

Weakening of requirements

A site-specific project baseline must be constructed by analysing a combination of historical deforestation trends, the particular political, economic and social circumstances affecting the project area, and detailed comparative analysis of similar sites.

Under ART/TREES, a baseline is constructed by analysing 5 years of historic deforestation data from the project start date and then extrapolating into the future, based on either i) a linear approach; or ii) a decreasing trend.

This is problematic for a number of reasons. It assumes that deforestation rates are never increasing, which is at best a dangerously naïve assumption, and evidently wrong. It relies on outmoded definitions of forest with a core focus on unplanned deforestation, measuring forest to non-forest changes and ignoring degradation. It does not appropriately capture planned deforestation, such as infrastructure investments, like roads, or other agents/drivers of deforestation, which could increase emissions without being properly included in the baseline.

Furthermore, ART/TREES absolutely does not demonstrate reliable permanence and can be subject to change, as one political administration replaces another's policies, a significant factor exemplified by the recent history of Brazil.

All other carbon accounting standards require a multi-decade approach, while ART/TREES requires only a five-year crediting period. Private project developers must ensure they establish robust legal contracts that are able to survive changes in political administration, for a minimum of 30 years.

With only 5 years of historic data analysed, and 5-yearly crediting periods, this standard is going to suffer from far greater volatility than those that look back 10 years and model forward 10 years, for example. In this case, more data greatly improves statistical analysis, which is not something ART/TREES takes into account.

The method with which ART/TREES addresses the risk of leakage, particularly leakage from activity shifting, also seems arbitrary and not sufficiently robust. Our understanding is that if more than 90% of total national forests are included in a program, then it can be assumed that no leakage will occur. Furthermore, when working at the national scale, even 10% is a dangerously large area of forest that can be omitted from a program (10% of the Brazilian Amazon would be circa 50 million hectares for example).

Final remarks

ART/TREES presents a multitude of technical issues which makes this approach overall unfounded. This means that ART/TREES projects can, under current requirements, conceivably issue credits even when uncertainty is above 100%. We understand this issue will be covered by the new, still unpublished, ART/TREES standard.

The poor accounting for community and land tenure issues, and the negative impact it would have on both domestic and foreign direct investments in this space, as well as little or no indication that there is any demand in the market for such a product, suggests to us that far more work is needed before such an approach could ever be committed to anywhere globally.

The NBS Brazil Alliance is composed by the following companies:

Agrocortex, Bio Assets, Biofílica Carbonext, Ecosecurities, Fundação Amazônia Sustentável, Instituto BV Rio, Instituto de Conservação e Desenvolvimento Sustentável da Amazônia – IDESAM, Mirova Natural Capital, Permial Brasil Serviços Ambientais, South Pole Carbon Asset Management