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**Integrated REDD+ accounting frameworks:
Nested national approaches**

Lowering Emissions in Asia's Forests (LEAF)

DECISION SUPPORT TOOL

Integrated REDD+ accounting frameworks: Nested national approaches

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Contents

Abbreviations & Acronyms	v
Glossary	vii
Introduction	1
Objectives.....	2
Audience	3
Limitations.....	3
Document structure.....	3
Using this document	5
Step 1. Decide whether to pursue a nested approach	6
Step 1.1. Will project or subnational level REDD+ activities be allowed?.....	6
Step 1.2. Will both projects and subnational jurisdictions be included in the national REDD+ accounting framework?	10
Step 1.3. Will project and subnational efforts continue to function after establishment of the national REDD+ accounting framework?	10
Step 2. Define subnational and project boundaries	11
Step 2.1. How will subnational areas be defined?.....	11
Step 2.2. Where should subnational and project approaches be located?	12
Step 2.3. How will RL establishment be phased?	13
Step 3. Integrated accounting decisions	14
Step 3.1. Integrating RLs	15
Step 3.2. Integrating MRV systems.....	17
Step 3.3. Accounting for leakage	17
Step 3.4. Addressing liabilities and reversals.....	18
Step 4. Decide on incentives allocation	20
Step 4.1. At what levels will direct and indirect incentives be allocated?	21
Step 5. Procedural decisions	24
Step 5.1. What is being approved?	24
Step 5.2. Who is carrying out review/approval?	25
Step 5.3. Process of review/approval	26
Step 5.4. Addressing legal issues.....	26
References	29

Boxes

Box 1. 'Nesting' under the UNFCCC	2
Box 2. Potential determinants of the structure and process of developing REDD+ accounting framework structure in selected Southeast Asian countries.	7
Box 3. Establishing national approval procedures and standards.....	9
Box 4. MRV components and standards.....	15
Box 5. Activities, pools and gasses.....	17
Box 6. What form should incentives take?	20
Box 7. What activities will qualify for incentives?	21
Box 8. Who will be eligible to receive incentives?.....	23

Abbreviations & Acronyms

ACR	American Carbon Registry
CDM	Clean Development Mechanism
COP	Conference of the Parties
GHG	Greenhouse Gas
IPCC	Intergovernmental Panel on Climate Change
JNR	Jurisdictional and Nested REDD+ (VCS)
LEAF	Lowering Emissions in Asia's Forests (USAID funded program)
MRV	Measurement, Reporting and Verification
NGO	Non-governmental Organization
REDD+	Reducing Emissions from Deforestation and Forest Degradation, and the role of sustainable management of forests, conservation of forest carbon stocks and enhancement of carbon stocks in developing countries.
RL	Reference Level
SBSTA	Subsidiary Body on Scientific and Technical Advice
UNFCCC	United Nations Framework Convention on Climate Change
VCS	Verified Carbon Standard

Glossary

Baseline – A projection into the future of expected emissions and/or removals based on a “business as usual” scenario. The term is often used in the voluntary market for REDD+ projects, whereas the term RL is typically used at the subnational and national scale.

Co-dependence – The interdependence of projects or subnational jurisdictions on one another’s performance in terms of being rewarded for emissions reduction against their baseline or RL.

Emission factors – The average emission rate of a given greenhouse gas (GHG) for a given source, relative to units of human activity resulting in emissions or removals taking place during a given period of time.

Incentives – Means of rewarding actors for activities that result in emissions reductions or removals. Performance- or results-based incentives are measured against a RL or baseline while participation based incentives reward stakeholders for partaking in activities that reduce or are likely to result in emissions reductions and removals.

Jurisdiction – An area over which authority is exercised, e.g. a defined administrative unit such as a nation, state, province, region, municipality, department, canton or district. The term has also been applied to eco-regions and other ecologically or geographically defined areas which could form administrative units for REDD+.

Leakage – The displacement of GHG emissions from one geographic region to another caused by the activities or interventions of a project or jurisdiction.

Measuring, Reporting and Verification (MRV) – A national and/or subnational set of processes to robustly authenticate GHG emissions. MRV systems allow for a determination of GHG emission reductions, avoided emissions and/or removals compared to the RL. They can also be used to monitor safeguards, governance, and multiple benefits from REDD+ activities.

Performance – The degree to which emission reductions have been achieved in relation to the RL or baseline.

Pooled buffer – An account containing non-tradable REDD+ credits which can be drawn upon in cases of unanticipated emissions which exceed the RL.

Reference Levels (RLs) and Reference Emissions Levels (RELS) – Under the UNFCCC, RELs and RLs are defined as “benchmarks for assessing each country’s performance”¹ in implementing REDD+ activities, expressed in tons of carbon dioxide equivalent per year. Reference emission levels refer to an estimation of GHG emissions from deforestation or forest degradation (gross emissions), whereas a Reference Level includes both GHG emissions and activities that enhance forest carbon stocks (net emissions). This report refers to RLs since they encompass all of the activities included in RELs.

¹ Decision 12/CP.17, para. 7.

Reversal – A situation in which emissions exceed the RL or baseline level during any given monitoring period.

REDD+ – Reduced Emissions from Deforestation and forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries.

Introduction

Carbon accounting and incentive allocation frameworks are a central component of Reducing Emissions from Deforestation and Degradation (REDD+) and in structuring these frameworks, decisions need to be made over how to reach REDD+ objectives in a *timely, economically efficient* and *socially and environmentally sustainable* manner. Under the UNFCCC, REDD+ system monitoring, accounting and incentive allocation will ultimately operate at the national level. In many countries, however, subnational and project level REDD+ activities have been and are being established during development of the full national REDD+ system to fulfill different aims such as building capacity and experience in REDD+ implementation or generating early emissions reductions and removals in defined geographical or administrative areas.

To support subnational efforts, agreement has been made under UNFCCC to recognize subnational Reference Levels (RLs) and monitoring as an interim measure (see **Box 1**). In some countries, subnational approaches will also be important as a permanent measure to enable REDD+ to be implemented through existing governance frameworks (e.g. states under different administrative systems or forest areas under different ministries). Similarly, it may be that project approaches become a permanent fixture to help attract private financing, better link performance to incentives and to serve as a means to apply locally-tailored approaches. In all cases, full REDD+ implementation will eventually require national monitoring systems and RLs to be developed and countries pursuing these approaches need to consider how integration of subnational efforts into the national system will occur.

This process of unification or integration of projects and subnational efforts into the national system is commonly referred to as “*nesting*” or following a “*nested approach*”. The strategic importance of the nested approach lies in its utility of coherently integrating various levels of greenhouse gas (GHG) accounting and incentive allocation into the national system while maintaining accounting and environmental integrity. Various rules and operating standards need to be developed, not just to harmonize or otherwise integrate accounting and monitoring systems but also to control and account for domestic leakage and help manage co-dependent performance and reversal risks. A system for allocating incentives to the subnational and project levels further complements the development of effective nested frameworks.

This decision support tool provides overall guidance on establishing national-level REDD+ accounting frameworks within which nested or jurisdictional approaches are integrated. The tool complements information provided in the LEAF *Technical Guidance on Development of a REDD+ Reference Level* (Walker *et al.* 2012) and the Winrock/FCPF *Decision Support Tool for Developing Reference Levels for REDD+* (Harris *et al.* 2012) to form a ‘package’ aimed at guiding countries through the REDD+ readiness process.

Box 1. 'Nesting' under the UNFCCC

The concept behind nesting was introduced to the UNFCCC process at COP 12 in Nairobi by observer groups from Latin America and Germany.² The idea was aimed in part at supporting immediate project level investments while national REDD+ frameworks were under development. The idea gained support from a number of countries at COP 13 in Bali in 2007 via a submission from Paraguay on behalf of Honduras, Mexico, Panamá, Paraguay and Peru.³ Since then, the need for integrated accounting frameworks that operate at various scales has garnered significant attention. COP 15 in Copenhagen allowed countries to establish subnational monitoring systems as part of a national system,⁴ and COP 16 in Cancun indirectly supported the nesting concept by allowing subnational forest reference levels and/or forest reference levels, and subnational monitoring and reporting of REDD+ activities as “an interim measure”.⁵ As stand-alone subnational RLs and monitoring are only recognized as an interim measure, full REDD+ implementation will require national monitoring systems to be developed and countries therefore need to consider how integration will occur.⁶

Objectives

This objective of this decision support tool is to guide countries on the design and establishment of national-level REDD+ accounting frameworks with emphasis on the integration of subnational and project-level approaches and the implementation of nested approaches under the national REDD+ framework, i.e. multiple level carbon accounting and incentive allocation. The questions presented provide information to help decide:

- (i) How the national REDD+ accounting framework will be structured;
- (ii) What decisions need to be made to integrate subnational and project level activities into a national level REDD+ accounting framework;
- (iii) How and at what levels should incentives be distributed; and
- (iv) What procedural decisions need to be made and by whom.

² Submission to the United Nations Framework Convention on Climate Change By The Tropical Agricultural Research and Higher Education Center (CATIE), and The German Emissions Trading Association (BVEK) regarding Reducing Emissions from Deforestation in Developing Countries (FCCC/SBSTA/2006/L.25).

³ Decision 1/CP.13. “Bali Action Plan,” U.N. Doc. FCCC/CP/2007/6/Add.1, Article 1(b)(iii) (adding “conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries” as secondary goals to the original objectives of avoided deforestation and forest degradation in REDD). *See also*, “A Flexible Approach to Reduce Emissions from Deforestation,” Paper No. 7, at 37. U.N. Doc. FCCC/SBSTA/2007/MISC.14, URL: <http://unfccc.int/resource/docs/2007/sbsta/eng/misc14.pdf>.

⁴ Decision 4/CP.15 *Methodological guidance for activities relating to 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*, paragraph 1(d).

⁵ Decision 1/CP.16 *The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention*, paragraph 71(b), (c).

⁶ Decision 1/CP.16 *The Cancun Agreements: Outcome of the work of the Ad Hoc Working Group on long-term Cooperative Action under the Convention*, paragraph 77 (especially footnote 8).

Audience

This decision support tool is aimed at national level REDD+ decision makers, REDD+ committee/taskforce members and other stakeholders working with the REDD+ process. Although this decision support tool is primarily aimed at supporting the development of nested REDD+ accounting frameworks, the information included is also relevant to the establishment of non-nested national REDD+ frameworks.

Limitations

The UNFCCC has not yet provided guidance on how national carbon accounting and incentive allocation could work in practice and future decisions could therefore make this tool obsolete. It is therefore anticipated that the tool will be updated over the course of the LEAF program to reflect new UNFCCC decisions and lessons learned from implementation in LEAF countries and elsewhere. The tool does not enter deeply into some of the technical complexities included in the jurisdictional and nested REDD+ requirements published by VCS and the ACR nested REDD+ standards. These areas will be covered in future updates to this document or by in-country technical experts working on the establishment of national REDD+ accounting frameworks.

Document structure

In the following sections information is presented to aid decisions related to:

1. Whether to pursue a nested approach or operate REDD+ through national policies and programs alone;
2. Defining subnational boundaries and phasing RL establishment;
3. Integrating carbon accounting across multiple levels;
4. Linking results to incentives; and
5. Procedural issues

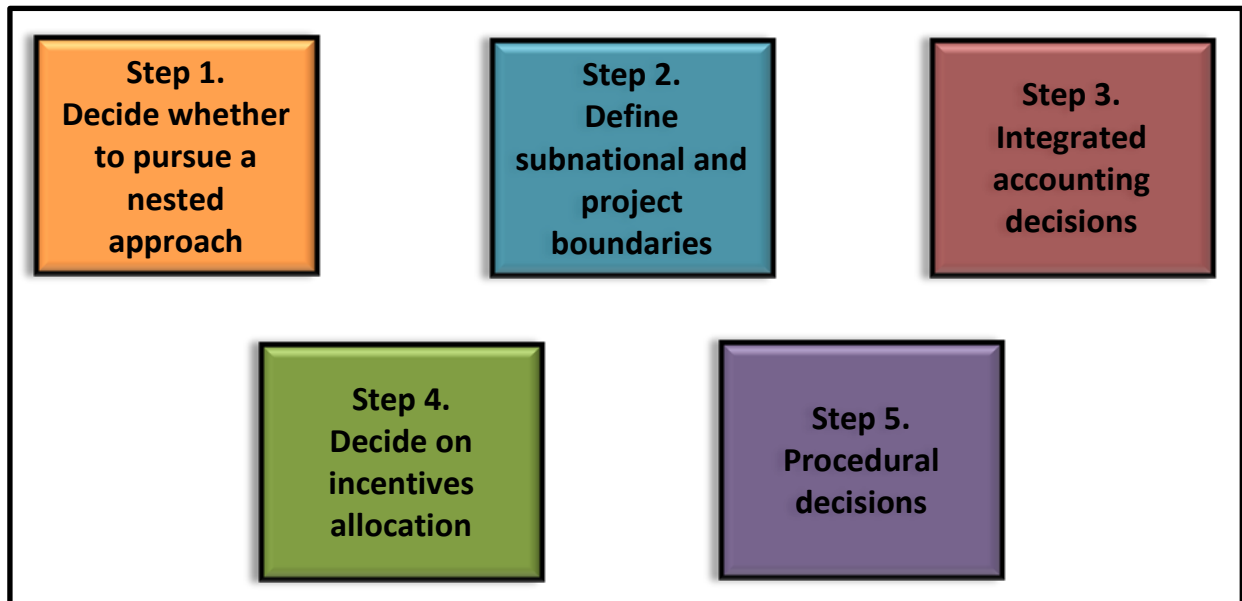
These key steps in developing a national REDD+ accounting framework are also summarized in **Figure 1**. In practice the individual steps may not fall into the presented order and iterations may be required to define the form of the national system. Therefore, information contained in all steps should be reviewed before decisions are made.



Figure 1. Key steps in developing a national REDD+ accounting framework

Using this document

To begin, **click on a box in the menu below** to go to the related section. Each section provides guidance on the related decision and within each section further boxes lead to more detailed information.



Step 1. Decide whether to pursue a nested approach

The first decision to be made is whether project or subnational REDD+ activities will be allowed or if national REDD+ implementation will be achieved through national-level policies and programs alone. Where the decision is made to allow subnational approaches, they will need to be integrated into the national REDD+ framework if they are to be continued once the national framework is established. Step 1.1 provides guidance on whether pursuing or continuing existing subnational approaches may be appropriate.

Click on one of the boxes below to see guidance in the defined areas.

Step 1.1.
Will project or subnational activities be allowed?

Step 1.2.
Include both subnational and project-level activities?

Step 1.3.
Allow activities to continue under full national implementation?

Step 1.1. Will project or subnational level REDD+ activities be allowed?

In many cases, the decision to integrate project or subnational activities into the national REDD+ accounting framework will be preempted by the existence of donor or privately supported subnational and project-based REDD+ efforts. Existing arrangements for governing forests (e.g. under a federal system, or where responsibilities are split between ministries) may also determine the development and structure of national REDD+ accounting frameworks as outlined in relation to selected Southeast Asian countries in **Box 2**.

Where there are no existing projects or subnational REDD+ activities to integrate into the national REDD+ framework, the decision of whether to allow projects and subnational approaches depends on the national context and the trade-offs involved.

In relation, projects have the advantages that they can stimulate private investment, foster local participation and provide early incentives and emissions reductions and removals. They also require less start-up financing, lower levels of policy coherence and political commitment and less technical/management capacity than national or subnational schemes and are small enough to be supported by individual government partner agencies and/or private entities. Early project efforts could focus on areas with high rates of deforestation and/or high existing levels of capacity or interest in REDD+ or could concentrate on areas with high potential for co-benefits such as biodiversity conservation or poverty alleviation.

By contrast, subnational jurisdictional schemes allow REDD+ efforts to focus on larger geographical areas and offer the opportunity to test MRV systems, RL methodologies, registries, and incentive allocation systems that could later be adopted by the national REDD+ system. Subnational approaches have an additional advantage over project level activities in that economies of scale allow transaction costs to be reduced. Such approaches may also be adopted permanently to suit national governance circumstances as detailed in **Box 2**. Furthermore, results-based payments for subnational activities will be recognized under the UNFCCC prior to the establishment of a national RL and thus there is potential for early benefits to materialize.

A comparison of the most significant advantages and disadvantages associated with subnational and project approaches is provided in **Table 1**.

Box 2. Potential determinants of the structure and process of developing national REDD+ frameworks in selected Southeast Asian countries.

Existing projects: In Lao PDR, existing REDD+ projects and donor supported jurisdictional approaches are likely to be subsumed into the national system while potentially maintaining a level of autonomy. Project level activities are also taking place within several other countries in the region.

Subnational piloting: In Viet Nam, subnational accounting systems are being established in a number of provinces during the second phase of REDD+ readiness. These subnational areas could form the basis of a national REDD+ accounting framework although whether results-based payments will be directly linked to activities aimed at reducing emissions has yet to be decided.

Governance systems: In Cambodia, forest areas under the jurisdiction of the Forestry Administration and the Ministry of Environment may be administered separately as nested structures within the national REDD+ accounting framework. In Malaysia, where jurisdiction over forests is at the state level, the states of Sabah and Sarawak could potentially be nested within a national system together with Peninsular Malaysia. In both countries, project level activities are also being undertaken.

Table 1. Main potential advantages and disadvantages of subnational and project approaches to REDD+

Issue	Advantages	Disadvantages
Linking performance to incentives	Allows clearer linking between performance and incentives	Co-dependent performance and risk of reversals must be addressed
Building early experience	Supports piloting of REDD+ interventions while national system and capacities are under development	Interventions may adopt accounting approaches that are subsequently difficult to integrate into the national system
Timeliness	Generates near-term reductions in emissions	Only accounts for a proportion of the national area
Governance	Devolves decisions to levels more closely linked to, or with exclusive jurisdiction over forest and land management	Lower administrative levels may lack sufficient capacity
Locally tailored approaches	Allows tailoring of REDD+ interventions to suit local circumstances	Increases complexity of national REDD+ accounting framework
Attracting financing	Projects can help attract private investment	Projects are likely to 'cherry pick' the most profitable areas for REDD+ implementation
Promoting participation	Promotes direct participation at local levels	May involve greater costs compared to REDD+ implementation through national policies and programs alone
Diversity and replication	Allows identification of successful approaches and wider replication	Non-standardized approaches may experience higher rates of failure
Liability	Risks can be assigned to the subnational or project level	Less central oversight if management deficiencies arise
Transparency	Dedicated REDD+ accounting systems may facilitate higher levels of transparency	Private sector may be reluctant to release confidential investment information

Where a decision is made to pursue a nested approach, national RL, MRV and safeguard regulations should be developed as detailed in **Box 3**. A national forest definition should also be finalized and consideration given to activities and carbon pools to be accounted for and other methods to be followed, as detailed in **Box 4**. Where uncertainty remains over whether to follow a nested approach, Step 1.4 provides information on an alternative approach involving national policies and programs alone.

Box 3. Establishing national approval procedures and regulations.

Where projects will be integrated into the national REDD+ system, consideration should be given to adopting eligibility and approval criteria. Approval procedures may cover issues including the following:

- RL, MRV and safeguard standards;
- methods and standards for leakage accounting, demonstrating additionality and considering permanence;
- legal documentation;
- the process for granting approval (e.g. who provides approval, how long it takes and the criteria against which approval is granted or denied);
- project amendments; and
- requesting review.

Existing projects may be required to conform to national REDD+ regulations after a given period or it may be possible to adopt accounting rules that preserve accounting and environmental integrity while respecting the rights of the project proponents (see Step 3).

Subnational jurisdictions may also be required to seek approval from the national government although where such efforts have been established within the public administration, coordination procedures are likely to be different.

Where there are no projects or subnational REDD+ activities and none are anticipated, or where subnational activities will be phased out during establishment of the national REDD+ system, REDD+ could be implemented through national policies and programs alone with a single national RL and MRV system. In this case REDD+ processes such as measurement, carbon accounting and incentive allocation would be centralized at the national level. Such a system could suit countries with highly centralized governance, low capacity at the province and field levels and lower potential for large avoided emissions/increased removals. Centralized approaches may also be attractive where local level actors and processes are not considered significant drivers of deforestation or degradation. Key advantages could include not having to address the issues of co-dependent performance or domestic leakage. Many of the advantages listed in **Table 1** would be foregone, however.

Step 1.2. Will both projects and subnational jurisdictions be included in the national REDD+ accounting framework?

In some cases it may be necessary to consider whether to include both projects and subnational jurisdictions in the national REDD+ accounting framework. Although multi-layered systems increase accounting complexity, including projects in subnational jurisdictions can potentially yield the benefits of both and help to ensure that projects are consistent across the jurisdiction, particularly with respect to RLs, and robust in terms of measures to manage liabilities and co-dependent performance (see Step 3.4). By sharing information and applying common baselines, protocols and standards embedding or upscaling projects into subnational jurisdictions can also help reduce costs and raise efficiency among groups of projects.

In situations where there are many projects in a single area, jurisdictional approaches can also help resolve potential problems with overlapping reference and leakage areas. The VCS Jurisdictional and Nested REDD+ (JNR) requirements attempt to capture these benefits by supporting a scenario whereby a subnational program may be established in which both the jurisdiction and projects nested within it are credited.

Step 1.3. Will project and subnational efforts continue to function after establishment of the national REDD+ accounting framework?

If it has been decided that some form of subnational REDD+ accounting will be adopted, consideration will need to be given to whether project and subnational efforts will be allowed to continue to function with at least some degree of autonomy after establishment of the national REDD+ system. Many of the advantages and disadvantages of subnational and project approaches provided in **Table 1** will remain relevant. It is important to consider how established REDD+ projects, financed through voluntary carbon markets, will be financed and managed following establishment of the national REDD+ system. The question of how private sector investments in projects will be ensured if the project is subsumed within a national scheme may also need to be considered (See Step 5.4).

[Back to Main
Menu](#)

Step 2. Define subnational and project boundaries

In establishing a nested national REDD+ accounting framework, consideration needs to be given to defining subnational and project boundaries and RLs.⁷ Some projects or subnational jurisdictions may already have been established and emissions reductions may be accrued against RLs that cover less than the entire national area.⁸ Full national implementation will, however, require the whole of the national area to be covered. To avoid management difficulties and accounting errors or unaccounted emissions, there should be no gaps or overlaps between the boundaries of subnational areas, and no overlaps between the boundaries of project areas, in the full national REDD+ system.

Whether adding to an existing system or creating a system anew, a number of factors need to be considered in defining subnational and/or project areas.

Click on one of the boxes below to see guidance in the defined areas.

Step 2.1.
How will subnational areas be defined?

Step 2.2.
Where should subnational and project approaches be located?

Step 2.3.
How will RL establishment be phased?

Step 2.1. How will subnational areas be defined?

In defining subnational boundaries, the size of each area should be sufficient to harness economies of scale while maintaining manageability. Subnational RL boundaries may be set in line with other existing boundaries, e.g.:

- administrative boundaries (e.g. province or district);
- according to institutional responsibility, e.g. forestry or environment ministry; or
- eco-region boundaries (although links to subnational administrative structures are likely to be necessary).

In many cases, areas under the jurisdiction of a certain ministry or level of government will be the most appropriate foundation for subnational REDD+ implementation. Alignment with

⁷ Information on the decisions covered in this Step is also provided in: Harris, N., Pearson, T. and Brown, S. (2012) Decision support tool for developing reference levels for REDD+. Winrock International/World Bank Forest Carbon Partnership Facility.

⁸ Decision 4/CP.17

levels at which management structures and institutional capacity exist and at which land use planning decisions are taken is likely to yield benefits in terms of linking performance to incentives, simplifying management and improving efficiency. Difficulties associated with crossing jurisdictional boundaries would also be averted. Furthermore, institutional roles are often well established within administrative units, allowing REDD+ to be implemented without burdensome changes to existing structures. However, where existing institutional or administrative structures are ineffective or inefficient, reinforcing the status quo is likely to prevent reform of forest governance.

In other cases, the desire to manage a certain forest type as a single ecological unit may mean that all or part of a certain eco-region is the most appropriate unit. In Central African Republic and Peru political units are to be used, whereas in Nepal, Ghana and Guatemala national RLs were planned to be built from subnational RLs based on eco-regions.⁹ Using eco-region boundaries can streamline MRV and RL systems, for example through application of common emissions factors and activity data types. Administering REDD+ at the eco-region level can also help maintain ecological integrity, prevent forest fragmentation and support land-use and planning decisions based on ecological considerations. Using eco-region boundaries could, however, prove troublesome where coordination across institutional and administrative boundaries is problematic.

Step 2.2. Where should subnational and project approaches be located?

As noted above, early interventions at the subnational level could focus on areas with significant emissions or high capacity for implementation. With respect to REDD+ projects, it is likely that developers will want to target areas where the highest potential for low-cost emissions reduction or removals exists. Alternatively, donor-funded initiatives may establish projects in areas where physical and institutional infrastructure has been developed. Other factors likely to influence decisions over the siting of REDD+ projects include:

- current and potential future emissions;
- existing infrastructure;
- institutional and management capacity;
- prevailing resource management issues;
- clarity of jurisdiction and land management policy;
- potential social and environmental co-benefits;
- opportunity costs; and
- income potential and investor interest.

⁹ Andrasko, K. & Koirala, R. (2011) "REDD+ Reference Levels: Insights from FCPF Country Early Work" http://unfccc.int/files/methods_science/redd/application/pdf/redd_refer_level_insights_from_fcpf_-_bonn_andrasko_nov_14_2011.pdf.

Since project developers are likely to target areas with high benefit-cost ratios, national governments may consider levying a tax on revenue earned by projects. The funds generated could cover costs such as running the national MRV system, implementing supportive policies or operating a national registry.

Step 2.3. How will RL establishment be phased?

In most cases, subnational and project RLs will be developed prior to or at the same time as the national RL with learning and harmonization taking place as work progresses. If this is not the case a national RL may be established by summing lower level RLs, or in association with a centralized process such as a national forest inventory.

Beginning with subnational RLs carries the advantage of allowing methodologies to be piloted at smaller and less cost-intensive scales during the build-up to national implementation. Furthermore, higher spatial resolution RLs that are better tailored to local circumstances may be used at lower levels to target priority areas for REDD+ activities. On the other hand, centrally developed RLs can harness economies of scale, provide information for national forest inventories and MRV systems, and negate the need for harmonization or integration.

In the case that a national RL has been developed first and is spatially explicit, dividing the RL into subnational and project level units should be relatively straightforward. There may be some difficulties in apportioning emissions reduction and removals to specific areas within the national boundary for activities that are not spatially explicit, and in such cases emissions may be divided between jurisdictions according to forest area or similar proxy. Where the national RL is not spatially explicit a location analysis may be undertaken or alternatively, local data used to establish the national RL could be used to estimate the subnational RL (Harris *et. al.*, 2012).

[Back to Main Menu](#)

Step 3. Integrated accounting decisions

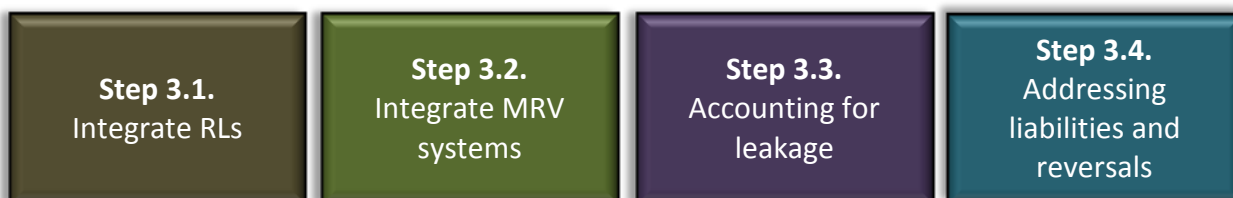
Where project and subnational efforts will function as a permanent feature of the national REDD+ framework (see Step 1.3), decisions need to be made to ensure the effectiveness and integrity of the system at the national level. If nationwide rules on the scope of REDD+ and methods for developing RLs and MRV systems have not been implemented or activities have been set up prior to the issuance of such guidelines, decisions will have to be made to integrate different approaches. For example, to integrate differences in activities, carbon pools and GHGs between RLs into a single accounting system, rules need to be developed to standardize approaches and reconcile differences between subnational and project areas. Furthermore, monitoring standards may need to be issued to ensure the effectiveness of the REDD+ system is not reduced as a result of differing rules being applied or failure to account for and control leakage. The national system should also be protected from the potential impacts of reversals within discrete subnational areas. A discussion of these issues is included in VCS (2012a; 2012b).

An integrated accounting system can be designed in many ways and decisions need to be made in the following areas:

- (i) Integrating RLs and determining how to account for any differences in the range of activities, carbon pools and GHGs included;
- (ii) Integrating measurement, reporting, and verification (MRV) systems;
- (iii) Monitoring, accounting for and addressing leakage within and outside a project or jurisdiction; and
- (iv) Managing co-dependent performance and reversal risk (including forest loss due to causes such as fire).

The following sections introduce issues that need to be considered so that decisions can be made in relation to each of the above.

Click on one of the boxes below to see guidance in the defined areas.



Step 3.1. Integrating RLs

Where national standards have not been established prior to development of one or more of the RLs or project baselines within the national REDD+ framework, accounting rules will need to be developed to reconcile differences resulting from dissimilarities in scope or estimation methods used.

Complexities can arise where, for example, a national RL includes only deforestation but a subnational RL also includes degradation; or if different pools or gases are included in different projects or jurisdictions (see **Box 4**). Where discrepancies exist, rules will need to be developed to account for differences in a manner that maintains environmental integrity at the national level and does not compromise the overall efficiency or equitability of the system. For example, default values could be used to account for activities or pools that are only measured in a limited number of projects or jurisdictions.

Once rules have been established, it may also be necessary to institute procedures to harmonize existing RLs in the longer term to resolve accounting differences. In such cases, it may be desirable to allow projects and subnational areas to continue with existing modes of operation for a given period to avoid negative impacts on incentives and therefore emissions.

Box 4. Activities, pools and gasses

As defined under the UNFCCC, REDD+ encompasses five main activities and different subnational RLs may cover different activities:

- (i) Reducing emissions from deforestation;
- (ii) Reducing emissions from degradation;
- (iii) Conservation of forest carbon stocks;
- (iv) Sustainable management of forests; and
- (v) Enhancement of forest carbon stocks.

Decisions also need to be made over the carbon pools and greenhouse gases (GHGs) to be covered in developing RLs. There are six carbon pools recognized by the IPCC:

- (i) Aboveground biomass;
- (ii) Belowground biomass;
- (iii) Dead wood;
- (iv) Litter;
- (v) Soil organic carbon; and
- (vi) Harvested wood products.

The three GHGs associated with land-use change are carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

The Durban SBSTA text¹ indicates that parties should give reasons for omitting an activity, pool or a gas and that significant activities, pools and gases should not be excluded.

Countries are recommended to assess which pools are significant in terms of proportion of total national emissions, e.g. >5%, and which pools it makes economic sense to measure as costs of data collection and accounting may exceed benefits for some pools and gases. Pools or gases could also be omitted if there is already a precedent to exclude a pool or gas for a given activity (e.g., under CDM) or if there is no change in the pool or gas between business as usual and REDD+ implementation. Where appropriate, the use of conservative defaults could be considered.

¹ – Draft decision -/CP.17 Draft decision on guidance on systems for providing information on how safeguards are addressed and respected and modalities relating to forest reference emission levels and forest reference levels as referred to in decision 1/CP.16, appendix I, Annex, Paragraph c.

Alternatively, differences in scope between RLs may result from decisions taken to increase flexibility and reduce costs. For example, where certain activities do not contribute significantly to emissions or removals in a given jurisdiction or project area, they may be omitted from RL calculations, thus saving time and effort. The scope of each RL will need to be decided by each jurisdiction based on an assessment of what is significant and what is feasible to include, given capacity, financial and technical limitations.¹⁰ To accommodate resulting differences between RLs, accounting rules will have to be developed as noted above.

Additional complexities may need to be resolved where there are differences between jurisdictions and projects in terms of activity versus land-based accounting, i.e., emissions/removals estimates in some areas are based on measurement of the defined activity (such as reforestation or avoided deforestation) whereas in others all emissions and removals occurring within the landscape are accounted for regardless of the activity.¹¹ Similarly, rules may need to be developed to account for differences in emissions factors and/or conversion/expansion factors used to develop RLs or baselines.

With respect to integration of RLs and baselines where different methods for estimating historic and/or future emissions and removals have been used, different solutions could be proposed, e.g. revising subnational or project level RLs to fit with the national RL after a period acceptable to the concerned parties or, alternatively, revising the national RL to encompass subnational RLs. In general the former route may be desirable in terms of simplicity and homogeneity at the national level. However, it is also likely that finer scale RLs will be more detailed and precise and thus it may be more appropriate to modify the national RL. Failure to do so could mean that lower level efforts are not fairly rewarded and therefore not adequately incentivized. This situation is also likely to exist with respect to other differences between RLs, i.e. finer scale RLs are likely to measure more activities, pools and gasses in finer detail than large scale RLs. As such, it may be desirable to preserve lower level detail in the national RL rather than enforcing a 'one size fits' all national RL. These accounting issues are closely linked to the phasing decisions covered in Step 2 and should be considered simultaneously.

Where projects or subnational REDD+ activities will constitute a permanent feature of the national system, consideration should be given to how activities developed after the national system has been established will use or relate to the national RL. Options will vary depending on the scope and nature of the higher scale RL. If the national or provincial RL is spatially explicit (i.e., predicts where unplanned deforestation will occur) it may be possible to "cut out" the project's RL. However, if the national or provincial RL does not contain a spatial projection – which it may not for a number of REDD+ activities – projects could assume responsibility for a portion of the higher level RL or formulate other options in consultation

¹⁰ Decision -/CP.17 Guidance on systems for providing information on how safeguards are addressed and respected and modalities relating to forest reference emission levels and forest reference levels as referred to in decision 1/CP.16, Annex, paragraph (c). Decision number not allocated at the time of writing.

¹¹ See VCS 2012a Section 5.1 and Annex 1.

with the higher level. To facilitate nesting in the long term, common emission factors and common sources of activity data should be used.

Step 3.2. Integrating MRV systems

As with RL development, MRV procedures will also need to be harmonized or reconciled across projects and jurisdictions.¹² Most importantly, countries will need to decide if monitoring must occur at uniform spatial scales and resolution using standard technology, or if different methods can be used and reconciled nationally.

For example, where national monitoring includes only deforestation, subnational jurisdictions and/or projects could also address drivers of degradation to improve detection of avoided emissions and incentivize efforts aimed at reducing emissions from degradation (see Step 4). However, reconciliation at the national level could prove problematic and national emissions reductions could also be overestimated if leakage occurs to areas where the relevant activities (or pools) are not measured. Additionally, gaining UNFCCC approval may for non-uniform systems could pose difficulties (see **Box 5**).

Box 5. MRV components and standards

Areas to be addressed by monitoring systems include:

- (i) Changes in emissions and removals;
- (ii) Leakage;
- (iii) Implementation of activities;
- (iv) Status of drivers of deforestation and degradation and changes in policies and plans that will affect future emissions reductions and removals;
- (v) Safeguards implementation.

Monitoring templates or similar structures detailing parameters and data to be monitored would help promote consistent monitoring and guidance may also be provided in relation to accepted modes of monitoring, e.g. remote sensing, technical specialist, local participation, etc.

Step 3.3. Accounting for leakage

Due to sovereignty considerations, the UNFCCC precedent is for international leakage to be left untracked and for no deductions to be made. Within nested systems, however, although national monitoring of REDD+ will ensure that environmental integrity is maintained with

¹² See VCS 2012a Section 7.

respect to subnational leakage, it is important to ensure that emissions reductions and removals are counted correctly where results-based payments or incentives are provided to projects or subnational jurisdictions (see Step 4). Where incentives are incorrectly allocated, the efficiency and equity of REDD+ will be affected in the longer term. Furthermore, reversals in areas that are not a focus of REDD+ efforts are more likely to occur where leakage is not controlled.

To ensure accurate accounting and fair allocation of incentives between subnational areas and projects, domestic leakage can be addressed in a number of ways, e.g.:¹³

- (i) tracking displacement of emissions-causing activities into adjacent areas through detailed MRV and accounting requirements;
- (ii) setting guidance for estimating leakage, e.g. through a qualitative leakage assessment tool that generates relative deduction percentages; and
- (iii) calculating flat-rate leakage deductions on nested activities.

Each of these options has associated advantages and disadvantages in terms of technical difficulty, capacity needs, expense, precision and potential impacts on emissions reduction. A decision on which course to follow should be made in view of these factors.

Step 3.4. Addressing liabilities and reversals

Performance in individual subnational jurisdictions or projects can impact other areas and where carbon accounting is linked to payments and incentives at the subnational level, measures should be included to manage such 'co-dependent performance.'

In cases where one or more subnational area underperforms and releases emissions above their reference level or baseline, an *emissions shortfall* or *reversal* occurs. This may occur due to fire or other natural disaster, or as a result of unplanned deforestation or degradation. Under such circumstances, the payment for net emissions reductions and removals achieved at the national level will be less than the amount required to compensate the remaining subnational areas where emissions were successfully reduced. In this way, performance at the national level and - depending on contractual arrangements - the incentives received, are co-dependent on the performance of all projects and jurisdictions involved.

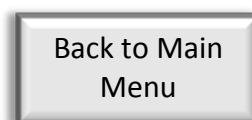
¹³ See Jenkins, W.A.; Olander, L.P.; Murray, B.C. 2009. Addressing Leakage in a Greenhouse Gas Mitigation Offsets Program for Forestry and Agriculture. Nicholas Institute for Environmental Policy Solutions, Duke University, USA. <http://nicholasinstitute.duke.edu/sites/default/files/publications/offsetseries4-paper.pdf>

The risks associated with co-dependent performance can be managed in a number of ways including:

- Through a pooled buffer approach in which, according to the size of the perceived risk, emissions reductions and removals are kept aside to be drawn upon and cancelled should reversals occur.¹⁴
- Creating a national fund for compensating successful projects or subnational jurisdictions in case of national underperformance.
- Requiring that projects or jurisdictions provide compensation in the case of a project level reversal.
- Setting up or facilitating a formal insurance mechanism for REDD+ projects or subnational efforts.
- Doing nothing and leaving the risk entirely on the project or subnational jurisdiction (depending on where the reversal occurred).

The pooled buffer approach allows performing entities to receive credits for emissions and removals they generate regardless of reversals in other projects or jurisdictions and by doing so also ensures that overall environmental integrity is maintained. Insurance could also be used to procure carbon offsets from an external source to cover the shortfall in the event of an emissions reversal.

Although insurance and compensation funds have been used to cover specific kinds of risk, e.g. natural disasters, the buffer approach has been most widely used to manage non-permanence risk at the project level. During establishment of the national REDD+ framework responsibility for existing project buffers could potentially be passed to subnational or national-level pooled buffers to help spread risk.



¹⁴ See VCS 2012a Section 10 at p44 et seq.

Step 4. Decide on incentives allocation

Click on the box below to see guidance in the defined area.

Step 4.1.

At what levels will direct and indirect incentives be allocated?

During REDD+ readiness phases, up-front incentives may be provided for implementation of policies and measures aimed at increasing emissions reductions or removals. However, REDD+ differs from previous forest management and conservation efforts in that ultimately incentives are likely to be provided in direct return for results, i.e. carbon emissions reductions and removals in relation to a national reference level (RL).

For REDD+ to function efficiently, incentives will need to be applied so that the maximum emissions reductions per unit expenditure are achieved, while taking into account social and environmental safeguards and benefits. In this context, decisions need to be made on how incentives will be linked to performance within the national system and what incentive allocation pathways will be used.

In comparison with a REDD+ accounting framework with a single national RL, nested project and subnational activities with dedicated RLs and monitoring systems facilitate an increase in the resolution with which results-based payments can be made. With a single national RL, payments may be made in relation to implementation of policies and measures but determining performance at subnational scales in terms of emissions reductions and removals against the national RL is likely to be more challenging. Where land use

Box 6. What form should incentives take?

Incentives for reducing emissions could potentially be provided in different forms, e.g. cash, carbon credits, development support, etc. A variety of incentives could be used under different circumstances and consideration should be given to which is most appropriate in different contexts.

For example, allocation of carbon credits to local communities with little knowledge of market functioning will entail exposure to price fluctuations which could lead to confusion and disillusionment. Cash payments although supportive of autonomous local decision making could also be subject to misappropriation. Development support could circumvent these issues but would also limit self-determination and individual commitment.

Such considerations would need to be weighed up under different circumstances while also taking into account transaction costs and local needs and preferences.

decisions are predominantly made at the subnational level an RL at the corresponding scale is likely to improve responsiveness and levels of efficiency and equity in the system. Devolving responsibility for linking incentives to performance closer to resource management levels is also likely to promote higher levels of equity than would be the case with a single national RL.

In making decisions about incentives in a system containing nested subnational and project level structures, issues and decisions will need to be considered such as the form of incentives, what activities will qualify for incentives and who will be eligible to receive incentives as summarized in **Boxes 6-8**. A process to establish principles for allocating incentives may provide a valuable starting point in making decisions on incentive allocation.

Step 4.1. At what levels will direct and indirect incentives be allocated?

To establish the incentives allocation system, disbursement pathways and related institutional responsibilities will need to be decided. In a nested national accounting system, incentives could potentially flow along a number of pathways. The three examples shown in **Figure 2** indicate possible direct and indirect flows of incentives to different levels, one or all of which could be implemented during establishment of a national REDD+ system and thereafter, as appropriate. Prior to establishment of the full national REDD+ system a subnational jurisdiction could account for and receive incentives for all emissions reductions and removals achieved and allocate incentives indirectly to projects, as shown in the left hand panel of **Figure 3**. A proportion of incentives may be withheld to cover administration costs and emissions reductions associated with implementation of national level policies and measures. Once the national REDD+ framework, including a national registry, is established, incentives passed to the central government could be distributed to the subnational level as shown in the center and right-hand panels of **Figure 3**. Emissions reductions and removals achieved by a subnational or project level implementation could also be subtracted from the national or subnational RL with incentives being passed on directly, allowing the subnational and project level activities to link more directly to international sources of finance and function more or less independently.

Box 7. What activities will qualify for incentives?

Incentives are crucial to the future success of REDD+ and there are a huge range of activities that could potentially lead to emissions reductions and removals including forest management activities at the local level such as patrolling, tree planting, fire management, forest demarcation, etc. and enabling policies and measures (PAMs) such as strengthening forest law enforcement and governance, supporting agricultural intensification or mandating implementation of e.g. reduced impact logging, environmental impact assessment or carbon sensitive land use planning, etc.

The way in which activities, policies and measures are linked to results based payments needs to be considered in developing a sound national REDD+ accounting framework.

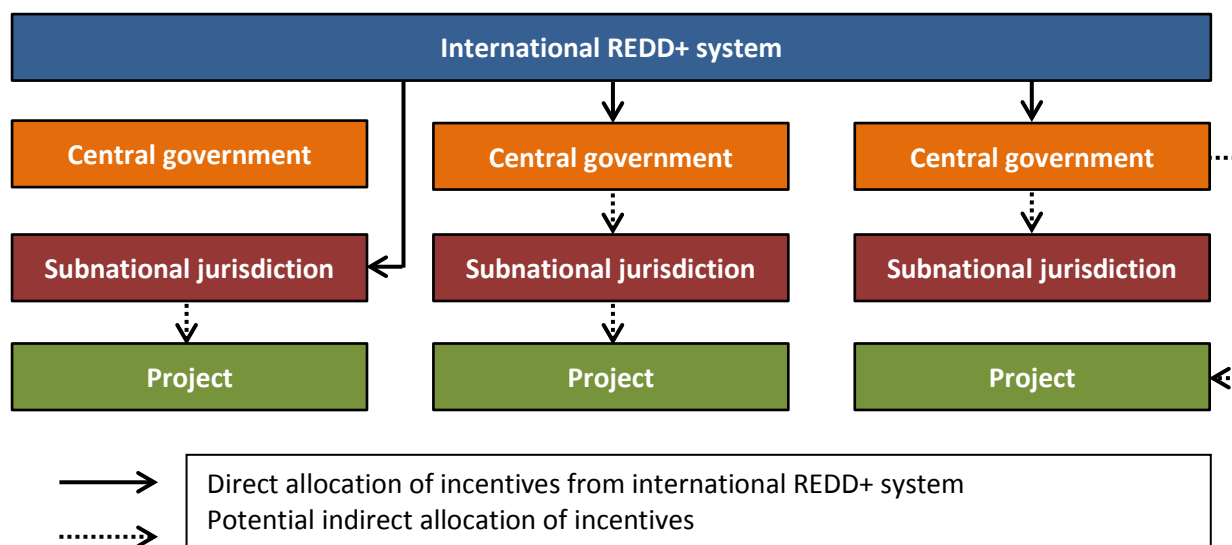


Figure 2. Potential incentive allocation pathways for nested REDD+ under national accounting

Source: Based on Chagas *et al.* 2011.

The main factors involved in decisions over incentives allocation are the level at which it is most appropriate to address drivers of deforestation and degradation, the available capacity at different levels, efficiency and equity considerations and the likely transaction costs. A number of other question need to be considered in determining how direct and indirect incentives should be allocated and shared between the national level, subnational jurisdictions and at project and local levels, e.g.:

- Who has *de jure* and *de facto* rights over forests in a particular jurisdiction or targeted forest area, considering both statutory and customary rights?
- Who has rights over forest carbon? (see also Step 5.4)
- Will incentives be distributed directly from the international level to subnational or project levels prior to establishment of the full national REDD+ system?
- Should a proportion of incentives be used to address drivers associated with policy and measures implemented at the central level?
- Will incentives be linked directly to results in terms of emissions reductions and removals at the subnational level or will advance payments instead or also be made for measures that contribute to emissions reductions and removals, such as forest patrolling or tree planting?
- Will incentives be directly linked to results or be weighted according to social and environmental considerations?

Within a nested system, efforts will also need to be made to avoid double counting and associated inappropriate allocation of incentives, e.g. paying a project for emissions reduction and removals that result from policies or measures implemented at the subnational or national level and which have been paid for as such. The system must also account for leakage to prevent incentives being given for emissions reductions and removals displaced to other areas. Most types of double counting can be avoided through government oversight of domestic REDD+ activities, including through establishment of a national REDD+ registry (see VCS 2012a).

For the national REDD+ system to become operational, procedural decisions related to incentive allocation and other areas will need to be made by relevant parties, as detailed in the next section.

Box 8. Who will be eligible to receive incentives?

A wide range of entities could undertake activities that address drivers of deforestation and forest degradation. Each of these could be eligible to receive incentives according to their contribution although in some cases decisions may be taken to focus payments on certain levels to help support other national goals such as poverty elimination. Similarly, it may be that incentives will be allocated through existing mechanisms or funds and decisions on such matters will need to be made by appropriate entities. Possible recipients of REDD+ incentives include the following:

- (i) Government
- (ii) REDD+ trust fund
- (iii) Local communities
- (iv) Private land owners
- (v) Private companies
- (vi) Individuals
- (vii) Non-Governmental Organizations

[Back to Main Menu](#)

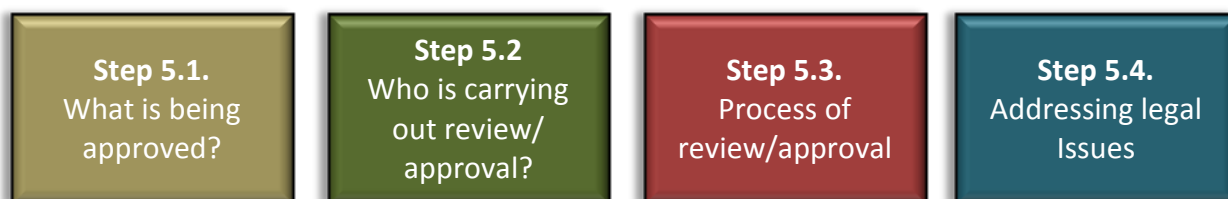
Step 5. Procedural decisions

In developing integrated REDD+ accounting frameworks effective government oversight of project or program-related decisions and actions is required. Oversight is necessary to ensure that emissions are properly accounted for, costs and benefits are fairly distributed, social and environmental impacts are avoided and mitigated, and national and subnational plans and activities follow UNFCCC guidelines (e.g. Cancun Safeguards) and domestic legislation.

Procedural issues related to the decisions outlined in the preceding sections will need to be clearly resolved for a REDD+ system to function. The following are the most essential procedural issues to be considered:

- What is being approved or reviewed?
- Who is granting approval or undertaking review?
- Legal issues.

Click on one of the boxes below to see guidance in the defined areas.



Step 5.1. What is being approved?

When deciding on the aspects of programs or projects for which approval is required, it is important to balance the need for consistency and oversight with that of efficiency and flexibility. While certain approvals are crucial, requiring approvals for too many aspects can slow progress, limit innovation and create opportunities for corruption.

Program or project aspects that have a direct impact on national-level accounting, such as RIs and MRV processes, are the most important for ensuring the overall functioning of a nested system, and strong approval processes should therefore be applied in these cases. On the other hand, aspects such as the means of private sector financing are less relevant for the national accounting framework and should not generally be subject to approval.

Whether approval is required for other aspects will often depend on the design of the national system and other national circumstances. For example, where national requirements for environmental and social impact assessment exist, there may be a need for related approvals for subnational or project plans in addition to those associated with REDD+ safeguards. Similarly, in a jurisdiction where forest tenure is strong and clear there may be

less need for approval of carbon rights and incentive allocation arrangements than in areas with weaker forest tenure.

Step 5.2. Who is carrying out review/approval?

Decisions over responsibility for providing approvals should take into account existing institutional roles and responsibilities and technical capacities. In many cases, approvals are likely to be provided by government forestry or environment agencies. Where areas beyond the mandate of these agencies are involved, e.g. in relation to financing or revenue allocation, approval from finance ministries or central government may be necessary. Similarly, ministries responsible for agriculture, infrastructure development or land use planning are likely to be involved in decisions to reduce forest-related emissions resulting from drivers in these areas.

Similarly, different levels of government are likely to be involved in approval processes and the responsible agency will depend on the substance of the approvals. If the issue relates to the national jurisdiction (e.g. definitions, standards and accreditation systems, boundaries, leakage control), a competent national jurisdiction entity or agency should provide the approval. For subnational level issues, approvals should be made by either an appropriate subnational or a national entity. Similarly for project level issues subnational or national level approvals are likely to be required.

Given the novel nature of REDD+, existing legislation will not usually provide clear guidance on responsibilities for relevant approvals. As such, new statutory authority may be needed and associated legislative revisions can usually be adopted simultaneously with others taking place as part of REDD+ readiness preparations.

Where technical capacity is limited, it may be appropriate to delegate approval procedures to private-sector organizations. For example, an auditor responsible for reviewing project implementation and documentation may be endorsed to provide approval for these matters within the context of the national REDD+ implementation system to avoid burdening the government. In this case, it is important to ensure a robust accreditation process for private-sector organizations responsible for approvals and to ensure periodic review of their operations by national authorities.

Step 5.3. Process of review/approval

For approval processes to be fair and publicly accepted, mechanisms are necessary to ensure transparency, such as via public notice of government decisions. Additionally, processes should be adopted for allowing meaningful and timely representation of stakeholders affected by approval decisions and participation in government decision-making (i.e. by providing for public comment following notice of planned decisions).

Well-designed decision-making procedures help ensure adequate oversight of REDD+ review and approval processes, but it is important to strike a balance between ensuring adequate review at respective levels and avoiding over-burdening programs and projects with cumbersome review processes. Issues requiring more careful review by higher government levels and representation of approval to external verifiers (e.g. jurisdictional baseline or boundary, leakage mechanism, etc.) are likely to require written approval. However, high level written approvals for more routine issues (e.g. subnational or project monitoring and reporting) may excessively encumber projects and jurisdictions, especially where related government capacity is limited. Also, requiring written letters of approval could result in increased incentives for corruption.

Step 5.4 Addressing legal issues

In addition to procedural decisions, governments will have a range of legal issues to consider in developing a REDD+ system. Chief among these are respective rights and responsibilities of participants at national, subnational and project levels including rights to, and benefits from, carbon and liability for reversals of emission reductions.

Countries will need to consider the type of right or title required for subnational programs or projects. Such considerations may be relevant at multiple points in the overall lifecycle of a REDD+ project or program. At the project level, there is likely to be a need to verify that the entity involved has the appropriate rights to develop the project before it is approved.

Where land title is unclear, governments may need to develop measures to clarify rights or title over project land. At the subnational level, governments may require that these measures are instituted before program initiation or, alternatively, could find interim ways to address drivers of deforestation and degradation and allocate incentives that are not dependent on clarification of land title.

Decisions over rights to carbon credits and/or benefits resulting from emission reductions will also need supporting legislation. Rights may be allocated to one or more persons, and may vary depending on the type of land and type of project or program involved (e.g. private project, local government program). For example, rights may be allocated to persons who

have received government approval for private projects. These rights may be shared with other parties depending on whether the land in question is under customary, private, community or state ownership and, if the latter, whether under the local, provincial or national jurisdiction.

Liability for emissions reversals is another area that needs to be considered. Beyond establishing a mechanism to cover associated carbon losses, governments could examine whether liability should rest with project developers, subnational or national entities, those responsible for the reversal or be shared by several of these. Insurance could also be considered for cases in which losses are unintentional. The ultimate decision is likely to depend on who is responsible for the project/program, who if anyone caused or gained from activities associated with the reversal and who has the means to take on the risk given that, for example, villagers may not be able to accept liability.

Governments should also consider what effects, if any, REDD+ projects or programs will have on the property rights of the entities involved. In some countries, for example, carbon rights have taken the form of rights such as easements or *profits-a-prendre* being created over and remaining binding on the land after a change in ownership, with the effect that both current and future property owners are prevented from using the land in ways that contravene these rights. Clarifying what restrictions will be placed on land included in projects and programs is likely to increase success while avoiding disagreements at a later stage. Steps should be taken to ensure that limitations placed on the land are, to the extent possible, compatible with local livelihoods and traditional land uses.


A further issue to be considered is the legal effects of approval of projects or subnational programs. Subnational entities and project developers will require assurance of entitlement to rights and benefits from emission reductions, as well as assurance that projects and programs will not be impeded by government actions. To address these concerns, governments may consider that approval will ensure, *inter alia*:

- recognition of credits generated from project or program activities as valid under national and international law;¹⁵
- that any emission reductions achieved are recognized in the national accounting framework as coming from the project/program; and
- that the government will not seek to issue concessions (e.g., logging, mining or agriculture) over land covered by the project/program.

Lastly, with regard to due process, governments will need to ensure that administrative procedures exist to enable aggrieved stakeholders to request review of decisions where disagreements arise. Although such procedures are important in any administrative law system, they are especially essential to include in nested REDD+ frameworks, whose success

¹⁵ This is analogous to the situation under the Clean Development Mechanism (CDM), under which governments authorize private entities to generate Certified Emission Reductions through the issuance of a “letter of approval.”

will depend largely on mutual trust and cooperation between government, civil society and private sector across multiple levels. Given this interdependency between stakeholders at different levels, administrative recourse and grievance resolution mechanisms will need to ensure the interests of each party are meaningfully represented. Any existing such mechanisms should be reviewed to ensure they cover REDD+ decisions and modified where elements are found missing. If such procedures do not exist, they should be included in a country's national REDD+ policy and legislation.



Back to Main
Menu

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