The Voluntary Carbon Market **Explained**

Chapter 14

Chapter 14: How can the voluntary carbon market support REDD+?

The voluntary carbon market (VCM) incorporates Reducing Emissions from Deforestation and Degradation plus (REDD+) through the certification and trade of carbon credits that are generated by voluntary activities that seek to reduce deforestation. Carbon standards have developed methodologies to certify specific types of REDD+ activities. There are several standards focused specifically on the certification of jurisdictional-scale REDD+.

What is REDD+?

REDD+ stands for "Reducing Emissions from Deforestation and Degradation plus conservation, sustainable management, and enhancement of forest stocks." REDD+ is an incentive framework under the United Nations Framework Convention on Climate Change (UNFCCC) for developing countries to reduce forest emissions and increase the sequestration of carbon in forests. REDD+ programs are set up at the national level by governments in the form of jurisdictional programs. Complementary subnational REDD+ projects can be developed by public or private entities. REDD+ can function as a results-based payment (RBP) mechanism through which countries receive payments in exchange for reduced emissions from deforestation. REDD+ can also be linked to carbon markets and function as market-based mechanism that is funded through the trade of carbon credits.

In 2013, the Conference of the Parties to the UNFCCC adopted the "Warsaw Framework for REDD+" (WFR), a set of seven UNFCCC decisions, as the rules governing REDD+. The WFR provides criteria for developing countries to implement REDD+, measure results, implement safeguards, and access finance. The WFR encourages countries to develop national or jurisdictional programs to guide implementation of REDD+ and requires countries to establish supporting national forest monitoring and safeguard frameworks. National REDD+ programs define measures to address deforestation and conserve and enhance forest carbon stocks. REDD+ results are measured in tons of carbon dioxide (tCO_2) against a Forest Reference (Emissions) Level (FREL).

The WFR requires that countries develop national accounting frameworks for REDD+ results. Government-sponsored subnational accounting and implementation can serve as interim steps towards national implementation. Participating countries can decide on the REDD+ measures they will take to reduce deforestation and degradation, enhance forest carbon stocks, or sustainably manage forests. Participation in market-based approaches, including the VCM, is one way that countries can achieve REDD+ results. Figure 14.1 provides an overview of the history of REDD+.

Governments can support jurisdictional REDD+ programs that are certified by carbon standards such as Verra's Jurisdictional and Nested REDD+ Framework (JNR) and the Architecture for REDD+ Transactions' The REDD+ Environmental Excellence Standard (ART/TREES). Governments can also support project-level REDD+ activities on their territories as part of public measures to reduce deforestation and forest degradation or to encourage private activity developers to develop and finance projects and programs that contribute to REDD+ outcomes.

Governments can facilitate site-specific REDD+ investments in the context of jurisdictional programs by clarifying and securing land, resource, and carbon rights. To encourage VCM investment, countries can develop regulatory environments that facilitate direct investment into REDD+ activities through the VCM. Government agencies may also be project developers or implementation partners. Government agencies can partner with subnational agencies, authorities (e.g., park services), civil society organizations, and Indigenous Peoples and local communities (IPs&LCs) to develop REDD+ projects and sell credits.

The WFR creates the necessary architecture to reward developing countries through RBPs for REDD+ benefits. The WFR also recognizes that market-based finance such as the VCM may require additional criteria to receive payments, such as independent verification of results. The Paris Agreement opens the possibility for forest carbon and REDD+ credits to be transacted under the modalities that govern Cooperative Approaches under Article 6 of the Agreement.

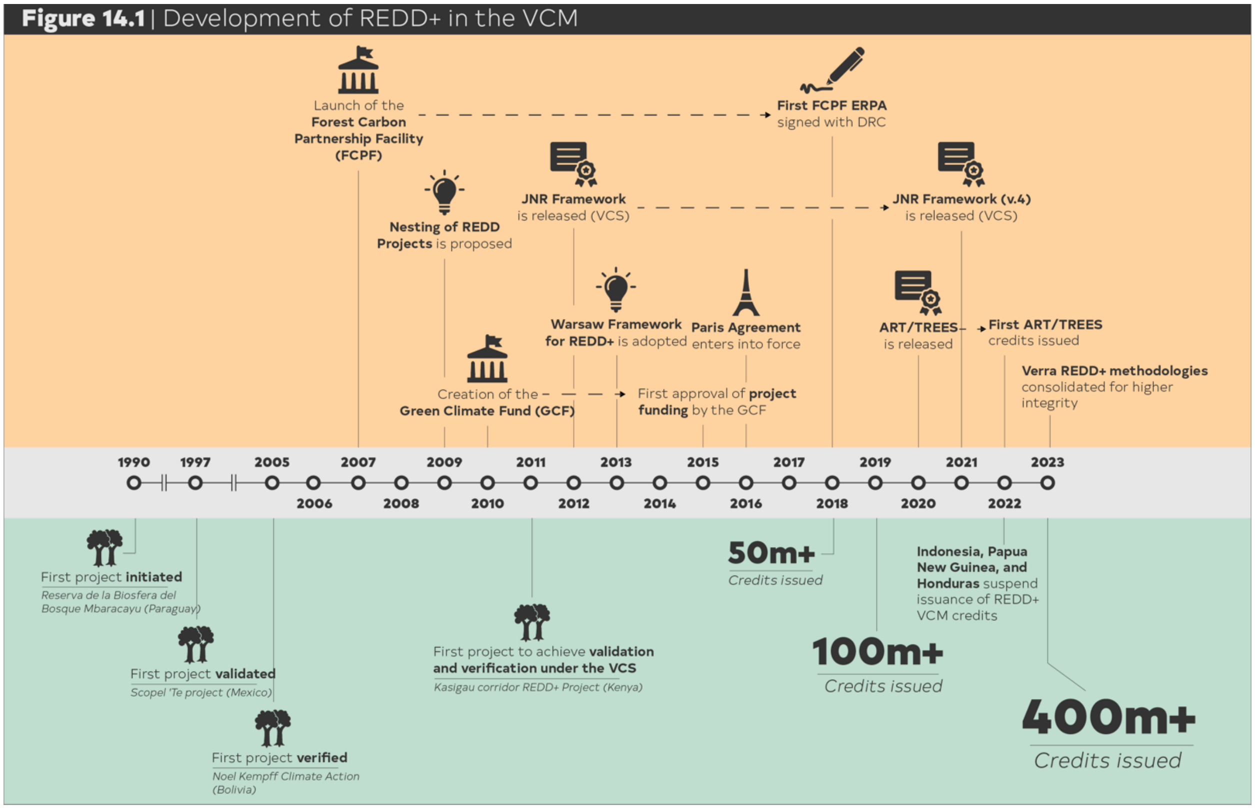
Countries can develop cooperative REDD+ programs under Article 6.2 of the Paris Agreement, and REDD+ projects may be accredited under Article 6.4 of the Paris Agreement, provided they meet the mechanism's requirements and are approved by governments. Private actors can seek authorization to participate in such programs and projects under both Article 6.2 and 6.4. While REDD+ programs can also continue under the VCM, authorization under Article 6 is necessary if participants want to ensure that greenhouse gas (GHG) reductions are backed by corresponding adjustments and do not count against the host country's Nationally Determined Contributions (NDCs).

How is REDD+ integrated in the VCM?

REDD+ is one category of nature-based solutions (NbS) certified in the VCM. REDD+ can include avoided deforestation (AD), improved forest management (IFM), and afforestation, reforestation, and revegetation (ARR) activities. REDD+ can be developed at a project level or a jurisdictional or program level. To generate high-quality carbon credits, REDD+ projects and jurisdictional programs should follow methods consistent with the Intergovernmental Panel on Climate Change (IPCC) for quantification and use new monitoring technologies to the extent possible.

As of 2020, the Climate, Community, and Biodiversity Standards (CCB), the Verified Carbon Standard (VCS), the Gold Standard for the Global Goals (GS4GG), and Plan Vivo (PV) had certified 212 VCM REDD+ projects, which are expected to issue over 2.1 billion credits. 76 countries have REDD+ projects or programs, although not all REDD+ activities are certified to issue VCM credits. REDD+ has become more popular among voluntary buyers in recent years. There was a huge jump in REDD+ credit issuances and retirements in 2017-2022 compared to all the preceding years. The annual credit issuance for REDD+ grew by 20 times from 2016, when 5.4 million credits were issued, to 2021, which saw the issuance of over 108 million REDD+ credits,

Figure 14.1 | Development of REDD+ in the VCM



exceeding all previous years and 2022.

Almost all VCM REDD+ credits are issued under VCS. VCS has eight methodologies that support REDD+, although it is in the process of consolidating all of its AD methodologies into one new REDD+ methodology. PV issues a small portion of VCM REDD+ credits under its “REDD in community managed forests” and “prevention of deforestation” approved approaches.

JNR and ART/TREES provide methodologies to certify jurisdictional-scale REDD+ credits that can be traded in the VCM. REDD+ activities under these standards can be developed by national or subnational governments or, in the case of ART/TREES, by indigenous groups with sufficiently large territories. The first Letters of Intent for transactions involving jurisdictional credits certified under ART/TREES were signed in November 2021. As of May 2023, there were 17 programs in the ART/TREES registry. Guyana is the first and, so far, only jurisdiction to have been issued ART/TREES credits. So far, no credits have been issued under Verra’s JNR methodology.

Some REDD+ activities that generate VCM credits are supported by purchase programs. Purchase programs for national REDD+ credits often define their own program rules. Two notable purchase programs are the World Bank’s Forestry Carbon Partnership Facility (FCPF) and the Green Climate Fund.

The FCPF has two trust funds—the Readiness Fund and the Carbon Fund—that provide finance for national REDD+ strategies and large-scale REDD+ programs, respectively. Like private standards, the FCPF has defined rules, in the form of a methodological framework, to certify emission reductions from REDD+ programs. As of June 2023, the FCPF Carbon Fund had signed Emission Reduction Payment Agreements (ERPAs) with 15 countries.

Similarly, the Green Climate Fund allocates funds with respect to the three REDD+ phases of readiness, implementation, and RBPs with its own "Performance measurement framework for REDD+ results based payments.” As of June 2023, the Green Climate Fund had made RBPs to 8 countries.

Is government implementation of the WFR and REDD+ compatible with engagement in the VCM?

REDD+, as defined by the WFR, is a RBP mechanism, like the VCM. However, reporting requirements under the WFR are insufficient to generate high-quality tradable GHG emission reduction and removal credits. For credits from REDD+ to be traded on the VCM, results must meet the monitoring, validation and verification requirements of VCM carbon standards.

In the past, there has been more demand for project-level credits than for jurisdictional credits. Jurisdictional-level REDD+ projects have received RBPs from bilateral or multilateral agencies, and eligible individual REDD+ projects have received payment through the VCM or compliance markets. Recently, credits from jurisdictional REDD+ are becoming more popular in the VCM due to the perception that they are of higher integrity. However, in many cases jurisdictional-level programs lack the accounting infrastructure to track emissions at scale, and without harmonized international efforts to regulate leakage and shift economic drivers of deforestation, jurisdictional REDD+ is not inherently more likely to prevent leakage than project-level REDD+.

The Science-Based Targets initiative (SBTi), which is setting guidance for corporate climate claims, recommends the purchase of jurisdictional REDD+ credits. The International Civil Aviation Organization's (ICAO) Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) has exclusively authorized jurisdictional-scale REDD+ credits. In March 2023, ICAO announced they would accept ART/TREES high forest, low deforestation (HFLD) credits as eligible units under CORSIA. As of July 2023, 125 states had announced their intention to participate in the CORSIA from January 2024 onwards. In 2021, the Lowering Emissions by Accelerating Forest Finance (LEAF) Coalition, a coalition of public and private buyers, mobilized USD 1 billion for jurisdictional REDD+ credits. Other buyers continue to prefer project-based REDD+, which are faster to implement and for which risks are easier to control.

REDD+ programs and projects come with significant environmental and social benefits. However, they are not without risks. REDD+ projects can have inflated baselines and credit expectations, and jurisdictional programs face the risk of policy reversal that undermines forest protection activities. REDD+ activity developers have been criticized for failure to involve IPs&LCs in activity design, lack of appropriate benefit sharing agreements, and displacing rather than reducing emissions. Despite risks, well-designed REDD+ activities have an important role to play in countries' efforts to meet their NDCs under the Paris Agreement. Jurisdictional-level REDD+ builds on governments' ability to influence land use and land use change through policies. VCM activities can complement these efforts by attracting finance quickly to areas where forests are lost or under threat, and where the reach of public policies is limited.

Further reading

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