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Chapter 14: How does REDD+ nesting work?

Countries may want to integrate Reducing Emissions from Deforestation and Degradation (REDD+) activities across different scales in order to support jurisdictional programs and voluntary carbon market (VCM) projects. 'Nesting' provides countries with a toolbox for harmonizing and supporting REDD+ at different investment and governance levels.

What is nesting?

Nesting harmonizes land-use activities implemented at different scales, integrates the accounting frameworks for different **REDD+** activities, helps to manage leakage, and enforces environmental safeguards across programs and projects. Nested REDD+ systems align **accounting** and reporting of greenhouse gas (GHG) emission reductions and removals from **Avoided Deforestation (AD) projects and jurisdictional REDD+ programs**. In doing so, nesting enables REDD+ implementation at different scales by creating incentives for both public and private actors. Governments are best equipped to establish long-term sustainable land use systems, fight illegal activities and corruption, and grant secure **land rights for Indigenous peoples and local communities (IPLCs)**. Project developers and local partners on the ground can design and implement local solutions and establish **benefit sharing arrangements** for specific socio-ecological contexts. Companies can provide the investments and quickly disburse payments to accelerate climate change mitigation, while complying with regulations that push them to

reduce emissions and deforestation in their supply chains.

Nested systems are likely to play a major role in the design and implementation of REDD+ going forward. Effective nesting systems that generate high-quality carbon credits will help to attract private finance for forest conservation and climate change mitigation interventions. The ideal nesting arrangement aligns privately funded projects with jurisdictional REDD+ programs to protect forests at scale while maximizing cooperation between private and public actors.

Why would governments engage in nesting?

Governments choose to engage in nesting because they want to align **project level accounting** with jurisdictional **REDD+ programs**. Nesting is implemented to incentivize direct private investment into REDD+ while increasing the integrity of REDD+ projects through conservative baselines and accounting of leakage across an entire jurisdiction. Nesting can help countries to meet results-based payment goals under international or multilateral agreements, access finance for climate and forests goals, strengthen national REDD+ strategy, and generate jurisdictional-level carbon credits to sell in the VCM. Nested REDD+ may be more attractive to voluntary buyers because **quality concerns** associated with inflated project baselines, leakage, permanence, and safeguards are thought to be better addressed through larger-scale

programs, while investments are allowed to flow to distinct project activities. However, the **quality of credits** from nested REDD+ programs depends on the integrity of national accounting methods and the ability to enforce regulation. The credibility of REDD+ programs depends on conservative forest emissions reference levels (FRELs), robust measurement, reporting and verification, and enforceable safeguards across all implementation levels.

How should nesting be designed?

Governments should identify clear policy objectives before designing a nested system. Local circumstances and policy preferences will determine how a country chooses to nest projects: the government may seek to control crediting and finance or prefer to encourage crediting and investment at the project scale.

Nested REDD+ can have varying degrees of government control. In centralized nesting systems, carbon credits are only issued at the national scale and projects participate in REDD+

through government-controlled **benefit sharing**. In decentralized nesting systems, credits are also generated at the project scale, and projects generate and market credits independently from the government. In countries where VCM project level activities are under implementation, or generally welcome, decentralized nesting is often the favored implementation modality since it accepts existing agreements and avoids legal controversy with participants in existing projects. Figure 14.1 shows how REDD+ can be structured as jurisdictional programs or stand-alone projects in a country with no nesting systems, or under centralized or decentralized nesting systems.

The two jurisdictional **REDD+ standards** —Verra’s Jurisdictional and Nested REDD (**JNR**) and the Architecture for REDD+ transactions (**ART/TREES**) — define criteria for nested REDD+. In both cases, governments have the choice between centralized or decentralized nested systems. While JNR offers detailed guidelines rules for nested REDD+, ART/TREES defines a number of scenarios but leaves the details for the participating governments to decide.

Box 14.1: Is nesting required for REDD+ to generate credits that are traded in the VCM?

No. REDD+ projects may be developed and generate tradable units without being nested if a country does not have a nesting approach. REDD+ can function as a jurisdictional program in which all activities are managed by the government, with no separate accounting or crediting, and payments are made through **benefit sharing arrangements**. However, nesting is a good strategy to ensure alignment between national forest policies and project-level activities to reduce deforestation. Nesting can be implemented in a stepwise approach, starting with the coordination of jurisdictional reference level and project baselines, and moving to a more comprehensive nesting system over time.

What are the key features of nested REDD+ systems?

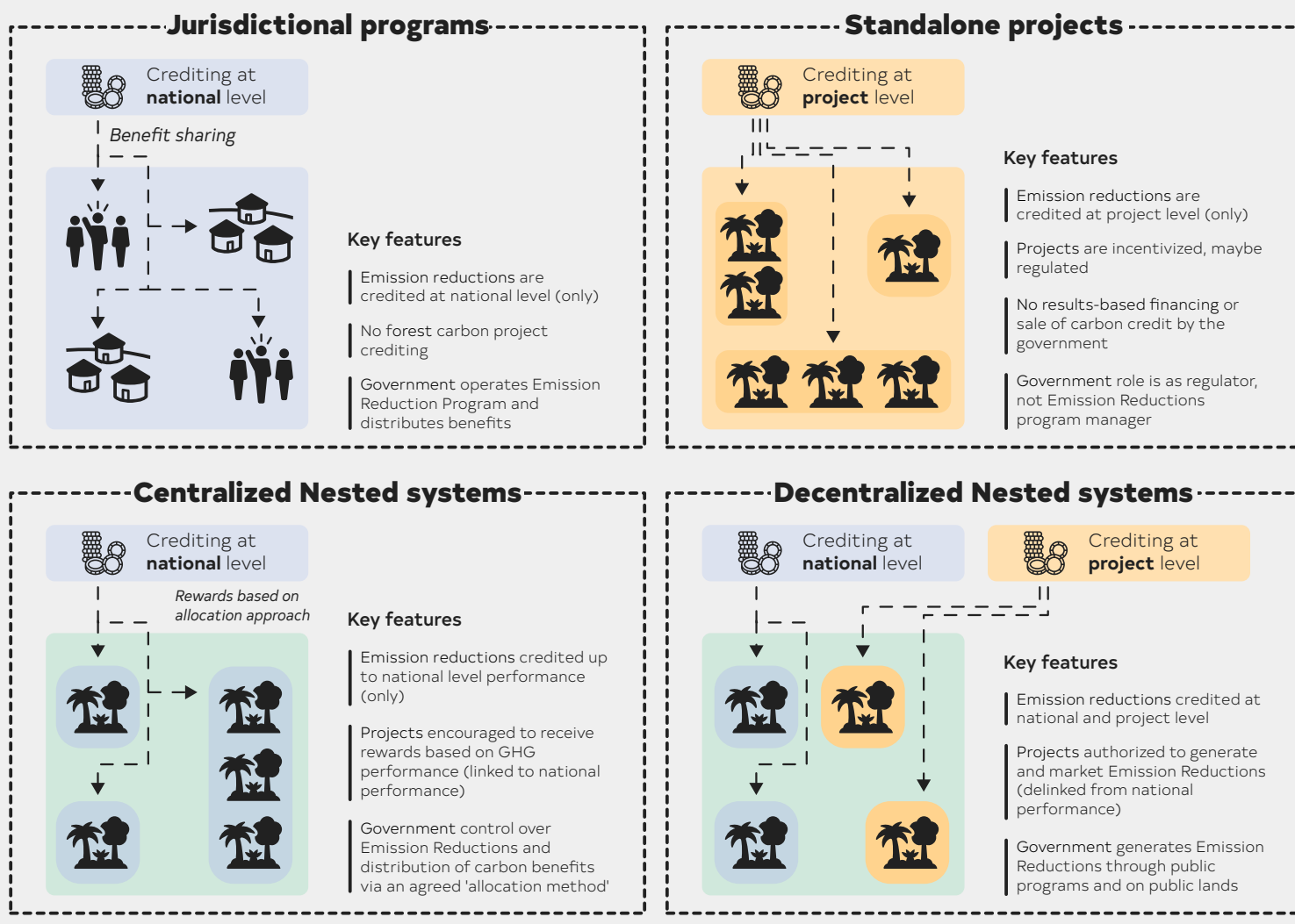
Nested systems require robust **accounting systems**, clarity on **land titles and carbon rights**, and institutional frameworks that support nested REDD+.



Governments must have credible REDD+ carbon accounting in place. To promote alignment in baseline setting across REDD+ projects and programs,

governments can mandate conformity in baseline and monitoring methodologies, allocate the FREL to ensure that project baselines do not exceed the jurisdictional baseline, or set maximum crediting levels for projects. Governments must also decide on the REDD+ activities that will be included in nesting, and establish definitions, data, and methods for estimating GHG emissions. For effective nested REDD+, governments must have the ability to track and register projects and credits, ensure consistency of data, and share this information transparently. Governments should also consider whether and when they will back REDD+ transactions with corresponding adjustments under **Paris Agreement Article 6**.

Figure 14.1 | Structures for REDD+





The rights to land and carbon benefits inform the design of nested REDD+ systems.

Clarifying land tenure and associated **carbon rights** through laws or contracts facilitates the implementation of REDD+ nesting. Governments should consider legal rights of existing AD projects and how these rights need to be integrated in nested REDD+ systems. Depending on the land systems and rights of communities and individuals, governments may have to take into account future REDD+ projects and create measures for those projects to be legally nested in jurisdictional systems. Governments should also establish **benefit sharing** plans that detail how carbon finance from REDD+ projects and programs are distributed, and the monetary or non-monetary incentives that will be shared.



Governments can implement safeguards for nested REDD+ activities.

Participatory consultations with local actors are essential to successful integration of existing REDD+ projects with nested systems. Nested REDD+ should: align with the objectives of national forest programs and international agreements; be transparent and account for national legislation and sovereignty; respect the knowledge and **rights of Indigenous**

Peoples and local communities;

ensure the full and effective participation of relevant stakeholders; promote conservation of forests and biodiversity; address the risks of reversals; and avoid displacement of emissions. In addition to safeguards imposed by governments, private sector project developers or **carbon standards** may impose additional safeguard requirements.



Government institutions should have clearly assigned responsibilities for the implementation of nesting.

Institutional infrastructure is needed to manage the technical, financial, administrative, and supervisory aspects of nesting, and for the allocation of GHG emission reductions, management of funds and sharing of associated benefits. Government institutions are responsibility for monitoring, verifying, and accounting for jurisdictional emission reductions. Governments should consider creating registries, national monitoring systems, and other data management mechanisms to facilitate effective nesting implementation and institutional coordination.

Governments should also consider the risks inherent to nested systems, particularly the underperformance of jurisdictional programs or projects in generating GHG emission reductions and removals. Corporate buyers may prefer to trade credits directly with project developers or directly invest in projects because they are not able or willing to assume the risk of government implementation failure. However, governments can increase

corporate support for jurisdictional programs by establishing clear nesting rules and by defining rules that allocate the risk of non-performance at the project or jurisdictional levels. Methods to reduce risks depend on the type of nested REDD+ system, and may include strengthening institutions and governance to provide effective implementation, sharing of performance risk and establishing accountability mechanisms, securing multiple streams of finance, **compensating actors** negatively impacted by nesting (e.g. where **rights to carbon** are centralized and need to be compensated), including relevant stakeholders in REDD+ and benefit sharing designs, and using the most updated methodologies for calculating GHG emission reductions and removals.

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Further Reading

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